PARTNERS REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS AND YEAR ENDED DECEMBER 31, 2015 AND 2014

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", "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 units at the REIT's properties remains strong 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 most recently filed Annual Information Form, which is available on www.sedar.com.

These forward-looking statements are made as of March 16, 2016 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 and year ended December 31, 2015, (the "fourth quarter" and "2015", respectively) includes material information up to March 16, 2016. Financial data has been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. 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 month and year ended December 31, 2015, as well as its financial position and future prospects. The MD&A should be read in conjunction with the REIT's audited consolidated financial statements for the year ended December 31, 2015 and the REIT's most recently filed annual information form ("AIF").

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, corporate transaction costs and fair value gains or losses). We define funds from operations ("FFO") as net income before fair value gains or losses, amortization of leasing fees ("LFs") and tenant allowances ("TAs"), other corporate transactions costs, gains or losses from the sale of properties, net gains from insurance proceeds, and certain other non-cash items and adjusted for any non-controlling interests. Adjusted funds from operations ("AFFO") is defined as FFO net of leasing fees, tenant allowances, tenant improvements and capital expenditures that maintain the current rental operations (ie – sustaining capital expenditures), amortization of deferred financing costs (including mortgage penalties from early payout), non-cash interest accretion expense 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 NOI on page 22, and a reconciliation of cash flow from operations to FFO and AFFO on page 24. NOI, NOI – same property, 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, STRATEGIC DIRECTION AND OUTLOOK

General Overview

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 March 23, 2015. The REIT's units are listed on the Toronto Stock Exchange (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. As at March 16, 2016 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", "Partners REIT", the "REIT" and similar references in this MD&A refer to Charter Real Estate Investment Trust prior to the name change.

Business Overview

Partners REIT is focused on the acquisition and management of a geographically diversified portfolio of retail and mixed-use retail community and neighbourhood shopping centres. These properties are located in both primary and secondary markets throughout Canada, and are primarily mid-market assets valued at up to approximately $50 million.

Management is of the view that necessity based retail centres represent attractive investments due to their stable cash flows. The majority of rents at these types of properties are derived from national and regional retailers with multi-year leases. Management's long term plans include pursuing opportunities to acquire assets that are accretive on a per unit basis at attractive capitalization rates. As the portfolio develops and becomes increasingly accretive, the REIT aims to steadily implement sustainable increases to its cash distributions.

Currently, the REIT's portfolio consists of 36 properties located in British Columbia, Alberta, Manitoba, Ontario, and Québec. In total, these properties comprise approximately 2.5 million square feet of gross leasable area ("GLA"). As of December 31, 2015, the REIT had 18 full-time employees.

Strategy of the REIT

Partners REIT's stated mission is to "reward its unitholders with sustainable, long-term returns by growing its retail real estate portfolio that feature open-air or standalone properties located in stable primary or secondary markets anchored by necessity based retailers. The REIT derives value from this portfolio by prioritizing superior client service, focused leasing activities, effective cost management and active asset management."

Management believes focusing primarily on necessity based retail shopping centres in these markets will provide opportunities for the REIT to obtain high quality, stable retail properties with growth potential. These centres are typically up to 250,000 square feet in size and are anchored by discount retailers and/or supermarkets or drugstores. The REIT intends to maximize the value of its centres by remerchandising, redeveloping, or renewing leases on these properties wherever possible. The REIT's goal is to own either "institutional-grade" properties or properties that offer the potential to become "institutional-grade" through redevelopment and leasing improvements.

Accretive opportunities in less competitive markets: The REIT is focused on growing a portfolio of high quality properties in less competitive markets. Management believes that concentrating upon secondary real estate markets offers the REIT the opportunity to acquire well-tenanted retail properties with strong national and regional retailers at attractive capitalization rates. By combining assets in the secondary market and primary market, management believes that the REIT will generate higher returns with lower risk than if the REIT were to focus exclusively on secondary markets.

Targeting the mid-market: The REIT is focused on properties, or portfolios of properties, valued at up to $50 million. This focus allows the REIT to minimize competition from large real estate investment trusts, corporations, pension funds, and other institutions. The REIT also considers larger acquisitions that do not fall into the investment parameters of larger real estate investment trusts or institutions, yet still provide accretive investment opportunities.

