Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three months ended March 31, 2014 and 2013

PARTNERS REAL ESTATE INVESTMENT TRUST
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For the three months ended March 31, 2014 and 2013

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

As at		March 31, 2014		December 31, 2013
ASSETS				
Non-current assets				
Income producing properties (Note 3)	$	586,817,919	$	588,391,005
		586,817,919		588,391,005
Current assets				
Other assets (Note 4)		5,442,701		4,514,391
Accounts receivable (Note 5)		3,603,845		2,722,641
		9,046,546		7,237,032
	$	595,864,465	$	595,628,037
LIABILITIES				
Non-current liabilities				
Mortgages payable (Note 6)	$	247,601,876	$	250,046,544
Convertible debentures (Note 7)		82,633,489		82,352,601
Credit facilities (Note 8)		36,132,750		30,795,803
		366,368,115		363,194,948
Current liabilities				
Mortgages payable (Note 6)		34,202,102		34,104,016
Accounts payable and other liabilities		12,218,820		11,378,767
Distributions payable		1,096,026		1,094,156
Bank indebtedness		506,023		134,868
		48,022,971		46,711,807
		414,391,086		409,906,755
Exchangeable LP units (Note 9)		837,800		842,625
		415,228,886		410,749,380
UNITHOLDERS' EQUITY		180,635,579		184,878,657
	$	595,864,465	$	595,628,037

Subsequent Events (Note 22)

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

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

	Three months ended March 31, 2014	2013
Revenues from income producing properties (Note 10)	**$ 15,167,896**	$ 13,181,564
Property operating expenses	**(2,270,785)**	(2,254,308)
Realty taxes	**(3,237,404)**	(2,659,578)
Property management fees	**(265,324)**	(222,169)
	9,394,383	8,045,509
Other expenses:		
Financing costs	**5,131,531**	3,708,681
General and administrative expenses	**933,506**	705,710
Other transaction costs (Note 11)	**2,720,069**	-
	8,785,106	4,414,391
Income before fair value gains (losses)	**609,277**	3,631,118
Fair value gains (losses) (Note 12)	**(1,921,463)**	4,466,547
Net income (loss) and comprehensive income (loss)	**$ (1,312,186)**	$ 8,097,665
EARNINGS (LOSS) PER UNIT (Note 13)		
Basic and diluted	**$ (0.05)**	$ 0.32

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Changes in Unitholders' Equity
unaudited (Cdn $)

	Three months ended March 31, 2014	2013
Trust Units (Note 14)		
BALANCE, BEGINNING OF PERIOD	**$ 194,991,352**	$ 168,392,882
Issuance of units for exchangeable LP units, net of costs (Note 9)	**54,200**	-
Issuance of units under distribution reinvestment plan, net of costs	**278,121**	232,405
Issuance of units under alternate compensation plan (Note 16)	**-**	17,500
Issuance of units under public offering, net of costs	**-**	24,517,521
BALANCE, END OF PERIOD	**195,323,673**	193,160,308
Contributed Surplus		
BALANCE, BEGINNING OF PERIOD	**565,080**	565,080
BALANCE, END OF PERIOD	**565,080**	565,080
Accumulated Other Comprehensive Income (Loss)		
BALANCE, BEGINNING OF PERIOD	**(10,677,775)**	1,106,690
Net income (loss) and comprehensive income (loss)	**(1,312,186)**	8,097,665
Distributions to unitholders (Note 14)	**(3,263,213)**	(4,123,020)
BALANCE, END OF PERIOD	**(15,253,174)**	5,081,335
TOTAL UNITHOLDERS' EQUITY	**$ 180,635,579**	$ 198,806,723
DISTRIBUTIONS PER UNIT	**$ 0.13**	$ 0.16

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Cash Flows

unaudited (Cdn $)

	Three months ended March 31, 2014	2013
OPERATING ACTIVITIES		
Net income (loss) and comprehensive income (loss)	**$ (1,312,186)**	$ 8,097,665
Adjusted for non-cash items:		
Fair value (gains) losses (Note 12)	**1,921,463**	(4,466,547)
Employee options costs	**-**	10,000
Alternate compensation plan costs	**-**	17,500
Straight-line rent	**(256,346)**	(646,133)
Amortization of tenant incentives and direct leasing costs	**165,111**	92,628
Amortization of deferred financing costs	**408,154**	237,646
Market interest rate adjustment on mortgages	**(261,977)**	(202,578)
Interest accretion expense	**102,010**	-
Net change in working capital (Note 15)	**(911,409)**	(11,269,995)
Cash flow used in operating activities	**(145,180)**	(8,129,814)
FINANCING ACTIVITIES		
Principal repayments on mortgages	**(2,202,762)**	(1,538,137)
Proceeds from debenture issuance	**-**	23,000,000
Cost to issue debentures	**(15,450)**	(971,545)
Drawdowns on credit facilities	**5,294,095**	26,000,000
Repayments of credit facilities	**-**	(33,500,000)
Financing fees on credit facilities	**-**	(87,570)
Proceeds from public offering	**-**	25,900,875
Costs to issue units (Note 14)	**(2,625)**	(1,384,944)
Distributions to unitholders	**(2,982,466)**	(3,888,897)
Cash flow provided by financing activities	**90,792**	33,529,782
INVESTING ACTIVITIES		
Acquisitions of income producing properties, net of non-cash transactions	**(51,178)**	(26,536,411)
Improvements to income producing properties	**(185,662)**	(203,610)
Expenditures on tenant incentives and direct leasing costs	**(79,927)**	(348,883)
Net proceeds from repayment of note receivable	**-**	3,994,054
Cash flow used in investing activities	**(316,767)**	(23,094,850)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	**(371,155)**	2,305,118
CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD	**(134,868)**	1,853,630
CASH (BANK INDEBTEDNESS), END OF PERIOD	**$ (506,023)**	$ 4,158,748

