PARTNERS REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS
MARCH 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

FORWARD-LOOKING INFORMATION ADVISORY

This Management 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 (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", "predict", "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, enabling the REIT to grow through acquisitions; (2) demand for vacant space at our Ontario and Québec properties will improve as a result of anticipated general and economic growth; (3) capital expenditures at Méga Centre and Place Val Est will be on budget, on time and will contribute to the improvement in occupancy rates; and (4) there is continued responsiveness to raising funds through equity and debt markets. Other assumptions are discussed throughout this MD&A; in particular under Part VI - 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 flow and distributions; the impact of newly adopted accounting principles on the REIT's accounting policies and on period-to-period comparisons of financial results; and other risks and factors described from time to time in the documents filed by the REIT. The REIT undertakes no obligations 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 Annual Information Form, dated March 31, 2011, which is available on www.sedar.com.

These forward-looking statements are made as of June 13, 2011 and presents material information up to this date, unless otherwise noted.

PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

OVERVIEW OF THE BUSINESS

Effective November 3, 2010, the name of Charter Real Estate Investment Trust was changed to Partners Real Estate Investment Trust. All references to “Partners Real Estate Investment Trust”, “Partners REIT”, the “REIT”, and similar references in this management discussion and analysis refer to Charter Real Estate Investment Trust prior to the name change.

Partners REIT is a publicly traded Canadian commercial real estate investment trust whose units are listed on the TSX Venture Exchange under the trading symbol PAR.UN.

The REIT’s current business strategy is to focus on acquiring and managing a portfolio of retail and mixed-use retail community and neighbourhood centres, primarily in the mid-market value range of $10 to $50 million, from both primary and secondary markets throughout Canada. Since acquiring six properties occupied primarily by Shoppers Drug Mart (the “SDM properties”) in March 2011, the REIT now owns seventeen retail properties located in Ontario, Québec and Manitoba. Additionally, the REIT has recently acquired the majority of the retail units of the Centuria Urban Village mixed use retail and residential high-rise located in Kelowna, extending our geographic presence to British Columbia in the second quarter of 2011.

On June 4, 2010, the REIT entered into a transaction with League Assets Corp. (“League”) that resulted in a transformational change in the REIT’s ownership structure, whereby one of League’s affiliates, IGW Public Limited Partnership (“IGW Public”), acquired 6,047,095 units representing a 33% ownership position in the REIT from C.A. Bancorp and entered into a new asset management agreement with the REIT. IGW Public became the REIT’s major unitholder and new sponsor. On July 23, 2010, IGW Public acquired an additional 6,765,765 units for $9,404,413 through a rights offering, resulting in a 49.9% ownership in the REIT.

At the end of December 2010, the REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public’s ownership interest in the REIT at that time to 41.5%.

The REIT’s mandate is to grow its business and reposition its operations in the market place. To facilitate this mandate, the REIT is focused on building internal infrastructure. During 2010, the REIT rebalanced its Board by replacing three members and adding a sixth member to its Board of Trustees all of whom have extensive executive management experience in commercial real estate and real estate development. The REIT’s new executive management team is also extensively experienced in commercial real estate and real estate development. We continue to examine ways to lever our existing asset base to enable us to grow our operations.

Current Business Strategy

Partners REIT’s current portfolio of properties consists of retail centres whereby the majority of rents are derived from national and regional retailers with multi-year leases. These centres typically provide growth opportunities through the lease-up of vacant space, the increase in rental rates through contractual escalations, and through management’s active remerchandizing and redevelopment of the properties. The REIT believes it has created a base of retail assets that provides reliable and stable cash flow, and continues to pursue opportunities for yield growth through lease renewals, redevelopment and/or development of assets. The goal of Partners REIT is to own “institutional grade” properties or properties with the potential to become “institutional grade” through remerchandizing and redevelopment.

Management has previously acquired assets in secondary markets to take advantage of opportunities to obtain well-tenanted centres with strong national and regional retailers at attractive capitalization rates. Partners REIT is focused on building a geographically diversified portfolio of quality real estate assets with stabilized income that are accretive on a per unit basis.

The REIT is also focused on improving its existing assets through redevelopment and leasing initiatives for the remainder of 2011 and beyond.

FINANCIAL HIGHLIGHTS

The financial information presented and discussed in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"). Previously issued financial information for periods ended December 31, 2010, and prior, was prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP") which, at the time, did not require Canadian financial statements to be prepared in accordance with IFRS. Comparative information presented in this MD&A has been restated to conform to IFRS. Refer to Part II – International Financial Reporting Standards, for a discussion of the impact of IFRS adoption on the REIT's financial statements.

The following is a summary of key financial information and statistics for the periods indicated (see Part III – Performance Measurement for a description of the key terms):

Three months ended	**March 31, 2011**	March 31, 2010
NOI(1)	**$ 3,006,497**	$ 2,399,735
NOI – same property(1)	**$ 2,377,889**	$ 2,399,735
FFO(1)	**$ 1,107,832**	$ 854,949
FFO per unit(1)	**$ 0.04**	$ 0.04
Net income	**$ 1,067,938**	$ 625,028
Net income per unit	**$ 0.03**	$ 0.03
Distributions(2)	**$ 1,238,643**	$ 741,127
Distributions per unit(2)	**$ 0.04**	$ 0.04
Cash distributions(3)	**$ 1,178,076**	$ 678,915
Cash distributions per unit(3)	**$ 0.04**	$ 0.04
Total assets	**$ 200,337,867**	$ 133,059,746
Total debt(4)	**$ 143,218,997**	$ 93,208,088
Debt-to-gross book value(5)	**67.4%**	63.5%
Interest coverage ratio6)	**1.71**	1.78
Debt service coverage ratio(6)	**1.35**	1.46
Weighted average interest rate(7)	**5.24%**	5.93%
Portfolio occupancy	**97.6%**	92.0%

(1) Net operating income or "NOI" and funds from operations or "FFO" are non-GAAP financial measures widely used in the real estate industry. See "Part III – Performance Measurement" for further details and advisories.

(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 3% bonus units given to participants in the Distribution Reinvestment and Optional Unit Purchase Plan.

(3) 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.

(4) Includes secured debt, unsecured debt and bank credit facility.

(5) See calculation under "Debt-to-Gross Book Value" in "Part V – Results of Operations."

(6) Calculated on a rolling four quarter basis

(7) Represents the weighted average effective interest rate for secured debt excluding the bank credit facility, which has a floating rate of interest.

Overall occupancy levels for the REIT as at March 31, 2011 had a significant uplift over the same period in the prior year, from 92.0% to 97.6%. Leasing initiatives were successful in offsetting lease expiries during the remainder of 2010 and in the three months ended March 31, 2011. The overall occupancy level was positively affected by the acquisitions of Wellington Southdale Plaza in December 2010 and the SDM properties in March 2011 as they were 97.2% and 100% occupied upon acquisition, respectively. Management is committed to actively pursuing new leases and renewals with the objective of increasing occupancy and weighted average rental income per square foot of gross leasable area.

Net operating income ("NOI") for the three months ended March 31, 2011 increased substantially by $607,000 (25%) over the same period in 2010. This is primarily due to the acquisition of the Wellington Southdale property and the SDM properties noted above. NOI during the three months ended March 31, 2011 compared to the same period in 2010 after removing the effect of acquisitions subsequent to March 31, 2010 (NOI – same property) is consistent.

Funds from operations increased for the three months ended March 31, 2011 compared to the same period in 2010, primarily due to the acquisitions of Wellington Southdale Plaza and the SDM properties. FFO per unit in the three months ended March 31, 2011 compared to the three months ended March 31, 2010 remained the same at $0.04 per unit.

Distributions per unit remained at $0.04 quarterly for the first quarter of 2011, consistent with distributions per unit throughout 2010. Distributions are made on a monthly basis to unitholders of record on the last day of the month, payable on or around the 15th day of the following month. Increases noted in both distributions and cash distributions are solely due to the increase in outstanding units.

The $67 million increase in total assets as at March 31, 2011 over March 31, 2010 is primarily due to the purchase of Wellington Southdale Plaza and the SDM properties, as these acquisitions add a fair value of $22 million and $33 million respectively to the REIT's income producing property portfolio.

The REIT's total debt increased by $50 million as at March 31, 2011 compared to March 31, 2010. The increase is due to new financing since March 31, 2010 consisting of: a $25 million first mortgage on the Cornwall property; $13 million in assumed and new mortgages on the Wellington Southdale Plaza; the issuance of $27 million in corporate unsecured debentures, net of issue costs; and the assumption of $17 million on six first mortgages upon purchase of the SDM properties. These increases in debt were offset by the reduction of the REIT's outstanding bank credit facility to nil, and repayment of corporate secured debt of $22 million and $9 million, respectively.

