Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the years ended December 31, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Partners Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Partners Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of comprehensive loss, changes in unitholders' equity and cash flows for the years then ended, and notes, and comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Partners Real Estate Investment Trust as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 16, 2016
Vancouver, Canada

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For the years ended December 31, 2015 and 2014

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

As at		**December 31, 2015**		December 31, 2014
ASSETS				
Non-current assets				
Income producing properties (Note 4)	**$**	**511,817,617**	$	531,041,031
		511,817,617		531,041,031
Current assets				
Other assets (Note 5)		**3,146,165**		3,650,743
Accounts receivable (Note 6)		**3,336,619**		5,706,995
Cash		**2,670,021**		2,152,271
		9,152,805		11,510,009
	$	**520,970,422**	$	542,551,040
LIABILITIES				
Non-current liabilities				
Mortgages payable (Note 7)	**$**	**234,796,421**	$	251,560,806
Convertible debentures (Note 8)		**56,014,181**		83,533,616
		290,810,602		335,094,422
Current liabilities				
Mortgages payable (Note 7)		**70,152,574**		45,186,479
Credit facility (Note 9)		**1,976,561**		-
Accounts payable and other liabilities		**8,438,814**		12,679,748
Distributions payable		**703,787**		554,023
		81,271,736		58,420,250
		372,082,338		393,514,672
UNITHOLDERS' EQUITY		**148,888,084**		149,036,368
	$	**520,970,422**	$	542,551,040

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Comprehensive Income (Loss)
audited (Cdn $)

	Year ended December 31, 2015	2014
Revenues from income producing properties (Note 10)	**$ 57,089,498**	$ 59,821,021
Property operating expenses	**(9,179,846)**	(10,102,526)
Realty taxes	**(13,754,143)**	(13,325,296)
Property management fees	**(1,664,536)**	(1,052,319)
	32,490,973	35,340,880
Other expenses:		
Financing costs	**19,726,810**	21,900,772
General and administrative expenses	**3,750,505**	4,537,367
Other transaction costs (Note 11)	**417,776**	8,802,691
	23,895,091	35,240,830
Income before gains (losses) and insurance proceeds	**8,595,882**	100,050
Insurance proceeds (Note 12):		
Insurance recoveries	**1,403,080**	-
Insurance costs	**(343,317)**	-
Fair value losses (Note 13)	**(24,211,762)**	(27,977,187)
Gain on sale of investment properties (Note 4)	**-**	793,537
Comprehensive loss	**$ (14,556,117)**	$ (27,083,600)
LOSS PER UNIT (Note 14)		
Basic and diluted	**$ (0.52)**	$ (1.03)

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

PARTNERS REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Changes in Unitholders' Equity

audited (Cdn $)

	Year ended December 31, 2015	2014
Trust Units (Note 15)		
BALANCE, BEGINNING OF PERIOD	**$ 196,646,106**	$ 194,991,352
Issuance of units under rights offering, net of costs	**20,198,228**	-
Issuance of units for exchangeable LP units, net of costs	**-**	661,301
Issuance of units under DRIP, net of costs	**1,329,437**	993,453
BALANCE, END OF PERIOD	**218,173,771**	196,646,106
Contributed Surplus		
BALANCE, BEGINNING OF PERIOD	**565,080**	565,080
BALANCE, END OF PERIOD	**565,080**	565,080
Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF PERIOD	**(48,174,818)**	(10,677,775)
Comprehensive loss	**(14,556,117)**	(27,083,600)
Distributions to unitholders (Note 15)	**(7,119,832)**	(10,413,443)
BALANCE, END OF PERIOD	**(69,850,767)**	(48,174,818)
TOTAL UNITHOLDERS' EQUITY	**$ 148,888,084**	$ 149,036,368
DISTRIBUTIONS PER UNIT	**$ 0.25**	$ 0.40