Supplemental cash flow information (Note 15)

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

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on April 8, 2013. The address of its registered office and principal place of business is 158 Dunlop Street East, Suite 101, Barrie, Ontario, L4M 1B1. The principal business activity of Partners REIT is acquiring, developing and operating commercial retail properties. The units of the REIT are listed on the Toronto Stock Exchange as of April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

These condensed consolidated financial statements have been prepared to comply with International Accounting Standard 34 *Interim Financial Statements.* Selected explanatory notes are included to explain significant events and transactions that have occurred since December 31, 2013. These condensed consolidated financial statements do not contain all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual reporting purposes and should be read in conjunction with the REIT's consolidated financial statements as at and for the year ended December 31, 2013.

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on May 15, 2014.

(b) Basis of presentation

The condensed consolidated financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The condensed consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of income producing properties and certain financial instruments at fair value.

(c) Significant accounting policies

Except as described below, these condensed consolidated financial statements follow the same accounting policies and methods of application as the consolidated financial statements as at and for the year ended December 31, 2013. The following changes in accounting policies are also expected to be reflected in the REIT's consolidated financial statements as at and for the year ended December 31, 2014.

(d) Changes in accounting policies

The REIT has applied, for the first time, new accounting policies due to the adoption of new standards and amendments to existing standards. The nature and impact of the new standards and amendments are described below:

i. IFRIC 21. Levies

IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21. The standard has no impact on the REIT's consolidated financial statements.

3. INCOME PRODUCING PROPERTIES

As at		**March 31, 2014**		December 31, 2013
Balance, beginning of year	**$**	**588,391,005**	$	465,727,634
Acquisitions of income producing properties		**51,178**		120,167,628
Improvements to income producing properties		**185,662**		6,652,911
Expenditures on tenant incentives and direct leasing costs		**79,927**		1,070,725
Amortization of tenant incentives and direct leasing costs		**(165,111)**		(502,072)
Recognition of straight-line rent		**256,346**		1,968,009
Fair value gains (losses)		**(1,981,088)**		(6,693,830)
Balance, end of period	**$**	**586,817,919**	$	588,391,005

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

For the period ended March 31, 2014 the fair value of the REIT’s income producing property portfolio was determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

At December 31, 2013, external appraisals were obtained for thirteen of the REIT’s properties with an aggregate fair value of $185.7 million, representing 31.6% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs. The value of the remainder of the REIT’s income producing property portfolio is determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

The external valuation of the income producing properties utilized the “Direct Capitalization” method. This method applies the capitalization rate to stabilized net operating income. The resulting stabilized value is adjusted for factors including lost revenues and recoveries on vacant units; anticipated inducement and leasing commission costs of vacant units; and the present value of capital expenditures. Fair values are most sensitive to change in capitalization rates.

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

As at	**March 31, 2014**	December 31, 2013
Capitalization rates		
Maximum	**8.25%**	8.25%
Minimum	**6.00%**	6.00%
Weighted Average	**6.49%**	6.47%

At March 31, 2014, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $41.7 million (December 31, 2013 - $42.0 million) and a 0.50% decrease in capitalization rates would increase fair value by $48.7 million (December 31, 2013 - $49.0 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at March 31, 2014, income producing properties included $4.9 million (December 31, 2013 - $4.6 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

4. OTHER ASSETS

The major components of other assets are as follows:

As at		**March 31, 2014**		December 31, 2013
Prepaid realty taxes and insurance	**$**	**1,203,152**	$	927,715
Restricted cash - amounts held in escrow		**2,510,410**		2,638,377
Deferred acquisition costs		**1,012,893**		155,518
Prepaid expenses and other		**716,246**		792,781
	$	**5,442,701**	$	4,514,391

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

Deposits on acquisitions include first and second deposits made on income producing properties which have not closed as of the date of these condensed consolidated financial statements. On the date of closing the deposited amount will be deducted from the funds due on closing, or returned with interest if the REIT does not complete the acquisition.

