# MANAGEMENT'S DISCUSSION AND ANALYSIS

## THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

# FORWARD-LOOKING INFORMATION ADVISORY

This Management's Discussion and Analysis ("MD&A") to the unitholders may contain forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current beliefs and are based on assumptions and information currently available to management of Partners Real Estate Investment Trust ("Partners", "Partners REIT" or the "REIT"). In some cases, forward-looking statements can be identified by terminology such as "may", "would", "could", "will", "expect", "anticipate", "believe", "intend", "plan", "forecast", "predict", "estimate", "outlook", "potential", "continue", "should", "likely", or the negative of these terms or other comparable terminology, and are not historical fact. Although management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the REIT to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information.

In making the forward-looking statements in this MD&A, the REIT has applied material assumptions including, but not limited to, the assumption that: (1) commercial real estate markets continue to remain fluid; (2) demand for vacant space at the REIT's properties remains strong enabling the REIT to generate additional rents and enhance recovery ratios; and (3) the REIT is able to refinance maturing debt at favourable interest rates. Other assumptions are discussed throughout this MD&A; in particular under Part V – Risks and Uncertainties.

Forward-looking statements include statements related to acquisitions, development and capital expenditure activities, future maintenance and leasing expenditures, financing, the availability of financing sources and income taxes.

Factors that could cause actual results, performance, or achievements to differ materially from those set forth in the forward-looking statements and information include, but are not limited to: general economic conditions, local real estate conditions, including the development of properties in close proximity to the REIT's properties, timely leasing of newly developed properties and releasing of occupied square footage upon expiration, dependence on tenants' financial condition, changes in operating costs, government regulations and taxation, the uncertainties of real estate development and acquisition activity, the ability to effectively integrate acquisitions interest rates, availability of equity and debt financing, the ability of the REIT to maintain stable cash flows and distributions and other risks and factors described from time to time in the documents filed by the REIT. The REIT undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REIT's filings with securities regulators, including the REIT's most recently filed Annual Information Form, which is available on www.sedar.com.

These forward-looking statements are made as of November 5, 2015 and disclosure of this material information is current to that date, unless otherwise noted.

# PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

## BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") for the three and nine month periods ended September 30, 2015, (the "third quarter" and "nine months of 2015," respectively) includes material information up to November 5, 2015. Financial data has been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar references are in Canadian dollars.

This MD&A is intended to provide readers with an assessment of the performance of Partners REIT for the three and nine month periods ended September 30, 2015, as well as its financial position and future prospects. The MD&A should be read in conjunction with the REIT's condensed consolidated financial statements for the three and nine month periods ended September 30, 2015 and the REIT's audited consolidated financial statements for the years ended December 31, 2014 and 2013 and the notes contained therein and the REIT's most recently filed annual information form ("AIF").

In our discussion of operating performance, we define net operating income ("NOI") as gross revenues from income producing properties less operating expenses (which excludes interest expense, general and administrative expenses, amortization, income taxes, corporate transaction costs and fair value gains or losses). We define funds from operations ("FFO") as net income before fair value gains or losses, amortization of leasing fees ("LFs") and tenant allowances ("TAs"), other corporate transactions costs, gains or losses from the sale of properties, net gains from insurance proceeds, and certain other non-cash items and adjusted for any non-controlling interests in the foregoing. Adjusted funds from operations ("AFFO") is defined as FFO net of leasing fees, tenant allowances, tenant improvements and capital expenditures that maintain the current rental operations (ie – sustaining capital expenditures), amortization of deferred financing costs (including mortgage penalties from early payout), non-cash interest accretion expense and straight-line rent. NOI is an important measure that we use to assess operating performance, and FFO is a widely-used measure in analyzing real estate. AFFO is typically a measure used to assess an entity's ability to pay distributions. We provide the components of NOI on page 21, and a reconciliation of cash flow from operations to FFO and AFFO on page 23. NOI, NOI – same property, FFO, and AFFO do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

## BUSINESS OVERVIEW, STRATEGIC DIRECTION AND OUTLOOK

### General Overview

Partners REIT is an unincorporated, open-ended real estate investment trust. The REIT was formed pursuant to a Declaration of Trust initially dated March 27, 2007, and last amended and restated on March 23, 2015. The REIT's units are listed on the Toronto Stock Exchange (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol. The REIT is also listed on the OTC exchange in the United States trading under the symbol PTSRF.

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", "Partners REIT", the "REIT" and similar references in this MD&A refer to Charter Real Estate Investment Trust prior to the name change.

### Business Overview

Partners REIT is focused on the acquisition and management of a geographically diversified portfolio of retail and mixed-use retail community and neighbourhood shopping centres. These properties are located in both primary and secondary markets throughout Canada, and are primarily mid-market assets with values of up to approximately $50 million.

Management is of the view that necessity based retail centres represent attractive investments due to their stable cash flows. The majority of rents at these types of properties are derived from national and regional retailers with multi-year leases. Management's long-term plans include pursuing the acquisition of assets that are accretive on a per unit basis at attractive capitalization rates.

Currently, the REIT’s portfolio consists of 36 properties located in British Columbia, Alberta, Manitoba, Ontario, and Québec. In total, these properties comprise approximately 2.5 million square feet of gross leasable area (“GLA”). As of September 30, 2015, the REIT had 18 full-time employees.

**Strategy of the REIT**

Partners REIT’s stated mission is to “reward its unitholders with sustainable, long-term returns by growing its retail real estate portfolio that feature open-air or standalone properties located in stable primary or secondary markets anchored by necessity based retailers. The REIT derives value from this portfolio by prioritizing superior client service, focused leasing activities, and active asset management.”

Management believes focusing primarily on necessity based retail shopping centres in these markets will provide opportunities for the REIT to obtain high quality, stable retail properties with growth potential. These centres are typically up to 250,000 square feet in size and are anchored by discount retailers and/or supermarkets. The REIT intends to maximize the value of its centres by remerchandising, redeveloping, or renewing leases on these properties wherever possible. The REIT’s goal is to own either “institutional-grade” properties or properties that offer the potential to become “institutional-grade” through redevelopment and leasing improvements.

***Accretive opportunities in less competitive markets:*** The REIT is focused on growing a portfolio of high quality properties in less competitive markets. Management believes that concentrating upon secondary real estate markets offers the REIT the opportunity to acquire well-tenanted retail properties with strong national and regional retailers at attractive capitalization rates. By combining assets in the secondary market and primary market, management believes that the REIT will generate higher returns with lower risk than if the REIT were to focus exclusively on one or the other.

***Targeting the mid-market:*** The REIT is focused on properties, or portfolios of properties, valued at up to $50 million. This focus allows the REIT to minimize competition from large real estate investment trusts, corporations, pension funds, and other institutions. The REIT also considers larger acquisitions that do not fall into the investment parameters of larger real estate investment trusts or institutions, yet still provide accretive investment opportunities.

***Stable rents via national and regional tenants:*** The REIT is focused on the acquisition of retail properties with national and regional retail tenants. These tenants allow the REIT to develop mutually beneficial relationships. These tenants are also most likely to fulfill their lease terms, and thus offer a stable source of cash flows.

***Institutional grade properties:*** The REIT is focused on the acquisition of “institutional-grade” properties. These properties tend to generate more interest from national and regional retailers, resulting in more stable cash flows. These properties also tend to be more highly sought after, and thus offer greater value should the REIT elect to dispose of a particular asset. Finally, focusing on assets that fit this definition allows the REIT to obtain property financing at competitive market rates.

**Leasing**

As of September 30, 2015, lease expiries for the remainder of 2015 and 2016 represent 0.5% and 12.4%, respectively, of the REIT’s total GLA. Management believes there is sufficient demand for the majority of this space, and that certain expiries should provide the REIT with a near-term opportunity to enhance the revenues generated by this space.

Over the past several months, a number of retailers have announced closures and/or bankruptcies, including Mexx, Future Shop, Black’s, Nine West, and Target. Although the REIT’s exposure to these retailers is limited, these store closures will, in the short term, result in increased availability of retail space across Canada and potentially impact retail rental rates and leasing fundamentals.

## Financing

The REIT has $124.8 million (42.5%) in mortgages maturing over the next two years (October 1, 2015 to September 30, 2017). These maturing mortgages have a weighted average contractual interest rate of 4.76%. Based on current financing conditions, management expects that refinancing this portion of the REIT's debt should result in a reduction of the REIT's financing costs. During the first nine months of 2015, the REIT completed $5.6 million in gross mortgage proceeds at a weighted average contract interest rate of 2.88%. Up to and including November 5, 2015, the REIT has completed $14.8 million of new financings on maturing mortgages at an average contract interest rate of 3.05%.

On August 20, 2015, Partners announced that it would issue to each of the holders of its outstanding units the right to subscribe for additional units of the REIT (a "Right"). The record date for establishing the unitholders entitled to receive the Rights was September 14, 2015. A unitholder in Canada was entitled to subscribe for one new unit for every four Rights held upon payment of the subscription price of $3.10 per unit. The Rights expired at 5:00 PM Eastern time on October 21, 2015.

Holders of Rights that exercised in full their basic subscription privilege were also entitled to subscribe for additional units that were not otherwise purchased by other holders of the Rights. The maximum number of additional units for which an eligible holder was able to subscribe was limited to such holders pro-rata share (based on the basic subscription privilege exercised by that unitholder relative to other unitholders) of the total amount of additional units available.

On October 22, 2015, the REIT announced the successful conclusion of the Rights Offering, where there was both a high basic and over allotment subscription. As a consequence, the REIT issued 100% of the units available under the Rights Offering (6,649,364 units) and raised gross proceeds of approximately $20.6 million.

The REIT will apply these proceeds towards the redemption of 75% of the $28,750,000 in Series 1, 8.0% convertible debentures (the "Debentures"), which were scheduled to mature on March 31, 2016. The REIT has issued a notice of such redemption to the holders of the Debentures and they are scheduled for pro-rata redemption on November 23, 2015. The total redemption amount payable for each $1,000 principal amount of Debentures will equal a redemption price of $1,000 plus accrued and unpaid interest of $11.84 (for interest up to but excluding the redemption date). The REIT plans to complete a normal course financing activity to provide the necessary funding to repay the remaining balance of $7.2 million (25% of the Debenture obligation).

### Strategic Review

On May 12, 2015, the REIT's Board of Trustees resolved to terminate its ongoing review of strategic alternatives, and to focus on growth and stability within the REIT's existing core business. The REIT will devote itself to improving its net operating income via a revitalization of its existing portfolio, as well as an improvement of the REIT's balance sheet and financial position (see Part III Recent Developments on page 16 of the MD&A).

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

The following is a summary of key financial information and data for the periods indicated (see Part II – Performance Measurement for a description of the key terms).

| | As at and for the three months ended | | As at and for the nine months ended | |
|---|---|---|---|---|
| | **Sep 30, 2015** | Sep 30, 2014 | **Sep 30, 2015** | Sep 30, 2014 |
| Revenues from income producing properties | **$ 14,334,061** | $ 14,507,888 | **$ 42,714,770** | $ 44,885,569 |
| Net income (loss) | **383,625** | (12,464,313) | **(2,923,676)** | (24,071,909) |
| Net income (loss) per unit - basic | **0.01** | (0.47) | **(0.11)** | (0.92) |
| NOI - same property (1) | **8,482,133** | 8,194,965 | **25,055,819** | 26,222,670 |
| NOI - all property(1) | **8,482,133** | 8,755,664 | **25,055,819** | 27,919,750 |
| FFO(1) | **2,444,179** | 2,458,189 | **6,982,684** | 8,448,127 |
| FFO per unit(1) | **0.09** | 0.09 | **0.26** | 0.32 |
| AFFO(1) | **2,033,857** | 2,619,091 | **6,480,438** | 8,554,241 |
| AFFO per unit(1) | **0.08** | 0.10 | **0.24** | 0.33 |
| Distributions(2) | **1,676,161** | 2,198,779 | **5,014,547** | 8,755,414 |
| Distributions per unit(2) | **0.06** | 0.08 | **0.19** | 0.33 |
| Distribution payout ratio(3) | **69% / 82%** | 89% / 84% | **72% / 77%** | 104% / 102% |
| Cash distributions(4) | **1,323,087** | 2,005,495 | **4,000,824** | 7,952,202 |
| Cash distributions per unit(4) | **0.05** | 0.08 | **0.15** | 0.30 |
| Cash distribution payout ratio(5) | **54% / 65%** | 82% / 77% | **57% / 62%** | 94% / 93% |

| As at | **Sep 30, 2015** | Dec 31, 2014 | Sep 30, 2014 |
|---|---|---|---|
| Total assets | **$ 537,539,331** | $ 542,551,040 | $ 558,778,156 |
| Total debt(6) | **386,631,900** | 381,967,023 | 394,301,960 |
| Total equity | **142,096,188** | 149,036,368 | 153,507,424 |
| Weighted average units outstanding - basic | **26,491,139** | 26,206,391 | 26,165,753 |
| Debt-to-gross book value including debentures(6) | **71.5%** | 69.9% | 66.8% |
| Debt-to-gross book value excluding debentures(6) | **55.6%** | 54.2% | 52.3% |
| Interest coverage ratio(7) | **1.70** | 1.84 | 2.09 |
| Debt service coverage ratio(7) | **1.13** | 1.24 | 1.36 |
| Mortgages weighted average effective interest rate(8) | **4.35%** | 4.43% | 4.99% |
| Portfolio occupancy | **95.0%** | 94.3% | 96.0% |

(1) NOI, NOI – same property, FFO and AFFO are non-IFRS financial measures widely used in the real estate industry. See "Part II – Performance Measurement" for further details and advisories. Prior year balances have been reclassified to conform with current year presentation. NOI – same property includes only those properties which have been owned by the REIT for a full current and prior year period.

(2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month. Distributions per unit exclude the 5% bonus units given to participants in the Distribution Reinvestment and Optional Unit Purchase Plan.

