Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three and nine months ended September 30, 2015 and 2014

PARTNERS REAL ESTATE INVESTMENT TRUST
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For the three and nine months ended September 30, 2015 and 2014

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

As at		**September 30, 2015**		December 31, 2014
ASSETS				
Non-current assets				
Income producing properties (Note 3)	**$**	**524,550,687**	$	531,041,031
		524,550,687		531,041,031
Current assets				
Other assets (Note 4)		**5,282,333**		3,650,743
Accounts receivable (Note 5)		**4,601,346**		5,706,995
Cash		**3,104,965**		2,152,271
		12,988,644		11,510,009
	$	**537,539,331**	$	542,551,040
LIABILITIES				
Non-current liabilities				
Mortgages payable (Note 6)	**$**	**241,134,881**	$	251,560,806
Convertible debentures (Note 7)		**55,969,309**		83,533,616
		297,104,190		335,094,422
Current liabilities				
Mortgages payable (Note 6)		**52,943,065**		45,186,479
Convertible debentures (Note 7)		**28,476,425**		-
Credit facility (Note 8)		**6,967,532**		-
Accounts payable and other liabilities		**9,394,605**		12,679,748
Distributions payable		**557,326**		554,023
		98,338,953		58,420,250
		395,443,143		393,514,672
UNITHOLDERS' EQUITY		**142,096,188**		149,036,368
	$	**537,539,331**	$	542,551,040

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Revenues from income producing properties (Note 9)	**$ 14,334,061**	$ 14,507,888	**$ 42,714,770**	$ 44,885,569
Property operating expenses	**(2,283,675)**	(2,398,756)	**(6,733,928)**	(6,921,099)
Realty taxes	**(3,368,414)**	(3,172,164)	**(10,295,098)**	(9,678,104)
Property management fees	**(398,290)**	(338,916)	**(1,213,814)**	(880,094)
	8,283,682	8,598,052	**24,471,930**	27,406,272
Other expenses:				
Financing costs	**$ 4,949,104**	5,694,498	**15,116,173**	16,129,960
General and administrative expenses	**1,088,850**	604,851	**2,956,962**	3,361,979
Other transaction costs (Note 10)	**178,100**	935,055	**519,017**	8,620,592
	6,216,054	7,234,404	**18,592,152**	28,112,531
Income before gains (losses) and insurance proceeds	**2,067,628**	1,363,648	**5,879,778**	(706,259)
Insurance proceeds (Note 11):				
Insurance recoveries	**-**	-	**1,403,080**	-
Insurance costs	**-**	-	**(343,317)**	-
Fair value losses (Note 12)	**(1,684,003)**	(14,538,979)	**(9,863,217)**	(24,076,668)
Gain on sale of investment properties (Note 3)	**-**	711,018	**-**	711,018
Comprehensive income (loss)	**$ 383,625**	$ (12,464,313)	**$ (2,923,676)**	$ (24,071,909)
INCOME (LOSS) PER UNIT (Note 13)				
Basic and diluted	**$ 0.01**	$ (0.47)	**$ (0.11)**	$ (0.92)

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

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

	Three months ended September 30,				Nine months ended September 30,			
		2015		2014		**2015**		2014
Trust Units (Note 14)								
BALANCE, BEGINNING OF PERIOD	**$**	**197,293,470**	$	196,257,340	**$**	**196,646,106**	$	194,991,352
Issuance of units for exchangeable LP units, net of costs		**-**		-		**-**		661,300
Issuance of units under DRIP, net of costs		**350,679**		190,102		**998,043**		794,790
BALANCE, END OF PERIOD		**197,644,149**		196,447,442		**197,644,149**		196,447,442
Contributed Surplus								
BALANCE, BEGINNING OF PERIOD		**565,080**		565,080		**565,080**		565,080
BALANCE, END OF PERIOD		**565,080**		565,080		**565,080**		565,080
Accumulated Other Comprehensive Loss								
BALANCE, BEGINNING OF PERIOD		**(54,820,505)**		(28,842,006)		**(48,174,818)**		(10,677,775)
Comprehensive income (loss)		**383,625**		(12,464,313)		**(2,923,676)**		(24,071,909)
Distributions to unitholders (Note 14)		**(1,676,161)**		(2,198,779)		**(5,014,547)**		(8,755,414)
BALANCE, END OF PERIOD		**(56,113,041)**		(43,505,098)		**(56,113,041)**		(43,505,098)
TOTAL UNITHOLDERS' EQUITY	**$**	**142,096,188**	$	153,507,424	**$**	**142,096,188**	$	153,507,424
DISTRIBUTIONS PER UNIT	**$**	**0.06**	$	0.08	**$**	**0.19**	$	0.33

