PARTNERS REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE MONTHS ENDED MARCH 31, 2014 AND 2013

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

FORWARD-LOOKING INFORMATION ADVISORY

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

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

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

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

These forward-looking statements are made as of May 15, 2014 and disclosure of this material information is current to that date, unless otherwise noted.

PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") for the three months ended March 31, 2014, includes material information up to May 15, 2014. Financial data provided has been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar references are in Canadian dollars.

This MD&A is intended to provide readers with an assessment of the performance of Partners REIT for the three months ended March 31, 2014, as well as our financial position and future prospects. The MD&A should be read in conjunction with the REIT's condensed consolidated financial statements for the three months ended March 31, 2014 and 2013, the REIT's consolidated financial statements for the years ended December 31, 2013 and 2012 and the REIT's 2013 annual information form.

In our discussion of operating performance, we define net operating income ("NOI") as gross revenues from income producing properties less operating expenses (which excludes interest expense, general and administrative expenses, amortization, income taxes, and fair value gains or losses). We define funds from operations ("FFO") as net income before fair value gains or losses, amortization of leasing commissions ("LCs"), tenant inducements ("TIs") and deferred financing costs on mortgages and credit facilities, gains or losses from the sale of property, and certain other non-cash items and adjusted for any non-controlling interests in the foregoing. Adjusted funds from operations ("AFFO") is defined as funds from operations net of actual leasing commissions, tenant improvements and capital expenditures that maintain the current rental operations, amortization of deferred financing costs and straight-line rent. NOI is an important measure that we use to assess operating performance, and FFO is a widely-used measure in analyzing real estate. AFFO is typically a measure used to assess an entity's ability to pay distributions. We provide the components of net operating income on page 17, and a reconciliation of net income to funds from operations and adjusted funds from operations on page 18. NOI, FFO, and AFFO do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

BUSINESS OVERVIEW AND STRATEGIC DIRECTION

Partners REIT is an unincorporated, open-ended real estate investment trust. The REIT was formed pursuant to a Declaration of Trust initially dated March 27, 2007, and last amended and restated on April 8, 2013. The principal activity of Partners REIT is the acquisition, development and operation of commercial retail properties. The units of the REIT are listed on the Toronto Stock Exchange (the "TSX") as of April 3, 2012 and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol. The REIT is also listed on the OTC exchange in the United States trading under the symbol PTSRF.

Effective November 3, 2010, the name of Charter Real Estate Investment Trust was changed to Partners Real Estate Investment Trust. All references to "Partners Real Estate Investment Trust", "Partners REIT", the "REIT" and similar references in this MD&A refer to Charter Real Estate Investment Trust prior to the name change.

Partners REIT's focus is on the acquisition and management of a portfolio of high quality, geographically and economically diversified retail community and neighbourhood centres. These properties are primarily in the mid-market value range of $10 to $50 million, and are located in both primary and secondary markets throughout Canada.

Partners REIT's current property portfolio primarily 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 renewals, and management's active operation of the properties. The REIT believes it has created a base of retail assets that provides reliable and stable cash flow. The REIT continues to pursue opportunities that yield growth through lease renewals, redevelopment and/or development of assets. As at March 31, 2014, the REIT owned thirty-nine retail and mixed-use retail properties located in Ontario, Québec, Manitoba, Alberta, and British Columbia.

Management believes that Partners REIT's focus on retail centres with necessity-based anchor tenants provides the REIT with relative stability during economic downturns, while the long-term nature of leases and resulting security of revenues, as well as the use of long-term, low-interest debt, provide the REIT with a stable environment on which to focus on enhancing revenues from the portfolio.

Partners REIT's management is focused on enhancing returns to unitholders by actively managing the REIT's existing portfolio and generating continued growth from, among other things, base rents (including contractual escalations, renewals and new leasing activity), increasing the occupancy of the portfolio and the improvement of operational processes and recovery ratios. Management is likewise committed to ensuring a stable and sustainable payout ratio and is committed to the reduction of its debt-to-gross book value with the aim of increasing the REIT's long-term strategic flexibility.

Subsequent to the first quarter the REIT announced that it had commenced a process to review strategic alternatives to maximize value for unitholders. There are many potential outcomes of the strategic review process and there can be no guarantee that a transaction will take place.

OUTLOOK

Lease expiries in 2014 and 2015 are 8.4% and 10.1%, respectively, as of March 31, 2014. Management believes that there is strong demand for the majority of space, and that the expiries provide the REIT with a near-term opportunity to enhance the revenues generated by those properties.

The REIT has $57.1 million (20.1%) in mortgages maturing over the next two years which provides an opportunity to refinance this portion of the REIT's debt at current market rates, which management expects would result in a reduction to the REIT's financing costs.

As a result of the expected performance of Partners REIT's existing portfolio, as well as the reduction of the REIT's distribution per unit in November of 2013, management anticipates that the REIT's AFFO payout ratio will remain below 100% during 2014.

Access to the capital markets remains challenging, limiting the number of opportunities that meet the criteria of REIT's acquisition strategy. However, the REIT continues to actively explore potential opportunities in an effort to continue to grow the property portfolio on both a strategic and accretive basis.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

	Mar 31, 2014	Mar 31, 2013
Revenues from income producing properties	**$ 15,167,896**	$ 13,181,564
Net income (loss)	**(1,312,186)**	8,097,665
Net income (loss) per unit - basic	**(0.05)**	0.32
NOI [1]	**9,559,494**	8,155,011
NOI - same property [1]	**7,647,967**	8,099,544
FFO[1]	**3,512,896**	3,586,325
FFO per unit[1]	**0.13**	0.14
AFFO[1]	**3,649,015**	3,782,343
AFFO per unit[1]	**0.14**	0.15
Distributions[2]	**3,263,213**	4,123,020
Distributions per unit[2]	**0.13**	0.16
Distribution payout ratio[3]	**93% / 89%**	115% / 109%
Cash distributions[4]	**2,982,466**	3,888,897
Cash distributions per unit[4]	**0.11**	0.15
Cash distribution payout ratio[5]	**85% / 82%**	108% / 103%

As at	**Mar 31, 2014**	Dec 31, 2013	Mar 31, 2013
Total assets	**$ 595,864,465**	$ 595,628,037	$ 517,822,077
Total debt[6]	**401,783,410**	398,612,885	307,835,802
Total equity	**180,635,579**	184,878,657	198,806,723
Weighted average units outstanding - basic	**26,023,936**	25,731,319	25,352,436
Debt-to-gross book value including debentures[6]	**66.9%**	66.7%	60.9%
Debt-to-gross book value excluding debentures[6]	**52.7%**	52.4%	44.1%
Interest coverage ratio[7]	**2.01**	2.10	2.49
Debt service coverage ratio[7]	**1.34**	1.43	1.63
Weighted average interest rate[8]	**4.34%**	4.34%	4.48%
Portfolio occupancy	**96.4%**	96.4%	96.0%

(1) NOI, FFO and AFFO are non-IFRS financial measures widely used in the real estate industry. See "Part II – Performance Measurement" for further details and advisories.
(2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month. Distributions per unit exclude the 5% bonus units given to participants in the Distribution Reinvestment and Optional Unit Purchase Plan.
(3) Total distributions as a percentage of FFO/AFFO.
(4) Represents distributions on a cash basis, and as such, excludes the non-cash distributions of units issued under the Distribution Reinvestment and Optional Unit Purchase Plan.
(5) Cash distributions as a percentage of FFO/AFFO.
(6) See calculation under "Debt-to-Gross Book Value" in "Part IV – Results of Operations".
(7) Calculated on a rolling four-quarter basis. See definition under "Mortgages and Other Financing" in "Part IV – Results of Operations".
(8) Represents the weighted average effective interest rate for secured debt excluding debentures and credit facilities.
(9) Certain comparative figures have been reclassified to conform with the current year's presentation.