(3) Distribution payout ratio is a non-IFRS financial measure widely used in the real estate industry, calculated as total distributions as a percentage of FFO/AFFO. Management considers the distribution payout ratio a valuable metric to determine the sustainability of the REIT's distribution. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable IFRS measure.

(4) Represents distributions on a cash basis, and as such, excludes the non-cash distributions of units issued under the Distribution Reinvestment and Optional Unit Purchase Plan.

(5) Cash distribution payout ratio is a non-IFRS financial measure widely used in the real estate industry, calculated as cash distributions as a percentage of FFO/AFFO. Management considers the cash distribution payout ratio a valuable metric to determine the sustainability of the REIT's distribution. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable GAAP measure.

(6) Debt-to-gross book value is a non-IFRS financial measure widely used in the real estate industry. See calculation under "Debt-to-Gross Book Value" in "Part IV – Results of Operations". Management considers debt-to-gross book value to be a valuable metric in assessing the REIT's overall leverage. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable IFRS measure.

(7) Interest coverage ratio and debt service coverage ratio are non-IFRS financial measures widely used in the real estate industry, calculated on a rolling four-quarter basis. See definition under "Mortgages and Other Financing" in "Part IV – Results of Operations". Management considers the interest coverage and debt service coverage ratios to be valuable metrics in assessing the REIT's ability to make contractual payments on debt. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There are no directly comparable IFRS measures.

(8) Represents the weighted average effective interest rate for secured debt excluding debentures and credit facilities.

(9) Certain comparative figures have been reclassified to conform with the current year's presentation.

*Results for the Three Month Period Ending September 30, 2015*

Revenue from income producing properties for the third quarter was $14.3 million, a $0.2 million (1%) decrease when compared to $14.5 million in the third quarter of 2014. This decline was the result of the sale of three Canadian Tire properties during the third quarter of 2014, and was partially offset by an increase in recovery revenues. When compared to the second quarter of 2015 ("the prior quarter"), the third quarter revenues increased by $0.5 million (3%). This increase was as a result of increased occupancy along with negative prior year recovery adjustments that impacted second quarter results.

Same property NOI removes the effect of the REIT's dispositions during 2014. Same property NOI for the third quarter was $8.5 million, a $0.3 million (4%) increase when compared to $8.2 million for the third quarter of 2014. This increase was primarily a result of improved occupancy at one of the REIT's larger properties in Québec. When compared to the prior quarter, same property NOI increased by $0.4 million (5%) due to both the lease up of various smaller CRU units during the third quarter and prior year recovery adjustments that were recorded during the prior quarter.

All property NOI for the third quarter was $8.5 million, a $0.3 million (3%) decrease when compared to $8.8 million for the third quarter of 2014. This decline can be attributed to $0.6 million in lost NOI from the sale of three Canadian Tire properties, and was partially offset by the same factors that impacted same property NOI. When compared to the prior quarter, all property NOI increased by $0.4 million (5%) due to the same factors that led to an improvement in same property NOI.

Net income for the third quarter was $0.4 million, a $12.8 million increase when compared to a $12.4 million loss for the third quarter of 2014. This increase in profitability was primarily due to the lower fair value losses, lower other transaction costs, and lower financing costs in the current period. These decreases to expenses were partially offset by an increase in corporate overhead costs during the current period. When compared to the prior quarter, net income decreased by $0.4 million primarily due to the recognition of net insurance proceeds during the prior quarter.

FFO for the third quarter was $2.4 million, unchanged from the same prior year period. When compared to the prior quarter, FFO increased by $0.3 million (12%), primarily as a result of an improvement to NOI and a decrease to financing costs.

AFFO for the third quarter was $2.0 million, a $0.6 million (22%) decrease when compared to $2.6 million for the third quarter of 2014. This decline was primarily due to lower NOI that was as a result of the sale of three Canadian Tire properties, combined with the increase to sustaining capital expenditures (maintenance capex reserve implemented at the start of 2015 – as discussed below). When compared to the prior quarter, AFFO increased by $0.1 million (3%) primarily as a result of increased NOI from improved occupancy and prior year recovery adjustments recorded during the prior quarter.

During the third quarter, the REIT's sustaining capex reserve remained at $0.90 per square foot on an annual basis. As a result of the ongoing review of the REIT's property portfolio and its estimation of the normalized sustaining components of capital expenditures, tenant inducements, and leasing costs, the REIT increased the annual reserve to $0.90 per square foot from $0.60 in the first quarter of 2015. In order to approximate the new reserve level in 2015 and incorporating the $0.15 per square foot reserve reported in the first quarter of 2015, the REIT recognized a $0.25 per square foot reserve for the second quarter and third quarters and plans to recognize the same $0.25 per square foot charge in the fourth quarter of 2015. The current quarter's reserve resulted in sustaining capital expenditures of $0.6 million, an increase of $0.1 million when compared to the third quarter of 2014.

Distributions for the third quarter were $1.7 million ($0.06 per unit), a decrease of $0.5 million when compared to $2.2 million ($0.08 per unit) for the third quarter of 2014. This reduction can be attributed to the REIT's August 2014 decision to reduce its annual distribution from $0.50/unit to $0.25/unit (effective for the August distribution paid in September 2014).

The AFFO payout ratio for the third quarter was 82% (September 30, 2014 – 84%). Taking into account the REIT's dividend re-investment plan ("DRIP"), the AFFO cash payout ratio for the third quarter was 65% (September 30, 2014 – 77%). The current period's AFFO cash payout ratio is expected to provide the REIT with cash for capital re-investment purposes. On October 22, 2015, the REIT issued 6,649,364 units through a Rights Offering, raising gross proceeds of approximately $20.6 million (See Recent Developments and Subsequent Events for more detail). Adjusting for the Rights Offering, and assuming that the additional 6,649,364 units had been outstanding for the duration of the third quarter, and the proceeds were fully deployed against the 8.0% series I convertible debentures – management estimates a third quarter AFFO payout ratio of approximately 85%.

*Year-to-Date Results for the Nine Month Period Ending September 30, 2015*

Revenues for the nine months of 2015 were $42.7 million, a decrease of $2.2 million (5%) when compared to the same period of 2014 amount of $44.9 million. The decrease was primarily as a result of the sale of three Canadian Tire properties during the third quarter of 2014 combined with the effect of increased vacancy at a property in Ontario.

Same property NOI for the nine months of 2015 was $25.1 million, a decrease of $1.1 million (4%) when compared to the same period in 2014 amount of $26.2 million. The decrease was as a result of increased vacancy at one property in Ontario and the re-externalization of property management in the third quarter of 2014.

All property NOI for the nine months of 2015 was $25.1 million, a decrease of $2.8 million (10%) when compared to same period in 2014 amount of $27.9 million. The decrease was driven by the sale of three Canadian Tire properties during the third quarter of 2014 as well as the same factors that weighed on same property NOI, and partially offset by occupancy improvements at one of the REIT's properties in Québec.

Net loss for the nine months of 2015 was $2.9 million, an improvement of $21.1 million when compared to the same period in 2014 loss of $24.1 million. This improvement to income was primarily a result of decreased fair value losses and other transaction costs.

FFO for the nine months of 2015 was $7.0 million, a decrease of $1.5 million (17%) when compared to the same period in 2014 amount of $8.5 million. The decrease was primarily as a result of the sale of three Canadian Tire properties in the prior period and increased vacancy at a property in Ontario.

AFFO for the nine months of 2015 was $6.5 million, a decrease of $2.1 million (24%) when compared to the same period in 2014 amount of $8.6 million. The decrease was due to the sale of three Canadian Tire properties in September 2014, increased vacancy at a property in Ontario and an increase to sustaining capital expenditures. The sustaining capital reserve deduction recognized in the calculation of AFFO was $1.6 million for the nine months of 2015, a $0.5 million (47%) increase when compared to the same period in the 2014 amount of $1.1 million. This increase recognizes the REIT's adoption in 2015 of an annual sustaining capital reserve of $0.90 per square foot.

Distributions for the nine months of 2015 were $5.0 million, a decrease of $3.7 million (43%) when compared to the same period in 2014 amount of $8.7 million. This decrease can be attributed to the REIT's August 2014 decision to reduce its annual distribution from $0.50/unit to $0.25/unit (effective for the August distribution paid in September 2014).

The AFFO payout ratio for the nine months of 2015 was 77% (September 30, 2014 – 102%). Taking into account the REIT's dividend re-investment plan ("DRIP"), the AFFO cash payout ratio for the nine months of 2015 was 62% (September 30, 2014 – 93%). The current period's AFFO cash payout ratio is expected to provide the REIT with cash for capital re-investment purposes.

*Metrics on the Consolidated Statement of Financial Position*

The REIT's total assets as at September 30, 2015 were $538 million, a $5 million (1%) decrease when compared to $543 million as at December 31, 2014. This decline was primarily as a result of $9.9 million in fair value losses recognized on the REIT's property portfolio. This decline was largely concentrated at a single property in Ontario and was recognized as a result of detailed analysis completed in relation to refinancing activities. This adjustment was partially offset by increases in working capital assets and capital work performed on the REIT's properties.

The REIT's total debt as at September 30, 2015 was $387 million, a $5 million (1%) increase when compared to $382 million at December 31, 2014. This increase was the result of three re-financings that provided the REIT with $4.1 million in incremental mortgage financing ($5.6 million in total proceeds less $1.5 million in maturing mortgages), as well as $7.0 million drawn on the REIT's $10.0 million credit facility. These factors were partially offset by $6.7 million in regular principal repayments on the REIT's mortgages.

The REIT's debt-to-gross book value at September 30, 2015 was 71.5%, or 55.6% excluding the impact of the convertible debentures. These metrics stood at 69.9% and 54.2%, respectively, as at December 31, 2014. The increase reflects in part the above noted mortgage financings and the impact of $9.9 million in fair value loss adjustments to the valuation of income producing properties. If the October 22, 2015 equity raise of $20.6 million is included and the net proceeds are fully deployed to the repayment of debt, the debt-to-gross book value of 71.5% improves to 67.7%.

The REIT's weighted average effective interest rate at September 30, 2015 was 4.35%, a decrease from 4.43% as at December 31, 2014. This decrease was a result of the $5.6 million in new mortgage financings that took place during the nine months of 2015. These financings had a weighted average contractual interest rate of 2.88% and repaid a mortgage having a contractual rate of 6.35%.

Partners' interest coverage ratio at September 30, 2015 was 1.70, a decrease from 1.84 as at December 31, 2014. The REIT's debt service coverage ratio at September 30, 2015 was 1.13, a decrease from 1.24 at December 31, 2014. These declines can be attributed to the decrease in NOI and increased debt as compared to the December 31, 2014 levels.

Occupancy as at September 30, 2015 was 95.0%, an increase when compared to 94.3% as at December 31, 2014. This improvement was the result of new leases at several of the REIT's properties. Management believes that the REIT's 2015 leasing plans for renewals are progressing well, despite the recent increase in available Canadian retail square footage.

Net asset value is a measure of the REIT's total assets less its liabilities, and is represented on the balance sheet as unitholders' equity. As at September 30, 2015, the REIT's net asset value was $5.33 per unit, a decrease of $0.32 per unit when compared to $5.65 per unit at December 31, 2014. This decrease in unitholder's equity is a result of the REIT's $2.9 million net loss and $4.0 million in cash distributions during the nine months ended September 30, 2015. Taking into account the above mentioned Rights Offering and assuming the additional 6,649,364 units outstanding following the completion of the Rights Offering had been outstanding at the end of the third quarter, management estimates that REIT's net asset value per unit at September 30, 2015 would have been $4.88.