Stable rents via national and regional tenants: The REIT is focused on the acquisition and management of retail properties with national and regional retail tenants. These tenants allow the REIT to develop mutually beneficial relationships. These tenants are also most likely to fulfill their lease terms, and thus offer a stable source of cash flows.

Institutional grade properties: The REIT is focused on the acquisition of "institutional-grade" properties. These properties tend to generate more interest from national and regional retailers, resulting in more stable cash flows. These properties also tend to be more highly sought after, and thus offer greater value should the REIT elect to dispose of a particular asset. Finally, focusing on assets that fit this definition allows the REIT to obtain property financing at competitive market rates.

Leasing

As of December 31, 2015, lease expiries, excluding leases already renewed for 2016 and 2017 represented 3.3% and 10.9%, respectively, of the REIT's total GLA. As at December 31, 2015, the REIT had renewed a total of 299,678 square feet or 78.5% of leasable space that was originally set to expire during 2016.

During the last 15 months a number of retailers have announced closures, restructurings or bankruptcies, including Danier Leather, Sears, Future Shop, Black's, Nine West, and Target. The REIT's exposure to these retailers is limited. However, any closures from larger retailers will result in increased availability of retail space across Canada over the short-term, and potentially impact both retail rental rates and leasing fundamentals. Despite this changing landscape, the REIT believes there is sufficient demand for the majority of the locations due to become vacant during 2016 and 2017.

Financing

The REIT has $163.5 million (53.6%) in mortgages maturing over the next two years (January 1, 2016 to December 31, 2017). These maturing mortgages have a weighted average contractual interest rate of 4.86%. Based on current financing conditions, management expects that refinancing this portion of the REIT's debt should result in a reduction of the REIT's financing costs. During 2015, the REIT completed $51.3 million of new financings at an average contractual interest rate of 4.45%. Excluding non-maturing mortgages, the REIT completed $33.9 million of new financings at an average contractual interest rate of 4.10%.

On August 20, 2015, Partners announced that it would issue to each of the holders of its outstanding units the right to subscribe for additional units of the REIT (a "Right"). The record date for establishing these unitholders was September 14, 2015. A unitholder in Canada was entitled to subscribe for one new unit for every four Rights held upon payment of the subscription price of $3.10 per unit. The Rights Offering expired at 5:00 PM Eastern time on October 21, 2015.

On October 22, 2015, the REIT announced the successful conclusion of the Rights Offering, which benefited from high basic subscription and some over allotment subscription. As a consequence, the REIT issued 100% of the units available under the Rights Offering (6,649,364 units) and raised gross proceeds of approximately $20.6 million.

During the fourth quarter, the REIT applied the net proceeds from the Rights Offering along with the proceeds generated from the refinancing of mortgages towards the full redemption of the $28,750,000 of 8.0% convertible unsecured subordinated debentures (the "Series I Debentures"). These Series I Debentures were scheduled to mature on March 31, 2016.

Strategic Review

On May 12, 2015, the REIT's Board of Trustees resolved to terminate its ongoing review of strategic alternatives, and to focus on growth and stability within the REIT's existing core business. The REIT will devote itself to improving its net operating income via a revitalization of its existing portfolio, as well as an improvement of the REIT's balance sheet and financial position (see Part III Recent Developments on page 17 of the MD&A).

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).