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

5. ACCOUNTS RECEIVABLE

As at		**March 31, 2014**		December 31, 2013
Rents receivable	**$**	**1,238,126**	$	1,261,870
Unbilled recoveries and other receivables		**2,738,389**		1,731,423
		3,976,515		2,993,293
Allowance for doubtful accounts		**(372,670)**		(270,652)
	$	**3,603,845**	$	2,722,641

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis.

See Note 20 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

6. MORTGAGES PAYABLE

As at		March 31, 2014		December 31, 2013
Mortgages payable	$	**280,022,382**	$	282,225,144
Unamortized above market interest rate adjustments		**3,248,320**		3,510,297
Unamortized commitment and other fees		**(1,466,724)**		(1,584,881)
	$	**281,803,978**	$	284,150,560
Non-current	$	**247,601,876**	$	250,046,544
Current		**34,202,102**		34,104,016
	$	**281,803,978**	$	284,150,560

Scheduled repayments of secured debt are as follows:

		Principal instalments		Principal maturing		Total
2014	$	6,468,871	$	24,870,435	$	31,339,306
2015		8,142,036		32,267,408		40,409,444
2016		7,139,252		28,376,013		35,515,265
2017		5,152,734		81,111,316		86,264,050
2018		2,407,464		35,029,628		37,437,092
Thereafter		6,397,377		42,659,848		49,057,225
Contractual obligations	$	35,707,734	$	244,314,648	$	280,022,382

Mortgages payable are secured by the income producing properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 2.43% and 6.02% per annum (December 31, 2013 – 2.43% and 6.02%) and contractual rates ranging between 2.40% and 6.70% (December 31, 2013 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.34% per annum (December 31, 2013 – 4.34%). The total carrying value of the properties pledged as security is $521.3 million (December 31, 2013 - $522.8 million).

7. CONVERTIBLE DEBENTURES

As at		**March 31, 2014**		December 31, 2013
8.0% Convertible debenture	**$**	**28,440,077**	$	28,395,933
6.0% Convertible debenture		**34,146,059**		34,118,941
5.5% Convertible debenture		**22,880,797**		22,872,867
Debentures, excluding convertible feature		**85,466,933**		85,387,741
Fair value of convertible features at issuance		**1,460,000**		1,460,000
Accumulated fair value (gain) loss on convertible feature		**(1,460,000)**		(1,430,000)
Convertible feature		**-**		30,000
Issue costs		**(4,914,114)**		(4,898,664)
Accumulated amortization of issue costs		**2,080,670**		1,833,524
Issue costs, net		**(2,833,444)**		(3,065,140)
	$	**82,633,489**	$	82,352,601

In March, 2011, the REIT issued $28,750,000 of 8.0% convertible unsecured subordinated debentures (the “8.0% convertible debentures”) due March 31, 2016. The 8.0% convertible debentures are convertible into REIT units at $8.80 per unit at the holder’s option at any time on or after March 31, 2014. On or after March 31, 2014 and prior to March 31, 2015, the 8.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT’s units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2015, the 8.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 8.0% convertible debentures as at March 31, 2014 is nil (December 31, 2013 - $20,000).

In September, 2012, the REIT issued $34,500,000 of 6.0% convertible unsecured subordinated debentures (the “6.0% convertible debentures”) due September 30, 2017. The 6.0% convertible debentures are convertible into REIT units at $10.35 per unit at the holder’s option at any time on or after September 30, 2015. On or after September 30, 2015 and prior to September 30, 2016, the 6.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT’s units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2016, the 6.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 6.0% convertible debentures as at March 31, 2014 is nil (December 31, 2013 - $10,000).

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

8. CREDIT FACILITIES

As at		**March 31, 2014**		December 31, 2013
Credit facilities	**$**	**36,294,095**	$	31,000,000
Issue costs		**239,074**		238,975
Accumulated amortization of issue costs		**(77,729)**		(34,778)
Issue costs, net		**161,345**		204,197
		36,132,750		30,795,803
Non-current	**$**	**36,132,750**	$	30,795,803
Current		**-**		-
	$	**36,132,750**	$	30,795,803

The REIT's revolving credit facility (the "Credit Facility) has a formula-based current maximum credit limit of $40.0 million, expandable up to $60 million with the securitization of additional unencumbered properties, and bears interest at the bank's prime rate (3.0% as at March 31, 2014) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 2.25% per annum.

As at March 31, 2014, the Credit Facility was secured by the King George Square, Crossing Bridge Square, Centre Village Shopping Centre, Elgar Place and Centuria Urban Village properties with a formula-based amount available under the facility of $38.4 million (December 31, 2013 - $38.7 million). The Credit Facility matures in March 2015 and is renewable annually thereafter. The carrying value of properties pledged as security is $62.5 million (December 31, 2013 - $62.6 million).