REAL ESTATE PORTFOLIO

The REIT currently owns seventeen retail and mixed use retail properties in Ontario, Manitoba and Québec as follows:

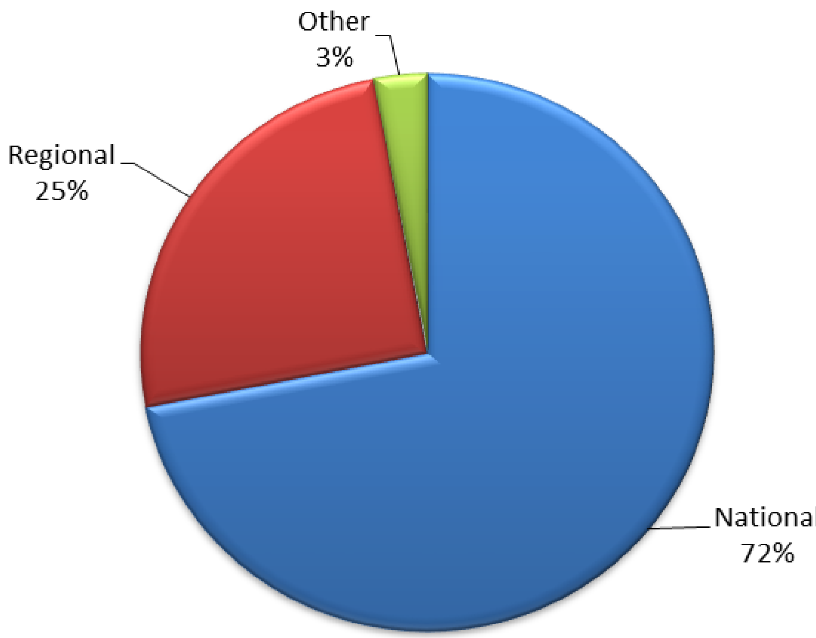
Property and location	Property type	Date built /redeveloped	Anchor tenants	Gross Leasable Area (sq.ft.) Retail[1]	Storage space	Occupancy[2] [3]	% of annualized base rental revenue[3]	Weighted average rent[3]
Ontario:								
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	249,790	1,269	97.3%	20.4%	$12.36
Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,512	-	93.1%	8.4%	$12.03
Wellington Southdale London, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Empire Theatres	86,629	-	96.0%	11.2%	$19.72
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	-	100.0%	5.3%	$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	-	100.0%	5.1%	$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	-	100.0%	4.0%	$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	-	100.0%	1.0%	$3.54
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	-	100.0%	0.3%	$2.47
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	-	100.0%	0.2%	$1.49
Manitoba :								
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	-	100.0%	2.5%	$21.75
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,800	-	100.0%	2.8%	$25.77
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	-	100.0%	3.0%	$26.50
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,670	-	100.0%	2.2%	$19.02
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart	21,005	-	100.0%	3.0%	$20.92

Property and location	Property type	Date built /redeveloped	Anchor tenants	Gross Leasable Area (sq.ft.) Retail[1]	Storage space	Occupancy[2] [3]	% of annualized base rental revenue[3]	Weighted average rent[3]
Québec:								
Méga Centre Montréal, Québec	Community Power Centre	1973/1993, 1999, 2000, 2004	Brault & Martineau Staples Future Shop	277,477	36,081	98.0%	18.8%	$10.14
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	114,650		94.8%	9.0%	$12.21
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,035		100.0%	2.8%	$23.99
Total				**1,222,490**	**37,35**	**97.6%** [4]	**100%**	**$12.32** [4]

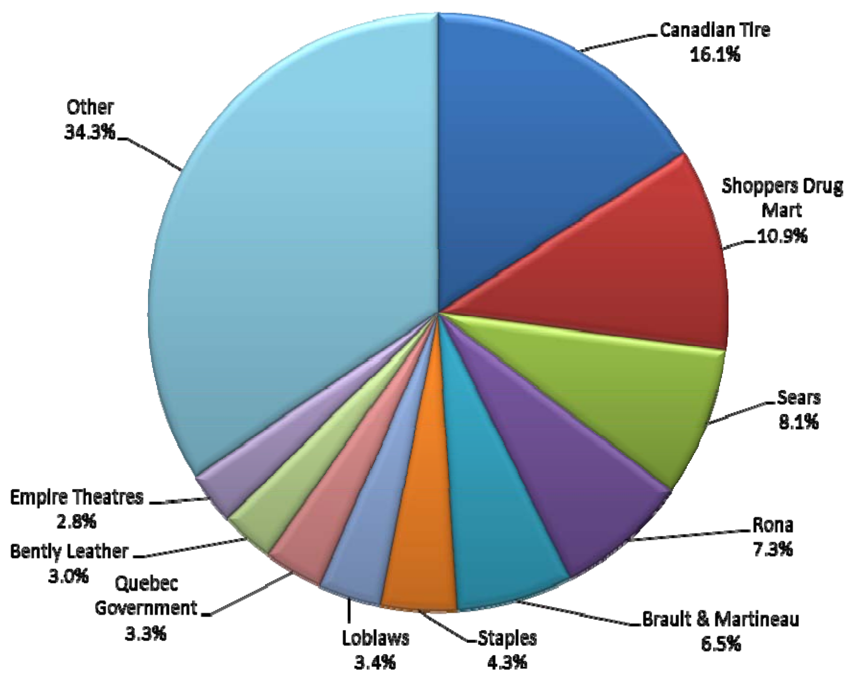
Notes:

(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 June 6, 2011.
(4) Represents weighted average for the portfolio.

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

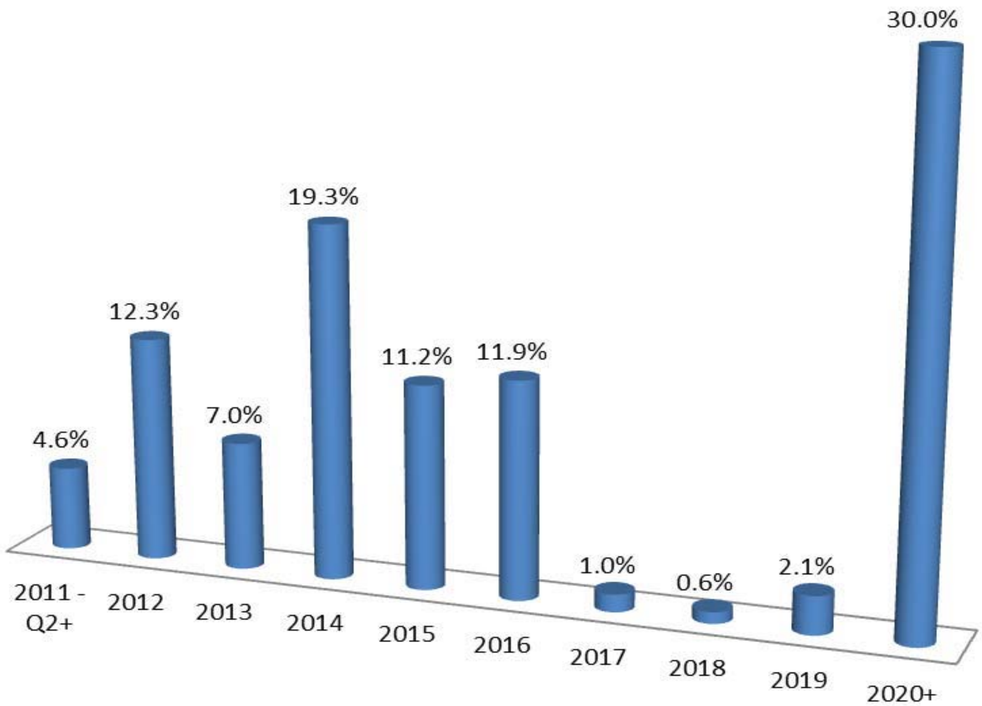


The tenant mix for the properties as at March 31, 2011 is as follows:



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

The weighted average term to maturity of existing leases is approximately seven years. The chart below shows the lease expiration schedule of the properties as a percentage of leased square feet for 2011 and beyond:



Leasing Activity and Occupancy

Lease expiries for 2011, new leasing and renewals completed by the date of this MD&A are as follows:

Three months ended:	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	**Total 2011**	Total 2010
Lease expiries	36,791	3,329	6,979	11,980	**59,079**	88,958
Base rent per square foot[(1)]	$ 20.18	$ 18.87	$ 24.69	$ 17.33	**$ 20.06**	$ 14.18
Lease renewals	21,923	3,329	3,936	4,624	**33,812**	57,411
Base rent per square foot[(1)]	$ 21.52	$ 18.95	$ 27.63	$ 27.00	**$ 22.73**	$ 14.91
New Leasing	-	15,854	4,966	-	**20,820**	47,637
Base rent per square foot[(1)]	$ -	$ 15.55	$ 25.59	$ -	**$ 17.94**	$ 9.93

(1) weighted average

In the regular course of operations, the REIT occasionally encounters tenants who vacate their space before the lease is scheduled to expire due to financial difficulties or corporate restructuring. The REIT monitors tenants closely to avoid these situations, but when an unexpected vacancy occurs and a suitable long-term tenant is not readily available, the REIT endeavors to occupy the space with short-term tenants in order to minimize lost revenues. When short-term tenants are signed to short-term leases or, in some cases, month-to-month, the REIT does not include them as an expiry, renewal or new lease in the above chart.