# REAL ESTATE PORTFOLIO

## Portfolio Summary

| Property and location | Property type | Date built /redeveloped | Anchor and shadow anchor tenants | Retail (sq.ft.)[1] | Occupancy[2] [3] | % of annualized base rental revenue[3] | Weighted average rent[4] |
|---|---|---|---|---|---|---|---|
| **British Columbia:** | | | | | | | |
| Centuria Urban Village<br>Kelowna, British Columbia | Mixed Use Commercial/ Residential | 2007 | Nesters Market, Shoppers Drug Mart | 32,625 | 100.0% | 2.0% | $22.52 |
| Evergreen Shopping Centre<br>Sooke, British Columbia | Retail Strip Centre | 1978/2010 | Western Foods, Shoppers Drug Mart, BC Liquor | 68,877 | 95.5% | 2.9% | $16.23 |
| Mariner Square Shopping Centre<br>Campbell River, British Columbia | Retail Strip Centre | 2006/2007 | Save-On Foods, Starbucks, London Drugs, BC Liquor | 100,257 | 100.0% | 4.6% | $17.33 |
| Washington Park Shopping Centre<br>Courtenay, British Columbia | Retail Strip Centre | 1992/1993 | Great Canadian Superstore, TD Bank | 32,652 | 92.9% | 2.0% | $24.92 |
| **Alberta:** | | | | | | | |
| 137th Ave.<br>Edmonton, Alberta | Free Standing | 2003 | Shoppers Drug Mart, PartSource | 15,922 | 100.0% | 0.8% | $17.84 |
| Cobblestone Shopping Centre<br>Grand Prairie, Alberta | Retail Strip Centre | 2006/2007 | Shoppers Drug Mart, TD Bank, Starbucks | 42,980 | 100.0% | 3.1% | $26.64 |
| Manning Crossing<br>Edmonton, Alberta | Retail Strip Centre | 1993 - 1996 | Safeway, RBC | 64,544 | 100.0% | 4.1% | $23.81 |
| **Manitoba:** | | | | | | | |
| Shoppers Drug Mart Property<br>Brandon, Manitoba | Free Standing | 2005 | Shoppers Drug Mart | 16,986 | 100.0% | 1.0% | $21.75 |
| Shoppers Drug Mart Property<br>Selkirk, Manitoba | Free Standing | 2005 | Shoppers Drug Mart | 16,685 | 100.0% | 0.9% | $20.00 |
| Shoppers Drug Mart Property<br>Steinbach, Manitoba | Free Standing | 2006 | Shoppers Drug Mart, Medical Practitioners | 21,005 | 100.0% | 1.2% | $21.04 |
| Shoppers Drug Mart Property<br>Winnipeg (Pembina), Manitoba | Free Standing | 2003 | Shoppers Drug Mart | 15,780 | 100.0% | 1.2% | $27.40 |
| Shoppers Drug Mart Property<br>Winnipeg (Sherbrook), Manitoba | Free Standing | 2005 | Shoppers Drug Mart | 16,839 | 100.0% | 1.2% | $26.50 |
| **Ontario:** | | | | | | | |
| Cornwall Square<br>Cornwall, Ontario | Enclosed Mall | 1979/1989 | Sears, Shoppers Drug Mart | 251,092 | 78.4% | 6.8% | $12.87 |
| Crossing Bridge Square<br>Stittsville, Ontario | Retail Strip Centre | 1995 | Farm Boy, McDonalds, IDA | 45,913 | 95.2% | 2.1% | $18.28 |
| Grand Bend Towne Centre,<br>Grand Bend, Ontario | Retail Strip Centre | 2002 | Sobey's, Shoppers Drug Mart | 41,567 | 94.2% | 1.7% | $16.57 |
| King George Square<br>Brantford, Ontario | Retail Strip Centre | 1988 | Shoppers Drug Mart, Dollarama | 66,983 | 98.2% | 3.1% | $17.92 |
| Place Val Est<br>Sudbury, Ontario | Retail Strip Centre | 1983/1987, 1990, 1998 | Metro, LCBO, RBC, Pharmasave | 110,577 | 90.4% | 3.4% | $12.62 |
| Quinte Crossroads,<br>Belleville, Ontario | Power Centre | 2005 - 2007 | The Brick, Home Depot Best Buy, BMO | 85,200 | 100.0% | 4.1% | $18.09 |
| Rona Property<br>Exeter, Ontario | Free Standing | 1996/2000 | Rona | 42,780 | 100.0% | 0.4% | $3.86 |
| Rona Property<br>Seaforth, Ontario | Free Standing | 1962/2000 | Rona | 19,622 | 100.0% | 0.1% | $2.69 |
| Rona Property<br>Zurich, Ontario | Free Standing | 1961/2000 | Rona | 24,400 | 100.0% | 0.1% | $1.63 |

| Property and location | Property type | Date built /redeveloped | Anchor and shadow anchor tenants | Retail (sq.ft.)[1] | Occupancy[2] [3] | % of annualized base rental revenue[3] | Weighted average rent[4] |
|---|---|---|---|---|---|---|---|
| St. Clair Beach Towne Centre<br>Tecumseh, Ontario | Retail Strip Centre | 2004 | Shoppers Drug Mart | 40,088 | 87.0% | 2.2% | $23.09 |
| Thunder Centre<br>Thunder Bay, Ontario | Power Centre | 2004 - 2007 | Home Outfitters, LCBO, Home Depot, Old Navy, Dollarama, Mark's | 168,087 | 98.5% | 7.6% | $17.14 |
| Timmins West Power Centre<br>Timmins, Ontario | Retail Strip Centre | 2007 - 2009 | Michaels, Mark's | 43,774 | 100.0% | 2.0% | $17.29 |
| Wellington Southdale<br>London, Ontario | Retail Strip Centre | 1986, 2000, 2004, 2006 | Landmark Theatres, Dollarama | 86,243 | 100.0% | 4.5% | $19.64 |
| **Québec:** | | | | | | | |
| Centre Village Shopping Centre<br>Nuns Island, Montréal, Québec | Enclosed Mall | 1977, 1991, 2001, 2010, 2012 | Loblaws, SAQ | 96,957 | 94.2% | 3.6% | $14.58 |
| Châteauguay<br>Montréal, Québec | Mixed-use Strip Centre | 1970/1994, 2010 | Shoppers Drug Mart, Staples, Québec Government | 115,295 | 100.0% | 4.0% | $12.85 |
| Elgar Place<br>Nuns Island, Montréal, Québec | Retail Strip Centre | 1969, 1989 | Couche Tard | 10,121 | 100.0% | 0.4% | $14.85 |
| Marcel Laurin<br>Saint Laurent, Québec | Retail Strip Centre | 2011 | Metro, Brunet Pharmacy | 120,171 | 97.1% | 5.5% | $17.56 |
| Méga Centre<br>Montréal, Québec | Power Centre | 1973/1993, 1999, 2000, 2004, 2014 | Walmart, Michaels, Brault & Martineau | 272,034 | 100.0% | 7.9% | $10.91 |
| Place Desormeaux<br>Longueuil, Québec | Enclosed Mall | 1971/1998,2009, 2010 | Walmart, Super C, Québec Government | 249,518 | 95.7% | 7.7% | $12.05 |
| Plaza des Seigneurs<br>Terrebonne, Québec | Retail Strip Centre | 1998 | Uniprix, SAQ, Banque Nationale | 20,833 | 100.0% | 1.2% | $22.16 |
| Repentigny Shopping Centre<br>Repentigny, Québec | Mixed Use Strip Centre | 1988/2009 | Familiprix, Dollarama, Québec Government | 49,365 | 79.9% | 1.7% | $15.86 |
| Saint Remi Shopping Centre<br>Saint Remi, Québec | Retail Strip Centre | 2009 - 2011 | Sobey's, SAQ, IGA Uniprix, Tim Hortons | 62,522 | 92.0% | 2.6% | $17.09 |
| Shoppers Drug Mart Property<br>Gatineau, Québec | Free Standing | 2007 | Shoppers Drug Mart | 17,028 | 100.0% | 1.1% | $24.00 |
| Sorel Shopping Centre,<br>Sorel, Québec | Retail Strip Centre | 2010 - 2012 | Uniprix, SAQ | 31,038 | 74.9% | 1.4% | $22.01 |
| **Total** | | | | **2,516,360** | **95.0%** | **100%** | **$15.67** |

Notes:

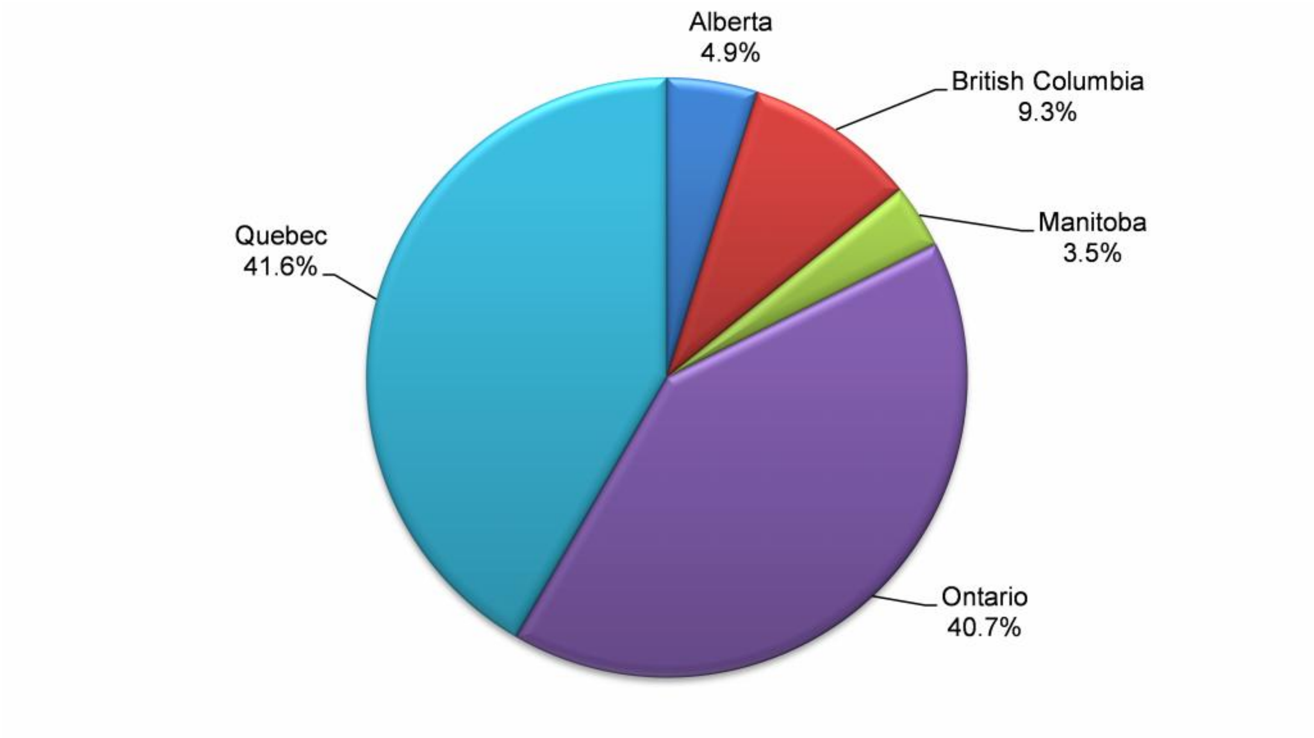
(1) Includes office space in mixed-use retail properties.

(2) Excluding storage space.

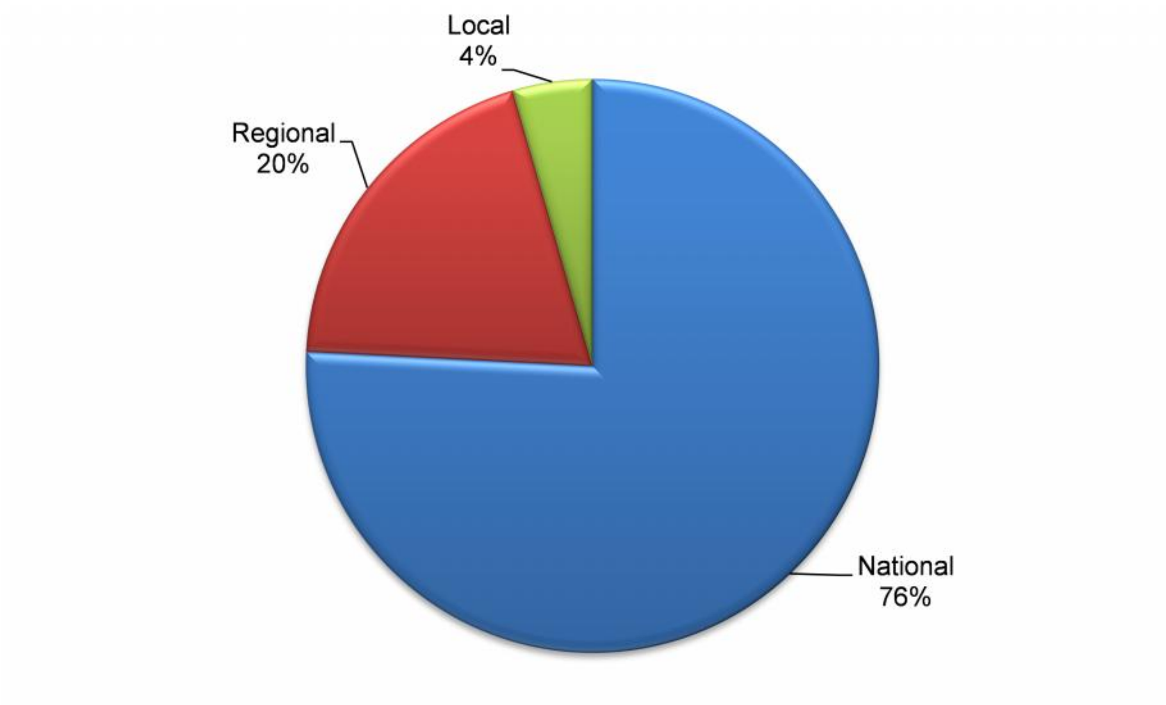
(3) Includes square footage of all material executed leases, regardless of occupancy date, and excludes square footage of all documented material lease terminations updated through September 30, 2015.

(4) Represents the weighted average rent for the portfolio.