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

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

	Year ended December 31, 2015	2014
OPERATING ACTIVITIES		
Comprehensive loss	**$ (14,556,117)**	$ (27,083,600)
Adjusted for non-cash items:		
Gain on sale of investment properties (Note 4)	**-**	(793,537)
Fair value losses (Note 13)	**24,211,762**	27,977,187
Straight-line rent	**(696,302)**	(787,884)
Tenant incentives and direct leasing costs amortization	**799,075**	618,482
Financing cost amortization and mortgage prepayment costs	**1,903,832**	2,652,334
Market interest rate adjustment on mortgages	**(1,025,883)**	(992,787)
Interest accretion expense	**221,194**	410,595
Interest expense	**18,564,667**	19,348,102
Net change in working capital (Note 16)	**(1,538,997)**	(932,363)
Interest paid	**(18,577,294)**	(19,254,881)
Cash flow provided by operating activities	**9,305,937**	1,161,648
FINANCING ACTIVITIES		
Proceeds from mortgages	**51,327,497**	89,250,000
Financing costs of mortgages	**(694,692)**	(1,398,921)
Repayments of mortgages at maturity	**(33,613,838)**	(47,390,288)
Regular principal repayments on mortgages	**(8,926,056)**	(8,553,222)
Mortgage prepayment costs	**(63,000)**	(482,528)
Repayments of debentures at maturity	**(28,750,000)**	-
Cost to issue debentures	**(98,690)**	(99,883)
Drawdowns on credit facilities	**9,000,000**	7,294,095
Repayments of credit facilities	**(7,000,000)**	(38,294,095)
Financing fees on credit facilities	**(68,518)**	(20,417)
Proceeds from rights offering	**20,613,028**	-
Costs to issue units (Note 15)	**(430,301)**	(13,638)
Distributions to unitholders	**(5,625,130)**	(9,943,968)
Cash flow used by financing activities	**(4,329,700)**	(9,652,865)
INVESTING ACTIVITIES		
Proceeds from dispositions of income producing properties	**-**	15,544,981
Settlement of purchase liability	**585,500**	-
Improvements to income producing properties	**(3,278,141)**	(4,330,334)
Expenditures on tenant incentives and direct leasing costs	**(1,765,846)**	(436,291)
Cash flow provided by (used by) investing activities	**(4,458,487)**	10,778,356
NET INCREASE IN CASH DURING THE PERIOD	**517,750**	2,287,139
CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD	**2,152,271**	(134,868)
CASH END OF PERIOD	**$ 2,670,021**	$ 2,152,271

Supplemental cash flow information (Note 16)

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

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on March 23, 2015. The address of its registered office and principal place of business is 249 Saunders Road, Unit #3, Barrie, Ontario, L4N 9A3. The principal business activity of Partners REIT is acquiring, developing and operating commercial retail properties. The units of the REIT were originally listed on the Toronto Stock Exchange on April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs").

These consolidated financial statements were approved and authorized for issue by the Board of Trustees on March 16, 2016.

(b) Basis of presentation

The financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of income producing properties and certain financial instruments at fair value (as discussed in Note 2(d) and Note 2(g)). The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 3.

On October 2, 2014 the REIT obtained an Order from the Ontario Superior Court of Justice ("Holyrood Rescission") that rescinded the April 22, 2014 acquisition of certain properties from Holyrood Holdings Inc. ("Holyrood") Accordingly, these financial statements have been prepared as if the transaction had never been executed.

(c) Basis of consolidation

The financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are entities over which the REIT has control, where the REIT has control when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(d) Income producing properties

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

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

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

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

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

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

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

(e) Income Taxes

The Income Tax Act (Canada) (the "Tax Act") levies tax on certain trusts and partnerships that are "specified investment flow-through entities" ("SIFTs") in defined circumstances with an exemption for entities that qualify as "real estate investment trusts". A trust that meets prescribed conditions to qualify as a "real estate investment trust" under the Tax Act is not subject to the tax on SIFTs. The REIT's management has determined that the REIT met all the prescribed conditions to qualify as a "real estate investment trust" and as a mutual fund trust ("MFT") under the Tax Act throughout the year. The REIT intends to continue to operate in a manner so as to qualify as a "real estate investment trust" and as an MFT.

The REIT intends to distribute all of its taxable income to unitholders and to deduct such distributions for income tax purposes. Canadian income tax obligations relating to distributions of the REIT are the obligations of the unitholders. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

(f) Revenue recognition

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

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

(g) Financial instruments

Non-derivative financial instruments comprise cash, accounts receivable, mortgages payable, convertible debentures, credit facilities, accounts payable and other liabilities, and distributions payable. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss ("FVTPL"), any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at FVTPL - An instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in the statements of profit or loss, with attributable transaction costs being recognized in net income when incurred.

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for the REIT are cash and accounts receivable.

Other liabilities – The REIT's financial liabilities, which are measured at amortized cost using the effective interest method, include mortgages payable, convertible debentures, credit facilities, accounts payable and other liabilities, and distributions payable.

Financial liabilities at FVTPL - A financial liability is classified as held for trading if:

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

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

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

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability. The REIT's financial liabilities at FVTPL include the embedded derivative feature of the convertible debentures and interest rate swap contracts.

(h) Provisions

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

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

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

(i) Critical judgment in applying accounting policies

i. Income producing properties

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

ii. Leases

The REIT's policy for property rental revenue recognition is described in Note 2(f) above. Where the REIT is the lessor, the REIT makes judgments in determining whether certain leases, in particular leases to anchor tenants, are considered operating or finance leases. The REIT has determined that all of its leases are operating leases.

iii. Financial instruments

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

(j) Key accounting estimates and assumptions

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

i. Income producing properties

The choice of valuation method to determine the fair value of the REIT's income producing properties and the critical estimates and assumptions underlying the fair value determination of its commercial retail properties are set out in Note 4. Significant estimates used in determining the fair value of the REIT's income producing properties includes capitalization rates and stabilized net operating income (which is influenced by inflation rates, vacancy rates, standard costs). A change to any one of these inputs could significantly alter the fair value of an income producing property.

ii. Financial liabilities at FVTPL

The fair valuation of embedded derivatives employs pricing models. The models require estimates and assumptions to be made with regard to the models' inputs, such as, the underlying asset volatility, risk free rates, employee exit rates and option holder's risk aversion, as applicable. Changes in assumptions about these factors could affect the reported fair value of the financial liability. Fair values are most sensitive to change in asset volatility.