The gross leasable area in Partners REIT's portfolio increased during the first quarter of 2011 by 103,952 square feet (9.3%). The majority of this increase is attributable to the acquisition of the SDM properties. The weighted average occupancy rate for the entire portfolio at March 31, 2011 was 97.6%, compared with 95.7% at December 31, 2010 and 92.0% at March 31, 2010. The improved occupancy rate over the previous quarter was due to the addition of the SDM properties, which was 100.0% occupied upon acquisition. Lease payments have already commenced for these properties. The improved occupancy rate over the first quarter of 2010 is a result of the addition of the SDM properties in March 2011, the addition of the Wellington Southdale property in December 2010, and the REIT's endeavors during 2010 to increase occupancy rates at Place Val Est, Châteauguay and Méga Centre. Over the course of 2010, Partners REIT was able to increase occupancy at Place Val Est by 20%, 9% at Châteauguay and 9% at Méga Centre. Occupancy rates include short-term leases and month-to-month tenants.

One of the REIT's goals is to generate organic growth through redevelopment and lease renewal activities at its existing centres. As at the date of this MD&A, the REIT had renewed or signed new leases representing 92% of anticipated lease expiries for 2011. The REIT expects the portfolio's occupancy rate to improve over the remainder of 2011 from property acquisitions and new/renewed leases. The following provides an update on the progress made as at the date of the MD&A.

At the Châteauguay property in Québec, the lease for a retail tenant occupying 12,012 square feet expired on March 31, 2010. The REIT entered into a binding offer with a new tenant to take 10,126 square feet of this space. It was originally anticipated that the tenant would begin operations in the fourth quarter of 2010. We now anticipate that the tenant will occupy the space and begin making rental payments in the second quarter of 2011.

At the Méga Centre property in Québec, a local dollar store operator occupying 18,573 square feet vacated its premises in February 2010. For the first quarter of 2011, we had a short term tenant in this space. As of June 6, 2011, this same tenant occupies this space on a month-to-month basis until such time as a long-term deal is secured with a new tenant. The net impact to net operating income as a consequence of the original vacancy and subsequent short term lease arrangement is a loss of $36,000 for the quarter ended March 31, 2011. The property has an additional 16,000 square feet leased to two short term tenants. The REIT expects these tenants to remain at their current locations throughout the remainder of 2011. We believe that Méga Centre's location, transportation access, visibility and the surrounding community's demographics are positive in terms of being able to redevelop, renew leases, and stabilize the centre.

At the Place Val Est property in Ontario, our new tenant, Rossy, a regional junior department store, has leased approximately 23,000 square feet of space that was vacated by SAAN. Rossy commenced operations at the end of July 2010 and began making rental payments in the fourth quarter of 2010. The lease contains both a fixed base rent and percentage rent component that impacts net operating income from between $160,000 to $220,000 annually.

At the Cornwall Square property in Ontario, three tenants were required to relocate as a result of the Shoppers Drug Mart ("Shoppers") expansion. These tenants have all since reopened their stores and entered into new leases. The Shoppers expansion is planned to be completed in the second quarter of 2011 and will provide Shoppers with an additional 4,966 square feet of retail space.

At the Wellington Southdale property in Ontario, two long term tenants completed renovations reducing their premises and entered into new leases. These renovations created two additional retail spaces at the property, one of which has been leased to a new tenant who is expected to commence rental payments in the second quarter of 2011.

On March 17, 2011, Partners REIT completed the acquisition of the SDM properties. Five of these properties are located in Manitoba and one is located in Gatineau, Québec.

PART II – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Partners REIT has presented its financial results for the first quarter of 2011 and the comparative prior period information in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Prior to the first quarter of 2011, the REIT issued its financial results in accordance with Canadian GAAP, which at the time, did not require Canadian financial statements to be presented in accordance with IFRS.

IFRS is based upon a conceptual framework similar to that previously utilized under Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. Although the adoption of IFRS did not have an impact on our reported net cash flows, it does have a material impact on our consolidated statements of financial position (previously referred to as "consolidated balance sheets") and consolidated statements of comprehensive income. Comparative information as at January 1, 2010 (the "Transition Date") and December 31, 2010 and for the three months ended March 31, 2010 has been adjusted from previously reported financial results in order to present comparative financial information in accordance with IFRS.

First-Time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1 – *First-Time Adoption of International Reporting Standards* ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions.

(a) Elected exemptions from full retrospective application

In preparing these condensed consolidated financial statements in accordance with IFRS 1, the REIT has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i. Business combinations

The REIT has applied the business combinations exemption in IFRS 1 to not apply IFRS 3 – *Business Combinations* retrospectively to past business combinations. Accordingly, the REIT has not restated the business combinations that took place prior to the transition date.

ii. Financial instruments

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

iii. Leases

IFRS 1 allows an entity to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at that date. The REIT has concluded that it is only involved in operating leases, consistent with the accounting applied under Canadian GAAP.

(b) Mandatory exceptions to retrospective application

In preparing these condensed consolidated financial statements in accordance with IFRS 1 the REIT has applied certain mandatory exemptions from full retrospective application of IFRS. The mandatory exemptions applied are described below.

i. Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Canadian GAAP are consistent with the application under IFRS.

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

Impact of IFRS on the Consolidated Statements of Changes in Unitholders' Equity

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

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

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

		Trust units	Contributed surplus	Retained earnings (deficit)	**Total Unitholders' equity**
As reported under Canadian GAAP - Mar. 31, 2010		$ 54,757,913	$ 1,040,336	$ (17,780,782)	**$ 38,017,467**
Differences increasing (decreasing) reported amount:					
Deferred unit-based compensation	(i)	-	(470,506)	470,506	**-**
Investment property	(ii)	-	-	(453,126)	**(453,126)**
As reported under IFRS - Mar. 31, 2010		$ 54,757,913	$ 569,830	$ (17,763,402)	**$ 37,564,341**

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

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

(i) Deferred Unit-Based Compensation

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

(ii) Investment Property

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

Impact of IFRS on the Consolidated Statements of Financial Position

The following provides a reconciliation of the REIT's comparative consolidated financial statements of financial position from Canadian GAAP to IFRS standards as reported as at January 1, 2010 and December 31, 2010. All other assets and liabilities not specifically addressed below maintained their designations consistent with the designations made under Canadian GAAP and were not significantly impacted by the adoption of IFRS.

As at	(i)	Canadian GAAP January 1, 2010	IFRS Adjustments	IFRS January 1, 2010
ASSETS				
Non-current assets				
Income producing properties	(ii)	$ 122,216,906	$ 8,365,961	$ 130,582,867
Deferred financing costs	(ii)	403,390	(209,262)	194,128
Intangible assets	(ii)	9,738,939	(9,738,939)	-
		132,359,235	(1,582,240)	130,776,995
Current assets				
Other assets		346,206	-	346,206
Accounts receivable	(ii)	819,242	(561,431)	257,811
Cash		1,074,765	-	1,074,765
		2,240,213	(561,431)	1,678,782
Total assets		$ 134,599,448	$ (2,143,671)	$ 132,455,777
LIABILITIES				
Non-current liabilities				
Mortgages payable	(i)	$ 71,725,963	$ (1,298,790)	$ 70,427,173
Debentures		-	-	-
Intangible liabilities	(ii)	267,611	(267,611)	-
Bank credit facility		20,500,000	-	20,500,000
		92,493,574	(1,566,401)	90,927,173
Current liabilities				
Mortgages payable	(i)	-	1,298,790	1,298,790
Accounts payable and other liabilities		2,363,034	-	2,363,034
Distributions payable		246,776	-	246,776
		2,609,810	1,298,790	3,908,600
Total liabilities		95,103,384	(267,611)	94,835,773
UNITHOLDERS' EQUITY		39,496,064	(1,876,060)	37,620,004
Total liabilities and unitholders' equity		$ 134,599,448	$ (2,143,671)	$ 132,455,777

As at	(i)	Canadian GAAP December 31, 2010	IFRS Adjustments	IFRS December 31, 2010
ASSETS				
Non-current assets				
Income producing properties	(ii)	$ 138,612,235	$ 17,294,785	$ 155,907,020
Deferred financing costs	(ii)	390,528	(321,629)	68,899
Intangible assets	(ii)	10,058,263	(10,058,263)	-
		149,061,026	6,914,893	155,975,919
Current assets				
Other assets		3,291,985	-	3,291,985
Accounts receivable	(ii)	1,092,045	(823,346)	268,699
Cash		6,869,242	-	6,869,242
		11,253,272	(823,346)	10,429,926
Total assets		$ 160,314,298	$ 6,091,547	$ 166,405,845
LIABILITIES				
Non-current liabilities				
Mortgages payable	(i)	$ 107,086,726	$ (2,144,220)	$ 104,942,506
Debentures		-	-	-
Intangible liabilities	(ii)	209,551	(209,551)	-
Bank credit facility		-	-	-
		107,296,277	(2,353,771)	104,942,506
Current liabilities				
Mortgages payable	(i)	-	2,144,221	2,144,221
Accounts payable and other liabilities		5,046,083	-	5,046,083
Distributions payable		412,687	-	412,687
		5,458,770	2,144,221	7,602,991
Total liabilities		112,755,047	(209,550)	112,545,497
UNITHOLDERS' EQUITY		47,559,251	6,301,097	53,860,348
Total liabilities and unitholders' equity		$ 160,314,298	$ 6,091,547	$ 166,405,845

(i) Presentation of Financial Statements

Under IAS 1 – Presentation of Financial Statements (“IAS 1”), the consolidated statements of financial position is presented as a classified statement of financial position which means that there are separate classifications for current and non-current assets and liabilities. Previously, the consolidated balance sheets, under Canadian GAAP, were presented using reverse liquidity.