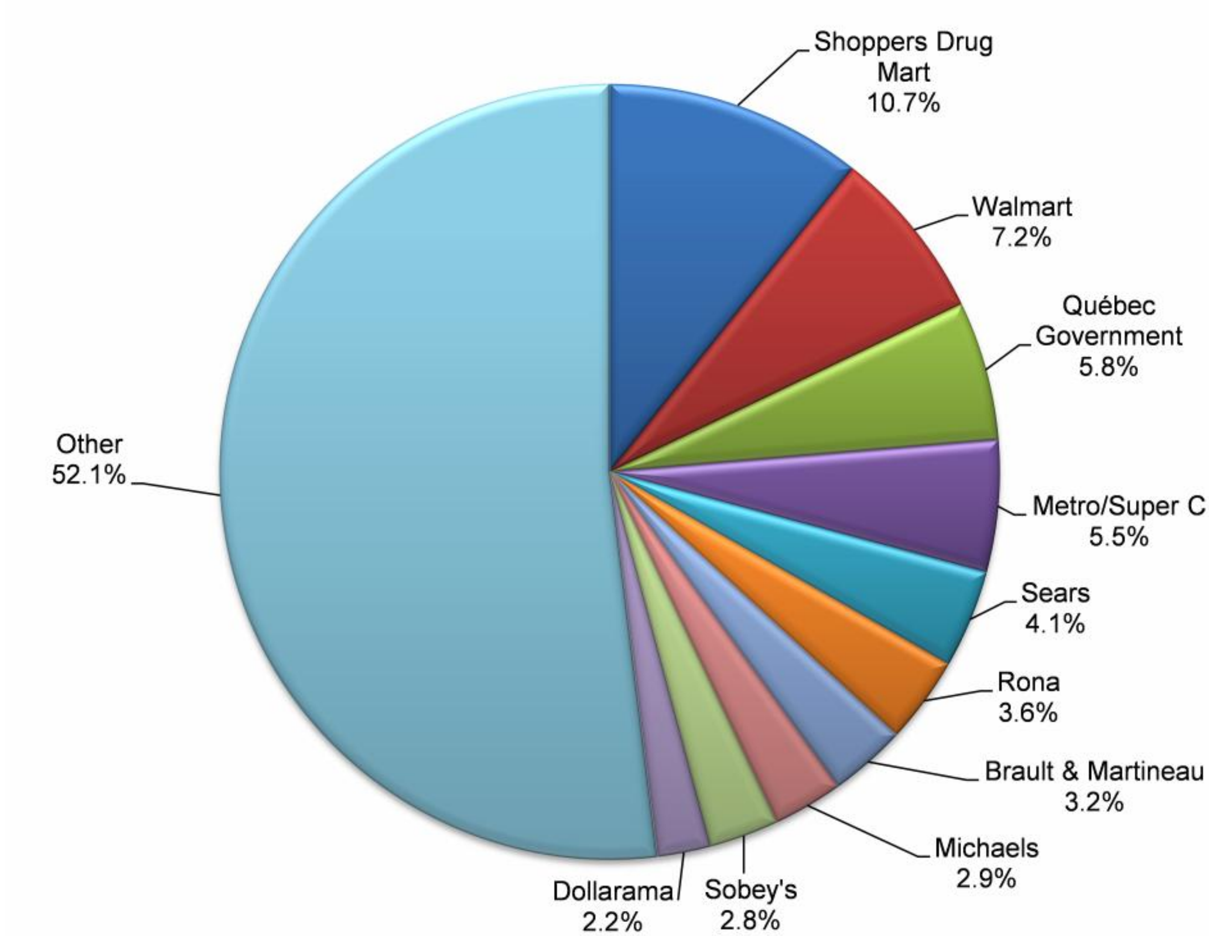
The geographic diversification of the portfolio by square footage is as follows:




The REIT has a strong mix of national and regional tenants by square footage as follows:



The tenant mix of the REIT's portfolio as at September 30, 2015, including the REIT's ten largest tenants by GLA, is as follows:




Note: Based on total leased sq. ft. excluding storage

**Leasing Activity and Occupancy**

The weighted average term to maturity of existing leases is approximately six years. The table below shows the lease expiration schedule of the properties as a percentage of total GLA for 2015 and beyond:

| | (sq.ft.) | (%) |
|---|---|---|
| 2015 (remaining three months) | 13,335 | 0.5% |
| 2016 | 313,087 | 12.4% |
| 2017 | 244,755 | 9.7% |
| 2018 | 166,907 | 6.6% |
| 2019 | 360,981 | 14.3% |
| Thereafter | 1,291,084 | 51.3% |
| Vacant | 126,211 | 5.0% |
| Total | 2,516,360 | 100.0% |

The weighted average contractual net rent per square foot expiring in Partners REIT's portfolio is outlined in the following table**:**

| **Year** | | **Retail** |
|---|---|---|
| 2015 (remaining three months) | | 8.99 |
| 2016 | | 11.92 |
| 2017 | | 18.39 |
| 2018 | | 18.22 |
| 2019 | | 13.22 |
| Thereafter | | 16.49 |
| Average | $ | 15.67 |
| Weighted average remaining lease term (years) | | **5.92** |

Lease expiries for 2015, new leasing and renewals completed by September 30, 2015 are as follows:

| Three months ended | | 31-Mar-15 | | 30-Jun-15 | | 30-Sep-15 | | 31-Dec-15 | | **Total 2015** | | Total 2014 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Lease expiries | | 37,829 | | 19,158 | | 27,370 | | 94,947 | | **179,304** | | 471,588 |
| Base rent per square foot[1] | $ | 20.31 | $ | 19.99 | $ | 19.29 | $ | 12.74 | **$** | **16.11** | $ | 9.50 |
| Lease renewals - completed | | 32,445 | | 14,424 | | 22,877 | | 84,573 | | **154,319** | | 380,076 |
| Base rent per square foot[1] | $ | 21.73 | $ | 17.52 | $ | 17.39 | $ | 12.29 | **$** | **15.52** | $ | 9.07 |
| Leases - in progress[2] | | 855 | | 1,684 | | - | | 9,700 | | **12,239** | | - |
| Base rent per square foot[1] | $ | 16.00 | $ | 28.94 | $ | - | $ | 16.19 | **$** | **17.93** | $ | - |
| Uncommitted vacancies | | 4,529 | | 3,050 | | 4,493 | | 674 | | **12,746** | | 91,512 |
| Base rent per square foot[1] | $ | 9.07 | $ | 20.71 | $ | 25.68 | $ | 19.00 | **$** | **18.23** | $ | 11.95 |
| New leasing | | 9,195 | | 6,223 | | 15,562 | | 1,568 | | **32,548** | | 79,451 |
| Base rent per square foot[1] | $ | 20.35 | $ | 15.73 | $ | 18.54 | $ | 20.00 | **$** | **18.58** | $ | 15.89 |

(1) Weighted average

During the third quarter, the REIT renewed or entered into new leases for 38,439 square feet in respect of space that was either vacant at the beginning of the quarter or expired during the quarter. The balance of leased space that expired during the quarter of 4,493 square feet, comprising five units, is either in the process of being renewed or will require new tenant prospects. During the nine months of 2015, the REIT also renewed a total of 84,573 square feet that were set to expire during the fourth quarter of 2015. The success in securing lease renewals and new leases for 2015 expiries reflects the REIT's increased focus and efforts on proactive leasing activities in recent months. GLA and occupancy of the REIT on a quarter by quarter basis over the last eight quarters was as follows:

| Quarter Ended | Gross Leasable Area (sq. ft.) | Occupied (sq.ft.) | Occupancy (%) |
|---|---|---|---|
| September 30, 2015 | 2,516,360 | 2,390,149 | 95.0% |
| June 30, 2015 | 2,520,364 | 2,385,229 | 94.6% |
| March 31, 2015 | 2,522,745 | 2,385,697 | 94.6% |
| December 31, 2014 | 2,522,974 | 2,380,007 | 94.3% |
| September 30, 2014 | 2,518,523 | 2,418,895 | 96.0% |
| June 30, 2014 | 2,711,464 | 2,623,747 | 96.8% |
| March 31, 2014 | 2,716,951 | 2,619,958 | 96.4% |
| December 31, 2013 | 2,716,328 | 2,619,855 | 96.4% |
| Average | 2,593,213 | 2,477,942 | 95.5% |

## PART II – PERFORMANCE MEASUREMENT

The key indicators by which management measures Partners REIT's performance are as follows:

- Net operating income ("NOI");
- Funds from operations ("FFO");
- Adjusted funds from operations ("AFFO");
- Debt service coverage ratio ("DSCR");
- Weighted average interest rate; and
- Occupancy levels.

We have provided the analysis of NOI, FFO, and AFFO under Part IV – Results of Operations.

**Net Operating Income**

Net operating income ("NOI") is defined as gross revenues from income producing properties less operating costs from income producing properties. Operating expenses do not include costs associated with financing, general and administration, other corporate transaction costs, amortization, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. Amortization of tenant costs (an expense) are netted against revenues for IFRS purposes, but are added back in the calculation of NOI. NOI is a non-IFRS financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results from operations that is useful in analyzing the performance of the REIT's property portfolio.

**Funds from Operations**

Funds from operations ("FFO") is a non-IFRS financial measure of operating performance widely used by the real estate industry. Partners REIT bases its calculation of FFO on the recommendations of the Real Property Association of Canada ("RealPac"). The definition is meant to standardize the calculation and disclosure of FFO across real estate entities in Canada, and is modeled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States. NAREIT's definition of FFO is net income (calculated in accordance with IFRS) excluding gains or losses from the sale of property and fair value increases or decreases in property values; plus depreciation and amortization; adjusted for items that are not indicative of operating performance; and after adjustments for unconsolidated partnerships and joint ventures (which is also calculated to reflect FFO on the same basis). The REIT has reconciled FFO to cash provided by operations in an equivalent manner to the RealPac definition on page 23.

Management considers FFO a meaningful measure of operating performance for financial analysts, investors and unitholders, since it eliminates the assertion that the value of real estate decreases over time and it adjusts for items included in net income (as determined under IFRS) that may not necessarily be the best determinants of operating performance.

**Adjusted Funds from Operations**

Adjusted funds from operations ("AFFO") is a non-IFRS financial measure defined as FFO less sustaining capital expenditures (ie - leasing fees, tenant allowances, tenant improvements and capital expenditures that maintain the current rental operations), less any straight line rental revenue that has otherwise been included in income, plus the non-cash amortization of deferred financing costs (including mortgage penalties from early payout) and interest accretion expense. Management considers certain leasing activities and sustaining capital expenditures to be fundamental to the operating activities of the REIT in order to maintain the current level of rental operations, and not a discretionary investment. The calculation of AFFO excludes revenue enhancing capital expenditures (ie - capital expenditures and leasing costs that relate to the generation of a new rental stream, as a consequence of leasing space to a new tenant or the development of a new retail space).

Management considers AFFO to be an effective measure of the cash generated from operations and is a measure of the REIT's ability to pay distributions.

NOI, FFO, and AFFO should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with IFRS. Management's method of calculating these financial measures may differ from that of other issuers and accordingly, may not be comparable to financial measures with similar captions reported by other issuers.

The REIT has determined its sustaining capital expenditures based on a reserve, as opposed to the quarter's actual costs (in previous years the REIT would identify specific maintenance related capital expenditures in each quarter, resulting in significant quarter over quarter fluctuations). For the three months ended March 31, 2015 the REIT used a reserve of $0.15 per square foot. For both the second and third quarter of 2015 and the remaining fourth quarter of 2015, the REIT will use a reserve of $0.25 per square foot, resulting in an annual reserve of $0.90 per square foot. Based on its assessment of the current portfolio, management believes that $0.90 per square foot will closely approximate actual ongoing annual sustaining capital expenditures.

**Debt Service Coverage Ratio**

Debt service coverage ratio ("DSCR") is a non-IFRS measure used to determine if the REIT will be able to sustain its debt based on its current cash flow. DSCR is calculated by dividing the REIT's EBITDA by the total annual interest and principal payments made on its debt portfolio. The DSCR is a tool that financial institutions use to evaluate the risk associated with the ability to recover both interest and principal payments and is a common financial covenant contained within lending agreements. As at September 30, 2015, the rolling four-quarter DSCR was 1.13 to 1, down from 1.24 to 1 at December 31, 2014. Following the recently completed Rights Offering and the pending repayment of the Series 1, 8% convertible debentures, management expects an improvement to the DSCR.

**Mortgages Weighted Average Effective Interest Rate**

The REIT's weighted average effective interest rate is a non-IFRS financial measure and includes interest on secured debt and excludes interest on debentures and credit facilities. This calculation is a useful measure to compare movements in interest rates period over period; and to compare the average rate to the current market rates at that point in time. As at September 30, 2015, the REIT's weighted average effective interest rate was 4.35%, a decrease from 4.43% at December 31, 2014.

**Occupancy Levels**

Occupancy levels are presented in different manners depending on their context. Occupancy levels could be presented as an average portfolio occupancy rate when analyzing the overall operating performance, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the period over period performance of each property. Management considers these as useful measures in assessing the overall performance of its portfolio and essential tools to determine which properties require further investigation if performance lags. Refer to Part I – Overview & Financial Highlights under "Leasing Activity and Occupancy" for the REIT's occupancy performance.

## PART III – RECENT DEVELOPMENTS & SUBSEQUENT EVENTS

**Changes to Property Management**

On March 31, 2014, the REIT announced its intention to fully internalize its property management in Ontario on April 30, 2014. The internalization was completed as planned. However, the internalization was in part facilitated by an employee sharing agreement (the "Employee Sharing Agreement"), between the REIT and McCowan & Associates Ltd. ("McCowan").

On May 5, 2014, the REIT and McCowan amended the terms of the Employee Services Agreement to reflect the fact that the majority of the employees that were previously subject to such agreement were providing services separately to either McCowan or the REIT and were therefore employees of the applicable entity. Subsequent to the end of the second quarter, the REIT and McCowan mutually agreed to the termination of the Employee Services Agreement, effective August 31, 2014.

As a consequence, the REIT had insufficient leasing and operations staff to effectively carry out all the required aspects of fully internalized property management. As such, the property management internalization was modified where appropriate. Effective August 1, 2014, the REIT engaged Epic Realty Partners to manage its Alberta property portfolio. During September 2014, the REIT engaged Epic Realty to manage the Manitoba and Ontario properties and during January 2015 Epic Realty was engaged to manage the British Columbia properties.

On October 2, 2014, the REIT announced that it had retained an independent leasing brokerage to handle the leasing from Ontario to British Columbia.

As at March 31, 2015, all of the REIT's properties were being managed by third party managers. Except for 10 properties in Québec, where some accounting functions are done, the accounting and finance functions remain directly with REIT employees and the leasing functions with an independent leasing brokerage. In Québec, two external property management companies provide property management, leasing, and some accounting services.

All of the REIT's asset management responsibilities are managed internally.

**Uncertified Class Action Lawsuit**

In April 2014, Partners purchased three retail centres in Ontario from Holyrood Holdings ("Holyrood") for a purchase price of approximately $83.2 million.

In May 2014, shortly after the closing of the transaction, the REIT's Trustees were presented with information that persuaded them, after investigation and retention of independent counsel advice, that Ron McCowan, the REIT's interim Chief Executive Officer at the time (and holder of 15% of the REIT's outstanding units) had a sufficiently close business relationship with Laura Philp, Holyrood's owner, that they could be considered as acting together under applicable regulations. The REIT's Trustees would not have approved the Holyrood transaction had they known that Mr. McCowan and Ms. Philp may not have been acting at arm's length.