(k) Comparative figures

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

3. FUTURE ACCOUNTING POLICIES

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

Financial Instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued in July 2014. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The REIT is currently assessing the impact of this standard on its consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15 – *Revenue from Contract with Customers* ("IFRS 15") was issued in May 2014 and establishes a new five-step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT is currently assessing the impact of IFRS 15 and intends to adopt the new standard on the required effective date.

Leases

IFRS 16 – *Leases* ("IFRS 16") is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirements in IAS 17, with enhanced disclosure requirements that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. This standard supersedes IAS 17 - *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives*, and SIC-27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The REIT is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

4. INCOME PRODUCING PROPERTIES

As at	**December 31, 2015**	December 31, 2014
Balance, beginning of year	**$ 531,041,031**	$ 588,391,005
Dispositions of income producing properties at carrying value	**-**	(34,020,564)
Settlement of purchase liability	**(585,500)**	-
Improvements to income producing properties	**3,278,141**	4,330,334
Expenditures on tenant incentives and direct leasing costs	**1,765,846**	436,291
Amortization of tenant incentives and direct leasing costs	**(799,075)**	(618,482)
Recognition of straight-line rent	**696,302**	787,884
Unrealized fair value losses	**(23,579,128)**	(28,265,437)
Balance, end of period	**$ 511,817,617**	$ 531,041,031

Income producing properties, which are classified as investment properties under IFRS, are appraised at fair value by management. Management obtains support for the appraised value by obtaining on a sample basis appraisals from qualified external valuation professionals (“Appraisers”) in accordance with IAS 40 – *Investment Properties.* The Appraisers are independent valuation firms, not related to the REIT, that employ valuation professionals who are members of the Appraisal Institute of Canada and the Ordre des évaluateurs agréés du Québec, and who have appropriate qualifications and experience in the valuation of properties in the relevant locations.

For the year ended December 31, 2015 the fair value of the REIT’s income producing property portfolio was determined either internally by the REIT using the Direct Capitalization methodology or by obtaining external appraisals.

During 2015, external appraisals were obtained for thirteen of the REIT’s properties with an aggregate fair value of $237.7 million, representing 46.4% of the fair value of the income producing property portfolio. At December 31, 2014, external appraisals were obtained for twenty-three of the REIT’s properties with an aggregate fair value of $347.6 million, representing 65.5% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs unless there is evidence of a significant change in the fair value of the property. The value of the remainder of the REIT’s income producing property portfolio is determined internally by the REIT by applying significant new information obtained to adjust previous externally prepared appraisals.

The following table outlines the range and weighted average of the capitalization rates applied to the stabilized net operating income in estimating the fair value for the REIT’s properties:

As at	**December 31, 2015**	December 31, 2014
Capitalization rates		
Maximum	**8.25%**	8.25%
Minimum	**5.75%**	5.75%
Weighted Average	**6.66%**	6.70%

At December 31, 2015, a 0.25% increase in capitalization rates for income producing properties would decrease fair value by $19.4 million (December 31, 2014 - $19.4 million) and a 0.25% decrease in capitalization rates would increase fair value by $20.9 million (December 31, 2014 - $20.9 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at December 31, 2015, income producing properties included $5.0 million (at December 31, 2014 - $4.3 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

Dispositions of income producing properties

On September 26, 2014 the REIT completed a sale of three single tenant Canadian Tire properties located in Ontario. The selling price of these properties totaled $34.9 million, excluding transaction costs. The selling price was satisfied by a combination of cash and the assumption by the purchaser of three mortgages totaling $19.2 million and bearing interest of 3.40% per annum. The three properties had a total carrying value of $34.0 million at the time of sale resulting in a gain on disposition of $0.8 million after closing costs of $0.1 million.

5. OTHER ASSETS

The major components of other assets are as follows:

As at		**December 31, 2015**		December 31, 2014
Prepaid realty taxes and insurance	**$**	**1,333,202**	$	1,214,071
Restricted cash - amounts held in escrow		**1,092,034**		1,673,255
Prepaid expenses and other		**720,929**		763,417
	$	**3,146,165**	$	3,650,743

Cash is considered restricted when it is held in escrow as required under loan agreements and is only available for use for specific purposes. The permitted use of restricted cash is to lease up vacant space and fund certain future capital expenditures for the REIT’s income producing property portfolio.

Prepaid expenses and other include general REIT expenses paid in advance and other deferred amounts.