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
OPERATING ACTIVITIES				
Comprehensive income (loss)	**383,625**	$ (12,464,313)	**$ (2,923,676)**	$ (24,071,909)
Adjusted for non-cash items:				
Gain on sale of investment properties (Note 3)	**-**	(711,018)	**-**	(711,018)
Fair value losses (Note 12)	**1,684,003**	14,538,979	**9,863,217**	24,076,668
Straight-line rent	**(222,034)**	(187,938)	**(498,533)**	(685,119)
Tenant incentives and direct leasing costs amortization	**198,451**	155,793	**583,889**	515,355
Financing cost amortization and mortgage prepayment costs	**376,538**	751,661	**1,406,304**	1,587,104
Market interest rate adjustment on mortgages	**(221,463)**	(240,432)	**(669,367)**	(764,198)
Interest accretion expense	**65,174**	102,946	**228,983**	307,429
Interest expense	**4,728,855**	5,080,323	**14,150,253**	14,999,625
Net change in working capital (Note 15)	**364,506**	(1,606,349)	**(2,379,924)**	(4,720,195)
Interest paid	**(7,559,116)**	(6,968,336)	**(15,600,856)**	(15,010,076)
Cash flow provided by (used by) operating activities	**(201,461)**	(1,548,684)	**4,160,290**	(4,476,334)
FINANCING ACTIVITIES				
Proceeds from mortgages	**-**	23,000,000	**5,600,000**	38,000,000
Financing costs of mortgages	**(54,328)**	(228,300)	**(174,043)**	(731,137)
Repayments of mortgages at maturity	**-**	(20,679,831)	**(1,458,353)**	(20,679,831)
Regular principal repayments on mortgages	**(2,248,422)**	(2,175,144)	**(6,686,310)**	(6,599,550)
Cost to issue debentures	**-**	-	**(17,459)**	(99,883)
Drawdowns on credit facilities	**5,000,000**	2,000,000	**7,000,000**	7,294,095
Repayments of credit facilities	**-**	-	**-**	(3,294,095)
Financing fees on credit facilities	**-**	-	**-**	(20,417)
Costs to issue units (Note 14)	**(3,124)**	(3,183)	**(12,378)**	(10,497)
Distributions to unitholders	**(1,323,087)**	(2,005,495)	**(4,000,824)**	(7,952,202)
Cash flow provided by (used by) financing activities	**1,371,039**	(91,953)	**250,633**	5,906,483
INVESTING ACTIVITIES				
Proceeds from dispositions of income producing properties	**-**	15,630,880	**-**	15,630,880
Closing costs for dispositions of income producing properties	**-**	(168,418)	**-**	(168,418)
Closing costs for acquisitions of income producing properties	**-**	-	**-**	(133,808)
Settlement of purchase liability (Note 23)	**585,500**	-	**585,500**	-
Improvements to income producing properties	**(755,990)**	(1,519,903)	**(2,486,183)**	(2,218,517)
Expenditures on tenant incentives and direct leasing costs	**(280,677)**	(33,091)	**(1,557,546)**	(390,237)
Cash flow provided by (used by) investing activities	**(451,167)**	13,909,468	**(3,458,229)**	12,719,900
NET INCREASE IN CASH DURING THE PERIOD	**718,411**	12,268,831	**952,694**	14,150,049
CASH (BANK INDEBTEDNESS), BEGINNING OF PERIOD	**2,386,554**	1,746,350	**2,152,271**	(134,868)
CASH END OF PERIOD	**$ 3,104,965**	$ 14,015,181	**$ 3,104,965**	$ 14,015,181