As a result of this development, the REIT's Trustees initiated a process to reverse the Holyrood Transaction. On October 2, 2014 the REIT and Holyrood obtained an Order from the Ontario Superior Court of Justice that rescinded the April 2014 acquisition.

On December 4, 2014, the REIT announced that it had been notified that a statement of claim dated November 28, 2014 had been issued in the Ontario Superior Court seeking certification of a class action on behalf of persons who held units of the REIT on April 1, 2014 against several parties, including a former officer and both current and former Trustees of the REIT. Partners REIT itself has not been named as a defendant in the legal proceedings which allege that the conduct of the defendants in connection with the acquisition by the REIT of three properties from Holyrood in April 2014 caused harm to the plaintiffs.

Partners has certain indemnity obligations to its Trustees and officers (current and former) with respect to this claim, subject to exceptions including where it is determined that there has been a failure to act honestly and in good faith. The REIT has insurance which it expects to be applicable in these circumstances. Given that the

REIT has not been named in the litigation, the REIT does not believe it will be material to its business and affairs.

**Sale of Properties**

On September 26, 2014, the REIT sold a portfolio of three Canadian Tire properties to CT REIT for $34.9 million. The purchaser assumed three related mortgages for $19.2 million and after costs the REIT received net cash consideration of $15.5 million. The capitalization rate for this transaction was considered to be at market. Net proceeds from this transaction provided immediate liquidity for the funding of near term capital expenditures, general and administrative expenses, other transaction costs, and facilitated the repayment of a high interest rate loan. This transaction resulted in a capital gain of $6.8 million, this capital gain is passed to unitholders through the allocation of income received from distributions.

From time to time the REIT reviews its portfolio and considers non-core assets for sale.

**Strategic Review**

On May 12, 2015, the REIT's Board of Trustees has resolved to terminate its ongoing review of strategic alternatives, and to focus on growth and stability within the REIT's existing core business. The REIT will devote itself to improving its net operating income via a revitalization of its existing portfolio, as well as an improvement of the REIT's balance sheet and financial position. The strategic review was announced on May 6, 2014 with the purpose of examining strategic alternatives to maximize value for all unitholders.

**Changes to Senior Management and the Board of Trustees**

On June 18, 2015, Partners announced the results of voting conducted on June 17, 2015, at the REIT's Annual General Meeting of Unitholders. Among matter proposed and passed, three new Trustees were elected including Allan Kimberley, Simon Nyilassy, and C. Ian Ross. All three new Trustees possess significant real estate experience. More information on the Trustees elected on June 17, 2015 can be found in the REITs Management Information Circular, dated May 17, 2015, and available on both the REIT's website (www.partnersreit.com) and SEDAR.

On July 14, 2015, the REIT announced the appointment of Jane Domenico as the REIT's President and Chief Executive Officer. Ms. Domenico has served as the REIT's interim Chief Executive Officer since May 4, 2014, and as the REIT's Chief Operating Officer since February 14, 2014.

**Debt Financings (Property Mortgages)**

On February 17, 2015, the REIT refinanced three free-standing properties located in Manitoba, all anchored by Shoppers Drug Mart. This refinancing increased the amount of capital available for funding improvements across the REIT's property portfolio, in addition to addressing a maturing mortgage at one of the properties. The refinancing consisted of first mortgages that amounted to an aggregate of $5.6 million, and provided the REIT with $4.1 million in additional liquidity to fund previously identified capital investments. These first mortgages carry an average weighted interest rate of 2.88% and an average term to maturity of 5.5 years.

On October 1, 2015, the REIT refinanced its Place Val Est asset in the greater Sudbury area of Ontario. The REIT secured a $9.2 million mortgage with a five year term carrying a 3.15% interest rate. The refinancing provided the REIT with approximately $2.8 million in additional liquidity to fund capital investments intended to improve the overall quality of the REIT's portfolio, while $6.3 million of this new mortgage was directed towards the repayment of the property's previous and maturing mortgage, which carried an interest rate of 5.17%. Both the new and previous mortgages originated with the Canadian CMBS division of the Royal Bank of Canada.

Year-to-date, up to and including November 5, 2015, Partners has completed $14.8 million of new financings, inclusive of refinancing maturing mortgages, at an average rate of 3.05%. Given the REIT's high quality tenant base, management expects to continue to secure property level financing at competitive rates. As at the end of the third quarter, 96% of the REIT's leased square footage was occupied by national or regional tenants, many with a focus on necessity based retail.

**Equity Financings (Rights Offering)**

On August 20, 2015, Partners announced that it would issue to each of the holders of its outstanding units the right to subscribe for additional units of the REIT. The record date for establishing the unitholders entitled to receive the Rights was 5:00 p.m. Eastern time on September 14, 2015. A unitholder in Canada was entitled to subscribe for one unit for every four Rights held upon payment of the subscription price of $3.10 per unit. The Rights expired at 5:00 PM Eastern on October 21, 2015.

Holders of Rights that exercised in full their basic subscription privilege were also entitled to subscribe for additional units that were not otherwise purchased by other holders of the Rights. The maximum number of additional units for which an eligible holder was able to subscribe was limited to such holders pro-rata share (based on the basic subscription privilege exercised by that unitholder relative to other unitholders) of the total amount of additional units available.

On October 22, 2015, the REIT announced the successful conclusion of the Rights Offering, which raised proceeds of approximately $20.6 million as a result of significant over-subscription. As a result, the REIT will issue 6,649,364 units, or 100% of the units available under the Rights Offering.

The REIT will apply these proceeds towards the redemption of 75% of its $28,750,000 currently outstanding Series 1, 8.0% convertible unsecured subordinated debentures, which were scheduled to mature on March 31, 2016 and has issued a notice of such redemption to the holders of the Debentures. These Debentures will be redeemed on November 23, 2015, on a pro-rata basis and in accordance with their terms. The total redemption amount payable for each $1,000 principal amount of Debentures will equal a redemption price of $1,000 plus accrued and unpaid interest of $11.84, up to but excluding the redemption date. The REIT plans to complete normal course financing activity to provide the necessary proceeds to repay the Debentures that will remain outstanding ($7.2 million).

## PART IV – RESULTS OF OPERATIONS

### STATEMENT OF OPERATIONS

The following is selected financial information from the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2015:

| Three months ended | | **Sep 30, 2015** | | Sep 30, 2014 | Change |
|---|---|---|---|---|---|
| Revenues from income producing properties | **$** | **14,334,061** | $ | 14,507,888 | (1%) |
| Property operating expenses | | **(2,283,675)** | | (2,398,756) | (5%) |
| Realty taxes | | **(3,368,414)** | | (3,172,164) | 6% |
| Property management fees | | **(398,290)** | | (338,916) | 18% |
| | | **8,283,682** | | 8,598,052 | (4%) |
| Other expenses: | | | | | |
| Financing costs | | **4,949,104** | | 5,694,498 | (13%) |
| General and administrative expenses | | **1,088,850** | | 604,851 | 80% |
| Other transaction costs | | **178,100** | | 935,055 | (81%) |
| | | **6,216,054** | | 7,234,404 | (14%) |
| Income (loss) before FV losses | | **2,067,628** | | 1,363,648 | 52% |
| Fair value losses | | **(1,684,003)** | | (14,538,979) | (88%) |
| Gain on sale of investment properties | | **-** | | 711,018 | |
| Comprehensive income (loss) | **$** | **383,625** | $ | (12,464,313) | (103%) |
| Income (loss) per unit, basic | **$** | **0.01** | $ | (0.47) | (103%) |

| Nine months ended | | **Sep 30, 2015** | | Sep 30, 2014 | Change |
|---|---|---|---|---|---|
| Revenues from income producing properties | **$** | **42,714,770** | $ | 44,885,569 | (5%) |
| Property operating expenses | | **(6,733,928)** | | (6,921,099) | (3%) |
| Realty taxes | | **(10,295,098)** | | (9,678,104) | 6% |
| Property management fees | | **(1,213,814)** | | (880,094) | 38% |
| | | **24,471,930** | | 27,406,272 | (11%) |
| Other expenses: | | | | | |
| Financing costs | | **15,116,173** | | 16,129,960 | (6%) |
| General and administrative expenses | | **2,956,962** | | 3,361,979 | (12%) |
| Other transaction costs | | **519,017** | | 8,620,592 | (94%) |
| | | **18,592,152** | | 28,112,531 | (34%) |
| Income (loss) before FV losses and insurance | | **5,879,778** | | (706,259) | (933%) |
| Insurance proceeds | | **1,059,763** | | - | - |
| Fair value losses | | **(9,863,217)** | | (24,076,668) | (59%) |
| Gain on sale of investment properties | | **-** | | 711,018 | |
| Comprehensive loss | **$** | **(2,923,676)** | $ | (24,071,909) | (88%) |
| Loss per unit, basic | **$** | **(0.11)** | $ | (0.92) | (88%) |

### Comprehensive Income (Loss)

Net income for the third quarter was $0.4 million, a $12.8 million increase when compared to a $12.4 million loss for the third quarter of 2014. This increase in profitability was primarily due to the lower fair value losses, other transaction costs, and financing costs in the current period. The increase was partially offset by an increase in corporate overhead costs during the current period. For the nine months ended September 30, 2015, the net loss of $2.9 million improved by $21.1 million over the prior period's amount of $24.0 million. The improvement to income is primarily a result of decreased fair value losses and other transaction costs.

### Financing Costs

The REIT's financing costs are incurred on debt bearing fixed and variable rates of interest, and consist primarily of interest expense recognized in accordance with the effective interest rate method, which includes not only the REIT's contractual interest expenses, but also financing costs and market interest rate adjustments. Financing costs also include non-cash accretion expense and other incidental interest income and expenses.

Financing costs for the third quarter were $4.9 million, a decrease of $0.8 million (13%) from the third quarter of 2014 amount of $5.7 million. The decrease was due to a decrease in the average effective rate of mortgages, a decrease in amortization of deferred financing costs and interest accretion expense (both non-cash), along with lower overall average debt levels which can be attributed to the transfer of three first mortgages in conjunction with the sale of three Canadian Tire properties during the third quarter of 2014. The amortization of deferred financing costs for the three months ended September 30, 2015 was $0.4 million, a decrease from $0.8 million during the comparative prior year period.

### General and Administrative Expenses

General and administrative expenses for the third quarter were $1.1 million, an increase of $0.5 million when compared to the third quarter of 2014 amount of $0.6 million. This increase from the prior period is due primarily to an anomaly in the prior period amount. During the prior year's third quarter a one time adjustment was made, re-allocating $0.5 million in costs related to the Holyrood Transaction from general and administrative to other transaction costs. The fiscal 2014 total for general and administrative expenses were $4.5 million which averages $1.1 million per quarter and this 2014 quarterly average is comparable to the current quarter's amount. The year to date general and administrative expenses are $3.0 million and management expects the annual amount to approximate $3.9 million (an increase from the earlier estimate of $3.7 million for the year ended December 31, 2015 - as originally disclosed in the December 31, 2014 management discussion and analysis filed March 26, 2015).

### Other Transaction Costs

Other transaction costs for the third quarter were $0.2 million, a decrease of $0.7 million (81%) when compared to the third quarter of 2014 amount of $0.9 million. This decline was a result of significant abandoned acquisition costs incurred during the comparable period.

### Insurance Proceeds

During the first nine months of 2015, the REIT recorded insurance proceeds relating to a fire in July 2013, which destroyed a building in Sooke, British Columbia resulted in recoveries of $1.4 million, which were partially offset by $0.3 million of non-capital costs incurred as a result of the fire.

### Fair Value Losses

The third quarter's fair value loss of $1.7 million was recognized as a result of obtaining updated third party appraisals at several properties, with the loss at a single property in Ontario exceeding the fair value gains resulting from capitalization rate reductions at several properties located in British Columbia.

## OPERATING RESULTS

### Net Operating Income – Same Properties and All Properties

The amortization of the cost of tenant allowances and leasing fees (commissions and legal) included in income producing properties are recognized as a reduction of rental income over the lease term on a straight-line basis. In order to calculate NOI as defined above in Part II, the amortization of tenant allowances and leasing fees that otherwise reduce revenues are added back in calculating NOI.

### Same Property NOI

"Same Property NOI" compares net operating income from only those properties that contributed to operations for the entire reporting period in both the current and comparative period.

| Three months ended | | **Sep 30, 2015** | | Sep 30, 2014 | | Variance |
|---|---|---|---|---|---|---|
| Revenues from income producing properties | **$** | **14,334,061** | $ | 13,941,782 | $ | 392,279 |
| Property operating expenses | | **(2,283,675)** | | (2,393,346) | | 109,671 |
| Realty taxes | | **(3,368,414)** | | (3,172,164) | | (196,250) |
| Property management fees | | **(398,290)** | | (338,916) | | (59,374) |
| | | **8,283,682** | | 8,037,356 | | 246,326 |
| Amortization of tenant costs | | **198,451** | | 157,609 | | 40,842 |
| Net operating income | **$** | **8,482,133** | $ | 8,194,965 | $ | 287,168 |

Same property NOI for the third quarter increased $0.3 million (4%) when compared to the third quarter of 2014. This increase was primarily a result of improved occupancy at one of the REIT's larger properties in Québec. Same property NOI increased $0.4 million (5%) over the prior quarter due to the lease up of various units during the third quarter and prior year recovery adjustments that were recorded in the second quarter of 2015.

| Nine months ended | | **Sep 30, 2015** | | Sep 30, 2014 | | Variance |
|---|---|---|---|---|---|---|
| Revenues from income producing properties | **$** | **42,714,770** | $ | 43,135,989 | $ | (421,219) |
| Property operating expenses | | **(6,733,928)** | | (6,868,597) | | 134,669 |
| Realty taxes | | **(10,295,098)** | | (9,678,105) | | (616,993) |
| Property management fees | | **(1,213,814)** | | (880,096) | | (333,718) |
| | | **24,471,930** | | 25,709,191 | | (1,237,261) |
| Amortization of tenant costs | | **583,889** | | 513,479 | | 70,410 |
| Net operating income | **$** | **25,055,819** | $ | 26,222,670 | $ | (1,166,851) |

NOI from same properties for the nine months of 2015 decreased $1.1 million (4%), when compared to the same prior year period, primarily as a result of increased vacancy at one property in Ontario and the re-externalization of property management in the third quarter of 2014.