9. EXCHANGEABLE LP UNITS

Exchangeable LP units represents 147,500 units (December 31, 2013 – 157,500 units) of 137th Avenue LP, a wholly owned subsidiary, issued to the participating third party vendor in exchange for a property acquired by 137th Avenue LP. The units are exchangeable on a one-for-one basis, at the option of the holder, into units of the REIT. During the period ended March 31, 2014 the REIT issued 10,000 REIT units in exchange for the same number of exchangeable LP units.

The exchangeable LP units are measured at fair value using the quoted market price of the underlying REIT units.

The holder of the exchangeable LP units is entitled to receive distributions on a per unit basis equal to the amount that is paid to the holders of REIT units. Under IFRS, these distributions are considered interest expense and are included in financing costs in the condensed consolidated statements of comprehensive income.

10. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the period ended March 31, 2014 were $15.2 million (2013 - $13.2 million). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the period ended March 31, 2014 of $4.8 million (2013 - $4.4 million), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

As at March 31, 2014, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 38,419,753	$ 117,092,570	$ 107,805,128

11. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Three months ended March 31, 2014	2013
Asset management contract reimbursement (Note 21)	**$ 1,500,000**	$ -
Internalization cost reimbursements (Note 21)	**432,947**	-
Internalization legal and other fees	**748,857**	-
Board transition	**34,444**	-
Abandoned acquisition costs	**3,821**	-
Total other transaction costs	**$ 2,720,069**	$ -

12. FAIR VALUE GAINS (LOSSES)

The components of fair value gains are as follows:

	Three months ended March 31, 2014	2013
Income producing properties	**$ (1,981,088)**	$ 4,205,956
Financial liabilities designated as FVTPL		
Deferred unit-based compensation	**79,000**	11,000
Convertible debentures	**30,000**	269,716
Exchangeable LP units	**(49,375)**	(20,125)
Total fair value gains (losses)	**$ (1,921,463)**	$ 4,466,547

13. EARNINGS PER UNIT

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

		Three months ended March 31,		
		2014		2013
Numerator				
Net income (loss) and comprehensive income (loss) - basic	**$**	**(1,312,186)**	$	8,097,665
Contribution from dilutive instrument		**-**		(1,000)
Net income (loss) and comprehensive income (loss) - diluted	**$**	**(1,312,186)**	$	8,096,665
Denominator				
Weighted average units outstanding - basic		**26,023,936**		25,352,436
Dilutive convertible units		**-**		11,379
Weighted average units outstanding - diluted[(1)]		**26,023,936**		25,363,815

(1) The calculation of diluted per unit amounts for the three months ended March 31, 2014 and 2013 exclude convertible units when their inclusion is anti-dilutive.

Earnings (loss) per unit - basic and diluted	**$**	**(0.05)**	$	0.32

14. UNITHOLDERS' EQUITY

(a) Distributions

The REIT currently makes monthly cash distributions to unitholders in an amount of $0.04167 per unit, representing an annualized distribution of $0.50 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Board of Trustees (the "Trustees"). The REIT's Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the REIT's Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act.

(b) Distribution reinvestment plan

The REIT has a Distribution Reinvestment and Optional Unit Purchase Plan ("the Plan") to enable Canadian resident unitholders to acquire additional units of the REIT:

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

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

Units issued in connection with the Plan are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 5% of each cash distribution.

At March 31, 2014, the REIT has 65,645 units remaining in its reserve for issuance of units under the Plan. The REIT will increase the unit reserve as required and with approval from the TSX.

(c) Outstanding units

As at			March 31, 2014			December 31, 2013
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of period	**25,988,800**	**$**	**194,991,352**	22,310,533	$	168,392,882
Units issued:						
Distribution reinvestment plan	**50,758**		**280,746**	174,711		1,196,547
Exchangeable LP units (Note 9)	**10,000**		**54,200**	130,000		922,000
Alternate compenation plan	**-**		**-**	9,806		64,900
Public offerings	**-**		**-**	3,363,750		25,900,875
Unit issue costs	**-**		**(2,625)**	-		(1,485,852)
	26,049,558	**$**	**195,323,673**	25,988,800	$	194,991,352

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

		Three months ended March 31,		
		2014		2013
Supplemental				
Interest paid	**$**	**5,917,390**	$	4,693,906
Net change in working capital				
Net change in accounts receivable	**$**	**(881,204)**	$	(1,202,367)
Net change in other assets		**(928,310)**		(7,207,218)
Net change in accounts payable and other liabilities		**896,235**		(3,042,458)
Net change in distributions payable		**1,870**		182,048
	$	**(911,409)**	$	(11,269,995)

16. UNIT-BASED COMPENSATION PLANS

(a) *Incentive unit option plan*

The REIT's incentive unit option plan provides that the maximum number of units which may be reserved and set aside for issue under the incentive unit option plan shall not exceed 10% of the issued and outstanding units at the time that the options were granted (on a non-diluted basis). Options issued by the REIT vest evenly over three years and expire five years after the grant date.