The requirement under IAS 1, for balances to be classified as current and non-current has been applied to the mortgages payable, resulting in two amounts for mortgages on the statements of financial position. Under both Canadian GAAP and IFRS, the REIT’s mortgages payable are classified as other financial liabilities and are measured at amortized cost, and as such, there is no impact on the financial statements other than a presentation change.

(ii) Adoption of IAS 40 – Investment Property

The REIT considers its income producing properties to be investment properties under IAS 40. Investment property includes land and buildings held primarily to earn rental income or for capital appreciation, or both; rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. Consequent to initial recognition, IFRS requires that an entity choose either the fair value or cost model to account for its investment property. The REIT has elected to use the fair value model. Fair values are determined based on valuations performed by third party appraisers or available market evidence. Gains or losses resulting from changes in fair value are recorded in profit or loss.

Unlike Canadian GAAP, there is no requirement under IFRS to segregate intangible assets and liabilities from investment properties in the statements of financial position. The determination of the fair value of an income producing property takes into consideration leasing commission costs, customer relationships, lease origination fees, in-place leases, straight-line rent receivables, and above or below market leases related to the property. Accordingly, amounts representing these amounts previously reported on the balance sheet in accordance with Canadian GAAP as deferred costs, intangible assets, accounts receivable, and intangible liabilities have been reclassed to income producing properties under IFRS.

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

As at		December 31, 2010		January 1, 2010
Income producing properties as reported under Canadian GAAP	$	138,612,235	$	122,216,906
Amounts reclassed from:				
Deferred costs		321,629		209,262
Intangible assets		10,058,263		9,738,939
Accounts receivable		823,346		561,431
Intangible liabilities		(209,551)		(267,611)
Fair market value adjustment recognized in opening retained earnings		(1,876,060)		(1,876,060)
Add back amortization recognized in 2010 under Canadian GAAP		5,527,770		
Fair market value adjustment		2,649,388		
Income producing properties as reported under IFRS	$	155,907,020	$	130,582,867

Valuation Process of Commercial Retail Properties

At the Transition Date, the REIT's portfolio of income producing properties was fair valued by qualified external valuation professionals in accordance with IAS 40.

At December 31, 2010 the properties were also fair valued by qualified external valuation professionals. The fair value at March 31, 2011 was determined internally by updating the data and assumptions used by the external valuation professionals for changes that occurred between January 1, 2011 and March 31, 2011.

The external valuation of the investment properties utilized the "Direct Capitalization" method. This method applies the capitalization rate to stabilized net operating income. The resulting stabilized value is then adjusted for factors including lost revenues and recoveries on vacant units; anticipated inducement and leasing commission costs of vacant units; and present value of capital expenditures.

Values are most sensitive to changes in capitalization rates. At the Transition Date, capitalization rates ranging from 7.5% to 9.0% were used to determine fair value. At December 31, 2010, capitalization rates ranging from 7.0% to 8.5% were used to determine fair value. Capitalization rates vary due to property type, market conditions, and building specific conditions, including the property's occupancy rate, capital expenditure requirements, and anticipated net operating income.

The overall weighted average capitalization rate for our portfolio as at January 1, 2010 was approximately 8.3%. At December 31, 2010, the overall weighted average capitalization rate was approximately 7.8%.

Impact of IFRS on the Consolidated Statements of Comprehensive Income

The following discussion and reconciliation describes the significant recurring differences between Canadian GAAP and IFRS that impact net income.

Fair Value Gains or Losses

As a result of electing to recognize income producing properties at fair value in the statements of financial position, net income for any given period may be greater or less than that determined under Canadian GAAP depending on whether an increase or decrease in the fair value occurs during that period. Fluctuations to the fair value of income producing properties are recorded to the consolidated statements of comprehensive income under IFRS as fair value gains or losses. The impact of the fair value changes resulted in a decrease to net income of $29,000 for the three months ended March 31, 2010 and an increase to net income of $2.6 million for the year ended December 31, 2010.

Depreciation and Amortization Expense

Also as a result of electing to recognize income producing properties at fair value in the statements of financial position, depreciation is not recorded. Amortization previously recorded under Canadian GAAP with regard to income producing properties, intangible assets and intangible liabilities has been eliminated under IFRS. This has resulted in a decrease in the depreciation and amortization expense of $1.5 million for the three months ended March 31, 2010 and $5.5 million for the year ended December 31, 2010.

Recognition of Revenues from Income Producing Properties

IFRS requires rental revenues to be determined on a straight-line basis considering all rentals from the inception of the lease. The adoption of IFRS has not required significant changes to revenue recognition from income producing properties, and no adjustment to net income was required upon transition to IFRS.

Financial Instruments

Options issued as deferred unit-based compensation are classified as financial liabilities at FVTPL under IFRS, and as such are required to be revalued at each reporting period. As at the Transition Date, the REIT determined that the fair value of the outstanding options was nil (March 2010: nil; December 2010: nil). As there was no change in fair market value experienced from the Transition Date to March 31, 2010 or to December 31, 2010, there was no impact on net income upon transition to IFRS with regard to deferred unit-based compensation.

Reconciliation of Net Income as Reported Under Canadian GAAP and IFRS

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

		Year ended December 31, 2010	Three months ended March 31, 2010
Net income and comprehensive income as reported under Canadian GAAP		$ (3,473,323)	$ (797,906)
Differences increasing (decreasing) reported amount:			
Investment property	(i)		
Fair value gain (loss)		2,649,388	(29,107)
Reverse Canadian GAAP amortization expense		5,527,770	1,452,041
Net income and comprehensive income as reported under IFRS		$ 4,703,835	$ 625,028

Other Comprehensive Income

No reconciling items occurred between the REIT's other comprehensive income reported in accordance with Canadian GAAP to its other comprehensive income in accordance with IFRS for the three months ended March 31, 2010 and for the year ended December 31, 2010.

Impact of IFRS on the Consolidated Statements of Cash Flows

There were no material adjustments to the cash flow statement as a result of the conversion to IFRS.

Internal Control over Financial Reporting and Disclosure

The conversion to IFRS from Canadian GAAP impacts the way financial results are compiled and presented. In preparation for this conversion, a new general ledger accounting system was developed and implemented. This enabled the REIT to maintain its historical cost information and track its fair value adjustments under IFRS. Additionally, the impact of the conversion on the REIT's financial reporting systems, processes and controls was evaluated. As part of this process, all significant changes in accounting policies, changes in measurement and disclosure requirements were documented. All necessary updates and adjustments to its financial reporting systems, processes and controls were implemented in order to effect a successful conversion to IFRS from Canadian GAAP.

PART III – PERFORMANCE MEASUREMENT

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

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

We have provided the analysis of net operating income and funds from operations under Part V – Results of Operations.

Net Operating Income

Net operating income, or 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, administration, amortization, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. NOI is a non-GAAP financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results of the property portfolio which is useful in analyzing the operating performance of the property portfolio.

Funds from Operations

Funds from operations ("FFO") is a non-GAAP financial measure of operating performance widely used by the real estate industry. Partners REIT calculates FFO in accordance with 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).

Management considers FFO a meaningful measure of operating performance for financial analysts, investors and unitholders, as they primarily reject the assumption that the value of real estate investments diminishes predictably over time and it adjust for items included in IFRS net income that may not necessarily be the best determinants of operating performance.

NOI and FFO 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.

Debt Service Coverage Ratio

DSCR is a measure used to determine if a property will be able to sustain its debt based on its current cash flow. DSCR is calculated by dividing the REIT's NOI 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. Our bank credit facility DSCR ratio minimum requirement is 1.25 to 1.

Weighted Average Interest Rate

Our weighted average interest rate includes secured debt and excludes the bank credit facility, which has a floating rate of interest. This calculation is a useful measure because it allows us 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.

Occupancy Levels

Occupancy levels are presented in different manners depending on its context. It could be presented as an average portfolio occupancy when analyzing the overall operating performance, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the performance of each property period over period. Management considers this a useful measure in assessing the overall performance of its portfolio and is an essential tool to determine which properties require further investigation if performance lags.

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing the performance of operations through such measures as NOI, FFO and FFO excluding non-recurring other transaction costs, we consider the following to be key internal drivers of our current and future financial performance:

- Increases in occupancy by leasing vacant space; and
- Increases in rental rates when market conditions permit.

We anticipate that leases representing approximately 60,000 square feet of leasable space will expire in 2011. As at the date of the MD&A, the REIT has entered into new or renewed leases for approximately 55,000 square feet. This accounts for approximately 92% of anticipated expiries for 2011. New and renewed leases are at similar or increased base rent rates to those of the expiring leases. Management considers these indicators of positive performance.