6. ACCOUNTS RECEIVABLE

As at		**December 31, 2015**		December 31, 2014
Rents receivable	**$**	**1,301,836**	$	3,198,686
Unbilled recoveries		**990,179**		1,579,945
Other receivables		**1,623,569**		1,725,432
		3,915,584		6,504,063
Allowance for doubtful accounts		**(578,965)**		(797,068)
	$	**3,336,619**	$	5,706,995

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

7. MORTGAGES PAYABLE

As at		December 31, 2015		December 31, 2014
Mortgage principal	**$**	**305,050,117**	$	296,262,514
Unamortized above market interest rate adjustments		**1,849,545**		2,518,208
Unamortized commitment and other fees		**(1,950,667)**		(2,033,437)
	$	**304,948,995**	$	296,747,285
Non-current	**$**	**234,796,421**	$	251,560,806
Current		**70,152,574**		45,186,479
	$	**304,948,995**	$	296,747,285

Scheduled repayments of mortgage principal are as follows:

		Principal instalments		Principal maturing		Total
2016	$	8,575,326	$	61,409,329	$	69,984,655
2017		6,093,094		118,092,125		124,185,219
2018		3,483,748		13,551,943		17,035,691
2019		3,337,441		18,590,780		21,928,221
2020		2,465,909		19,391,463		21,857,372
Thereafter		5,351,853		44,707,106		50,058,959
Contractual obligations	$	29,307,371	$	275,742,746	$	305,050,117

Mortgages payable are secured by the properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 2.43% and 6.86% per annum (December 31, 2014 – 2.43% and 6.02%) and contractual rates ranging between 2.40% and 6.70% (December 31, 2014 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.57% per annum (December 31, 2014 – 4.43%). The total carrying value of the properties pledged as security is $507.0 million (December 31, 2014 - $527.4 million).

As at December 31, 2015 the REIT was in technical violation of financial covenants on two mortgages secured by properties in Quebec. These mortgages do not contain cross-default provisions that would trigger the breach of other financial covenants. For December 31, 2015 the mortgages which total $16.0 million have been classified as current on the statements of financial position. Subsequent to December 31, 2015 the REIT obtained a covenant tolerance waiver letter for both these mortgages.

Interest rate swaps are in place to fix the interest rates for three mortgages payable for a notional amount of $18.5 million between 3.34% and 3.72% until 2020. As at December 31, 2015, the fair value of the interest rate swap is $0.6 million and is included in accounts payable and accrued liabilities on the statement of financial position. A fair value loss on the interest rate swap of $0.6 million was recorded on the statements of comprehensive loss.

During the year ended December 31, 2015 the following mortgages were obtained:

In February 2015, the REIT accepted extended first mortgages, totaling $2.45 million, on two properties located in Manitoba. The mortgages have an average term of six years with an average rate of interest of 2.95% per annum and amortization periods ranging from 20 to 25 years.

In February 2015, the REIT accepted a financing commitment for $3.15 million secured as a first mortgage on a single tenant property located in Manitoba. The mortgage has a term of five years with interest at 2.83% per annum and an amortization period of 15 years. This financing replaced a maturing $1.5 million mortgage with a contractual interest rate of 6.35%.

In October 2015, the REIT accepted a financing commitment for $9.2 million secured as a first mortgage on a property located in Ontario. The mortgage has a term of five years with interest at 3.15% per annum and an amortization period of 25 years. This financing replaced a maturing $6.3 million mortgage with a contractual interest rate of 5.17%.

In November 2015, the REIT accepted financing commitments for $11.0 million and $4.0 million secured as second mortgages on properties located in Ontario and BC, respectively. The mortgages both have a term to maturity of less than two years in order to mature coterminous with the related first mortgages. The mortgages bear interest at 5.50% per annum and have an amortization period of 25 years.

In November 2015, the REIT accepted a financing commitment for $4.0 million secured as a first mortgage on a single tenant property located in Manitoba. The mortgage has a term of five years with interest at 3.32% per annum and an amortization period of 25 years. This financing replaced a maturing $2.0 million mortgage with a contractual interest rate of 5.90%.

In December 2015, the REIT accepted a one year financing extension for $17.5 million in place of the maturing $22.5 million, 4.90% mortgage. The extended mortgage is secured as a first mortgage on an enclosed mall located in Ontario. The mortgage has a term of one year with interest at the greater of prime plus 2.30% per annum or 5.00% per annum and an amortization period of 20 years.

During the year ended December 31, 2014 the following mortgages were obtained:

In April 2014, the REIT accepted a financing commitment for $15.0 million secured as a second mortgage on six of the REIT’s single tenant properties. The mortgage had a term of one year with interest only payments at the greater of 10.0% per annum or prime plus 6.0% per annum. The mortgage was repayable on 30 days notice without penalty. During October 2014, the REIT repaid the mortgage in full.

In September 2014, the REIT refinanced the Place Desormeaux property with a $23.0 million first mortgage. The mortgage has a term to maturity of 3 years, a contractual interest rate of prime plus 2.0% and an amortization period of 25 years.