Partners REIT's revenue from income producing properties for the three months ended March 31, 2014 increased over the same period in 2013 by $2.0 million (15%). These increases were primarily due to the acquisition of six properties across British Columbia, Alberta, and Québec during 2013.

Net income for the three months ended March 31, 2014 decreased by $9.4 million (116%) when compared to the same period in 2013. This decline can be attributed to fair value losses on the income producing property portfolio compared to fair value gains recognized in the same prior year period, increases in other transaction costs of $2.7 million primarily related to the internalization of the REIT, increases in the financing costs as a result of the properties acquired during 2013, and increases in the general and administrative expenses, reflecting the REIT's asset base increase and one-time costs associated with internalization. These factors were partially offset by the increases in NOI as described below.

All property NOI for the three months ended March 31, 2014 increased over the same period in 2013 by $1.4 million (17%), primarily driven by the REIT's acquisition activities in 2013. Same property NOI, which removes the effect of the REIT's acquisitions, decreased by 6% for the three months ended March 31, 2014. This decrease was primarily due to the application of lower recovery rates for quarter end accruals as compared to the three months ended March 31, 2013.

FFO for the three months ended March 31, 2014 decreased by 2% due to increased general and administrative costs and financing costs partially offset by increases in all property NOI as discussed above. AFFO for the three months ended March 31, 2014 decreased by 4% compared to the same prior year period in 2013 for the same reasons at the FFO decrease, compounded by an increase in maintenance related capital expenditures on the REIT's properties.

Distributions per unit decreased to $0.13 compared to $0.16 per unit for the same prior year period. This reduction was the result of the REIT's trustees' decision to reduce the distribution in order to provide the REIT with additional financial flexibility. Distributions are made on a monthly basis to unitholders of record on the last trading day of the month, payable on or around the 15^{th} day of the following month.

The AFFO cash payout ratio for the three months ended March 31, 2014 was 82%, a decrease from 103% in the same period in 2013. This decrease was due to a decrease in cash distributions partially offset by lower AFFO. The decrease in cash distributions resulted from the reduction in monthly distributions that commenced in November 2013.

The REIT's total assets as at March 31, 2014 increased slightly over the balance at December 31, 2013. This increase was a result of an increase in working capital partially offset by fair value losses recognized on the REIT's property portfolio.

The REIT's total debt as at March 31, 2014 increased by $3.2 million, or 1%, over the balance at December 31, 2013. This increase can be attributed primarily to a draws on the REIT's Credit Facility exceeding regular monthly repayments on the REIT's mortgages.

Occupancy at March 31, 2014 remained unchanged compared to occupancy at December 31, 2013, and increased slightly to 96.4% compared to 96.0% at March 31, 2013.

REAL ESTATE PORTFOLIO

The REIT currently owns thirty-nine retail and mixed use retail properties in British Columbia, Alberta, Manitoba, Ontario and Québec as follows:

Property and location	Property type	Date built /redeveloped	Anchor and shadow anchor tenants	Retail (sq.ft.)[1]	Occupancy[2][3]	% of annualized base rental revenue[3]	Weighted average rent[4]
British Columbia:							
Evergreen Shopping Centre Sooke, British Columbia	Shopping Centre	1978/2010	Western Foods, Shoppers Drug Mart	72,151	95.6%	2.8%	$15.78
Centuria Urban Village Kelowna, British Columbia	Condominium Shopping Centre	2007	Nesters Market, Shoppers Drug Mart	32,625	100.0%	1.9%	$22.51
Washington Park Shopping Centre Courtenay, British Columbia	Retail Strip Centre	1992/1993	Great Canadian Superstore, TD Bank	32,594	91.1%	1.9%	$24.72
Mariner Square Shopping Centre Campbell River, British Columbia	Shopping Centre	2006/2007	Save-On Foods, London Drugs, Starbucks	100,257	98.9%	4.3%	$17.13
Alberta:							
Cobblestone Shopping Centre Grand Prairie, Alberta	Shopping Centre	2006/2007	Shoppers Drug Mart	42,980	100.0%	2.9%	$26.31
Manning Crossing Edmonton, Alberta	Retail Strip Centre	1993 - 1996	Safeway, RBC	64,528	94.4%	3.7%	$23.67
137th Ave. Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart	15,922	100.0%	0.7%	$17.84
Manitoba:							
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart, Medical Practitioners	21,005	100.0%	1.1%	$21.01
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	0.9%	$21.75
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	1.1%	$26.50
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,685	100.0%	0.8%	$19.00
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,780	100.0%	1.0%	$25.80
Ontario:							
Timmins West Power Centre Timmins, Ontario	Open-Air Retail Centre	2007 - 2009	Mark's Work Warehouse	43,774	100.0%	1.9%	$17.29
Grand Bend Towne Centre, Grand Bend, Ontario	Free Standing	2002	Shoppers Drug Mart	41,605	86.8%	1.5%	$16.62
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick, Best Buy, BMO	85,200	100.0%	3.9%	$18.04
Thunder Centre Thunder Bay, Ontario	Enclosed Mall	2004 - 2007	HBC, LCBO, Old Navy, Dollarama	168,087	99.4%	7.1%	$16.64
St. Clair Beach Towne Centre Tecumseh, Ontario	Retail Plaza	2004	Shoppers Drug Mart	40,088	94.8%	1.9%	$19.56
King George Square Brantford, Ontario	Retail Plaza	1988	Shoppers Drug Mart, Dollarama	66,983	83.4%	2.5%	$17.63
Crossing Bridge Square Stittsville, Ontario	Retail Plaza	1995	Farm Boy, McDonalads	45,913	100.0%	2.1%	$17.70
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	251,088	98.8%	8.1%	$12.85

Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,577	87.7%	3.0%	$12.31
Wellington Southdale London, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Landmark Theatres, Dollarama	86,695	100.0%	4.3%	$19.70
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	100.0%	2.2%	$12.10
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	100.0%	2.1%	$12.10
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	100.0%	1.7%	$12.10
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.4%	$3.54
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.1%	$1.49
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.1%	$2.47
Québec:							
Marcel Laurin Saint Laurent, Québec	Power Centre	2011	Metro Brunet Pharmacy	120,171	95.6%	5.1%	$17.47
Repentigny Shopping Centre Repentigny, Québec	Retail Strip Centre	1988/2009	Familiprix Dollarama	49,371	78.4%	1.6%	$16.03
Sorel Shopping Centre, Montréal, Québec	Shopping Centre	2009 - 2011	SAQ Tim Hortons	31,776	63.1%	1.2%	$23.13
Saint Remi Shopping Centre Montréal, Québec	Shopping Centre	2010 - 2012	IGA Uniprix SAQ	61,704	91.9%	2.5%	$17.34
Centre Village Shopping Centre Montréal, Québec	Shopping Cetnre	1977, 1991, 2001, 2010, 2012	Loblaws SAQ	96,633	97.0%	3.6%	$14.99
Elgar Place Montréal, Québec	Shopping Centre	1969, 1989	Couche Tard	10,120	85.9%	0.4%	$16.72
Plaza des Seigneurs Terrebonne, Québec	Retail Strip Centre	1998	SAQ Banque Nationale Uniprix	20,829	100.0%	1.1%	$20.64
Méga Centre Montréal, Québec	Community Power Centre	1973/1993, 1999, 2000, 2004	Walmart Brault & Martineau	277,048	100.0%	6.6%	$9.38
Place Desormeaux Longueuil, Québec	Regional Mall	1971/1998,2009, 2010	Walmart Super C	249,517	95.7%	7.3%	$11.98
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	115,295	98.4%	3.6%	$12.61
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,028	100.0%	1.0%	$24.00
Total				**2,716,951**	**96.4%**	**100%**	**$ 15.00**

Notes:

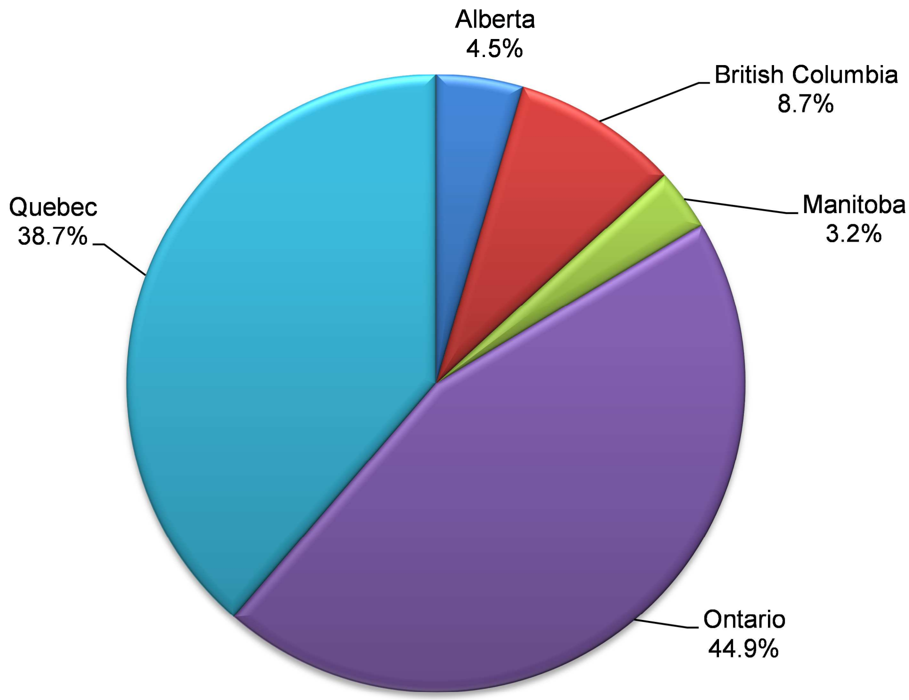
(1) Includes office space in mixed-use retail properties.

(2) Excluding storage space.

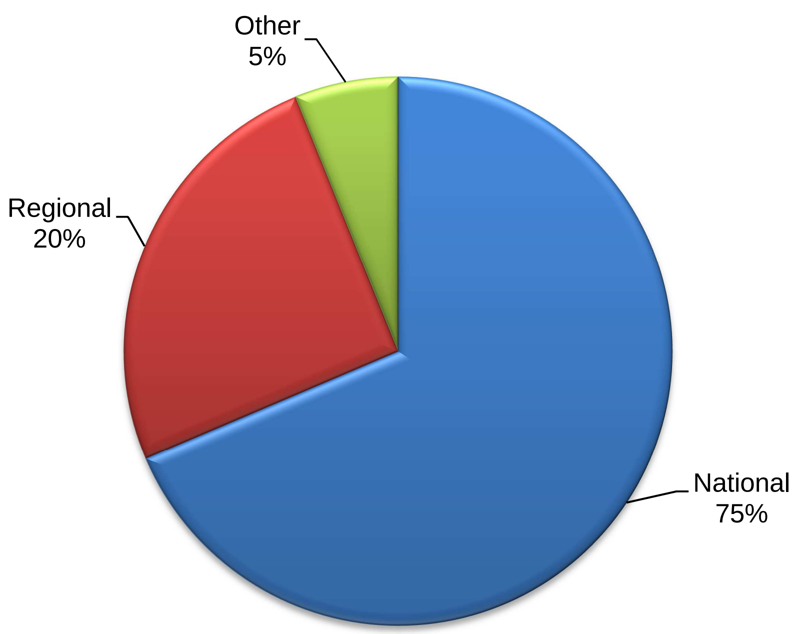
(3) Includes square footage of all material executed leases, regardless of occupancy date, and excludes square footage of all documented material lease terminations updated through March 31, 2014.