Our key external performance drivers include:

- The ability to access equity capital at a competitive/reasonable cost;
- The ability to access debt with terms and conditions that is cost effective; and
- The ability to acquire new properties that enhances our portfolio.

During the quarter, Partners REIT issued $25 million of 8% extendible convertible unsecured subordinated debentures, which in part was used to replace $8.6 million of debt scheduled to mature in 2013, bearing interest at 8.75% per annum. The REIT purchased the SDM properties in March 2010 and closed on the purchase of the Centuria Urban Village on May 16, 2011. In addition, the REIT recently renewed its bank credit facility at improved terms. Management considers all of these achievements as indicators of positive performance.

PART IV – RECENT DEVELOPMENTS

In April 2009, the Board of Trustees of the REIT began a process to develop various strategic alternatives that would enable Partners REIT to reposition its operations given the lack of growth in the business as a result of the challenging economic environment and reaching an impasse in the stock market. As a result of this initiative, in June 2010, the REIT entered into a transaction with League Assets Corp. that has resulted in a transformational change in the REIT's ownership structure. League's affiliate, IGW Public Limited Partnership bought C.A. Bancorp's 33% interest in Partners REIT and entered into a new asset management agreement with Partners REIT, thereby becoming Partners REIT's major unitholder and new sponsor. League is a Victoria, British Columbia based real estate company that indirectly owns and manages in excess of $900 million in commercial and residential properties.

As part of the transaction and ownership change, League also agreed to invest additional funds in Partners REIT through supporting a rights offering that closed on July 23, 2010. An additional $9,404,413 was invested in Partners REIT by IGW Public. The ownership interest held by IGW Public at this time was approximately 49.9% of the units of Partners REIT.

At the end of December 2010, the REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public's ownership interest in the REIT to 41.5%.

Management believes that the change in ownership has enabled Partners REIT to reposition itself in the market through the following:

- Changing the composition of the Board of Trustees – Partners REIT's six member Board has four new trustees. The new Board is now comprised of members that have an average of 30 years' experience in commercial real estate, including extensive experience with publicly traded real estate companies.
- Changing its core management – Partners REIT has a new Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer who have a combined total of 62 years of professional experience, of which, 48 years have been in the commercial real estate and real estate development sectors.
- Managing its current asset base to refinance current properties and potentially raise new debt – As part of its ongoing obligation, Partners REIT is seeking new opportunities to recapitalize its existing properties at attractive terms and conditions; and building relationships with potential lenders for current strategic property acquisitions.
- Develop a thoroughly vetted strategic plan – In the third and fourth quarters, Partners REIT's Board of Trustees, executive management team and invited advisors met to discuss the direction that Partners REIT will take to strategically position itself in the market.
- Provide access to League's re-implemented financial and accounting systems in the upcoming year - League is currently redesigning its financial and accounting system. This design is expected to provide more timely and accurate financial and asset management data; will have a sophisticated forecasting, budgeting and acquisition modeling module; and will enable Partners REIT to manage its leases through its data base.

On March 8, 2011 the REIT closed its public offering of $25,000,000 in aggregate principal amount of 8.0% extendible convertible unsecured subordinated debentures, and on March 15, 2011 closed the overallotment option of the public offering for an additional $3,750,000 of similar debt, for a total issuance of $28,750,000 aggregate principal amount. The debentures bear interest at an annual rate of 8% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011. The debentures mature on March 31, 2016.

On March 17, 2011, the REIT announced the purchase of the SDM properties for an aggregate purchase price of $33 million. The purchase was funded by the assumption of existing mortgages of $17 million and cash raised from the issuance of debentures (as discussed above).

On May 16, 2011, the REIT completed an acquisition of the majority of the retail units in Centuria Urban Village, a food and drug store anchored high-rise mixed use retail and residential property located in Kelowna, British Columbia, for an aggregate purchase price of $8.9 million. The purchase has been funded by cash raised from the issuance of debentures (as discussed above) and bank credit facility as described below.

On May 16, 2011, the REIT renewed its revolving operating and acquisition facility for an amount of $5.8 million, with upward expansion, replacing the prior facility. The new facility bears interest at a rate equal to the Bank's prime rate plus 2.25% (previosuly 3.50%) per annum or the Banker's Acceptance stamping fee plus 3.25% (previously 4.50%) per annum. On May 16, 2011, $2.25 million was drawn on this facility to partially fund the purchase of Centuria Urban Village.

PART V – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is selected financial information from the condensed consolidated statements of comprehensive income for the three months ended March 31, 2011 and March 31, 2010.

Three months ended	**March 31, 2011**	March 31, 2010	Change
Revenues from income producing properties	**$ 4,959,732**	$ 4,100,882	21%
Property operating expenses	**(826,991)**	(723,620)	14%
Realty taxes	**(1,065,397)**	(904,921)	18%
Property management fees	**(111,339)**	(105,314)	6%
	2,956,005	2,367,027	25%
Other expenses:			
Financing costs	**1,558,963**	1,383,949	13%
General and administrative expenses	**424,262**	220,442	92%
Other transaction costs	**216,982**	108,501	100%
	2,200,207	1,712,892	28%
Income before fair value gains (losses)	**755,798**	654,135	16%
Fair value gains (losses)	**312,140**	(29,107)	
Net income and comprehensive income	**$ 1,067,938**	$ 625,028	71%
Earnings per unit, basic and diluted	**$ 0.03**	$ 0.03	

Net Income and Comprehensive Income

Overall, the REIT reported strong growth in net income and comprehensive income outlined by a 71% increase in the three months ended March 31, 2011 compared to the three months ended March 31, 2010. The substantial increase is due primarily to income producing property fair value gains of $312,000 during the first quarter of 2011 compared to a small fair value loss in the same period in 2010. The remaining increase in net income and comprehensive income is due to a substantial increase in NOI which was partially offset by increases in other expenses.

See "Fair Value Gains and Losses" and "Net Operating Income" below for discussion of fair value gains and losses on income producing properties and for discussion on NOI for all properties and same properties for the quarter ended March 31, 2011 compared to the same period in 2010.

Financing Costs

Financing costs are comprised primarily of interest expense and amortization of deferred financing costs on debt secured by the income producing properties. Financing costs also include amortization of interest rate differentials recognized on assumed mortgages upon property acquisitions and other incidental interest income and expenses incurred during the normal course of business.

Partners REIT's interest bearing debt consists of both fixed and variable rate instruments. The fixed rate debt consists of mortgages payable and debentures. Consequently, this debt generally incurs consistent interest expense period over period. As at March 31, 2011 and prior the REIT's variable rate debt consisted of a bank credit facility with an interest rate equal to the Bank's prime rate plus 3.50% per annum or the Banker's Acceptance stamping fee plus 4.50% per annum. During the three months ended March 31, 2011 there were no amounts drawn on the REIT's bank credit facility, compared to an average of $21 million outstanding over the three months ended March 31, 2010.

Financing costs for the three months ended March 31, 2011 increased compared to the same period in 2010 by $175,000 (13%). The increase is due to $169,000 of interest on new and assumed mortgages on the recently acquired Wellington Southdale property and $74,000 of interest on the mortgages assumed upon acquisition of the SDM properties. The impact of these increases was partially offset by the replacement of amounts drawn under the bank credit facility by a new mortgage on the Cornwall Square property at a more favourable interest rate in December 2010.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2011 increased by approximately $204,000 (92%) from the same period in the prior year. This increase was due to $46,000 in additional management fees incurred due to the newly acquired Wellington Southdale Plaza and the SDM properties; $58,000 increase in accounting and audit fees primarily due to an under accrual of these costs in the three months ended March 31, 2010; $17,000 of unit-based compensation with regard to unit options issued in February 2011; and $57,000 and $15,000 increase in travel and consulting costs, respectively, reflective of the changes in the management of the REIT as discussed above in Part IV – Recent Developments.

Other Transaction Costs

Other transaction costs consist of expenses incurred on property acquisitions no longer pursued, costs incurred upon early extinguishment of debt, costs incurred to transition to IFRS reporting, and corporate transaction costs.

During the three months ended March 31, 2011, the REIT expended: $39,000 to explore potential property acquisitions which, upon performance of more in depth due diligence procedures, were determined to have not met the REIT's portfolio requirements; $152,000 upon early extinguishment of debt; and $26,000 incurred to transition to IFRS. There were no such costs recognized during the same period in 2010.

Corporate transaction costs represent a portion of the legal, consulting and trustee fees and other costs associated with the strategic review process discussed in Parts I and IV above. This review process was completed in 2010, and there have been no further costs recognized in the three months ended March 31, 2011. During the same period in 2010, $109,000 of other transaction costs were incurred.

OPERATING RESULTS

Net Operating Income – Same Properties and All Properties

As at March 31, 2011 the REIT owns seventeen properties. Ten of the REIT's seventeen properties were owned by the REIT during the three months ended March 31, 2010. The eleventh property was purchased during December 2010 and the SDM properties were purchased in March 2011. Due to the additional properties, the three months ended March 31, 2011 is not directly comparable to the same period in the prior year. To address this, "Same property NOI" compares net operating income from only those properties that were contributing to operations in both periods.

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. In order to calculate NOI as defined above in Part III, this amortization of tenant incentives and direct leasing costs must be removed from revenues.