Supplemental cash flow information (Note 15)

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

1. ORGANIZATION OF THE TRUST

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

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

These condensed consolidated financial statements have been prepared to comply with International Accounting Standard 34 *Interim Financial Statements.* Selected explanatory notes are included to explain significant events and transactions that have occurred since December 31, 2014. These condensed consolidated financial statements do not contain all of the information and disclosures required by International Financial Reporting Standards ("IFRS") for annual reporting purposes and should be read in conjunction with the REIT's consolidated financial statements as at and for the year ended December 31, 2014.

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees (the "Trustees") on November 5, 2015.

(b) Basis of presentation

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

3. INCOME PRODUCING PROPERTIES

As at		**September 30, 2015**		December 31, 2014
Balance, beginning of year	**$**	**531,041,031**	$	588,391,005
Dispositions of income producing properties at carrying value		**-**		(34,020,564)
Settlement of purchase liability (Note 23)		**(585,500)**		-
Improvements to income producing properties		**2,486,183**		4,330,334
Expenditures on tenant incentives and direct leasing costs		**1,557,546**		436,291
Amortization of tenant incentives and direct leasing costs		**(583,889)**		(618,482)
Recognition of straight-line rent		**498,533**		787,884
Unrealized fair value losses		**(9,863,217)**		(28,265,437)
Balance, end of period	**$**	**524,550,687**	$	531,041,031

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

For the period ended September 30, 2015 the fair value of the REIT's income producing property portfolio was determined either internally by the REIT using the Direct Capitalization methodology or by obtaining external appraisals.

During the nine months ended September 30, 2015, external appraisals were obtained for seven of the REIT's properties with an aggregate fair value of $146.1 million, representing 27.9% of the fair value of the income producing property portfolio. During 2014, external appraisals were obtained for twenty-three of the REIT's properties with an aggregate fair value of $347.6 million, representing 65.5% of the fair value of the income producing property portfolio as of the end of 2014. Properties acquired within the year are valued at the purchase price plus closing costs unless there is evidence of a significant change in the fair value of the property. The value of the remainder of the REIT's income producing property portfolio is determined internally by the REIT by applying significant new information obtained to adjust previous externally prepared appraisals.

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

As at	**September 30, 2015**	December 31, 2014
Capitalization rates		
Maximum	**8.25%**	8.25%
Minimum	**5.75%**	5.75%
Weighted Average	**6.68%**	6.70%

At September 30, 2015, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $37.4 million (December 31, 2014 - $37.4 million) and a 0.50% decrease in capitalization rates would increase fair value by $43.5 million (December 31, 2014 - $43.4 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at September 30, 2015, income producing properties included $4.8 million (December 31, 2014 - $4.3 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

4. OTHER ASSETS

The components of other assets are as follows:

As at		**September 30, 2015**		December 31, 2014
Prepaid realty taxes and insurance	**$**	**3,030,023**	$	1,214,071
Restricted cash - amounts held in escrow		**1,263,200**		1,673,255
Prepaid expenses and other		**989,110**		763,417
	$	**5,282,333**	$	3,650,743

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

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

5. ACCOUNTS RECEIVABLE

As at		**September 30, 2015**		December 31, 2014
Rents receivable	**$**	**2,007,380**	$	3,198,686
Unbilled recoveries		**837,512**		1,579,945
Other receivables		**2,540,265**		1,725,432
		5,385,157		6,504,063
Allowance for doubtful accounts		**(783,811)**		(797,068)
	$	**4,601,346**	$	5,706,995

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis. See Note 20 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