During the period ended March 31, 2014 all outstanding options were cancelled.

(b) Alternate compensation plan ("ACP")

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

The issue price of the units under the ACP is the closing price of the units on the market on the last trading date preceding the date of issuance to the Trustees. If there is no trading on that date, the issue price is the closing price on the next previous day on which trading took place preceding the date of issuance to the Trustees or such other amount as determined by the Board and permitted by the TSX upon which the units are from time to time listed for trading and any other applicable regulatory authority.

The ACP became effective April 13, 2012. For the period ended March 31, 2014, there were no units issued under the ACP.

17. INCOME TAXES

One of the REIT's corporate entities, Charter Realty Holdings Ltd. (the "Company") does not have current taxes payable because it has a sufficient non-capital loss carry-forward balance from previous years to apply against any taxable income in the current year. All of the other corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable. The REIT also has a partnership contained within the structure, 137th Ave LP (the "LP"). For Canadian tax purposes, this entity is a flow-through entity and any income or loss of the partnership is allocated to its partners (in this case, the REIT and 137th Avenue GP Inc., a wholly-owned incorporated subsidiary of the REIT). As previously discussed, the REIT expects to distribute all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, no provision for Canadian income tax payable has been made.

18. CAPITAL MANAGEMENT

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

The real estate industry is capital intensive by nature. As a result, debt capital is a very important aspect in managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Part of the REIT's objectives in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. As well, given the importance of debt capital to real estate entities, the REIT monitors its debt-to-gross book value ratio; a ratio that has become a common industry metric reviewed by analysts, unitholders and others within the industry. The REIT does not have a specific debt-to-gross book value threshold imposed on it in its Declaration of Trust; however the REIT's bank credit facility imposes a restriction on the REIT's debt-to-gross book value ratio, at a maximum of 75%.

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

At March 31, 2014, the REIT is in compliance with its debt-to-gross book value ratio at 67.0% (December 31, 2013 – 66.7%), which is calculated as follows:

As at		March 31, 2014		December 31, 2013
Debt				
Mortgage principal	**$**	**280,022,382**	$	282,225,144
Debentures, excluding fair value of convertible feature		**85,466,933**		85,387,741
Credit facilities		**36,294,095**		31,000,000
	$	**401,783,410**	$	398,612,885
Gross Book Value of Assets				
Original cost of income producing properties [(2)]	**$**	**586,834,205**	$	585,677,396
Book value of all other assets		**9,046,546**		7,237,032
Deferred financing fees		**4,461,513**		4,854,218
	$	**600,342,264**	$	597,768,646
Debt-to-Gross Book Value		**66.9%**		66.7%
Debt-to-Gross Book Value Excluding Debentures		**52.7%**		52.4%

[(1)] *Debt capital refers to secured debt, debenture and bank credit facility excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.*

[(2)] *Original cost of income producing properties represents the historical costs incurred to acquire the REIT's properties.*

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(a) Current assets and liabilities

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

(b) Mortgages payable

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 3.17% and 4.56% that reflect current market conditions for instruments of similar term and risk. The fair value of the secured debt is approximately $285.1 million at March 31, 2013 (December 31, 2013 - $286.7 million).

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

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

The fair value hierarchy of financial instruments measured at fair value is as follows:

Period ended March 31, 2014	Level 1	Level 2	Level 3
Income producing properties	$ -	$ -	$ 586,817,919
Exchangeable LP units	-	837,800	-
Total	$ -	$ 837,800	$ 586,817,919

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the period ended March 31, 2014 there were no transfers between the hierarchy levels.

20. RISK MANAGEMENT

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

(a) *Interest rate risk*

The REIT is exposed to interest rate risk when funds are drawn under the Credit Facility which has a floating rate of interest. An increase in interest rates would increase the interest cost of the REIT's Credit Facility having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding balance of the Credit Facility at March 31, 2014, a 1% increase or decrease in the prime rate would have an impact of $362,941 on the REIT's annual interest expense (December 31, 2013 – $310,000).

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

(b) *Credit risk*

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at March 31, 2014 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants. Refer to Note 5 for details of accounts receivable.

(c) *Liquidity risk*

Liquidity risk arises from the possibility of not having sufficient debt and equity capital available to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT's Credit Facility. Debt repayment obligations (see Notes 5 and 6) 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 Credit Facility to fund the equity portion of property acquisitions.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing or cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT attempts to mitigate its liquidity risk by staggering the maturities of its debt. As well, the REIT's distributions are made at the discretion of the REIT's Trustees. Finally, the REIT does not enter into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisition.