Same Properties NOI

The Wellington Southdale Plaza property and the SDM properties were acquired subsequent to March 31, 2010. The operating results of these properties have been excluded from the same properties net operating income data below for the three months ended March 31, 2011.

Three months ended	**March 31, 2011**	March 31, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	**$ 4,134,067**	$ 4,100,882	$ 33,185
Property operating expenses	**(776,458)**	(723,620)	(52,838)
Realty taxes	**(933,900)**	(904,921)	(28,979)
Property management fees	**(96,312)**	(105,314)	9,002
	2,327,397	2,367,027	(39,630)
Amortization of tenant costs	**50,492**	32,708	17,784
Net operating income	**$ 2,377,889**	$ 2,399,735	$ (21,846)

NOI from same properties for the three months ended March 31, 2011 are consistent compared to the same period in 2010, resulting in a minor decrease in NOI of $22,000 (1%). Although revenues from the same properties were slightly greater in the three months ended March 31, 2011 than the same period in 2010, these revenue increases were accompanied by minor increases in property operating expenses due largely to increased snow removal costs, and realty taxes, which together, more than offset the increase in revenue.

All Properties NOI

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

Three months ended	**March 31, 2011**	March 31, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	**$ 4,959,732**	$ 4,100,882	$ 858,850
Property operating expenses	**(826,991)**	(723,620)	(103,371)
Realty taxes	**(1,065,397)**	(904,921)	(160,476)
Property management fees	**(111,339)**	(105,314)	(6,025)
	2,956,005	2,367,027	588,978
Amortization of tenant costs	**50,492**	32,708	17,784
Net operating income	**$ 3,006,497**	$ 2,399,735	$ 606,762

The increase in all properties NOI for the three months ended March 31, 2011 compared to the same period in 2010 of $607,000 (25%) is primarily from the REIT's first full quarter of operations of Wellington Southdale Plaza and also due to one month of operations of the SDM properties.

The REIT's acquisition of Wellington Southdale Plaza closed on December 22, 2010. This property, located in Ontario, contains 86,629 of gross leasable area with a weighted average base rent per square of $19.72 and is anchored by Empire Theatres. This property contributes approximately 11% of the REIT's base rental revenues. This acquisition is expected to add $1.6 million to the REIT's annualized net operating income.

On March 17, 2011 the REIT acquired the SDM properties; five of the properties are situated in Manitoba and one in Gatineau, Quebéc. In aggregate the properties add a gross leasable area of 104,335 to the REIT's portfolio, with a weighted average base rent of $22.89 per square foot. This acquisition is expected to add $2.3 million to the REIT's annualized net operating income.

Funds from Operations

A reconciliation of IFRS net income to FFO is as follows:

Three months ended	**March 31, 2011**	March 31, 2010	Change
Net income for the period	**$ 1,067,938**	$ 625,028	$ 442,910
Amortization of costs	**118,052**	92,313	25,739
Unit option compensation expense	**17,000**	-	17,000
Other transaction costs	**216,982**	108,501	108,481
Fair value (gains) losses	**(312,140)**	29,107	(341,247)
FFO	**$ 1,107,832**	$ 854,949	$ 252,883
Weighted average units	**30,927,637**	18,489,497	12,438,140
FFO per unit	**$ 0.04**	$ 0.04	

FFO increased by $253,000 (30%) during the three months ended March 31, 2011 compared to the same period in 2010 primarily due to an increase in NOI of $607,000 which was offset by increases in financing costs of $175,000 and in general and administrative expenses of $204,000 during the first quarter of 2011 compared to the same prior year period as discussed above.

FFO per unit for the three months ended March 31, 2011 remained unchanged compared to the same period in the prior year notwithstanding the approximate 67% increase in the weighted average number of units. Weighted average units increased due to the completion of the REIT's rights offering at the end of July 2010 and again upon the public unit offering in December 2010.

FINANCIAL POSITION ANALYSIS

Statement of Financial Position – Total Assets

As at	**March 31, 2011**	December 31, 2010
Income producing properties	**$ 189,884,124**	$ 155,907,020
Deferred financing costs	**33,380**	68,899
Other assets	**1,231,817**	3,291,985
Accounts receivable	**436,060**	268,699
Cash	**8,752,486**	6,869,242
Total assets	**$ 200,337,867**	$ 166,405,845

Income producing properties

As a result of the REIT's transition to IFRS and its election to use the fair value model in accordance with IAS 40, 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 during the reporting period are included in profit and loss in the period in which they arise.

As at January 1, 2010 and December 31, 2010, all of the REIT's properties were appraised by an external valuation company. The fair value of income producing properties as at March 31, 2011 was determined internally by management updating the data and assumptions used by the external valuation professionals for changes that occurred between January 1, 2011 and March 31, 2011. Further discussion regarding the valuation technique used to determine the fair value of income producing properties can be found in Part II above.

The increase of $34 million in income producing properties at March 31, 2011 over December 31, 2010 is primarily due to the purchase of the SDM properties for $33 million; capitalized improvements to income producing properties of $459,000; expenditures on tenant incentives and direct leasing costs of $288,000; and fair value gains of $312,000 recognized upon valuation of the income producing properties as at March 31, 2011.

There were no income producing property dispositions during the three months ended March 31, 2011 or 2010.

Deferred financing costs

Deferred financing costs consist of financing fees incurred to renew the bank credit facility, net of amortization. The deferred financing costs are amortized over the renewal periods of the bank credit facility to financing costs in the statements of comprehensive income. The change from December 31, 2010 to March 31, 2011 is solely due to amortization recognized in the period.

Other assets

Other assets are comprised mainly of prepaid property taxes and insurance, deposits on acquisitions, amounts held in escrow and other prepaid expenses. At December 31, 2010 the REIT included in other assets a deposit of $2.5 million on a potential acquisition. During the three months ended March 31, 2011, the acquisition was no longer pursued and the deposit was returned to the REIT.

Accounts receivable

Accounts receivable increased by $167,000 from December 31, 2010 to March 31, 2011. Of this, $79,000 was due to the timing of common area recovery billings, which are expected to diminish over the 2011 fiscal year. Tenant rent receivables increased over the three months ended March 31, 2011 due to delay of payments of $84,000 from two tenants, which have both subsequently been collected since March 31, 2011. Accounts receivable are recorded net of allowances for doubtful accounts of $41,000 (December 31, 2010 - $41,000).

Cash

The REIT does not have any cash restrictions.

Capital

The REIT's capital consists of debt and equity capital. The REIT actively manages both its debt and equity capital with the objective of ensuring that the REIT can continue to grow and operate its business.

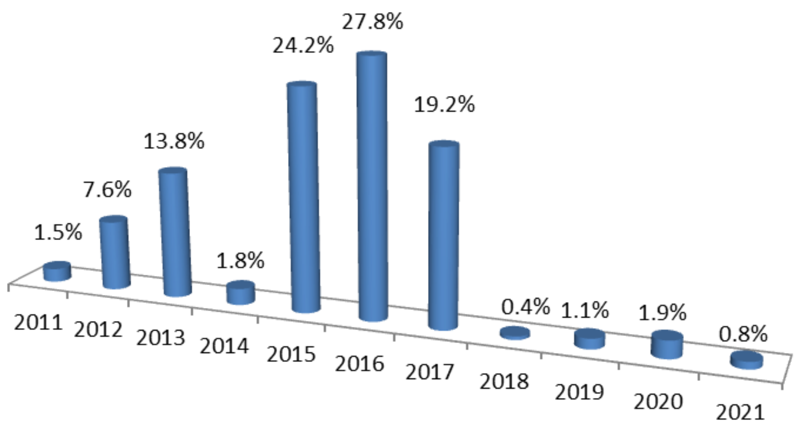
Real estate is a capital intensive industry. As a result, debt capital in particular, is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Given the importance of debt capital, the REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. The REIT is in compliance with all of its loan covenants as at the date of this MD&A.

The following table shows the REIT's total capital as at March 31, 2011 and December 31, 2010.

As at	**March 31, 2011**	December 31, 2010
Mortgages payable	**$ 116,611,149**	$ 107,086,727
Debentures	**26,607,848**	-
Unitholders' equity	**53,748,293**	53,860,348
Total capital	**$ 196,967,290**	$ 160,947,075

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures:



The primary contributor of the debt maturing in 2016 is the $29 million debentures.

Interest coverage and debt service coverage ratios are as follows:

Three months ended	**March 31, 2011**	March 31, 2010
Interest coverage ratio(1)	**1.71**	1.78
Debt service coverage ratio(2)	**1.35**	1.46

(1) Interest coverage ratio 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 and other transaction costs. EBITDA is a non-GAAP financial measure of operating performance.

(2) Debt service coverage ratio 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).

For the four quarters ended March 31, 2011 the REIT's interest coverage ratio decreased over the four quarters ended March 31, 2010 due to additional mortgages undertaken since March 31, 2010. The debt service coverage ratio for the four quarters ended March 31, 2011 compared to the four quarters ended March 31, 2010 decreased from 1.46 to 1.35 as a result of increased debt issued in December 2010 and the three months ended March 31, 2011 in a greater proportion than equity raises since March 31, 2010.