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

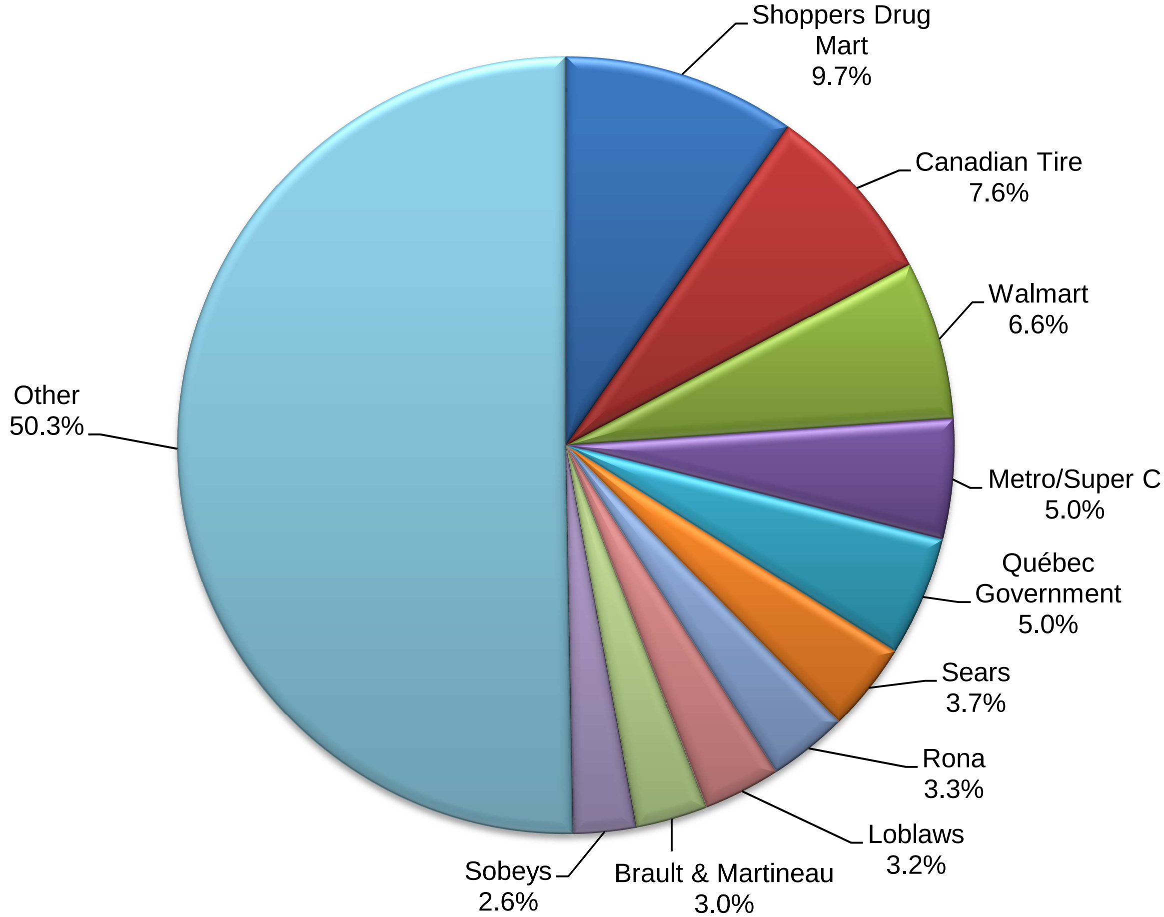
The geographic diversification of the portfolio by square footage is as follows:



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



The tenant mix of the REIT's portfolio as at March 31, 2014, including the REIT's ten largest tenants, is as follows:



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

Leasing Activity and Occupancy

The weighted average term to maturity of existing leases is approximately six years. The table below shows the lease expiration schedule of the properties as a percentage of total GLA for 2014 and beyond:

	(sq.ft.)	(%)
2014	229,486	8.4%
2015	273,999	10.1%
2016	327,744	12.1%
2017	201,356	7.4%
2018	180,561	6.6%
Thereafter	1,406,812	51.8%
Vacant	96,993	3.6%
Total	2,716,951	100.0%

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

Year		**Retail**
2014		10.52
2015		11.65
2016		13.20
2017		17.84
2018		18.06
Thereafter		16.00
Average	$	15.00
Weighted average remaining lease term (years)		**6.13**

Lease expiries for 2014, new leasing and renewals completed by the date of this MD&A are as follows:

Three months ended		31-Mar-14		30-Jun-14		30-Sep-14		31-Dec-14		**Total 2014**		Total 2013
Lease expiries[1]		68,651		55,699		15,296		186,325		**325,971**		176,232
Base rent per square foot[3]	$	11.37	$	19.14	$	21.66	$	7.71	**$**	**11.09**	$	15.83
Lease renewals - completed[1]		49,532		18,245		-		-		**67,777**		77,328
Base rent per square foot[3]	$	10.85	$	12.27	$	-	$	-	**$**	**10.71**	$	19.35
Leases - in progress[2]		8,214		-		-		-		**8,214**		68,044
Base rent per square foot[3]	$	16.15		-	$	-	$	-	**$**	**16.15**	$	11.68
New leasing[1]		9,166		-		-		-		**9,166**		12,320
Base rent per square foot[3]	$	15.66	$	-	$	-	$	-	**$**	**15.66**	$	15.68
Uncommitted vacancies[1]		3,340		-		-		-		**3,340**		18,540
Base rent per square foot[3]	$	15.00	$	-	$	-	$	-	**$**	**15.00**	$	14.88

(1) Excludes month-to-month tenants
(2) Includes tenants on overhold or month-to-month leases
(3) Weighted average

Of the leases that are set to expire during the year ended December 31, 2014, 75,991 square feet have been renewed or replaced with new leases with a further 9,166 square feet currently in the process of being renewed or committed to lease. The balance of 3,340 square feet, comprising one tenancy, will require new prospects.

Gross leasable area and occupancy of the REIT on a quarter by quarter basis over the last eight quarters is as follows:

Quarter Ended	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)
March 31, 2014	2,716,951	2,619,958	96.4%
December 31, 2013	2,716,328	2,619,855	96.4%
September 30, 2013	2,718,913	2,612,860	96.1%
June 30, 2013	2,712,868	2,603,432	96.0%
March 31, 2013	2,427,320	2,330,506	96.0%
December 31, 2012	2,341,176	2,264,428	96.7%
September 30, 2012	2,178,826	2,100,704	96.4%
June 30, 2012	2,175,809	2,046,798	94.1%
Average	2,498,524	2,399,818	96.0%

At March 31, 2014, the average occupancy of the REIT's properties was unchanged from December 31, 2013.

PART II – PERFORMANCE MEASUREMENT

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

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

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

Net Operating Income

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

Funds from Operations

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

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

Adjusted Funds from Operations

Adjusted funds from operations ("AFFO") is defined as funds from operations net of actual leasing commissions, tenant improvements, capital expenditures that maintain the current rental operations, amortization of deferred financing and straight-line rent. Management considers leasing activities and capital expenditures to be fundamental to the operating activities of the REIT in order to maintain the current level of rental operations, and is not a discretionary investment. The calculation of AFFO excludes those capital expenditures and leasing costs that relate to the generation of a new rental stream, such as commissions relating to leasing space to a new tenant or the development of a new retail pad for property expansion purposes.

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

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

Debt Service Coverage Ratio

Debt service coverage ratio (“DSCR”) is a measure used to determine if the REIT will be able to sustain its debt based on its current cash flow. DSCR is calculated by dividing the REIT’s EBITDA by the total annual interest and principal payments made on its debt portfolio. The DSCR is a tool that financial institutions use to evaluate the risk associated with the ability to recover both interest and principal payments and is a common financial covenant contained within lending agreements. As at March 31, 2014, the rolling four-quarter DSCR was 1.34 to 1, down from 1.43 to 1 at December 31, 2013.

DSCR is not an IFRS measure and 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.

Weighted Average Interest Rate

The REIT’s weighted average interest rate includes secured debt and excludes debentures and credit facilities. This calculation is a useful measure to compare movements in interest rates period over period; and to compare the average rate to the current market rates at that point in time. As at March 31, 2014, the REIT’s weighted average effective interest rate was 4.34%, an improvement from 4.48% at March 31, 2013.