**All Properties NOI**

The REIT's complete property portfolio is included in the "All Properties NOI" data below.

| Three months ended | | **Sep 30, 2015** | | Sep 30, 2014 | | Variance |
|---|---|---|---|---|---|---|
| Revenues from income producing properties | **$** | **14,334,061** | $ | 14,507,888 | $ | (173,827) |
| Property operating expenses | | **(2,283,675)** | | (2,398,753) | | 115,078 |
| Realty taxes | | **(3,368,414)** | | (3,172,164) | | (196,250) |
| Property management fees | | **(398,290)** | | (338,916) | | (59,374) |
| | | **8,283,682** | | 8,598,055 | | (314,373) |
| Amortization of tenant costs | | **198,451** | | 157,609 | | 40,842 |
| Net operating income | **$** | **8,482,133** | $ | 8,755,664 | $ | (273,531) |

All property NOI for the third quarter decreased $0.3 million (3%) when compared to the third quarter of 2014. This decline can be attributed to $0.6 million in lost NOI from the sale of three Canadian Tire properties offset by the same factors that impacted same property NOI. Relative to the prior quarter, all property NOI increased $0.4 million (5%) due to the same factors that led to an improvement is same property NOI.

| Nine months ended | | **Sep 30, 2015** | | Sep 30, 2014 | | Variance |
|---|---|---|---|---|---|---|
| Revenues from income producing properties | **$** | **42,714,770** | $ | 44,885,569 | $ | (2,170,799) |
| Property operating expenses | | **(6,733,928)** | | (6,921,099) | | 187,171 |
| Realty taxes | | **(10,295,098)** | | (9,678,104) | | (616,994) |
| Property management fees | | **(1,213,814)** | | (880,094) | | (333,720) |
| | | **24,471,930** | | 27,406,272 | | (2,934,342) |
| Amortization of tenant costs | | **583,889** | | 513,478 | | 70,411 |
| Net operating income | **$** | **25,055,819** | $ | 27,919,750 | $ | (2,863,931) |

All property NOI for the nine months of 2015 decreased by $2.9 million (10%) when compared to the nine months of 2014. This decline can be attributed to $1.7 million in lost NOI from the sale of three Canadian Tire properties during the nine months of 2014. The remaining decrease was a result of reduced revenues due to increased vacancy at a property in Ontario.

### Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO")

A reconciliation of IFRS cash flow provided by operating activities to FFO and AFFO is as follows:

| Three months ended | | **Sep 30, 2015** | | Sep 30, 2014 [1] | | Change |
|---|---|---|---|---|---|---|
| **Cash flow provided by operating activities** | **$** | **(201,461)** | $ | (1,544,990) | $ | 1,343,529 |
| Straight line rent | | **222,034** | | 187,938 | | 34,096 |
| Deferred financing amortization, interest accretion | | **(441,712)** | | (854,607) | | 412,895 |
| Interest differential | | **221,463** | | 240,432 | | (18,969) |
| Change in working capital and accrued interest | | **2,465,755** | | 3,494,361 | | (1,028,606) |
| Other transaction costs | | **178,100** | | 935,055 | | (756,955) |
| FFO | | **2,444,179** | | 2,458,189 | | (14,010) |
| Straight-line rent | | **(222,034)** | | (187,938) | | (34,096) |
| Deferred financing amortization, interest accretion | | **441,712** | | 854,607 | | (412,895) |
| Sustaining capex | | **(630,000)** | | (505,767) | | (124,233) |
| AFFO | **$** | **2,033,857** | $ | 2,619,091 | $ | (585,234) |
| Weighted average units outstanding - basic | | **26,582,481** | | 26,288,272 | | 294,209 |
| FFO per unit | **$** | **0.09** | $ | 0.09 | $ | (0.00) |
| AFFO per unit | **$** | **0.08** | $ | 0.10 | $ | (0.02) |

[1] *Prior year presentation has been adjusted to conform to the presentation adopted for the current year.*

FFO for the third quarter was $2.4 million, unchanged from the same prior year period. When compared to the prior quarter amount of $2.2 million (second quarter 2015), FFO increased $0.2 million primarily as a result of revenue increases from improved occupancy and lower deferred finance charges.

FFO includes non-cash straight line rent in revenues and income deductions for the amortization of deferred financing costs and excludes any deduction for the cost of sustaining capital expenditures. As a consequence, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the second quarter was $2.0 million, a $0.6 million decrease from $2.6 million for the third quarter of 2014. This decline was primarily due to lower NOI resulting from the sale of three Canadian Tire properties in the prior period and increased maintenance capex as a result of the maintenance related capital spending reserve implemented at the start of 2015. Compared to the prior quarter (second quarter 2015), AFFO increased by $0.1 million primarily as result of increased revenues from improved occupancy and prior year recovery adjustments recorded during the second quarter of 2015.

For the three months ended September 30, 2015, the REIT had distributions of $1.7 million and a cash flow deficit from operating activities of $0.2 million. As a consequence, all of the third quarter's distributions are considered "in excess" of operating cash flows. For further comments on paying distributions in excess of operating cash flows and the sustainability of distributions, see page 24 and 25.

| Nine months ended | | **Sep 30, 2015** | | Sep 30, 2014[(1)] | | Change |
|---|---|---|---|---|---|---|
| **Cash flow provided by operating activities** | **$** | **4,160,290** | $ | (4,476,334) | $ | 8,636,624 |
| Straight line rent | | **498,533** | | 685,119 | | (186,586) |
| Deferred financing amortization, interest accretion | | **(1,635,287)** | | (1,894,533) | | 259,246 |
| Interest differential | | **669,367** | | 764,198 | | (94,831) |
| Change in working capital and accrued interest | | **3,830,527** | | 4,730,646 | | (900,119) |
| Other transaction costs | | **519,017** | | 8,620,592 | | (8,101,575) |
| Interest on exchangeable LP units | | **-** | | 18,439 | | (18,439) |
| Insurance proceeds | | **(1,059,763)** | | - | | (1,059,763) |
| FFO | | **6,982,684** | | 8,448,127 | | (1,465,443) |
| Straight-line rent | | **(498,533)** | | (685,119) | | 186,586 |
| Deferred financing amortization, interest accretion | | **1,635,287** | | 1,894,533 | | (259,246) |
| Sustaining capex | | **(1,639,000)** | | (1,113,300) | | (525,700) |
| AFFO | **$** | **6,480,438** | $ | 8,544,241 | $ | (2,063,803) |
| Weighted average units outstanding - basic | | **26,491,139** | | 26,165,753 | | 325,386 |
| Weighted average exchangeable LP units | | **-** | | 65,055 | | (65,055) |
| Total weighted average units | | **26,491,139** | | 26,230,808 | | 260,331 |
| FFO per unit | **$** | **0.26** | $ | 0.32 | $ | (0.06) |
| AFFO per unit | **$** | **0.24** | $ | 0.33 | $ | (0.08) |

[(1)] *Prior year presentation has been adjusted to conform to the presentation adopted for the current year.*

FFO decreased by $1.5 million (17%) for the nine months of 2015 when compared to the same period in 2014. This decline was primarily as a result of the sale of three Canadian Tire properties in the prior period and increased vacancy at a property in Ontario. The resulting FFO per unit for the nine months of 2015 was $0.26.

AFFO for the nine months of 2015 was $6.5 million, a $2.1 million decrease from $8.6 million for the nine months of 2014. The decrease year over year relates to similar factors as with the decrease to FFO, along with a $0.5 million increase to sustaining capital expenditures. The increase in sustaining capital reflects the REIT's policy implemented for fiscal 2015, whereby sustaining capital expenditures are based on an annual $0.90 per square foot reserve.

For the nine months ended September 30, 2015 the REIT's distributions of $5.0 million offset with the $4.2 million cash flow from operations, resulted in an aggregate cash deficit of $0.8 million. The main driver of the current quarter's cash flow from operating activities shortfall was a $2.8 million semi-annual interest payment on the REIT's three series of convertible debentures (occurs semi-annually on March 31st and September 30th). The current period's distributions that were paid in excess of cash flows from operations were funded from financing activities.

In assessing its distribution policy, the REIT considers whether certain costs are expected to recur and the impact of items that may not be included in cash from operations, where the timing of cash flows may differ from the timing of payment of distributions. The future sustainability of the distributions will be dependent on the REIT being able to generate increased cash flow from operating activities and the continued ability to re-finance mortgages as they come due (while obtaining cash from the refinancing of these maturing mortgages at regular loan to asset value ratios for commercial retail real estate companies and REITs). Management expects distributions will be sustainable from an increase to cash flows from operating activities that are as a result of decreasing its net working capital position along with obtaining net cash from the regular refinancing of maturing mortgages. Management and the REIT's Trustees review the REIT's distribution plans on a quarterly basis, with the objective of establishing distributions that are sustainable for a reasonably foreseeable period. A portion of the REIT's $5.0 million in distributions for the nine months ended September 30, 2015 would be considered a return of capital.

**Statement of Cash Flows – Three Months Ended September 30, 2015**

| Three months ended | | Sep 30, 2015 | | Sep 30, 2014 | | Change |
|---|---|---|---|---|---|---|
| Cash flow used by operating activities | | **(201,461)** | | (1,548,684) | | 1,347,223 |
| Cash flow provided (used) by financing activities | | **1,371,039** | | (91,953) | | 1,462,992 |
| Cash flow provided (used) by investing activities | | **(451,167)** | | 13,909,468 | | (14,360,635) |
| NET INCREASE IN CASH | | **718,411** | | 12,268,831 | | (11,550,420) |
| CASH, OPENING | | **2,386,554** | | 1,746,350 | | 640,204 |
| CASH, ENDING | **$** | **3,104,965** | $ | 14,015,181 | $ | (10,910,216) |

Operating Activities

Cash deficit from operating activities for the third quarter was $0.2 million, a $1.3 million increase when compared to the $1.5 million cash deficit for the third quarter of 2014. This year over year improvement to cash flow was primarily the result of an $0.8 million reduction in other transaction costs, and an improvement to cash collections that reduced receivables. These factors were partially offset by the reduction in NOI (as previously discussed).

Financing Activities

Cash flows from financing activities for the third quarter were $1.4 million, which is a $1.5 million increase from the deficit in the prior year's comparative period. The current period's net cash flow from financing activities was the result of $5.0 million in draws on the REIT's credit facility partially offset by $2.2 million in regular monthly mortgage principal repayments and $1.3 million in cash distributions to unitholders.

Investing Activities

Cash outflows from investing activities for the third quarter were $0.5 million, a decrease of $14.4 million when compared to the $13.9 million provided during 2014s' comparable period. The prior period's amount was primarily generated from the sale of three Canadian Tire properties during September 2014. The current period's cash outflow from investing activities is as a result of a capital expenditures and lease up activity during the current period.

**Statement of Cash Flows – Nine Months Ended September 30, 2015**

| Nine months ended | | Sep 30, 2015 | | Sep 30, 2014 | | Change |
|---|---|---|---|---|---|---|
| Cash flow provided (used) by operating activities | | **4,160,290** | | (4,476,334) | | 8,636,624 |
| Cash flow provided by financing activities | | **250,633** | | 5,906,483 | | (5,655,850) |
| Cash flow used by investing activities | | **(3,458,229)** | | 12,719,900 | | (16,178,129) |
| NET INCREASE IN CASH | | **952,694** | | 14,150,049 | | (13,197,355) |
| CASH (BANK INDEBTEDNESS), OPENING | | **2,152,271** | | (134,868) | | 2,287,139 |
| CASH, ENDING | **$** | **3,104,965** | $ | 14,015,181 | $ | (10,910,216) |

Operating Activities

Cash flows from operating activities for the nine months of 2015 were $4.2 million, an $8.6 million increase in cash flows as compared to the $4.4 million cash deficit for the nine months of 2014. This increase to operating cash was primarily the result of the $8.1 million reduction in other transaction costs.

Financing Activities

Cash flows from financing activities for the nine months of 2015 were $0.3 million, which is a $5.6 million decrease from the nine months of 2014 amount of $5.9 million. The current period's net cash flow provided by financing activities was the result of new mortgage financings of $5.6 million and draws on the credit facility for $7.0 million, partially offset by $6.7 million in regular monthly mortgage principal repayments, the repayment of a $1.5 million mortgage and cash distributions to unitholders of $4.0 million.

Investing Activities

Cash outflows from investing activities for the nine months of 2015 were $3.5 million, a decrease of $16.2 million over the $12.7 million provided during the nine months of 2014. The decrease in cash from investing activities is as a result of the prior year sale of three Canadian Tire properties combined with an increase in the current year's capital and lease up spending.

## FINANCIAL POSITION ANALYSIS

### Statement of Financial Position – Total Assets

| As at | | **Sep 30, 2015** | | Dec 31, 2014 |
|---|---|---|---|---|
| Income producing properties | **$** | **524,550,687** | $ | 531,041,031 |
| Other assets | | **5,282,333** | | 3,650,743 |
| Accounts receivable | | **4,601,346** | | 5,706,995 |
| Cash | | **3,104,965** | | 2,152,271 |
| Total assets | **$** | **537,539,331** | $ | 542,551,040 |

Income producing properties

The REIT elected to use the fair value model under IFRS, and as a result, income producing properties are carried at their fair value at the reporting date. 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 decrease of $6.5 million in income producing properties at September 30, 2015 over December 31, 2014 was due primarily to the $9.9 million in fair value loss adjustments, partially offset by capital improvements.