Secured Debt

The REIT's current average term to maturity on mortgages payable (excluding the debentures and bank credit facility discussed below in more detail) is approximately five years, and the weighted average contractual interest rate is 5.43%.

Future principal repayments on the secured debt (including mortgages payable and corporate secured debt but excluding the bank credit facility and debentures) are as follows for the remainder of 2011 to 2015 and thereafter:

Year	Principal installment payments	Balance maturing	**Total**	W.A. Contractual rate on debt maturing
2011	$ 2,122,319	$ -	**$ 2,122,319**	
2012	2,968,124	8,014,133	**10,982,257**	5.39%
2013	2,826,347	17,027,933	**19,854,280**	5.65%
2014	2,586,150	-	**2,586,150**	
2015	2,560,815	32,267,407	**34,828,222**	5.08%
Thereafter	3,697,618	41,144,446	**44,842,064**	5.55%
Total	$ 16,761,373	$ 98,453,919	**$ 115,215,292**	5.43%

Mortgages Payable

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. The REIT has conventional first mortgages on all of its properties except for the Rona properties.

During the first quarter of 2011 the following mortgages were obtained:

On the acquisition of the SDM properties, the REIT assumed the first mortgages on each of the six properties for a total of $17.2 million. The mortgages are secured by the properties and have a weighted average interest rate, adjusted to market, of 4.9% per annum. The mortgages mature between 2015 and 2021.

The REIT capitalized approximately $172,000 in financing costs associated with assuming the mortgages, and recorded an interest differential of $1.5 million as the assumed mortgages were accompanied by contractual interest rates greater than those available to the REIT at the time of acquisition.

Debentures

On March 8, 2011 the REIT closed its public offering of $25 million in aggregate principal amount of 8.0% extendible convertible unsecured subordinated debentures, and on March 15, 2011 closed the overallotment option of the public offering for an additional $3.75 million of similar debt, for a total issuance of $28.75 million aggregate principal amount. The debentures bear interest at an annual rate of 8% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011. The debentures mature on March 31, 2016.

The debentures are convertible into units of the REIT at the option of the holder at any time on the earlier of the maturity date, or the date fixed for redemption of debentures at a conversion price of $2.20 per unit.

The cost to issue the debentures was $2.1 million, and is netted against debentures on the statement of financial position and will be amortized over the term of the debentures.

Corporate Secured Debt

At March 31, 2011 there was no corporate secured debt outstanding (December 31, 2010 - $8.6 million; January 1, 2010 - $10.0 million). The original $10.0 million was comprised of two facilities (the "Facilities").

During the three months ended March 31, 2011, the first facility was repaid, without penalty, from proceeds of new debt, maturing in 2016. It consisted of an $8.6 million five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The second facility was repaid, without penalty, during the year ended December 31, 2010. It consisted of a $1.4 million five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The Facilities required that the REIT maintain an overall debt-to-gross book value ratio of no more than 75% and were secured by (a) a first charge on the REIT's three Rona properties located in Exeter, Seaforth and Zurich, Ontario; (b) second charges on the Méga Centre property, the Châteauguay property and the Canadian Tire properties; and (c) a general security agreement relating to the above properties.

Bank Credit Facility

The REIT has a revolving operating and acquisition facility (the "Acquisition Facility") with a Canadian chartered bank. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests (including a loan-to-value ratio). The amount available to be drawn upon is calculated based on the value of a property that has been specified under the agreement. As at March 31, 2011, the REIT has no property specified as security for this facility. During 2010 the Acquisition Facility was secured by the REIT's Cornwall Square shopping centre, providing a maximum amount of up to $26.0 million. At March 31, 2011 there was no amount outstanding under the Acquisition Facility (December 31, 2010 - nil).

As at March 31, 2011 and prior, amounts drawn down bear interest at a rate equal to the Bank's prime rate plus 3.50% per annum or the Banker's Acceptance stamping fee plus 4.50% per annum. Subsequent to March 31, 2011, the facility was renewed and the interest rate was revised to be equal to the Bank's prime rate plus 2.25% per annum or the Banker's Acceptance stamping fee plus 3.25% per annum.

Financing Costs

Financing costs represent commitment fees and other fees paid in connection with securing mortgages and corporate secured debt.

The unamortized balance of financing costs decreased to $767,000 as at March 31, 2011 from $779,000 as at December 31, 2010 reflecting the deferred costs incurred during the first quarter of 2011 on the assumption of the mortgages for the SDM properties, less the accelerated and normal amortization of deferred financing costs during the quarter. These financing costs relate to secured debt (including mortgages payable and corporate secured debt), and the unamortized portion is netted against the secured debt on the statements of financial position.

The unamortized balance of financing costs that relate to the bank credit facility, $33,000 (December 31, 2010 - $69,000) are capitalized to deferred financing costs.

Debt-to-Gross Book Value

The REIT monitors its debt-to-gross book value ratio, a ratio that has become a common industry metric reviewed by analysts, unitholders and others within the industry. The REIT does not have a specific debt-to-gross book value threshold imposed on it in its Declaration of Trust; however, the REIT's bank credit facility and corporate secured debt impose a restriction on the REIT's debt-to-gross book value ratio, being a maximum of 75%. At March 31, 2011 the REIT has a debt-to-gross book value ratio of 67.4% (December 31, 2010 – 60.0%), calculated as follows:

As at	**March 31, 2011**	December 31, 2010
Debt:		
Gross value of secured debt[(1)]	**$ 115,215,292**	$ 107,148,141
Gross value of convertible debt[(2)]	**27,950,000**	-
Amounts drawn on available bank credit facility	**-**	-
	$ 143,165,292	$ 107,148,141
Gross Book Value of Assets:		
Original cost of income producing properties	**$ 201,526,382**	$ 167,837,271
Book value of all other assets	**10,453,743**	10,498,825
Accumulated amortization of deferred costs	**287,239**	251,720
	$ 212,267,364	$ 178,587,816
Debt-to-Gross Book Value	**67.4%**	60.0%

(1) Represents actual balance of mortgages and corporate secured debt without netting the unamortized balance of the financing fees
(2) Excludes the value of the convertible feature of the debentures

Unitholders' Equity

In the three months ended March 31, 2011, unitholders' equity is consistent with unitholders' equity as at December 31, 2010.

The REIT currently makes monthly cash distributions of $0.01333 per unit, representing an annualized distribution of $0.16 per unit. The REIT's trustees have discretion in declaring distributions and review the distributions on a regular basis.

For further discussion about the REIT's distributions, see "Liquidity Requirements" below. The REIT issues equity when it is available and appropriate to replenish cash for acquisitions or other uses. The REIT has access to a bank credit facility to fund the equity portion of acquisitions as well as to fund general working capital requirements between capital raises, when required.

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 bank credit facility. Debt repayment obligations 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 – although between capital raises, the REIT may use its bank credit facility to fund the equity portion of property acquisitions.

The REIT's FFO for the three months ended March 31, 2011 was not sufficient to cover cash distributions due to the timing of the purchase of the SDM properties. With the deployment of cash on hand and the full impact of the purchase of the SDM properties, management expects FFO to be sufficient to cover cash distributions on a going forward basis. For the three months ended March 31, 2011, the REIT's payout ratio is 112% of FFO and the cash payout ratio is 106% of FFO.

Payout ratio and cash payout ratio are non-GAAP measures. Payout ratio is the total distributions expressed as a percentage of FFO. Cash payout ratio is the total distributions paid out in cash during the period (this excludes DRIP distributions, as unitholders enrolled in the DRIP receive units, not cash distributions) expressed as a percentage of FFO. Readers are cautioned that these measures may not be comparable to financial measures with similar captions reported by other issuers.

RELATED PARTY TRANSACTIONS

Pursuant to the REIT's management agreement with IGW Public's subsidiary, League Global Asset Management Corp ("LAPP"), LAPP provides the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and an acquisition fee equal to 0.50% of the "property cost" of each property acquired by the REIT. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, and plus the add back of accumulated amortization of deferred costs.

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

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

Under the terms of the current management agreement, the REIT paid the following fees to the Manager for the quarter ended March 31, 2011: $158,298 in asset management fees and $154,850 in acquisition fees. Amounts owing to the Manager as at March 31, 2011 are $199,745. These amounts have been classified in accounts payable and other liabilities, and consist of outstanding asset management fees, acquisition fees and net reimbursements payable.

PART VI – RISKS AND UNCERTAINTIES

Income producing properties are inherently subject to various risks and uncertainties due to their relative illiquidity and long term nature of the investment. Partners REIT's financial results, are therefore, impacted by the performance of our operations and by various external factors that impact our sector and geographic markets in which we operate. Some of the external factors that we are 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 our current portfolio, we believe, provides the leverage we need to grow our business in new markets and acquire high performing properties. We believe this strategy will enable our operations to achieve highly sustainable cash flows.

The following is an examination of the key factors that influence our operations. A full discussion of risk factors is available in the REIT's Annual Information Form.

INDUSTRY RISK

The REIT operates in the Canadian commercial and retail markets and is dependent on access to 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.

We have an on-going 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. Our strategy of staggering the maturities of our debt portfolio attempts to limit our exposure to excessive amounts of debt maturing in any one year.