Occupancy Levels

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

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing the performance of operations through such measures as NOI, FFO, and AFFO, we consider the following to be key internal drivers of the REIT’s current and future financial performance:

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

Leases representing approximately 326,000 square feet of leasable space will expire in 2014. As at the date of this MD&A, the REIT has secured or is in the process of finalizing lease renewals and new leases in respect of approximately 85,000 square feet of such leasable space.

PART III – RECENT DEVELOPMENTS & EVENTS SUBSEQUENT TO THE FIRST QUARTER

Partners REIT's current strategy includes:

- the development of a retail asset base that is both geographically and economically diversified;
- diligently working with existing and new tenants to stabilize or improve occupancy rates;
- improving operating efficiencies and reducing operating costs by streamlining the REIT's operating processes;
- reviewing all leases and property expenses to increase the REIT's operating cost recovery ratios; and
- the continued improvement of the REIT's balance sheet, including a reduction in leverage to improve financial and strategic flexibility

The REIT was impacted by the following significant events during the three months ended March 31, 2014:

Changes to Senior Management

On February 11, 2014 the REIT announced the appointments of Ron McCowan as interim Chief Executive Officer and Derrick West as Chief Financial Officer. In conjunction with these appointments, the REIT also announced the departure of Patrick Miniutti, the REIT's former Chief Executive Officer.

On February 14, 2014, the REIT announced the appointment of Jane Domenico as Chief Operating Officer.

See *EVENTS SUBSEQUENT TO THE FIRST QUARTER* for further changes to the senior management team.

Acceleration of Internalization

On December 13, 2013, the REIT's Board of Trustees consented to a proposal from McCowan & Associates ("McCowan") pursuant to which a subsidiary of McCowan agreed to spend $1.5 million to acquire the rights, duties, and obligations of the former asset manager ("LAPP") by way of assignment of the REIT's former management agreement. The proposal also called for McCowan to develop a plan to internalize the REIT's management by no later than February 15, 2014. McCowan agreed to effectively amend the former management agreement to provide for termination of its subsidiary as manager of the REIT on February 15, 2014, upon reimbursement of the $1.5 million paid for the assumption of the management agreement, together with accrued and unpaid amounts of fees owing thereunder. This negotiated termination fee was approximately $1.9 million less than the termination fee that would otherwise have been payable by the REIT to LAPP on voluntary internalization in 2014. On December 27, 2013, McCowan and LAPP completed the Court-approved assignment of the former management agreement from LAPP to McCowan's subsidiary. Effective February 15, 2014, the REIT terminated its management agreement with McCowan and completed the internalization of its management,

Changes to the REIT's Board of Trustees

On February 14, 2014, REIT announced that Marc Charlebois had been appointed to the Board of Trustees.

Patrick Miniutti tendered his resignation as a trustee of the REIT effective March 24, 2014.

EVENTS SUBSEQUENT TO THE FIRST QUARTER

Amendment and Closing of Ontario Property Acquisition

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 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 Acquisition 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.

Changes to the REIT's 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.

New Financing Commitment

On April 30, 2014, Partners announced that it has received and accepted a financing commitment from Firm Capital Corporation ("Firm Capital") 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 10% per annum or prime rate of interest, plus 6% per annum. The loan is repayable without penalty on short notice. The REIT intends to use the proceeds of the loan for general corporate purposes.

On May 13, the REIT announced that it had closed the financing commitment with Firm Capital. Firm Capital is licensed by the Financial Services Commission of Ontario, completed $665 million in new mortgage financings in 2013, and is independent of the REIT, its Board and management team.

The REIT is in discussions with other lenders, including a Canadian chartered bank, regarding alternative funding arrangements that may be available later in 2014 at potentially more attractive interest rates.

Changes to Senior Management

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.

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.

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.

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 had commenced a process to review strategic alternatives to maximize value for unitholders.

Annual General Meeting

The REIT has requested that the TSX consider a request for an extension of its annual general meeting date to July 31, 2014. The REIT will provide a further update once the TSX has had an opportunity to consider the request.

PART IV – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is selected financial information from the condensed consolidated statements of comprehensive income for the three months ended March 31, 2014:

Three months ended		**Mar 31, 2014**		Mar 31, 2013	Change
Revenues from income producing properties	**$**	**15,167,896**	$	13,181,564	15%
Property operating expenses		**(2,270,785)**		(2,254,308)	1%
Realty taxes		**(3,237,404)**		(2,659,578)	22%
Property management fees		**(265,324)**		(222,169)	19%
		9,394,383		8,045,509	17%
Other expenses:					
Financing costs		**5,131,531**		3,883,952	32%
General and administrative expenses		**933,506**		705,710	32%
Other transaction costs		**2,720,069**		-	-
		8,785,106		4,589,662	91%
Income before fair value gains		**609,277**		3,455,847	-82%
Fair value gains (losses)		**(1,921,463)**		4,641,818	-141%
Net income and comprehensive income	**$**	**(1,312,186)**	$	8,097,665	-116%
Earnings per unit, basic	**$**	**(0.05)**	$	0.32	-116%

Net Income and Comprehensive Income

Net income for the three months ended March 31, 2014 decreased by $9.4 million (116%) when compared to the same period in 2013. This decline can be attributed to fair value losses on the income producing property portfolio compared to fair value gains recognized in the same prior year period, increases in other transaction costs primarily related to the internalization of the REIT, increases in the financing costs as a result of the properties acquired during 2013, and increases in the general and administrative expenses partially offset by increases in NOI due to new property acquisitions.

Financing Costs

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

Financing costs for the three months ended March 31, 2014 increased by 32% over the same period in 2013. The increase is due to interest on new and assumed secured debt obligations entered into subsequent to March 31, 2013, interest on the REIT's unsecured convertible debentures issued during March 2013, draws made on the REIT's credit facility and non-cash accretion expense recognized on all three of the REIT's debenture issuances.

General and Administrative Expenses

General and administrative expenses for the three months ended March 31, 2014 increased by 28% from the same period in 2013. The increase in general and administrative expenses for the three months ended March 31, 2014 was a result of an increase in asset management fees payable for the period starting from the beginning of the quarter until February 15, 2014 due to newly acquired properties, as well a number of one-time costs related to the internalization of management including office set up and IT related costs.

Other Transaction Costs

Other transaction costs for the three months ended March 31, 2014 increased by $2.7 million over the same prior year period primarily as the result of one time internalization costs incurred by the REIT.

OPERATING RESULTS

Net Operating Income – Same Properties and All Properties

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 II, the amortization of tenant incentives and direct leasing costs must be removed from revenues.