The following table shows the contractual cash flows (including principal and interest) on all of the REIT's non-derivative financial liabilities:

	2014	2015	2016	2017	2018	Thereafter
Mortgages payable						
Interest	$ 9,505,630	$ 10,931,731	$ 8,670,233	$ 5,258,219	$ 2,299,005	$ 5,455,569
Principal payments	6,468,871	8,142,036	7,139,252	5,152,734	2,407,464	6,397,377
Balances due on maturity	24,870,435	32,267,408	28,376,013	81,111,316	35,029,628	42,659,848
Debentures						
Interest	5,635,000	5,635,000	3,910,000	2,817,500	316,250	-
Balances due on maturity	-	-	28,750,000	34,500,000	23,000,000	-
Credit facilties						
Interest	1,101,488	-	-	-		-
Balances due on maturity	-	36,300,000	-	-		-
Accounts and distributions payable						
and other liabilities	13,314,846	-	-	-	-	-
Total	$ 60,896,270	$ 93,276,175	$ 76,845,498	$ 128,839,769	$ 63,052,347	$ 54,512,794

(d) Concentration risk

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $5.8 million in annualized base rents, or 14.7% of the REIT's total annualized base rental revenue.

21. RELATED PARTY TRANSACTIONS

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

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

The REIT previously entered into related party transactions with IGW Public LP ("IGW Public"), and its subsidiary, LAPP Global Asset Management Corp. ("LAPP"), which were the REIT's major unitholder and asset manager, respectively. Effective November 28, 2013, IGW Public disposed of its holdings of REIT units to McCowan and Associates ("McCowan") and effective December 25, 2013, McCowan purchased LAPP's interest in the management agreement with the REIT as noted below.

(a) Management agreement

Effective December 25, 2013, McCowan purchased the REIT's management contract for $1.5 million from LAPP. Under the management contract, McCowan was responsible to arrange for the provision of all necessary management services to the REIT by competent employees, including, as needed, by seconding employees of the former asset manager. On February 15, 2014, upon approval of the internalization plan by the Trustees, McCowan terminated the management agreement and received reimbursement by the REIT of the $1.5 million purchase price plus management fees outstanding. Upon internalization of management, Ron McCowan (shareholder of McCowan) became interim CEO of the REIT.

Pursuant to the management agreement between the REIT and McCowan, McCowan provided 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” for any acquired real property. “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. In accordance with the terms of the management agreement, McCowan was also reimbursed for costs incurred which were in excess of the management fees earned.

Prior to internalization of management on February 15, 2014, the REIT incurred the following fees under the term of the management agreement:

				Period ended
		March 31, 2014		March 31, 2013
Acquisition fees	**$**	**-**	$	130,430
Asset management fees		**282,272**		349,882
Property management and accounting fees		**95,342**		113,958
Internalization cost reimbursements		**432,947**		-
	$	**810,561**	$	594,270

(b) Employee services agreement

On February 14, 2014 the REIT entered into an employee services agreement with McCowan which permits certain employees of the REIT to provide specified property, facility management, administrative and support services on an as-needed basis to McCowan. The initial term of the agreement is for one year with an option for renewal for a further one year term. The agreement requires that McCowan reimburse the REIT a formula based amount using the square footage of McCowan owned properties that are receiving the services of REIT employees. The REIT understands that McCowan shares a portion of its costs for some of these employees under a separate arrangement, whereby from time to time some of these employees provide services on properties owned or controlled by Ms. Laura Philps.

(c) Related party balances

Amounts owed from the REIT to related parties at March 31, 2014 are $86,582 (December 31, 2013 - $15,919). This amount has been classified in accounts payable and other liabilities, and consists of accrued trustee payroll and accrued rent.

Amounts owed to the REIT from related parties at March 31, 2014 are $157,000 (December 31, 2013 – $40,038). This amount has been classified in accounts receivable, and consists of employee payroll reimbursements.

22. SUBSEQUENT EVENTS

(a) Acquisition of three Ontario properties

On April 2, 2014, the REIT provided an update on its previously announced acquisition of retail centres in Ontario. As per the new agreement with Holyrood Holding Limited (the “Vendor”), the REIT agreed to pay immediate consideration of approximately $90,100,000 for three properties located in Ontario (the “Holyrood Properties”). This amount includes $83,200,000 to satisfy the purchase of the Properties, with the balance of $6,900,000 as a promissory note bearing annualized interest at 5.4%. The purchase price is to be satisfied by (i) the assumption of certain debt secured by the Holyrood Properties as described below, (ii) the issuance of 1,188,188 units of the REIT ("REIT Units"), issued at an effective price of $5.80 per REIT Unit, and (iii) the issuance of 4,813,517 class B units (the "Class B Units") of a limited partnership to be formed by the REIT for the purposes of completing the acquisition, at an effective price of $5.80 per Class B Unit. The Class B Units are exchangeable for REIT Units on a one-for-one basis and will be the economic equivalent of REIT Units and carry the right to vote at the REIT level. The Holyrood Properties consist of a total of approximately 612,000 square feet of gross leasable area of which 462,027 square feet are currently leased. The purchase price paid for the Holyrood Properties relates only to fully leased units and six head leases.