There is interest rate risk associated with the REIT's bank credit facility since the interest rate is 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 March 31, 2011 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 on Interest Expense per Unit per Annum
Bank credit facility	-	-
Mortgages payable	$ 80,000	$ 0.003
Debentures	-	-

Partners REIT's strategy to mitigate interest rate price risk for its fixed rate mortgages is to enter into interest rate swap arrangements when deemed necessary. As at March 31, 2011, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

Finally, we are of the opinion that all debts can be extended, renewed, or refinanced as they become 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 by limiting its exposure to any one tenant. The maximum credit risk exposure at March 31, 2011 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.

The REIT is not a lender of financing and is not exposed to credit risk associated with this function.

LIQUIDITY RISK

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they become due, not having sufficient debt and equity capital available to fund future growth, and/or refinance debts as they mature. Liquidity risk also arises when the REIT is not able to obtain financing or refinancing on favourable terms.

The REIT's approach to managing its obligations is to maintain sufficient resources to meet its obligations when due without undue risk or recourse to the REIT.

The REIT's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance and improvements, leasing costs, distributions, and property acquisition funding requirements.

These liquidity needs are funded from cash flows from operations or the bank credit facility, with the exception of debt repayment obligations at maturity and property acquisitions. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its bank credit facility to fund the equity portion of property acquisitions.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and the perceived desirability of such investments. Such illiquidity may limit Partners REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Partners REIT was required to liquidate a real property investment, the proceeds to Partners REIT might be significantly less than the aggregate carrying value of such property.

ENVIRONMENTAL RISKS

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 Partners REIT's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against us. We are not aware of any material non-compliance with environmental laws or regulations at any of our properties, or of any pending or threatened actions, investigations or claims against Partners REIT relating to environmental matters.

We will continue to make capital and operating expenditures that are necessary to ensure that we are compliant with environmental laws and regulations. At this time, we do not believe that these costs will have a materially adverse impact on our business or financial results. We understand that environmental laws and regulations are subject to change and our financial liabilities can be adversely impacted if the laws and regulations become more rigorous.

TAXATION

Partners REIT is a mutual fund trust by definition under the Income Tax Act ("the Tax Act"). The distributions made during 2010 are expected to be tax deferred and, therefore, would not be included in the income of a unitholder for tax purposes. Instead, the distributions would reduce the adjusted cost base of the unitholder's units. Also, as currently structured, management believes that the REIT qualifies as a "real estate investment trust" under the SIFT rules of the Tax Act. Under the SIFT rules, certain distributions to investors from certain publicly listed or traded trusts and partnerships, other than real estate investment trusts, will be subject to tax at a rate that is equivalent to the general tax rate applicable to Canadian corporations and will be taxed in the hands of the unitholders as though they were a dividend from a taxable Canadian corporation. The result is that trusts and partnerships that are subject to the SIFT rules will be taxed in a similar manner to corporations and their investors will be taxed in a manner similar to investors in a corporation. The SIFT rules became applicable in the 2007 taxation year. The SIFT rules do not apply to certain trusts that qualify as real estate investment trusts. Should it be found that the REIT fails to qualify as a real estate investment trust or that the REIT undertakes subsequent activities that cause it to fail to qualify as a real estate investment trust, the REIT will become subject to the SIFT rules in that taxation year.

PART VII – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

The REIT adopted IFRS as the basis of financial reporting effective for the first quarter of 2011 with the restatement of comparative periods, using a transition date of January 1, 2010. The impact of adopting IFRS on our financial position and results of operations are discussed in Part II of this MD&A. Furthermore, the significant accounting policies applicable to the REIT under IFRS are provided for in Note 2 to the condensed consolidated financial statements for the three months ended March 31, 2011. Note 3 of the condensed consolidated financial statements include reconciliations of our equity, net income and comprehensive income as reported under Canadian GAAP and IFRS.

FUTURE ACCOUNTING POLICY CHANGES

From time to time, the International Accounting Standards Board ("IASB") issues new accounting standards and revises existing accounting standards. The following standard, not yet effective as at the date of this MD&A, may have a future impact:

Financial instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by IASB in October 2010 and will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those we believe are the most important in portraying our financial condition and results, and which require the most substantive judgment and estimates on the part of management.

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 months ended March 31, 2011. Management believes that the following policies are those most subject to estimation and judgment.

Income Producing Properties

Income producing properties fall within the definition of investment properties under IAS 40 and consist of commercial retail properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as income producing properties. Management must assess whether the acquisition of property through the purchase of a corporate vehicle, or directly should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such items the transaction is treated as an asset acquisition.

Commercial retail properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized as investment property. Costs that are directly attributable to investment properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and borrowing 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 – Investment Properties. Gains or losses arising from changes in the fair value of income producing properties are included in profit and loss in the period in which they arise.

The carrying value of income producing properties includes straight-line rent receivable, tenant incentives and direct leasing costs, since these amounts are incorporated in the appraised values of real estate properties.
Income producing properties are reclassified to assets held for sale when criteria set out in IFRS 5 - Non-Current Assets Held for Sale and Discontinued Operations are met.

An income producing property is derecognized upon disposal or when the investment 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.

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, upon substantial completion of those improvements. 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, which is included in the carrying amount of investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received.

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.

Financial Instruments

We classify our financial instruments into categories based on the purpose for which the instrument was acquired or issued, its underlying characteristics, and our designation of the instrument. The category into which we classify the financial instruments determines its measurement basis subsequent to initial recognition.

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

Financial Asset	Classification	Measurement
Other assets	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Cash and cash equivalents	Loans and receivables	Amortized cost

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

Financial liability	Classification	Measurement
Mortgages payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
Embedded derivatives	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Bank credit facility	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

In determining the fair value of financial instruments, management must make estimates and assumptions with respect to current market interest rates, credit spreads and terms to maturity.

Embedded Derivatives

Fair value of the convertible feature of the debentures was determined by applying a convertible bond pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and credit spread.

Deferred Unit-Based Compensation

Fair value of the options issued under the unit option plan was determined by applying a binomial option pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield, as well as assumptions regarding option holder behaviours, such as exit rates and risk aversion.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the REIT and entities controlled by the REIT (its subsidiaries). Control exists where the REIT has the power, directly or indirectly, to govern the financial and operation policies of an entity so as to obtain benefits from its activities.

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

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

Use of Estimates

The REIT makes estimates and assumptions that affect carried amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Our estimates are based on previous experience, results, and various other assumptions that are believed to be reasonable under the circumstances. The result of our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of the REIT's assets and liabilities, and the reported amounts of revenues and expenses that are not readily apparent from other sources. Consequentially, actual results could differ from these estimates.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to ensure that 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. Management believes that the REIT's disclosure controls and procedures and internal controls over financial reporting as at March 31, 2011 were appropriately designed. However, management is not required to certify the design and evaluation of the REIT's disclosure controls and procedures or internal controls over financial reporting and have not completed such an evaluation. As well, inherent limitations on the ability of management to design and implement on a cost-effective basis, disclosure controls and procedures or internal controls over financial reporting for the REIT, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

There has not been any change in internal controls over financial reporting in the period that has materially affected, or is reasonably likely to materially affect the REIT's internal controls over financial reporting. For many of its properties, the REIT has engaged the services of third-party property managers whose internal controls form part of the REIT's system of internal controls. The REIT has documented and continues to review those internal controls, reports and other documentation provided by the property managers as part of its internal control activities.

PART VIII – OUTLOOK

Management believes that there continues to be an improvement in the real estate market and the equity/capital markets in general. We expect that our growth will come primarily from:

- Continued organic growth from within the portfolio through scheduled rental increases in existing leases, lease renewals, and new leases; and
- Acquisitions intended to strengthen our position in our existing markets and to expand our holdings into additional geographic areas.

Partners REIT intends to continue to seek accretive acquisition opportunities. Our focus continues to be the enhancement of our portfolio mix. This will enable us to improve our occupancy levels through the active management and leasing of the portfolio. It will also enable us to grow our cash flows over the long term. Management remains focused on enhancing returns to unitholders by seeking new investment opportunities while actively managing our existing asset base.

We recognize that it is essential to position ourselves to take advantage of the growth that accompanies a recovering economic environment through same property rental income growth, redevelopment, and acquisitions. Management believes that demand for retail space in Canada is on the rise. Leasing interest in Place Val Est has increased with the improvement of the Sudbury economy and the addition of the Rossy store will be a positive influence in the REIT's leasing efforts of the remaining space. Management believes that Méga Centre's location, transportation access, visibility and the surrounding community's demographics will enable us to improve its absorption in occupancy and stabilize our net operating income from the property. The addition of the Wellington Southdale property, with a 97.2% occupancy rate in December 2010 and the addition of the SDM properties, with a 100% occupancy rate in March 2010 will provide stable cash flows.

Finally, Partners REIT will continue to monitor both the economy and real estate markets with a view to ensuring adequate access to new equity and debt to enable the REIT to meet its existing operational requirements and maximize opportunities that may become available. Management also believes that it is essential to keep pace with changes in the retail environment and ongoing challenges presented by the global recession.