Same Property NOI

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

Three months ended		**Mar 31, 2014**		Mar 31, 2013		Variance
Revenues from income producing properties	**$**	**12,497,671**	$	13,112,602	$	(614,931)
Property operating expenses		**(2,049,413)**		(2,254,309)		204,896
Realty taxes		**(2,737,949)**		(2,646,083)		(91,866)
Property management fees		**(227,453)**		(222,168)		(5,285)
		7,482,856		7,990,042		(507,186)
Amortization of tenant costs		**165,111**		109,503		55,608
Net operating income	**$**	**7,647,967**	$	8,099,545	$	(451,578)

NOI from same properties for the three months ended March 31, 2014 decreased by 5.6% over the same prior year period. The decrease in NOI is primarily due to the application of lower recovery rates for quarter end accruals as compared to the three months ended March 31, 2013

All Properties NOI

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

Three months ended		**Mar 31, 2014**		Mar 31, 2013		Variance
Revenues from income producing properties	**$**	**15,167,896**	$	13,181,564	$	1,986,332
Property operating expenses		**(2,270,785)**		(2,254,308)		(16,477)
Realty taxes		**(3,237,404)**		(2,659,578)		(577,826)
Property management fees		**(265,324)**		(222,169)		(43,155)
		9,394,383		8,045,509		1,348,874
Amortization of tenant costs		**165,111**		109,502		55,609
Net operating income	**$**	**9,559,494**	$	8,155,011	$	1,404,483

The increase in all properties NOI of $1.4 million for the three months ended March 31, 2014 is due to the acquisitions of six properties during 2013, offset by reductions in recovery accruals and allowances for bad debts.

Increases in property operating expenses, realty taxes and property management fees for all properties during the three months ended March 31, 2014, compared to the same prior year period, are primarily a result of the REIT's property acquisitions in the previous year.

Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”)

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

Three months ended		**Mar 31, 2014**		Mar 31, 2013		Change
Net income for the period	**$**	**(1,312,186)**	$	8,097,665	$	(9,409,851)
Amortization of TIs and LCs		**165,111**		109,502		55,609
Unit option compensation expense		**-**		10,000		(10,000)
Other transaction costs		**2,720,069**		-		2,720,069
Interest on exchangeable LP units		**18,439**		45,989		(27,550)
Fair value losses (gains)		**1,921,463**		(4,676,831)		6,598,294
FFO		**3,512,896**		3,586,325		(73,429)
Amortization of deferred financing costs		**510,264**		847,514		(337,250)
Straight-line rent		**(256,346)**		(646,133)		389,787
Sustaining capex		**(117,799)**		(5,363)		(112,436)
AFFO	**$**	**3,649,015**	$	3,782,343	$	(133,328)
Weighted average units outstanding - basic		**26,023,936**		25,352,436		671,500
Weighted average exchangeable LP units		**148,278**		287,500		(139,222)
Total weighted average units		**26,172,214**		25,639,936		532,278
FFO per unit	**$**	**0.13**	$	0.14	$	(0.01)
AFFO per unit	**$**	**0.14**	$	0.15	$	(0.01)

FFO decreased by 2% during the three months ended March 31, 2014 compared to the same period in 2013 due to increases in general and administrative and financing costs, partially offset by an increase in all property NOI.

The REIT’s FFO decrease of 2% during the three months ended March 31, 2014 over the same period in 2013 was compounded by a 2% increase in the weighted average number units for the same comparable period. The resulting FFO per unit for the quarter was $0.13 per unit.

Since FFO does not consider straight-line rent (non-cash), amortization of deferred financing costs and capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the three months ended March 31, 2014 was $3.6 million, a slight decrease from the same prior year period.

The amortization of debenture issuance costs have been reclassified as a financing cost from fair value gains/losses. This reclassification affects the REIT’s current and prior year FFO calculation but does not impact AFFO. The impact on FFO of this reclassification for the three months ended March 31, 2014 is $247,146 (2013 - $210,284).

Statement of Cash Flows

Three months ended		Mar 31, 2014		Mar 31, 2013		Change
OPERATING ACTIVITIES						
Net income (loss) and comprehensive income (loss)	**$**	**(1,312,186)**	$	8,097,665	$	(9,409,851)
Adjusted for non-cash items:		**-**		-		-
Fair value (gains) losses		**1,921,463**		(4,466,547)		6,388,010
Employee options costs		**-**		10,000		(10,000)
Alternate compensation plan costs		**-**		17,500		(17,500)
Straight-line rent		**(256,346)**		(646,133)		389,787
Amortization of tenant incentives and leasing costs		**165,111**		92,628		72,483
Amortization of deferred financing costs		**408,154**		237,646		170,508
Market interest rate adjustment on mortgages		**(261,977)**		-		(261,977)
Interest accretion expense		**102,010**		-		102,010
Net change in working capital		**(911,409)**		(11,472,573)		10,561,164
Cash flow used in operating activities		**(145,180)**		(8,129,814)		7,984,634
FINANCING ACTIVITIES						
Principal repayments on mortgages	**$**	**(2,202,762)**	$	(1,538,137)	$	(664,625)
Proceeds from debenture issuance		**-**		23,000,000		(23,000,000)
Cost to issue debentures		**(15,450)**		(971,545)		956,095
Drawdowns on credit facilities		**5,294,095**		26,000,000		(20,705,905)
Repayments of credit facilities		**-**		(33,500,000)		33,500,000
Financing fees on credit facilities		**-**		(87,570)		87,570
Proceeds from public offering		**-**		25,900,875		(25,900,875)
Costs to issue units (Note 14)		**(2,625)**		(1,384,944)		1,382,319
Distributions to unitholders		**(2,982,466)**		(3,888,897)		906,431
Cash flow provided by financing activities		**90,792**		33,529,782		(33,438,990)
INVESTING ACTIVITIES						
Acquisitions of income producing properties, net of non-cash transactions	**$**	**(51,178)**	$	(26,536,411)	$	26,485,233
Improvements to income producing properties		**(185,662)**		(203,610)		17,948
Expenditures on tenant incentives and leasing costs		**(79,927)**		(348,883)		268,956
Net proceeds from repayment of note receivable		**-**		3,994,054		(3,994,054)
Cash flow used in investing activities		**(316,767)**		(23,094,850)		22,778,083

Operating Activities

During the three months ended March 31, 2014 cash flows from operating activities increased by $8.0 million compared to the same prior year period. This increase was primarily the result of significant property acquisition deposits and deferred acquisition costs incurred during the prior year comparative period, partially offset by other transaction costs, related to internalization of the REITs management, which were incurred during the three months ended March 31, 2014.

Financing Activities

During the three months ended March 31, 2014 cash flows from financing activities decreased by $33.4 million compared to the same prior year period. This decrease is primarily the result of limited financing activity undertaken by the REIT during the three months ended March 31, 2014.

Investing Activities

During the three months ended March 31, 2014 cash flows from investing activities decreased by $22.8 million compared to the same prior year period. The increase is a result of the REIT not closing a property acquisition during the three months ended March 31, 2014, compared to the acquisition of two properties during the comparative prior year period.

FINANCIAL POSITION ANALYSIS
Statement of Financial Position – Total Assets

As at		Mar 31, 2014		Dec 31, 2013
Income producing properties	$	**586,817,919**	$	588,391,005
Other assets		**5,442,701**		4,514,391
Accounts receivable		**3,603,845**		2,722,641
Total assets	$	**595,864,465**	$	595,628,037

Income producing properties

The REIT elected to use the fair value model under IFRS, and as a result, income producing properties are carried at their fair value at the reporting date. Gains or losses arising from changes in the fair value of income producing properties during the reporting period are included in profit and loss in the period in which they arise.