	As at and for the three months ended		As at and for the year ended	
	Dec 31, 2015	Dec 31, 2014	**Dec 31, 2015**	Dec 31, 2014
Revenues from income producing properties	**$ 14,374,728**	$ 14,935,452	**$ 57,089,498**	$ 59,821,021
Net loss	**(11,632,441)**	(3,011,691)	**(14,556,117)**	(27,053,600)
Net loss per unit - basic	**(0.41)**	(0.11)	**(0.52)**	(1.03)
NOI - same property [1]	**8,234,229**	8,072,182	**33,290,048**	34,294,857
NOI - all property[1]	**8,234,229**	8,039,612	**33,290,048**	35,959,362
FFO[1]	**2,830,049**	1,091,535	**9,812,733**	9,539,662
FFO per unit[1]	**0.09**	0.04	**0.35**	0.36
AFFO[1]	**2,492,019**	1,274,371	**8,972,457**	9,818,612
AFFO per unit[1]	**0.08**	0.05	**0.32**	0.37
Distributions[2]	**2,105,285**	1,658,029	**7,119,832**	10,413,443
Distributions per unit[2]	**0.06**	0.06	**0.25**	0.40
Distribution payout ratio - FFO/AFFO[3]	**74% / 84%**	152% / 130%	**73% / 79%**	109% / 106%
Cash distributions[4]	**1,624,306**	1,453,401	**5,625,130**	9,943,968
Cash distributions per unit - FFO/AFFO[4]	**0.05**	0.08	**0.20**	0.38
Cash distribution payout ratio[5]	**57% / 65%**	133% / 114%	**57% / 63%**	104% / 101%

As at	**Dec 31, 2015**	Dec 31, 2014	Dec 31, 2013
Total assets	**$ 520,970,422**	$ 542,551,040	$ 558,778,156
Total debt[6]	**364,550,117**	381,967,023	394,301,960
Total equity	**148,888,084**	149,036,368	153,507,424
Weighted average units outstanding - basic	**27,831,288**	26,206,391	26,165,753
Debt-to-gross book value including debentures[6][9]	**69.5%**	70.0%	66.5%
Debt-to-gross book value excluding debentures[6][9]	**58.6%**	54.2%	52.3%
Interest coverage ratio[7][9]	**1.59**	1.80	2.08
Debt service coverage ratio[7][9]	**1.07**	1.22	1.39
Mortgages weighted average effective interest rate[8]	**4.57%**	4.43%	4.99%
Portfolio occupancy	**94.6%**	94.3%	96.0%

(1) NOI, NOI – same property, 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. NOI – same property includes only those properties which have been owned by the REIT for a full current and prior year period.

(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) Distribution payout ratio is a non-IFRS financial measure widely used in the real estate industry, calculated as total distributions as a percentage of FFO/AFFO. Management considers the distribution payout ratio a valuable metric to determine the sustainability of the REIT's distribution. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable IFRS measure.

(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 distribution payout ratio is a non-IFRS financial measure widely used in the real estate industry, calculated as cash distributions as a percentage of FFO/AFFO. Management considers the cash distribution payout ratio a valuable metric to determine the sustainability of the REIT's distribution. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable GAAP measure.

(6) Debt-to-gross book value is a non-IFRS financial measure widely used in the real estate industry. See calculation under "Debt-to-Gross Book Value" in "Part IV – Results of Operations". Management considers debt-to-gross book value to be a valuable metric in assessing the REIT's overall leverage. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There is no directly comparable IFRS measure.

(7) Interest coverage ratio and debt service coverage ratio are non-IFRS financial measures widely used in the real estate industry, calculated on a rolling four-quarter basis. See definition under "Mortgages and Other Financing" in "Part IV – Results of Operations". Management considers the interest coverage and debt service coverage ratios to be valuable metrics in assessing the REIT's ability to make contractual payments on debt. Non-IFRS measures do not have standardized meanings and are therefore unlikely to be comparable to similar measures presented by other issuers. There are no directly comparable IFRS measures.

(8) Represents the weighted average effective interest rate for secured debt excluding debentures and credit facilities.

(9) Comparative figures have been reclassified to conform with the current year's calculation methodology.

Results for the Three Month Period Ending December 31, 2015

Revenue from income producing properties for the fourth quarter was $14.4 million, a $0.5 million (4%) decrease when compared to $14.9 million in the fourth quarter of 2014. This decline was primarily the result of an adjustment during the fourth quarter of 2014 to record a full year of property tax recovery revenues in those instances where a tenant had paid property tax directly. When compared to the third quarter of 2015 ("the prior quarter"), revenues were the same.