6. MORTGAGES PAYABLE

As at		**September 30, 2015**		December 31, 2014
Mortgage principal	**$**	**293,717,851**	$	296,262,514
Unamortized above market interest rate adjustments		**1,848,840**		2,518,208
Unamortized commitment and other fees		**(1,488,745)**		(2,033,437)
	$	**294,077,946**	$	296,747,285
Non-current	**$**	**241,134,881**	$	251,560,806
Current		**52,943,065**		45,186,479
	$	**294,077,946**	$	296,747,285

Scheduled repayments of secured debt are as follows:

		Principal instalments		Principal maturing		Total
2015 (remaining three months)	$	2,014,725	$	34,814,386	$	36,829,111
2016		7,775,214		28,373,931		36,149,145
2017		5,908,874		103,586,591		109,495,465
2018		3,389,596		18,439,813		21,829,409
2019		3,185,890		18,590,780		21,776,670
Thereafter		7,535,093		60,102,958		67,638,051
Contractual obligations	$	29,809,392	$	263,908,459	$	293,717,851

Mortgages payable are secured by the income producing properties to which they relate with most having recourse to the REIT. The mortgages bear interest at effective rates between 2.43% and 6.02% per annum (December 31, 2014 – 2.43% and 6.02%) and contractual rates between 2.40% and 6.70% (December 31, 2014 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.35% per annum (December 31, 2014 – 4.43%). The total carrying value of the properties pledged as security is $520.5 million (December 31, 2014 - $527.4 million).

During the nine months ended September 30, 2015 the following mortgages were obtained:

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

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

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

7. CONVERTIBLE DEBENTURES

As at		**September 30, 2015**		December 31, 2014
8.0% Convertible debenture	**$**	**28,683,327**	$	28,572,509
6.0% Convertible debenture		**34,303,625**		34,227,413
5.5% Convertible debenture		**22,927,097**		22,904,587
Debentures, excluding convertible feature		**85,914,049**		85,704,509
Fair value of convertible features at issuance		**1,460,000**		1,460,000
Accumulated fair value gain on convertible feature		**(1,460,000)**		(1,460,000)
Convertible feature		**-**		-
Issue costs		**(5,016,005)**		(4,998,547)
Accumulated amortization of issue costs		**3,547,690**		2,827,654
Issue costs, net		**(1,468,315)**		(2,170,893)
	$	**84,445,734**	$	83,533,616
Non-current	**$**	**55,969,309**	$	83,533,616
Current		**28,476,425**		-
	$	**84,445,734**	$	83,533,616

In March, 2011, the REIT issued $28,750,000 of 8.0% convertible unsecured subordinated debentures (the "8.0% convertible debentures") due March 31, 2016. The 8.0% convertible debentures are convertible into REIT units at $8.80 per unit at the holder's option at any time on or after March 31, 2014. On or after March 31, 2014 and prior to March 31, 2015, the 8.0% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2015, the 8.0% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 8.0% convertible debentures as at September 30, 2015 is nil (December 31, 2014 - nil).

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

In March, 2013, the REIT issued $23,000,000 of 5.5% convertible unsecured subordinated debentures (the "5.5% convertible debentures") due March 31, 2018. The 5.5% convertible debentures are convertible into REIT units at $10.25 per unit at the holder's option at any time on or after March 31, 2016. On or after March 31, 2016 and prior to March 31, 2017, the 5.5% convertible debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2017, the 5.5% debentures may be redeemed by the REIT at any time. The fair value of the convertible feature of the 5.5% convertible debentures as at September 30, 2015 is nil (December 31, 2014 - nil).

8. CREDIT FACILITY

As at		September 30, 2015		December 31, 2014
Credit facilities	$	**7,000,000**	$	-
Financing costs		**67,618**		-
Accumulated amortization of financing costs		**(35,150)**		-
Financing costs, net		**32,468**		-
		6,967,532		-
Non-current	$	**-**	$	-
Current		**6,967,532**		-
	$	**6,967,532**	$	-

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

As at September 30, 2015, the REIT was in technical violation of its debt to equity covenant. The REIT has requested and obtained from the lender a covenant waiver letter for the quarterly reporting period ended September 30, 2015. The waiver letter relates to the specific debt to equity covenant for the third quarter financial period ended September 30, 2015. All other terms and conditions of the loan remain the same and as such the REIT has access to the undrawn balance of the Credit Facility.

9. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three and nine months ended September 30, 2015 were $14.3 million and $42.7 million, respectively (three and nine months ended September 30, 2014 - $14.5 million and $44.9 million, respectively). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the three and nine months ended September 30, 2015 of $4.7 million and $14.2 million, respectively (three and nine months ended September 30, 2014 - $4.2 million and $13.7 million, respectively), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

As at September 30, 2015, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

		Within 12 months		2 to 5 years		Beyond 5 years
Operating lease revenue	$	36,045,037	$	107,049,022	$	74,195,519

10. OTHER TRANSACTION COSTS

The components of other transaction costs are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Asset management contract reimbursement	**$ -**	$ -	**$ -**	$ 1,500,000
Internalization cost reimbursements	**-**	-	**-**	432,947
Internalization legal and other fees	**-**	91,387	**-**	730,412
Board transition and other	**-**	9,037	**4,059**	62,806
Abandoned acquisition costs	**38,750**	686,743	**179,455**	4,308,687
Proxy dispute	**-**	76,800	**-**	971,152
Strategic-review	**(10,000)**	71,088	**128,831**	614,588
Litigation	**149,350**	-	**206,672**	-
Total other transaction costs	**$ 178,100**	$ 935,055	**$ 519,017**	$ 8,620,592

11. INSURANCE PROCEEDS

During the period ended September 30, 2015 insurance proceeds of $1.1 million were comprised of insurance recoveries of $1.4 million related to a fire in July 2013 which destroyed a building in Sooke, British Columbia and was partially offset by $0.3 million of non-capital costs incurred as a result of the fire.

12. FAIR VALUE LOSSES

The components of fair value gains (losses) are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Unrealized loss on income producing properties	**$ (1,684,003)**	$ (14,538,979)	**$ (9,863,217)**	$ (24,364,918)
Financial liabilities designated as FVTPL				
Deferred unit-based compensation	**-**	-	**-**	79,000
Convertible debentures	**-**	-	**-**	30,000
Exchangeable LP units	**-**	-	**-**	179,250
Total fair value losses	**$ (1,684,003)**	$ (14,538,979)	**$ (9,863,217)**	$ (24,076,668)

Included in the unrealized loss on income producing properties for the nine months ended September 30, 2015 is an immaterial adjustment for a $1.2 million loss relating to the prior year's estimate of fair value on a property which was appraised externally.

13. INCOME (LOSS) PER UNIT

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Numerator				
Comprehensive income (loss) - basic and diluted	**$ 383,625**	$ (12,464,313)	**$ (2,923,676)**	$ (24,071,909)
Denominator				
Weighted average units outstanding - basic and diluted	**26,582,481**	26,288,272	**26,491,139**	26,165,753
Income (loss) per unit - basic and diluted	**$ 0.01**	$ (0.47)	**$ (0.11)**	$ (0.92)

14. UNITHOLDERS' EQUITY

(a) Distributions

For the nine months ended September 30, 2015 the REIT made monthly cash distributions to unitholders in an amount of $0.02083 per unit, representing an annualized distribution of $0.25 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Trustees. The Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act.

(b) Distribution reinvestment plan and Optional Unit Purchase Plan

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

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

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

At September 30, 2015, the REIT has 125,869 units remaining in its reserve for issuance of units under the DRIP and OUPP. The REIT will increase the unit reserve as required and with approval from the TSX.