As at December 31, 2010, all of the REIT's properties were appraised by third-party appraisers. For December 31, 2011 and subsequent year-end periods, external valuations from a third-party appraiser were obtained for a cross-section of properties from different geographical locations and markets across the REIT's portfolio, as determined by management.

The decrease of $1.6 million in income producing properties at March 31, 2014 over December 31, 2013 is due primarily to fair value losses recognized on the REIT's property portfolio.

There were no income producing property dispositions during the three months ended March 31, 2014 or the prior year ended December 31, 2013.

Other assets

Other assets are composed of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow and other prepaid expenses. During the three months ended March 31, 2014, the balance of other assets has increased $0.9 million due primarily to an increase in deferred acquisition costs related to the acquisition of three Ontario properties.

Accounts receivable

Accounts receivable increased by $0.9 million during the three months ended March 31, 2014. The higher receivable balance at March 31, 2014 is primarily due to an increase in property taxes recoverable from certain tenants who reimburse the REIT either annually or semi-annually for their portion of property taxes.

Net Asset Value

As at		Mar 31, 2014		Dec 31, 2013		Change
Units outstanding, end of period		**26,049,558**		25,988,800		60,758
Unitholders' equity	$	**180,635,579**	$	184,878,657	$	(4,243,078)
Net asset value per unit	$	**6.93**	$	7.11	$	-0.18

Net asset value is a measure of the REIT's total assets less its liabilities and is represented on the balance sheet as Unitholders' Equity. As at March 31, 2014, the net asset value of the REIT was $6.93 per unit which decreased $0.18 per unit from December 31, 2013.

Capital

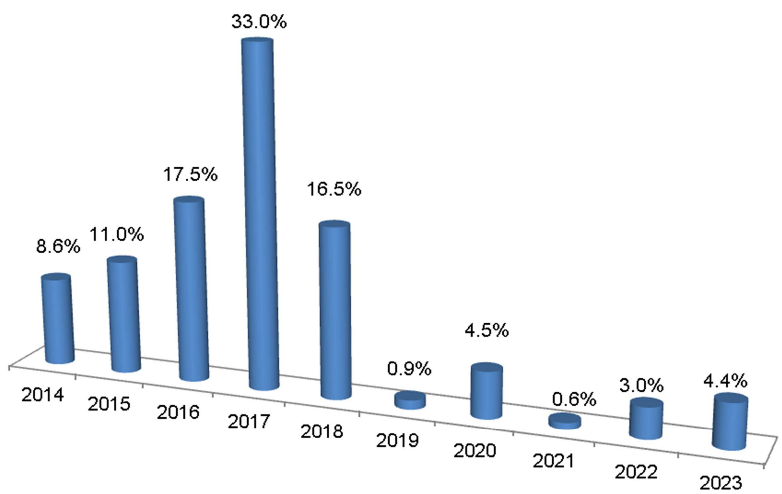
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance of debt capital, the REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. The 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 capital as at March 31, 2014 and December 31, 2013:

As at		**Mar 31, 2014**		Dec 31, 2013
Mortgages payable	**$**	**281,803,978**	$	284,150,560
Debentures		**82,633,489**		82,352,601
Credit facilities		**36,132,750**		30,795,803
Unitholders' equity		**180,635,579**		184,878,657
Total capital	**$**	**581,205,796**	$	582,177,621

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at March 31, 2014:



The primary contributors of the debt maturing in 2016, 2017 and 2018 are nineteen mortgages totalling $144.5 million and three series of convertible debentures totalling $28.8, $34.5 and $23.0 million, respectively.

Over the next two years, the REIT has approximately $57.1 million in mortgages maturing which carries an average contractual interest rate of 4.82%. Refinancing at current market rates would result in a reduction to the REIT's financing costs.

Interest coverage and debt service coverage ratios are as follows:

For the rolling four quarters ended	**Mar 31, 2014**	Mar 31, 2013
Interest coverage ratio(1)	**2.01**	2.49
Debt service coverage ratio(2)	**1.34**	1.63

(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, other transaction costs, and bad debt expense. EBITDA is a non-IFRS 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).

The interest coverage and debt service coverage ratios for the rolling four quarters ended March 31, 2014 decreased in comparison to the same prior year period due to new mortgages, a convertible debenture offering and draws on the REIT's credit facility. The impact of these was partially offset by net income contributions from newly acquired properties.

Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable is approximately three years, and the weighted average contractual interest rate is 4.57%. Future principal repayments on the mortgages payable are as follows for 2014 to 2018 and thereafter:

Year		Principal installment payments		Principal maturing		Total	W.A. contractual rate on debt maturing
2014		6,468,871		24,870,435		31,339,306	4.49%
2015		8,142,036		32,267,408		40,409,444	5.08%
2016		7,139,252		28,376,013		35,515,265	4.33%
2017		5,152,734		81,111,316		86,264,050	4.95%
2018		2,407,464		35,029,628		37,437,092	4.09%
Thereafter		6,397,377		42,659,848		49,057,225	4.10%
Total	$	35,707,734	$	244,314,648	$	280,022,382	4.57%

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.

Convertible Debentures

The REIT has three outstanding issuances of extendible convertible unsecured debentures as follows:

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

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

As at March 31, 2014, none of the debenture holders had converted their debentures to units of the REIT.

Credit Facilities

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 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 as follows:

		Mar 31, 2014		Dec 31, 2013
Revolving credit facility	$	**38,400,000**	$	38,700,000
Line of credit outstanding		**(36,294,095)**		(31,000,000)
Remaining unused credit facility	$	**2,105,905**	$	7,700,000

The carrying value of properties pledged as security is $62.5 million (December 31, 2013 - $62.6 million).

Financing Costs

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

The unamortized balance of financing costs related to mortgages credit facilities and debentures at March 31, 2014 was $4.5 million, which is $0.4 million lower than the December 31, 2013 year-end balance. The decrease in the unamortized financing costs as at March 31, 2014 is due to recognition of deferred financing costs through interest expense in accordance with the effective interest method, offset by financing fees incurred on new debt. The unamortized portion of the financing costs is netted against the REIT's mortgages payable, credit facility and debentures on the statements of financial position.

Debt-to-Gross Book Value

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

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 Credit Facility and certain mortgages have restrictions on the REIT's debt-to-gross book value ratio, being a maximum of 75%. Management believes that the REIT's financial and strategic flexibility would be improved by a reduction in its debt-to-gross book value ratio. At March 31, 2014 the REIT has a debt-to-gross book value ratio of 66.9% (December 31, 2013 – 66.7%), calculated as follows:

As at	Mar 31, 2014	Dec 31, 2013
Debt		
Mortgage principal	**280,022,382**	282,225,144
Debentures, excluding fair value of convertible feature at issuance	**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 credit facilities excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.