In November 2014, the REIT refinanced the Manning Crossing property with a $15.25 million first mortgage. The mortgage replaced a first and second mortgage previously secured by the property. The new first mortgage has a term to maturity of 10 years, a contractual interest rate of 4.21% and an amortization period of 25 years.

In November 2014, the REIT accepted four new first mortgage financings on four of the five properties previously secured by the REIT’s Credit Facility. The refinancing allowed the REIT to replace the $40.0 million Credit Facility which was set to expire in March 2015. The terms of the four new first mortgages are as follows:

- Crossing Bridge property - The REIT accepted an $8.0 million first mortgage financing with a term of 5 years, a contractual interest rate of 3.41% and an amortization period of 25 years.
- King George property - The REIT accepted a $12.25 million first mortgage financing with a term of 5 years, a contractual interest rate of 3.41% and an amortization period of 25 years.
- Centre le Village property - The REIT accepted an $8.5 million first mortgage financing with a term of 3 years, a contractual interest rate of 3.26% and an amortization period of 25 years.
- Centuria Urban Village property - The REIT accepted a $7.25 million first mortgage financing with a term of 10 years, a contractual interest rate of 4.21% and an amortization period of 25 years.

8. CONVERTIBLE DEBENTURES

As at		**December 31, 2015**		December 31, 2014
8.0% convertible debentures	**$**	**-**	$	28,572,509
6.0% convertible debentures		**34,331,084**		34,227,413
5.5% convertible debentures		**22,934,387**		22,904,587
Debentures, excluding convertible feature		**57,265,471**		85,704,509
Fair value of convertible features at issuance		**660,000**		1,460,000
Accumulated fair value gain on convertible feature		**(660,000)**		(1,460,000)
Convertible feature		**-**		-
Issue costs		**(2,886,983)**		(4,998,547)
Accumulated amortization of issue costs		**1,635,693**		2,827,654
Issue costs, net		**(1,251,290)**		(2,170,893)
	$	**56,014,181**	$	83,533,616
Non-current	**$**	**56,014,181**	$	83,533,616
Current		**-**		-
	$	**56,014,181**	$	83,533,616

In March, 2011, the REIT issued $28,750,000 of 8.0% convertible unsecured subordinated debentures (the "Series I Debentures"). During November, 2015 the REIT repaid 75%, or $21.6 million, of the outstanding Series I Debentures and subsequently in December 2015 the remaining 25%, or $7.2 million, of the Series I Debentures were repaid. The repayment was funded from monies raised under a Rights Offering (Note 15) and through normal course debt financing (Note 7).

In September, 2012, the REIT issued $34,500,000 of 6.0% convertible unsecured subordinated debentures (the Series II Debentures") due September 30, 2017. The Series II Debentures are convertible into REIT units at $10.35 per unit at the holder's option at any time on or after September 30, 2015. On or after September 30, 2015 and prior to September 30, 2016, the Series II Debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2016, the Series II Debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the Series II Debentures as at December 31, 2015 is nil (December 31, 2014 - nil).

In March, 2013, the REIT issued $23,000,000 of 5.5% convertible unsecured subordinated debentures (the "Series III Debentures") due March 31, 2018. The Series III Debentures are convertible into REIT units at $10.25 per unit at the holder's option at any time on or after March 31, 2016. On or after March 31, 2016 and prior to March 31, 2017, the Series III Debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2017, the Series III Debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the Series III Debentures as at December 31, 2015 is nil (December 31, 2014 - nil).

9. CREDIT FACILITIES

As at		**December 31, 2015**		December 31, 2014
Credit facilities	**$**	**2,000,000**	**$**	**-**
Financing costs		**68,518**		**-**
Accumulated amortization of financing costs		**(45,079)**		**-**
Financing costs, net		**23,439**		**-**
		1,976,561		**-**
Non-current	**$**	**-**	**$**	**-**
Current		**1,976,561**		**-**
	$	**1,976,561**	**$**	**-**

The REIT's credit facility (the "Credit Facility") has a credit limit of $10.0 million, with interest at the greater of 5.0% or prime plus 2.0% per annum. For undrawn balances, the Credit Facility bears a standby fee of 0.25% of the undrawn balance, annually in arrears. The Credit Facility has a term of two years ending in August 2016.

10. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the year ended December 31, 2015 were $57.1 million (2014 - $59.8 million). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, and in many cases with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the year ended December 31, 2015 of $19.0 million (2014 - $18.8 million), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

As at December 31, 2015, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

		Within 12 months		2 to 5 years		Beyond 5 years
Operating lease revenue	$	36,424,672	$	111,900,370	$	73,177,068

11. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Year ended December 31, 2015	2014
Asset management contract reimbursement (Note 23(a))	**$ -**	$ 1,500,000
Internalization cost reimbursements (Note 23(a))	**-**	432,947
Internalization legal and other fees	**-**	762,086
Proxy dispute	**-**	923,802
Board transition and other	**4,059**	349,129
Abandoned acquisition costs	**168,518**	4,247,333
Strategic-review	**128,831**	587,394
Litigation	**116,368**	-
Total other transaction costs	**$ 417,776**	$ 8,802,691

12. INSURANCE PROCEEDS

During the year ended December 31, 2015 insurance proceeds of $1.1 million were comprised of insurance recoveries of $1.4 million related to a fire in July 2013 which destroyed a building in Sooke, British Columbia and was partially offset by $0.3 million of non-capital costs incurred as a result of the fire.