(c) Outstanding units

As at	**September 30, 2015**			December 31, 2014		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of period	**26,356,069**	**$**	**196,646,106**	25,988,800	$	194,991,352
Units issued:						
Distribution reinvestment plan	**280,765**		**1,010,421**	209,769		1,005,018
Exchangeable LP units	**-**		**-**	157,500		663,375
Unit issue costs	**-**		**(12,378)**	-		(13,639)
	26,636,834	**$**	**197,644,149**	26,356,069	$	196,646,106

15. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30,				Nine months ended September 30,			
		2015		2014		**2015**		2014
Supplemental								
Mortgages transferred to purchaser on sale of property	**$**	**-**	$	19,269,120	**$**	**-**	$	19,269,120
Net change in working capital								
Net change in accounts receivable	**$**	**1,042,775**	$	(1,310,142)	**$**	**1,105,649**	$	(4,625,459)
Net change in other assets		**(234,663)**		1,694,179		**(1,631,590)**		17,367
Net change in accounts payable and other liabilities		**(443,606)**		(1,990,386)		**(1,853,983)**		(112,103)
	$	**364,506**	$	(1,606,349)	**$**	**(2,379,924)**	$	(4,720,195)

16. UNIT-BASED COMPENSATION PLANS

(a) *Incentive unit option plan*

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

As at September 30, 2015 there are no options outstanding under the incentive unit option plan.

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

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

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

The DUP became effective May 17, 2015. During the nine months ended September 30, 2015, no units were issued under the DUP.

17. INCOME TAXES

On June 30, 2015, the REIT wound-up Charter Realty Holdings Ltd., a wholly owned subsidiary, which previously held beneficial ownership of three single tenant properties in Ontario. The REIT also dissolved 137th Avenue Limited Partnership which previously held beneficial ownership of a single tenant property in Alberta. These restructurings resulted in a transfer of beneficial ownership of the related properties to the REIT. Upon completion, all of the REIT's corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable.

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

18. CAPITAL MANAGEMENT

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

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

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

At September 30, 2015, the REIT's debt-to-gross book value ratio is 71.5% (December 31, 2014 – 69.9%), which is calculated as follows:

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

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

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

(a) Income producing properties

The significant assumptions used to determine the fair value of investment properties are disclosed in Note 3.

(b) Current assets and liabilities

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

(c) Mortgages payable

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 2.63% and 3.55% that reflect current market conditions for instruments of similar term and risk.

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

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

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

	September 30, 2015			December 31, 2014		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 524,550,687**	$ -	$ -	$ 531,041,031
Liabilities for which fair values are disclosed:						
Mortgages payable	**$ -**	**$ -**	**$ 303,788,207**	$ -	$ -	$ 303,966,018

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the nine months ended September 30, 2015 there were no transfers between the hierarchy levels.

20. RISK MANAGEMENT

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

(a) Interest rate risk

The REIT is exposed to interest rate risk when funds are drawn under mortgages with floating interest rates. An increase in interest rates would increase the interest cost of these mortgages having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding balance of variable debt at September 30, 2015, a 1% increase or decrease in the prime rate would have an impact of $0.7 million on the REIT's annual interest expense (December 31, 2014 – $0.2 million).

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

(b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2015 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants.

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

As at	**September 30, 2015**	December 31, 2014
Tenant rents receivable		
Less than 30 days past billing date	**574,852**	1,023,389
30-60 days past billing date	**96,194**	417,554
61-90 days past billing date	**11,046**	67,299
Greater than 90 days past billing date	**1,325,288**	1,690,444
	2,007,380	3,198,686
Allowance for doubtful accounts	**(783,811)**	(797,068)
Other receivables	**2,540,265**	1,725,432
Unbilled recoveries	**837,512**	1,579,945
	4,601,346	5,706,995

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

	September 30, 2015	December 31, 2014
Opening allowance for doubtful accounts	**$ 797,068**	$ 270,652
Additions to allowance for doubtful accounts	**54,529**	792,079
Receivables written-off	**(67,786)**	(265,663)
Ending allowance for doubtful accounts	**$ 783,811**	$ 797,068

Refer to Note 5 for further details of accounts receivable.