Pursuant to the agreement with the Vendor, the REIT and the Vendor agreed to enter into a development agreement pursuant to which the Vendor, as developer, will be granted the right to perform development and leasing activities in respect of certain vacant space and undeveloped space located on the Holyrood Properties. The REIT agreed to pay the Vendor (i) $25,000,000, as a deferred purchase price which is fully contingent on the Vendor entering into qualified leases in respect of certain vacant space located on the Holyrood Properties (the "Contingent Deferred Payment"), and (ii) earn-out payments contingent on the Vendor entering into qualified leases in respect of certain undeveloped space located on the Holyrood Properties (the "Earn-Out Payments"). Both the Contingent Deferred Payments and Earn-Out Payments will be calculated by dividing the amount that the qualified lease increases the REIT's net operating income (on a 12 month basis) by a capitalization rate of 6.6%. The REIT has discretion to make payment of any Contingent Deferred Payment or Earn-Out Payment by way of (i) cash, (ii) the offsetting of certain debt of the Vendor, (iii) the issuance of up to 506,634 Class B Units at an effective price of $5.95, (iv) requiring the Vendor to provide a vendor take-back mortgage for 60% of the amount payable, or (v) a combination thereof.

On April 23, 2014 the REIT announced that it had closed its acquisition of the Holyrood Properties under the terms described above (the "Acquisition"). Immediately following the close of the Acquisition, given the effect to the issuance of the REIT Units and Class B Units, the Vendor held approximately 18.7% of the REIT's outstanding units, calculated on a fully diluted basis.

Pursuant to the terms of the Acquisition, the REIT has entered into a head lease agreement with the Vendor in which the Vendor guarantees to make rental payments in respect of a total gross leasable area of 105,239 square feet at London Crossroads Centre and Hamilton City Centre. The Vendor has commenced with the specific improvements required under replacement tenants' leases. The term of each head lease will expire once the REIT approved replacement tenant is in occupation and paying rent.

Pursuant to the terms of the Acquisition, the REIT has entered into a works agreement with the Vendor in which the Vendor at its sole cost and expense undertakes the repair and replacement of non-recoverable capital expenditures at London Crossroads Centre and Hamilton City Centre. Such investments are material in nature and are in addition to any expenditure related to the cost of leasing transactions and development activities.

At closing the REIT entered into new mortgages with the previous lenders at a weighted average interest rate of 4.8% to replace the previous $55.2 million in mortgages that were on the properties. All such mortgages mature within one year of the transaction's closing. The Vendor will pay interest rate normalization adjustments of $524,000 over a one year period. Ms. Laura Philp is a guarantor of each of these mortgages and the Vendor is a guarantor on the loan secured by the London Crossroads Centre. In addition, in connection with the transaction the Vendor agreed to provide an unlimited environmental indemnification to the lenders in respect of the Hamilton City Centre property.

Prior to completion of the Acquisition Mr. Ron McCowan and Ms. Laura Philp were guarantors of a loan secured by the Hamilton City Centre property. In connection with the completion of the Acquisitions the original loan was repaid and the lender advanced a new loan to the REIT in respect of which Ms. Philp is a guarantor and Mr. McCowan is not.

On May 4, 2014 the REIT announced that it had retained independent legal counsel and initiated an investigation into certain matters related to the Acquisition. Subsequent to closing the Acquisition, the Board announced that they had obtained material new information that persuaded it that Mr. Ron McCowan has a close business relationship with Ms. Laura Philp, sufficient that they should be considered as acting together under applicable regulation. The Board of Trustees indicated that had it previously been aware of the extent of the dealings between Mr. McCowan and Ms. Philp that it would have required the Acquisition be submitted to unitholders for their approval. In the circumstances, Partners REIT has asked the Vendor to agree to unwind the purchase of the Holyrood Properties. The REIT intends to return the Holyrood Properties and the Vendor's approximately 18.7% interest in the REIT would be cancelled. Completion of this reversal is subject to the parties executing definitive documentation, the receipt of third party consents and applicable regulatory approval.

On May 6, 2014, the Board of Trustees indicated that it was continuing to press the Vendor to unwind the Acquisition but that there could be no assurance this would take place due to the requirement for third party consents. The Board noted that a sale by the Vendor of its units in the REIT to an arm's length third party may also be a possibility.