13. FAIR VALUE LOSSES

The components of fair value losses are as follows:

	Year ended December 31, 2015	2014
Unrealized loss on income producing properties	**$ (23,579,128)**	$ (28,265,437)
Financial liabilities designated as FVTPL		
Interest rate swaps	**(632,634)**	-
Deferred unit-based compensation	**-**	79,000
Convertible debentures	**-**	30,000
Exchangeable LP units	**-**	179,250
Total fair value losses	**$ (24,211,762)**	$ (27,977,187)

Included in the unrealized loss on income producing properties for the year ended December 31, 2015 is an immaterial adjustment for a $1.7 million loss relating to the prior year's estimate of fair value on properties which were externally appraised.

14. LOSS PER UNIT

The table below presents the net loss per unit and weighted average units outstanding calculations. Only dilutive elements have been included in the calculation of diluted per unit amounts.

	Year ended December 31, 2015	2014
Numerator		
Comprehensive loss - basic and diluted	**$ (14,556,117)**	$ (27,083,600)
Denominator		
Weighted average units outstanding - basic and diluted	**27,831,288**	26,206,391
Loss per unit - basic and diluted	**$ (0.52)**	$ (1.03)

15. UNITHOLDERS' EQUITY

(a) Distributions

For the year ended December 31, 2015 the REIT made monthly cash distributions to unitholders in an amount of $0.02083 per unit, representing an annualized distribution of $0.25 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Trustees. The Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act. As at December 31, 2015, distributions accrued and not yet paid is $703,787 (2014 - $554,023).

(b) Distribution reinvestment plan

The REIT has a Distribution Reinvestment Plan ("DRIP") to enable Canadian resident unitholders to acquire additional units of the REIT through the reinvestment of regular monthly distributions on all or any part of their units.

The REIT has an Optional Unit Purchase Plan ("OUPP") to enable Canadian resident unitholders to acquire additional units of the REIT through optional cash payments subject to a minimum of $1,000 per month and a maximum of $12,000 per calendar year.

Units issued in connection with the DRIP and OUPP are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 5% (which will change to 3% for the March 2016 DRIP payable in April 2016) of each cash distribution.

At December 31, 2015, the REIT had 24,421 units remaining in its reserve for issuance of units under the DRIP and OUPP. During January 2016 the REIT increased the unit reserve by 1,669,382 units with approval from the TSX.

(c) Rights Offering

During August, 2015, the REIT announced its intention to raise gross proceeds of $20.6 million by issuing rights entitling unitholders to subscribe for one additional REIT unit for each four REIT units held as of the record date of September 14, 2015 and with payment of a subscription price of $3.10 per REIT unit. The Rights Offering closed on October 22, 2015 and the maximum amount available of $20.6 million, excluding issuance costs of $0.4 million, was raised and the REIT issued 6,649,364 units.

(d) Outstanding Units

As at	**December 31, 2015**		December 31, 2014	
	Units	**Dollars**	Units	Dollars
Units outstanding, beginning of period	**26,356,069**	**$ 196,646,106**	25,988,800	$ 194,991,352
Units issued:				
Distribution reinvestment plan	**382,213**	**1,344,938**	209,769	1,005,018
Rights offering	**6,649,364**	**20,613,028**		
Exchangeable LP units	**-**	**-**	157,500	663,375
Unit issue costs	**-**	**(430,301)**	-	(13,639)
	33,387,646	**$ 218,173,771**	26,356,069	$ 196,646,106

16. SUPPLEMENTAL CASH FLOW INFORMATION

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

		Year ended December 31,		
		2015		2014
Supplemental				
Mortgages transferred to purchaser on sale of property	**$**	**-**	$	19,269,120
Net change in working capital				
Net change in accounts receivable	**$**	**2,836,809**	$	(2,984,354)
Net change in other assets		**504,578**		863,648
Net change in accounts payable and other liabilities		**(4,880,384)**		1,188,343
	$	**(1,538,997)**	$	(932,363)

17. UNIT-BASED COMPENSATION PLANS

(a) *Incentive unit option plan*

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

As at December 31, 2015 there are no options outstanding under the incentive unit option plan.

(b) *Deferred unit plan ("DUP")*

Under the DUP, Trustees have the option to have their fees ("Trustees Fees") paid in deferred units of the REIT. The number of units will be equivalent to the cash value of the Trustees Fees elected by the Trustee to be paid in units. The maximum number of units reserved for issuance under the DUP is 1% of the issued and outstanding units and the maximum number of units reserved under the DUP and all unit-based compensation plans of the REIT shall not exceed 10% of the REIT's issued and outstanding units at any given time.