(d) *Liquidity risk*

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

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

Within the next 12 months the REIT has $44.6 million in maturing mortgages. The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing, cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT attempts to mitigate its liquidity risk by:

- staggering the maturities of its debt;
- not entering into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisitions;
- planning capital spending around the availability of cash from operations or debt/equity funding; and
- reviewing the current liquidity position and forecasted cash flows in advance of the quarterly approval of the distribution.

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

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

Furthermore, the Credit Facility has a restrictive financial covenant that is calculated and reported on a quarterly basis. The REIT was in technical violation of this covenant as at September 30, 2015. The REIT has obtained a covenant waiver letter for this reporting period, and all other terms and conditions of this Credit Facility are bound and in place (see note 8).

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

	2015	2016	2017	2018	2019	Thereafter
Mortgages payable						
Interest	2,882,661	10,764,866	7,273,883	3,784,963	3,295,477	7,214,264
Principal payments	2,014,725	7,775,214	5,908,874	3,389,596	3,185,890	7,535,093
Balances due on maturity	34,814,386	28,373,931	103,586,591	18,439,813	18,590,780	60,102,958
Debentures						
Interest	2,817,500	4,485,000	3,335,000	632,500	-	-
Balances due on maturity	-	28,750,000	34,500,000	23,000,000	-	-
Credit Facility						
Interest	87,500	350,000	-	-	-	-
Balances due on maturity	-	7,000,000	-	-	-	-
Accounts and distributions payable and other liabilities	9,915,211	-	-	-	-	-
Total	$ 52,531,983	$ 87,499,011	$ 154,604,348	$ 49,246,872	$ 25,072,147	$ 74,852,315

(d) Concentration risk

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $5.9 million in annualized base rents, or 15.8 % of the REIT's total annualized base rental revenue.

21. CONTINGENCIES AND COMMITMENTS

(a) Contingent liability

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

(b) Lease commitments – The REIT as lessee

The REIT as lessee is committed under operating leases to renewal periods or notice periods not longer than four months for each of its office locations in Barrie, Ontario and Victoria, British Columbia. Neither lease represents a significant future commitment to the REIT.

(c) Uncertified class action lawsuit

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

22. RELATED PARTY TRANSACTIONS

IAS 24 – Related Party Disclosures requires entities to disclose in their financial statements information about transactions with related parties. Generally, two parties are related to each other if one party controls, or significantly influences the other party.

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

(a) Management agreement

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	**2015**	2014
Management agreement termination reimbursement	**$ -**	$ -	**$ -**	$ 1,500,000
Asset management fees	**-**	-	**-**	218,415
Property management and accounting fees	**-**	-	**-**	95,342
Internalization cost reimbursements	**-**	-	**-**	432,947
	$ -	$ -	**$ -**	$ 2,246,704

(b) Related party balances

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

23. SUBSEQUENT EVENTS

(a) Completed financing

On October 1, 2015, the REIT completed a financing for $9.2 million secured as a first mortgage on a retail strip centre located in Ontario. The mortgage has a term of five years with interest at 3.15% per annum and an amortization period of 25 years. This financing replaced a maturing $6.3 million mortgage with a contractual interest rate of 5.17%.

(b) Settlement of Purchase Liability

On October 6, 2015 the REIT settled an outstanding liability related to the purchase price of a property in Quebec that was acquired during 2013. The liability was originally recorded at $2.64 million as set out in the purchase and sale agreement. The payment agreed upon and paid on October 6, 2015 was for $2.05 million. The resulting $0.6 million reduction in the liability is recognized as a fair value gain in the September 30, 2015 condensed consolidated financial statements. Additionally, as a condition of the post-closing payment, $0.5 million of funds held in escrow related to the property in Quebec were released to the REIT.

(c) Closing of Rights Offering and Partial Repayment Notice to Series I Convertible Debentures

On October 22, 2015, the REIT's previously announced rights offering closed. The rights offering raised a total of $20.6 million from the issuance of 6,649,364 units. In conjunction with closing the rights offering, the REIT provided notice to their series I Convertible Debentures that the REIT will repay 75% of the $28,750,000 owed on November 23, 2015.