During the nine months of 2015, the REIT had seven of its properties appraised, representing 27.9% of the total portfolio value. During fiscal 2014, the REIT had external appraisals on 23 properties with an aggregate fair value of $347 million, representing 65% of the portfolio (as at December 31, 2014).

It is the REIT's accounting policy that properties acquired within the year are valued at the purchase price plus closing costs and one third of the portfolio is externally appraised each fiscal year on a rotating basis.

Other assets

Other assets are composed of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow and other prepaid expenses. During the nine months of 2015, the balance of other assets has increased by $1.6 million, due primarily to increased prepayments of property taxes.

Accounts receivable

Accounts receivable decreased by $1.1 million (19%) during the nine months of 2015. The decrease was as a result of increased collections of tenant receivables partially offset by an increased insurance receivable balance related to a property previously damaged by fire.

### Net Asset Value

| As at | | Sep 30, 2015 | | Dec 31, 2014 | | Change |
|---|---|---|---|---|---|---|
| Units outstanding, end of period | | **26,636,834** | | 26,356,069 | | 280,765 |
| Unitholders' equity | **$** | **142,096,188** | $ | 149,036,368 | $ | (6,940,180) |
| Net asset value per unit | **$** | **5.33** | $ | 5.65 | $ | (0.32) |

Net asset value is a measure of the REIT's total assets less its liabilities and is represented on the balance sheet as unitholders' equity. As at September 30, 2015, the net asset value of the REIT was $5.33 per unit, a decrease of $0.32 per unit from December 31, 2014. This decrease in unitholders' equity is a result of the REIT's $2.9 million net loss and $4.0 million in cash distributions during the nine months of 2015.

### Capital

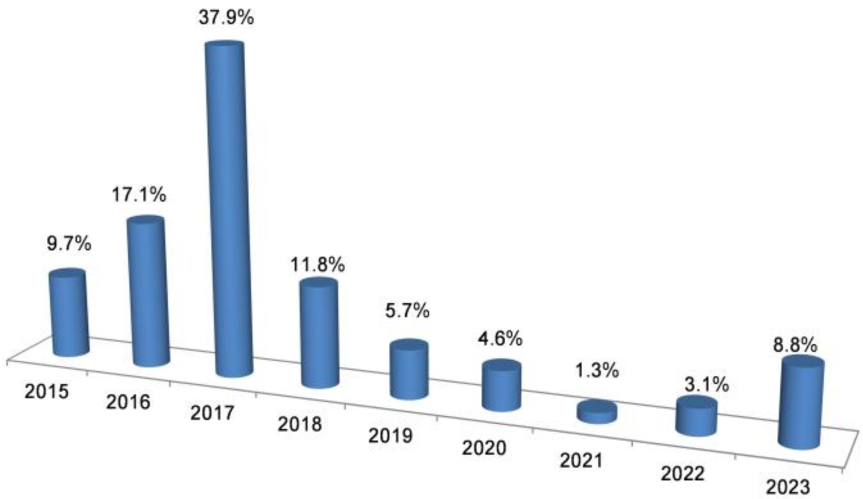
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance of debt capital, the REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements.

The following table shows the REIT's capital as at September 30, 2015 and December 31, 2014:

| As at | | Sep 30, 2015 | | Dec 31, 2014 |
|---|---|---|---|---|
| Mortgages payable | **$** | **294,077,946** | $ | 296,747,285 |
| Debentures | | **84,445,734** | | 83,533,616 |
| Credit facilities | | **6,967,532** | | - |
| Unitholders' equity | | **142,096,188** | | 149,036,368 |
| Total capital | **$** | **527,587,400** | $ | 529,317,269 |

**Mortgages and Other Financing**

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at September 30, 2015:




The primary contributors of the debt maturing from 2015 to 2018 are twenty-three mortgages totalling $185.2 million and three series of convertible debentures for $28.8, $34.5 and $23.0 million, respectively.

Over the next two years, the REIT has approximately $124.8 million in mortgages maturing which carry an average contractual interest rate of 4.76%. Refinancing at current market rates would result in a reduction to the REIT's financing costs.

Interest coverage and debt service coverage ratios are as follows:

| For the rolling four quarters ended | **Sep 30, 2015** | Dec 31, 2014 |
|---|---|---|
| Interest coverage ratio(1) | **1.70** | 1.84 |
| Debt service coverage ratio(2) | **1.13** | 1.24 |

(1) Interest coverage ratio, a non-IFRS measure, is calculated on a rolling four-quarter basis as EBITDA divided by interest expense (before amortization of financing fees included in interest expense), where EBITDA is net income before fair value gains or losses, interest expense, incentive unit option compensation expense, depreciation and amortization, other transaction costs, and bad debt expense. EBITDA is a non-IFRS financial measure of operating performance.

(2) Debt service coverage ratio, a non-IFRS measure, is calculated on a rolling four-quarter basis as EBITDA divided by debt service, where debt service is principal repayments plus interest expense (before amortization of financing fees included in interest expense).

The interest coverage and debt service coverage ratios for the rolling four quarters ended September 30, 2015 decreased in comparison to the same prior year period due to new mortgage financings, and draws on the REIT's credit facility, compounded by a reduction on the REIT's EBITDA.

**Mortgages Payable**

The REIT's current weighted average term to maturity on mortgages payable is approximately three years, and the weighted average contractual interest rate is 4.52%. Future principal repayments on the mortgages payable are as follows for 2015 to 2019 and thereafter:

| Year | Principal installment payments | Principal maturing | Total | W.A. contractual rate on debt maturing |
|---|---|---|---|---|
| 2015 (3 months) | 2,014,725 | 34,814,386 | 36,829,111 | 4.87% |
| 2016 | 7,775,214 | 28,373,931 | 36,149,145 | 4.33% |
| 2017 | 5,908,874 | 103,586,591 | 109,495,465 | 4.90% |
| 2018 | 3,389,596 | 18,439,813 | 21,829,409 | 4.71% |
| 2019 | 3,185,890 | 18,590,780 | 21,776,670 | 3.61% |
| Thereafter | 7,535,093 | 60,102,958 | 67,638,051 | 3.86% |
| Total | $ 29,809,392 | $ 263,908,459 | $ 293,717,851 | 4.52% |

The REIT's objective in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate the risk of short-term volatilities in the debt markets. With the exception of certain mortgages, most of the REIT's mortgages do not contain cross-default provisions that would be triggered by the breach of a financial covenant.

As at September 30, 2015 the REIT was in technical violation of two December 31, 2014 annual financial covenants on mortgages secured by properties in Ontario and Québec. The REIT's other mortgages do not contain cross-default provisions that would be triggered by the breach of these financial covenants. The REIT has classified these two mortgages, totaling $26.5 million, as current on the statement of financial position. Subsequent to the end of the quarter, the REIT, with the agreement of the mortgagor and with no penalties made a $1.4 million payment on the Québec mortgage. After making this payment, the debt service covenant would be achieved resulting in the remediation of the covenant violation. For the Ontario property, the mortgage matures on December 15, 2015 and the REIT is in discussion with potential lenders on the re-financing of this property.

**Convertible Debentures**

The REIT has three outstanding series of unsecured convertible debentures, details are as follows:

| Series | Issuance Date | Expiry Date | Principal Amount | Contractual Interest rate | Fixed Conversion Price |
|---|---|---|---|---|---|
| Series I | March 8, 2011 | March 31, 2016 | $ 28,750,000 | 8.00% | $ 8.80 |
| Series II | September 5, 2012 | September 30, 2017 | 34,500,000 | 6.00% | 10.35 |
| Series III | March 12, 2013 | March 31, 2018 | 23,000,000 | 5.50% | 10.25 |
| | | | $ 86,250,000 | 6.53% | $ 9.81 |

The debentures' interest payments are payable semi-annually (March 31st and September 30th) in arrears. The debentures are convertible into units of the REIT at the option of the holder at any time on the earlier of the maturity date, or the date fixed for redemption of the debentures.

As at September 30, 2015, none of the debenture holders had converted their debentures to units of the REIT and given the conversion prices, it would be unlikely for any of the debenture holders to do so. Accordingly, the REIT will be pursuing alternative financing options as the debentures mature. To that end, the REIT completed a Rights Offering on October 21, 2015, raising approximately $20.6 million through the issuance of 6,649,364 units. The REIT will apply these proceeds towards the redemption of 75% of its $28,750,000 currently outstanding Series 1, 8.0% convertible unsecured subordinated debentures, which were scheduled to mature on March 31, 2016, and has issued a notice of such redemption to the holders of the Debentures. These

Debentures will be redeemed on November 23, 2015, on a pro-rata basis and in accordance with their terms. The total redemption amount payable for each $1,000 principal amount of Debentures will equal a redemption price of $1,000 plus accrued and unpaid interest of $11.84, up to but excluding the redemption date. The REIT plans to complete normal course financing activity to provide the necessary proceeds to repay the Debentures that will remain outstanding.

**Credit Facilities**

During the nine months of 2015, the REIT's credit facility was drawn for $7.0 million. The remaining availability of the REIT's credit facility is as follows:

| | | Sep 30, 2015 | | Dec 31, 2014 |
|---|---|---|---|---|
| Credit facility | **$** | **10,000,000** | $ | 10,000,000 |
| Line of credit outstanding | | **(7,000,000)** | | - |
| Remaining unused credit facility | **$** | **3,000,000** | $ | 10,000,000 |

The REIT's credit facility contains a debt to equity covenant that requires the REIT to be less than 2.75 to 1 for the 2015 quarterly reporting periods (reducing to 2.50 to 1 for the 2016 quarterly reporting periods). As of September 30, 2015, the REIT's debt to equity ratio was 2.781 and therefore in excess of the covenant. The REIT has requested and obtained from the lender a covenant waiver letter for the quarterly reporting period ending September 30, 2015. The waiver letter relates to the specific debt to equity covenant for the third quarter financial period ending September 30, 2015. All other terms and conditions of the loan remain the same and as such the REIT has access to the undrawn balance of the credit facility.

**Financing Costs**

Financing costs represent commitment fees, funding fees and other fees paid in connection with securing mortgages, debentures and the credit facility.

The unamortized balance of financing costs related to mortgages debentures and the credit facility at September 30, 2015 was $3.0 million, which is $1.2 million lower than the December 31, 2014 year-end balance of $4.4 million. The decrease in the unamortized financing costs as at September 30, 2015 is due to recognition of deferred financing costs through financing expense in accordance with the effective interest method, offset by financing fees incurred on new debt. The unamortized portion of the financing costs is netted against the REIT's mortgages payable and debentures on the statement of financial position.

**Debt-to-Gross Book Value**

The REIT monitors its debt-to-gross book value ratio, a non-IFRS 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. Management believes that the REIT's financial and strategic flexibility would be improved by a reduction in its debt-to-gross book value ratio. Over time and as the opportunity arises, management intends to reduce the debt to gross book value to more approximate peer averages. At September 30, 2015 the REIT has a debt-to-gross book value ratio of 71.5% (December 31, 2014 – 69.9%), calculated as follows:

| As at | **Sep 30, 2015** | Dec 31, 2014 |
| --- | --- | --- |
| Debt[(1)] | | |
| Mortgage principal | **293,717,851** | 296,262,514 |
| Debentures, excluding fair value of convertible feature at issuance | **85,914,049** | 85,704,509 |
| Credit facilities | **7,000,000** | - |
| | **386,631,900** | 381,967,023 |
| | | |
| Gross Book Value of Assets | | |
| Book value of income producing properties | **524,550,687** | 531,041,031 |
| Book value of all other assets | **12,988,644** | 11,510,009 |
| Deferred financing fees | **2,989,528** | 4,204,330 |
| | **540,528,859** | 546,755,370 |
| | | |
| Debt-to-Gross Book Value | **71.5%** | 69.9% |
| Debt-to-Gross Book Value Excluding Debentures | **55.6%** | 54.2% |

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

**Unitholders' Equity**

For the nine months of 2015, unitholders' equity decreased $6.9 million over unitholders' equity for the year ended December 31, 2014 due to the REIT's $2.9 million net loss and $5.0 million of distributions paid to unitholders, partially offset by $1.0 million of REIT units issued under the REIT's dividend reinvestment program.

*Distributions*

The REIT's Trustees have discretion in declaring distributions and formally review the distributions on a quarterly basis. On August 14, 2014, the Trustees announced a reduction in the distribution to $0.25 per unit on an annualized basis, from $0.50 on an annualized basis. The Trustees believe that this lower distribution more accurately reflects the REIT's current and foreseeable liquidity requirements and will allow for greater strategic and financial flexibility going forwards. For further discussion about the REIT's distribution, see "Liquidity Requirements" below.

*Outstanding units*

As at September 30, 2015, the REIT had 26,636,834 (December 31, 2014 - 26,356,069) issued and outstanding units. The total aggregate principal amount of three series of convertible debentures due between 2016 and 2018 is $86.3 million. A total of 8,844,281 units are issuable upon conversion of these debentures. The conversion prices for each series of convertible debenture is significantly higher than the current trading price of REIT units, as such it is not expected that any conversions will take place in the near future.

Subsequent to September 30, 2015, the REIT issued 6,649,364 units in a rights offering and combined with the DRIP the REIT has 33,301,705 units outstanding as at November 5, 2015. Furthermore, in conjunction with October 22, 2015 closing of the rights offering, the REIT has provided notice to their series 1 convertible debenture ("Debentures") holders that the REIT will do a partial repayment of 75% of the $28.8 million in Debentures on November 23, 2015.