The issue price of the units under the DUP is volume-weighted average price of the units for the last 20 trading days preceding the date of issuance to the Trustees.

The DUP became effective May 17, 2015. During the year ended December 31, 2015, no units were issued under the DUP.

18. INCOME TAXES

During the year ended December 31, 2015, the REIT wound-up Charter Realty Holdings Ltd., a wholly owned subsidiary, which previously held beneficial ownership of three single tenant properties in Ontario. The REIT also dissolved 137th Avenue Limited Partnership which previously held beneficial ownership of a single tenant property in Alberta. These restructurings resulted in a transfer of beneficial ownership of the related properties to the REIT. Upon completion, all of the REIT's corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable.

Partners REIT qualifies as a REIT for income tax purposes. The REIT intends to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, a provision for current income taxes payable is not required.

19. CAPITAL MANAGEMENT

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

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

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

At December 31, 2015, the REIT's debt-to-gross book value ratio is 69.6%, (December 31, 2014 – 70.0%), which is calculated as follows:

As at	**December 31, 2015**	December 31, 2014
Debt[1]		
Mortgage principal	**$ 305,050,117**	$ 296,262,514
Debenture principal	**57,500,000**	86,250,000
Credit facility principal	**2,000,000**	-
	$ 364,550,117	$ 382,512,514
Gross Book Value of Assets		
Book value of income producing properties	**$ 511,817,617**	$ 531,041,031
Book value of all other assets	**9,152,805**	11,510,009
Unamortized deferred financing fees	**3,225,396**	4,204,330
	$ 524,195,818	$ 546,755,370
Debt-to-Gross Book Value	**69.5%**	70.0%
Debt-to-Gross Book Value Excluding Debentures	**58.6%**	54.2%

(1) Debt capital refers to the principal portion of mortgages, debenture and the credit facility. This excludes deferred financing costs, the value of the debentures' convertible feature, and unamortized above market interest rate adjustments.

(2) Prior year balances have been adjusted to conform with current year presentation

20. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of the REIT's assets and liabilities were determined as follows:

(a) Income producing properties

The significant assumptions used to determine the fair value of investment properties are disclosed in Note 4.

(b) Current assets and liabilities

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

(c) Mortgages payable

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 3.22% and 4.35% that reflect current market conditions for instruments of similar term and risk.

(d) Interest rate swaps

The fair value of the interest rate swap contracts is calculated through discounting future expected cash flows using the appropriate BA rate swap curve adjusted for credit risk. Since the BA rate swap curve is an observable input, these financial instruments are considered Level 2.

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

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

The following table classifies assets and liabilities measured at fair value according to the three level hierarchy:

	December 31, 2015			December 31, 2014		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 511,817,617**	$ -	$ -	$ 531,041,031
Liabilities for which fair values are disclosed:						
Mortgages payable	**$ -**	**$ -**	**$ 316,054,967**	$ -	$ -	$ 303,966,018
Interest rate swaps	**$ -**	**$ 632,634**	**$ -**	$ -	$ -	$ -

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the year ended December 31, 2015 there were no transfers between the hierarchy levels.

21. RISK MANAGEMENT

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

(a) *Interest rate risk*

The REIT is exposed to interest rate risk when funds are drawn under mortgages with floating interest rates. An increase in interest rates would increase the interest cost of these mortgages having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding $42.0 million balance of variable debt at December 31, 2015, a 1% increase or decrease in the prime rate would have an impact of $0.4 million on the REIT's annual interest expense (December 31, 2014 – $0.2 million).

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

(b) *Credit risk*

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2015 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants.

The following table presents an analysis of the age of tenant and other accounts receivable inclusive of amounts for which an allowance has been made.

As at	**December 31, 2015**	December 31, 2014
Tenant rents receivable		
Less than 30 days past billing date	**349,056**	1,023,389
30-60 days past billing date	**36,428**	417,554
61-90 days past billing date	**53,443**	67,299
Greater than 90 days past billing date	**862,909**	1,690,444
	1,301,836	3,198,686
Allowance for doubtful accounts	**(578,965)**	(797,068)
Other receivables	**1,623,569**	1,725,432
Unbilled recoveries	**990,179**	1,579,945
	3,336,619	5,706,995

The following table presents a summary of the activity related to the REIT's allowance for doubtful accounts.

	December 31, 2015	December 31, 2014
Opening allowance for doubtful accounts	**$ 797,068**	$ 270,652
Change to allowance for doubtful accounts	**(146,513)**	792,079
Receivables written-off	**(71,590)**	(265,663)
Ending allowance for doubtful accounts	**$ 578,965**	$ 797,068

Refer to Note 6 for further details of accounts receivable.