On May 6, 2014 the REIT received a letter from the TSX, notifying the REIT that if the TSX had been made aware that Mr. McCowan had an interest in the Acquisition as a result of his relationship with Ms. Philp at the time the REIT had filed notice of the Acquisition, the TSX would have concluded that the Acquisition: (i) provided consideration to insiders in excess of 10% of the market capitalization of the REIT; and (ii) would materially affect control of the REIT, as such term is defined in the TSX Company Manual. The TSX further indicated that it would not have allowed the Acquisition to close without the approval of the holders of a majority of the voting units of the REIT, excluding votes attached to the securities held by Mr. McCowan and Ms. Philp together with their associates and affiliates (the "Requisite Shareholder Approval"). The TSX indicated that until the earlier of the Acquisition being unwound or the Requisite Shareholder Approval being obtained, TSX requires that the REIT enter into agreements or arrangements with the Vendor to reflect the following:

(i) suspension of the voting rights attached to the REIT Units and Class B Units held by the Vendor;

(ii) suspension of the feature of the Class B Units held by the Vendor whereby they can be exchanged for units of the REIT on a one-for-one basis;

(iii) suspension of the entitlement of the REIT Units and the Class B Units held by the Vendor to distributions of the REIT. For the distribution that has been declared on April 17, 2014 with a record date of April 30, 2014, the REIT is required to use best efforts not to effect such distribution on the REIT Units and Class B Units held by the Vendor; and

(iv) removal of the ability of the REIT Units held by the Vendor to participate in any rights or entitlements on the liquidation or winding up or similar transaction of the REIT.

The TSX further advised the REIT that it would not be approving any further transactions of the REIT until the Compliance and Disclosure department of the TSX has completed a review of the REIT and is satisfied that the business of the REIT can be conducted in compliance with the rules and regulations of the TSX, as well as the best interests of the REIT's security holders and the investing public. The TSX also confirmed that this matter has been logged as an incident of significant non-compliance and will be reported to the Ontario Securities Commission.

(b) *Changes to Board of Trustees*

On April 3, 2014 the REIT announced the appointments of Mr. Lindsay Weiss and Mr. Kevin VanAmburg as Trustees of the REIT. In conjunction with these appointments, the REIT also announced the departure of Mr. Allen Weinberg, a former Trustee of the REIT. On May 2, 2014 the REIT announced that Mr. Lindsay Weiss resigned from the Board of Trustees on April 30, 2014.

(c) *New Financing Commitment*

On April 30, 2014, Partners announced that it has received and accepted a financing commitment from a mortgage lender to secure $15 million of financing as a second mortgage loan on certain properties of the REIT located in Manitoba and Quebec.

The loan has a term of one year, with interest payable at the greater of (i) 10% per annum or (ii) the prime rate of interest, from time to time, plus 6% per annum. The REIT intends to use the proceeds of the loan to pay down existing revolving credit facilities and for general corporate purposes. The closing of this loan transaction occurred on May 12, 2014.

(d) *Management Changes*

On May 4, 2014 the Board of Trustees of the REIT announced that Mr. McCowan tendered his resignation as interim Chief Executive Officer. In addition, on May 4, 2014 the Board of Trustees announced that it had appointed Ms. Jane Domenico, the REIT's current Chief Operating Officer, as acting Chief Executive Officer while the Board continues its previously announced search for a permanent Chief Executive Officer.

(e) *Amendment to Employee Services Agreement*

On May 5, 2014 the REIT and McCowan amended the terms of the employee services agreement described in Note 21(b)(i) to reflect the fact that the majority of the employees that were previously subject to such agreement are now providing services separately to either McCowan or the REIT and are therefore employees of the applicable entity. The amended agreement continues to apply in respect of a small number of employees that continue to provide services to both entities for the time being.

(f) *Ontario Property Management Changes*

It was decided in January 2014 and announced publically on March 31, 2014 that property management in Ontario was to be fully internalized on April 30, 2014. The internalization was completed as planned. However, the internalization was in part facilitated by the Employee Sharing Agreement, between the REIT and McCowan. As a consequence of the May 5, 2014 amendment to the employee services agreement the REIT currently possesses insufficient operational resources to effectively carry out all required aspects of fully internalized property management. As such, the property management internalization is being unwound/reversed as soon as new contracts can be undertaken. It remains management's intent to continue with internalized property management in Ontario and elsewhere where practicable. The asset management agreement will remain internalized within the REIT.

(g) *Announcement of a Strategic Review and Extension of Unitholder Rights Plan*

On May 6, 2014 the Board of Trustees of the REIT announced that it has commenced a process to review strategic alternatives to maximize value for unitholders and that the Trustees are in the process of interviewing potential financial advisors and expect to engage one shortly. The Board also announced that it had extended the REIT's Unitholder Rights Plan, which would otherwise have expired in May 2014, to the REIT's annual general meeting at which point unitholders will vote to extend or discontinue the Plan. On May 13, 2014 the REIT announced that it has engaged National Bank Financial to serve as an independent financial advisor to the Board of Trustees.