**LIQUIDITY REQUIREMENTS**

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 credit facility. Debt repayment obligations for mortgages and convertible debentures are generally funded from refinancing the related debt and property acquisitions are generally funded from capital raises as well as obtaining debt financing on the related property. However, between capital raises, the REIT may use its $10.0 million credit facility to fund the equity portion of property acquisitions. For more on Liquidity Requirements – see part V – RISKS & UNCERTAINTIES – Liquidity Risk.

## RELATED PARTY TRANSACTIONS

Effective December 27, 2013, McCowan and Associates ("McCowan") purchased the REIT's external management contract for $1.5 million from the REIT's former asset manager, LAPP Global Asset Management Corp. The fees paid to McCowan are included in other transaction costs.

On February 14, 2014 the REIT entered into an employee services agreement with McCowan which permitted certain employees of the REIT to provide specified property, facility management, administrative and support services on to McCowan. The initial term of the agreement was for one year with an option for renewal for a further one year term. The agreement required McCowan to reimburse the REIT a formula based amount using the square footage of McCowan owned properties that were receiving the services of REIT employees.

During July, 2014 the REIT and McCowan mutually agreed to the termination of the Employee Services Agreement allowing the REIT to retain only employees whose duties relate only to REIT properties.

Amounts owed by the REIT to related parties at September 30, 2015 are $27,528 (December 31, 2014 - $17,325). This amount has been classified in accounts payable and other liabilities, and consists of employee and management reimbursements and trustee payroll. Amounts owed to the REIT from related parties at September 30, 2015 are nil (December 31, 2014 – nil).

## QUARTERLY PERFORMANCE

The following is a summary of the interim results for each of the last eight quarterly periods.

| | Q3 2015 | Q2 2015 | Q1 2015 | Q4 2014 | Q3 2014 | Q2 2014 | Q1 2014 | Q4 2013 |
|---|---|---|---|---|---|---|---|---|
| Total revenues | $ 14,334,061 | $ 13,856,589 | $ 14,524,120 | $ 14,935,452 | $ 14,507,888 | $ 15,209,785 | $ 15,167,896 | $ 14,774,322 |
| Operating expenses | 6,050,379 | 5,987,728 | 6,204,733 | 7,000,844 | 5,909,836 | 5,795,948 | 5,773,513 | 5,933,636 |
| Other expenses | 6,216,054 | 5,040,955 | 6,275,380 | 7,128,299 | 7,234,404 | 12,093,021 | 8,785,106 | 8,799,734 |
| Fair value losses | (1,684,003) | (2,038,886) | (6,140,328) | (3,900,519) | (14,538,979) | (7,616,226) | (1,921,463) | (9,225,833) |
| Net income (loss) | 383,625 | 789,020 | (4,096,321) | (3,094,210) | (13,175,331) | (10,295,410) | (1,312,186) | (9,184,881) |
| Net income (loss) per unit - basic | 0.01 | 0.03 | (0.16) | (0.11) | (0.47) | (0.39) | (0.05) | (0.36) |
| FFO | 2,444,179 | 2,175,256 | 2,344,810 | 1,091,535 | 2,458,189 | 2,477,042 | 3,512,896 | 2,979,975 |
| FFO per unit - basic | 0.09 | 0.08 | 0.09 | 0.04 | 0.09 | 0.09 | 0.13 | 0.12 |

## PART V – RISKS & UNCERTAINTIES

Income producing properties are inherently subject to certain risks and uncertainties due to their relative illiquidity and long term nature of the investment. Partners REIT's financial results, are therefore, dependent on the performance of its properties and by various external factors that impact the real estate industry and geographic markets in which the REIT operates. Some of the external factors that the REIT is exposed to include fluctuations in interest and inflation rates, access to debt, fulfilling legal and regulatory requirements and expansion or contraction in the economy as a whole.

Partners REIT's current business strategy is to focus on acquiring and managing a portfolio of retail and mixed-use retail community and neighbourhood centres, in both primary and secondary markets throughout Canada; and that generate stable cash flows over the long term. The quality of the REIT's current portfolio, management believes, provides the leverage the REIT needs to expand the business in new markets and acquire high performing properties. Management believes this strategy will enable the REIT's operations to achieve highly sustainable cash flows.

The following is an examination of the key factors that influence Partners REIT's operations. Further description of our risk factors is contained in the REIT's most recently filed Annual Information Form.

### INDUSTRY RISK

The REIT operates in the Canadian commercial and retail markets and is dependent on the ability to access financing. Fluctuations in real estate market values and general industry and economic circumstances affect the amount that can be borrowed and the terms and conditions under which funds are available. This may limit the REIT's ability to execute its operating and growth plans. Partners REIT manages this risk by maintaining sufficient resources to meet its obligations without undue risk to the REIT.

### INTEREST RATE AND FINANCING RISK

The REIT attempts to stagger the maturities of its debt portfolio evenly over a ten year time horizon in order to effectively manage both interest rate and liquidity risks.

The REIT has an ongoing obligation to access debt markets to refinance maturing debt as it becomes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions that are acceptable to Partners REIT or on any terms at all. The REIT's strategy of staggering the maturities of its debt portfolio attempts to limit the exposure to excessive amounts of debt maturing in any one year.

There is interest rate risk associated with the REIT's credit facility since the interest rates are impacted by changes in the bank rate. There is also interest rate risk associated with the REIT's fixed interest rate and term mortgages and unsecured debentures due to the expected requirement to refinance such debts in the year of maturity. The following table outlines the impact to the REIT's annual net income if interest rates at September 30, 2015 would have been 100 basis points higher or lower, calculated on all debts maturing over the next 24 months, with all other variables held constant.

| | | Approximate Change in Annual Interest Expense | | Approximate Change in Interest Expense per Unit per Annum |
|---|---|---|---|---|
| Mortgages | $ | 1,248,256 | $ | 0.047 |
| Debentures | | 287,500 | | 0.011 |
| Credit Facility | | 70,000 | | 0.003 |
| | $ | 1,605,756 | $ | 0.061 |

Partners REIT's strategy to mitigate interest rate price risk for its variable rate mortgages is to enter into interest rate swap arrangements when deemed necessary. As at September 30, 2015, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

Management is of the opinion that all debt can be extended, renewed, or refinanced as it becomes due.

## CREDIT RISK

Credit risk arises primarily 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, and by ensuring its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2015 relates to the carrying value of the accounts receivable balance without taking into consideration any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from tenants.

The REIT establishes an allowance for doubtful accounts that represents the estimated loss in respect of rents receivable. The amount that comprises the allowance is determined on a tenant by tenant basis based on the specific factors related to the tenant.

For cash and cash equivalents, accounts receivable and other short term assets, Partners REIT's credit risk is limited to the carrying value on the statements of financial position. To reduce credit risk, cash and cash equivalents are only held at major financial institutions.

## LIQUIDITY RISK

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations are generally funded from cash flows from operations or from drawing on the $10.0 million Credit Facility ($7.0 million drawn at September 30, 2015). Property debt repayment obligations are generally funded from obtaining debt refinancing on maturing mortgages. Convertible debentures obligations that were not converted to equity, can be repaid at maturity from either a new convertible debenture issue and/or from an equity raise.

Within the next six months the REITs first series of convertible debentures, with a principal balance of $28.8 million bearing interest at 8.0% per annum, will mature. The REIT will need to obtain debt and/or equity financing to repay these debentures. On October 22, 2015 the REIT closed on a $20.6 million rights offering, raising equity monies that with $1.0 million from cash will be used to repay $21.6 million of the series I convertible debentures (tranche 1 partial repay of 75% of the $28.8 million amount will be made on November 23, 2015). The REIT will need to obtain further financings in order to repay the balance of $7.2m

Within the next 12 months the REIT has $44.6 million in maturing mortgages. The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing, 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;
- not entering into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisitions;
- planning capital spending around the availability of cash from operations or debt/equity funding; and
- reviewing the current liquidity position and forecasted cash flows in advance of the quarterly approval of the distribution.

Except for the periodic impact to cash for the $2.8 million in bi-annual interest payments on the three series of convertible debentures (interest payments are due March 31$^{st}$ and September 30$^{th}$) - most operating revenues and expenses are consistent on a month to month basis thereby assisting management and forecasting of cash flows and Liquidity.

As at September 30, 2015, the REIT had $3.1 million in cash and $3.0 million of capacity available under its Credit Facility, thereby providing $6.1 million in liquidity. Despite this liquidity, management will need to complete re-financings of maturing mortgages, maintain their 2015 reduction to other transaction costs while financing the $7.2 million that will be owing on the series I convertible debentures (owing after the tranche 1 repay of 75% of the $28.8 million amount) or the REIT may be required to obtain further financings or sell properties.

Furthermore, the Credit Facility has a restrictive financial covenant that is calculated and reported on a quarterly basis. The REIT was in technical violation of this covenant as at September 30, 2015. The REIT has obtained a covenant waiver letter for this reporting period, and all other terms and conditions of this Credit Facility are bound and in place (see page 30).

As at September 30, 2015, the REIT has $98.3 million in current liabilities of which:

- $9.9 million is made up of accounts payables, accruals and distribution payables. These payables are to be repaid from a combination of working capital assets and ongoing cash flows from operations;
- $28.5 million in series I convertible debentures (face value at maturity is $28.8 million). Subsequent to September 30, 2015 the REIT closed on a $20.6 million rights offering and provided notice to series I convertible debenture (the "Debentures") holders that on November 23, 2015 the REIT will repay 75% of the outstanding Debentures ($21.6 million). The remaining $7.2 million (25%) will be financed from a subsequent financing activity.
- $44.6 million in maturing loans. To be repaid from regular mortgage re-financings at their respective maturity dates;
- $8.3 million in regularly scheduled mortgage payments. These payments are to be made from a combination of working capital assets, ongoing cash flows from operations and from regular mortgage re-financings;
- $7.0 million from the maturing credit facility. Management expects to renew this facility upon expiry and expects to repay the September 30, 2015 from a subsequent financing activity.

The REIT's interest coverage ratio of 1.70 (1.84 at December 31, 2014) and debt service coverage ratio of 1.13 (1.24 at December 31, 2014) have both declined slightly from the previous year end. Despite the decline to these ratios, there has been sufficient coverage to service the loans in the current and past reporting periods and management forecasts that there will continue to be sufficient cash being generated, to allow for the regularly scheduled payments (interest and principal) of the REIT's debt obligations.

## ENVIRONMENTAL RISK

Partners REIT is subject to various federal, provincial and municipal laws and regulations relating to environmental matters, which deal primarily with the costs of removal and remediation of hazardous substances. Environmental risk is relevant to the REIT's ability to sell or finance affected assets and could potentially result in liabilities for removal and remediation or legal claims against the REIT. Management is not aware of any material non-compliance with environmental laws or regulations at any of the REIT's properties, or of any pending or threatened actions, investigations or claims against the REIT relating to environmental matters.

Management will continue to make capital and operating expenditures to ensure that the REIT is compliant with environmental laws and regulations. At this time, management does not believe these costs will have a material adverse impact on the REIT's business. Management understands that environmental laws and regulations are subject to change and the REIT can be adversely impacted if laws and regulations become more rigorous.

## LEGAL AND REGULATORY RISKS

<u>Contingent Liability</u>

As a condition of closing the Holyrood Rescission in October 2014, the REIT provided a $35.0 million loan guarantee to the lender of a loan to Holyrood Holdings Ltd. The loan was scheduled to mature June 30, 2015. The REIT has been advised that the loan was not repaid at maturity and that Holyrood is in the process of refinancing the loan with another lender. The current lender has advised that all interest payments on the loan are up-to-date and that the loan is being extended on a short-term basis. The REIT has taken the position with the lender that its guarantee has expired, but the lender disputes that. Should the lender make a demand on the REIT as a guarantor, the REIT may deny that it has any continuing liability under the guarantee or may at its sole discretion purchase the lender's interest in the loan thus granting the REIT a first charge over Hamilton City Centre. The REIT currently has a registered second mortgage on the property. The REIT has no ongoing interest in the Hamilton City Centre and does not intend to guarantee any debt in connection with Holyrood's refinancing of the property.

<u>Uncertified Class Action Update</u>

The REIT has been notified that a Statement of Claim dated November 28, 2014 has been issued in the Ontario Superior Court seeking certification of a class action on behalf of persons who held units of the REIT on April 1, 2014 against certain parties, including a former officer and both current and former Trustees of the REIT. The REIT itself has not been named as a defendant in the legal proceedings which allege that the conduct of the defendants in connection with the acquisition by the REIT of three properties from Holyrood in April 2014 caused harm to the plaintiffs. The Holyrood transaction was rescinded by the REIT and Holyrood in October 2014. The REIT has certain indemnity obligations to its Trustees and officers (current and former) with respect to this claim, subject to exceptions including where it is determined that there has been a failure to act honestly and in good faith. The REIT has insurance which it expects to be applicable in these circumstances. Given that the REIT has not been named in the litigation, the REIT does not believe it will be material to its business and affairs.

## PART VI – CRITICAL ACCOUNTING POLICIES & ESTIMATES

The REIT's critical accounting policies are those that management has determined to be the most important in portraying the REIT's financial condition and results, and which require substantive estimates and judgment.

The preparation of financial statements requires certain estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The REIT's significant accounting policies are described in Note 2 to the condensed consolidated financial statements for the three and nine months ended September 30, 2015.

### DISCLOSURE CONTROLS AND INTERNAL CONTROLS

### CONTROL ASSESSMENT

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. Management maintains appropriate information systems, procedures and controls to ensure the information that is publicly disclosed is complete, reliable and timely. This includes establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The REIT's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, the design and operating effectiveness of the Trust's internal controls over financial reporting as at September 30, 2015 using the Committee of Sponsoring Organizations ("COSO") Internal Control – Integrated Framework (as published in 2013).

During 2014 and continuing into 2015 the REIT has been conducting an ongoing review of its corporate governance, compliance and disclosure policies.

### LIMITATIONS OF INTERNAL CONTROLS

All internal control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under potential future conditions, regardless of how remote.