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

Unitholders' Equity

For the three months ended March 31, 2014, unitholders' equity decreased $4.2 million over unitholders' equity for the year ended December 31, 2013 due to the net loss recognized in the quarter, compounded by distributions paid to unitholders.

Distributions

The REIT has made monthly cash distributions of $0.04167 per unit for the three months ended March 31. 2014, representing an annualized distribution of $0.50 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 distribution, see "Liquidity Requirements" below.

Outstanding units

As of the date of this MD&A, the REIT has 26,049,558 issued and outstanding units. The total aggregate principal amount of three series of convertible debentures due between 2016 and 2018 is $86.25 million. A total of 8,844,281 units are issuable upon conversion of these debentures.

LIQUIDITY REQUIREMENTS

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT's Credit Facility. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from capital raises as well as obtaining debt financing on the related property. However, between capital raises, the REIT may use its Credit Facility to fund the equity portion of property acquisitions.

RELATED PARTY TRANSACTIONS

Effective December 25, 2013, McCowan and Associates ("McCowan") purchased the REIT's management contract for $1.5 million from the REIT's former asset manager, 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. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, 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.

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.

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 million). This amount has been classified in accounts receivable, and consists of employee payroll reimbursements.

QUARTERLY PERFORMANCE

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

	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012	Q3 2012	Q2 2012
Total revenues	$ 15,167,896	$ 14,774,322	$ 14,533,172	$ 14,078,122	$ 13,181,564	$ 11,470,356	$ 11,195,642	$ 11,301,599
Operating expenses	5,773,513	5,933,636	5,808,930	4,923,247	5,136,055	4,283,766	3,928,478	4,025,768
Other expenses	8,785,106	8,799,734	5,835,394	7,196,242	4,414,391	4,079,241	4,271,703	4,345,003
Fair value gains (losses)	(1,921,463)	(9,225,833)	(8,982)	443,938	4,466,547	14,000,987	530,714	652,130
Net income	(1,312,186)	(9,184,881)	2,879,866	2,402,571	8,097,665	17,108,336	3,526,175	3,582,958
Net income per unit - basic	(0.05)	(0.36)	0.11	0.09	0.32	0.86	0.16	0.19
FFO	3,512,896	2,979,975	3,162,365	3,906,056	3,796,609	3,700,909	3,360,600	3,127,267
FFO per unit - basic	0.13	0.12	0.12	0.15	0.15	0.17	0.16	0.16

PART V – RISKS & UNCERTAINTIES

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

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

The following is an examination of the key factors that influence Partners REIT's operations. A more detailed description of all of our risk factors is contained in the REIT's Annual Information Form.

INDUSTRY RISK

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

INTEREST RATE AND FINANCING RISK

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

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

There is interest rate risk associated with the REIT's Credit Facility since the interest rates are impacted by changes in the bank rate. There is also interest rate risk associated with the REIT's fixed interest rate and term mortgages and unsecured debentures due to the expected requirement to refinance such debts in the year of maturity. The following table outlines the impact to the REIT's annual net income if interest rates at March 31, 2014 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
Credit facilities	$ 362,941	$ 0.014
Mortgages payable	571,378	0.022

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, 2014, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

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

CREDIT RISK

Credit risk arises primarily from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, and by ensuring its tenant mix is diversified 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 consideration any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from tenants.

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

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

LIQUIDITY RISK

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they become due, will not have 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 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 capital 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.

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 the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT was required to liquidate a real property investment, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

ENVIRONMENTAL RISK

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

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

PART VI – CRITICAL ACCOUNTING POLICIES & ESTIMATES

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

The preparation of financial statements requires certain estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The REIT's significant accounting policies are described in Note 2 to the condensed consolidated financial statements for the period ended March 31, 2014.

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:

(a) 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.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

CONTROL ASSESSMENT

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

The REIT's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's internal controls over financial reporting as at March 31, 2014 using the Committee of Sponsoring Organizations ("COSO") Internal Control – Integrated Framework.

As at December 31, 2013 Management identified a weakness in the Company's internal control over financial reporting in terms of its controls over the process of estimating the fair value of income producing properties. This creates a reasonable possibility that a material misstatement of the financial statements would not have been prevented or detected in a timely basis.

Management has conducted a review of the design and implementation of its process and monitoring controls over the estimation of the fair value of income producing properties and has implemented additional review procedures to remediate the control deficiency.

As previously disclosed and publicly announced, the REIT is seeking to unwind the April 22, 2014 acquisition of properties from Holyrood Holdings Limited. This is as a direct consequence of the Board obtaining new information that persuaded it that Mr. Ron McCowan, the former interim Chief Executive Officer of the REIT, has a close business relationship with Ms. Laura Philp, the owner of the Vendor, sufficient that they should be considered as acting together under applicable regulation. The REIT's previous public disclosure and filings with regulatory authorities in respect of this transaction did not reference any such relationships, as the relationships were not known to the Board of Trustees or management (other than the former interim Chief Executive Officer at the time of such disclosures and filings). As a consequence of the REIT's May 4, 2014 disclosure of this matter, the TSX has reported to the REIT that the REIT failed to adequately disclose under

Sub-section 602(e) of the TSX Company Manual the full details of the acquisition, and an incident of significant non-compliance was reported to the Ontario Securities Commission.

The REIT completed due diligence in respect of this transaction both internally, through legal counsel and through the use of third party agents and these relationships were not discovered during such due diligence. Management has reviewed its disclosure controls in light of this transaction, but has not identified any weaknesses that it believes contributed to the situation. As soon as the Trustees obtained the new information it issued public disclosure to address the matter and it has continued, and will continue, to provide updates regarding the situation and its response thereto in accordance with applicable law.

CHANGES IN INTERNAL CONTROLS

As a result of the transition of management of the REIT from LAPP to McCowan, and the subsequent internalization of management, several fundamental changes were made to the REITs system of internal control during the quarter ended March 31, 2014:

- The employment of the REIT's Chief Financial Officer was terminated and the REIT operated without a Chief Financial Officer until the appointment of Derrick West on January 27, 2014.

- On February 11, 2014, Ron McCowan was appointed Chief Executive Officer of the REIT.

- On February 15, 2014, the REIT terminated its management agreement with McCowan and completed the internalization of its management.

- In February 2014, the REIT closed its property accounting function in Calgary. Under the internalization plan, Partners' head office, including the REIT's executive, asset management, and financial functions, was relocated to Barrie, Ontario. This transition resulted in significant changes to the REIT's personnel.

- The REIT also expects to maintain offices in Barrie, Ontario and Victoria, British Columbia.

Subsequent to the March 31, 2014, the following additional changes to internal controls were made:

- On May 4, 2014 the Board of Trustees of the REIT announced that it had retained independent legal counsel and initiated an investigation into certain matters related to the 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.

- 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.

- On May 5, 2014 the REIT and McCowan amended the terms of the employee services agreement as described in Note 21(b)(i) of the March 31, 2014 condensed consolidated financial statements, 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.

- 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.

LIMITATIONS OF INTERNAL CONTROLS

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