(c) 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 ($2.0 million drawn at December 31, 2015). Property debt repayment obligations are generally funded from obtaining debt refinancing on maturing mortgages. Convertible debenture obligations that are not converted to equity can be repaid at maturity from either a new convertible debenture issue, mortgage financing on existing properties or disposition and/or from an equity raise.

Within the next 12 months the REIT has $45.4 million in maturing mortgages on four properties (this excludes $16.0 million from two mortgages with one lender classified as current due to technical covenant violations as at December 31, 2015, but for which a covenant tolerance waiver letter was subsequently obtained). 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 maturing mortgages;
- 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 monthly distributions.

Except for the periodic impact to cash for the $1.7 million in bi-annual interest payments on the two series of debentures (interest payments are due March 31st and September 30th) 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 December 31, 2015, the REIT had $2.7 million in cash and $8.0 million of capacity available under its Credit Facility, thereby providing $10.7 million in liquidity. Despite this liquidity, management will need to complete re-financings of maturing mortgages and continue to reduce other transaction costs or the REIT may be required to obtain further financings or sell properties.

The following table shows the contractual cash flows on all of the REIT's non-derivative financial liabilities:

	2016	2017	2018	2019	2020	Thereafter
Mortgages payable						
Interest	12,930,044	8,220,044	4,256,431	3,749,895	2,619,349	4,903,641
Principal payments	8,575,326	6,093,094	3,483,748	3,337,441	2,465,909	5,351,853
Balances due on maturity	61,409,329	118,092,125	13,551,943	18,590,780	19,391,463	44,707,106
Debentures						
Interest	3,335,000	3,335,000	632,500	-	-	-
Balances due on maturity	-	34,500,000	23,000,000	-	-	-
Credit Facility						
Interest	75,000	-	-	-	-	-
Balances due on maturity	2,000,000	-	-	-	-	-
Accounts and distributions payable and other liabilities	8,509,967	-	-	-	-	-
Total	$ 96,834,666	$ 170,240,263	$ 44,924,622	$ 25,678,116	$ 24,476,721	$ 54,962,600

(d) Concentration risk

The REIT has one major tenant with 15 locations in the REIT's portfolio providing $5.8 million in annualized base rents, or 15.6% of the REIT's total annualized base rental revenue.

22. CONTINGENCIES AND COMMITMENTS

(a) Contingent liability

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.

(b) Lease commitments – The REIT as lessee

The REIT as lessee is committed under operating leases to renewal periods or notice periods ranging from one month to five years for each of its three office locations in Barrie, Ontario, Toronto, Ontario and Victoria, British Columbia. In aggregate the three leases represent a future commitment to the REIT of approximately $0.5 million.

(c) Uncertified class action lawsuit

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 certain 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.

23. RELATED PARTY TRANSACTIONS

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

Transactions between the REIT and related parties are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(a) Management agreement

Effective December 27, 2013, McCowan and Associates Ltd. ("McCowan") purchased the REIT's external management contract for $1.5 million from LAPP Global Asset Management Corp. The REIT terminated the agreement on February 14, 2014 for a payment of $1.5 million. This amount and other fees paid to McCowan under the terms of the management agreement are as follows.

	Year ended December 31, 2015	2014
Management agreement termination reimbursement	**$ -**	$ 1,500,000
Asset management fees	**-**	218,415
Property management and accounting fees	**-**	95,342
Internalization cost reimbursements	**-**	432,947
Employee service agreement payments	**-**	42,940
Office cost reimbursements	**-**	67,593
	$ -	$ 2,357,237

(b) Related party balances

Amounts owed by the REIT to Trustees of the REIT at December 31, 2015 are $25,500 (December 31, 2014 - $17,325). This amount has been classified in accounts payable and other liabilities, and consists of accrued trustees' fees.

(d) Compensation of key management and Trustees

The REIT's current independent trustees include: Marc Charlebois, Dexter John, Simon Nyilassy, Ian Ross and Allan Kimberley. During the year, the REIT's key management personnel include: Jane Domenico, Chief Executive Officer and Derrick West, Chief Financial Officer. The remuneration of the REIT's key management personnel and trustees was as follows:

	Year ended December 31,		Year ended December 31,	
	2015	2014	**2015**	2014
	Trustees		**Key Management**	
Compensation and benefits	**$ 301,106**	531,422	**$ 806,147**	$ 767,789
	$ 301,106	$ 531,422	**$ 806,147**	$ 767,789

24. SUBSEQUENT EVENTS

On March 16, 2016, the REIT announced that throughout the second quarter of 2016, the REIT will be internalizing the management of its 25 properties in Ontario, Manitoba, Alberta, and British Columbia. The transition is expected to be substantially complete by June 30, 2016.

The REIT has also elected to consolidate the management of the REIT's 11 properties in Quebec under the oversight of a single external property manager. This manager will be selected via a formal Request for Proposals, a process that is already underway. Currently, two external managers provide property management, leasing, and some of the accounting functions within Quebec.