Same property NOI removes the effect of the REIT's dispositions during 2014. Same property NOI for the fourth quarter was $8.2 million, a $0.2 million (2%) increase when compared to $8.0 million for the fourth quarter of 2014. This increase to NOI was as result of bad debt recoveries. The positive impact of these recoveries was partially offset by small NOI variances across the remainder of the portfolio. When compared to the prior quarter, same property NOI decreased by $0.3 million (3%), primarily due to seasonal increases in property operating costs.

All property NOI for the fourth quarter was $8.2 million, a $0.2 million (2%) increase when compared to $8.0 million for the fourth quarter of 2014. This increase was a result of bad debt recoveries, the impact of which was partially offset by small NOI variances across the remainder of the portfolio. When compared to the prior quarter, all property NOI decreased by $0.3 million (3%), primarily due to seasonal increases in property operating costs.

Net loss for the fourth quarter was $11.6 million, an $8.6 million higher loss when compared to a $3.0 million loss for the fourth quarter of 2014. This decrease to income was primarily due to the higher fair value losses, which were partially offset by reductions in financing costs, general and administrative expenses and other transaction costs. When compared to the prior quarter's net income of $0.4 million, the $11.6 million net loss represents a decrease to income of $12.0 million, primarily due to the recognition of fair value losses during the fourth quarter of 2015.

FFO for the fourth quarter was $2.8 million, a $1.7 million increase when compared to $1.1 million for fourth quarter of 2014. The in FFO increase was primarily a result of lower general and administrative expenses and lower mortgage prepayment costs during the fourth quarter of 2015. When compared to the prior quarter FFO of $2.4 million, FFO increased by $0.4 million primarily due to lower general and administrative expenses.

AFFO for the fourth quarter was $2.5 million, a $1.2 million (96%) increase when compared to $1.3 million for the fourth quarter of 2014. This increase in AFFO was primarily due to reductions in both general and administrative expenses and financing costs. When compared to the prior quarter, AFFO increased by $0.5 million (23%), primarily due to decreased general and administrative expenses.

During the fourth quarter, the REIT's sustaining capex reserve was $0.25 per square foot, bringing 2015's annual total to $0.90 per square foot. During the second quarter 2015 the REIT completed a review of the capital expenditures requirements including an estimation of the ongoing normalized sustaining components of capital expenditures, tenant inducements, and leasing fees. As a consequence of this review the REIT increased the annual reserve to $0.90 per square foot, which was an increase from the $0.60 annual reserve used in the first quarter of 2015. In order to approximate the new reserve level for 2015 and incorporate the $0.15 per square foot reserve reported in the first quarter of 2015, the REIT recognized a $0.25 per square foot reserve for the second to fourth quarters. The reserve for the fourth quarter of 2015 resulted in sustaining capital expenditures of $0.6 million, a decrease of $0.3 million when compared to the fourth quarter of 2014.

Distributions for the fourth quarter were $2.1 million ($0.06 per unit), an increase of $0.4 million when compared to $1.7 million ($0.06 per unit) for the fourth quarter of 2014. This increase in total distributions can be attributed to the increased number of units outstanding as a result of the Rights Offering that closed during the fourth quarter of 2015. The total distributions per unit for the fourth quarter of 2015 were unchanged from the fourth quarter of 2014.

The AFFO payout ratio for the fourth quarter was 84% (December 31, 2014 – 130%). Taking into account the REIT's dividend re-investment plan ("DRIP"), the AFFO cash payout ratio for the fourth quarter was 65% (December 31, 2014 – 114%). The current period's AFFO cash payout ratio is expected to provide the REIT with cash for capital re-investment purposes

Results for the Year Ended December 31, 2015

Revenues for the full year of 2015 were $57.1 million, a decrease of $2.7 million (5%) when compared to the prior year amount of $59.8 million. The decrease was primarily as a result of the sale of three Canadian Tire properties during the third quarter of 2014, as well as the impact of increased vacancy at a single property in Ontario.

Same property NOI for the full year of 2015 was $33.3 million, a decrease of $1.0 million (3%) when compared to the prior year amount of $34.3 million. The decrease was as a result of increased vacancy at a single property in Ontario, the incremental costs from the externalization of the REIT's property management function during the third quarter of 2014 and prior years' recovery revenues adjustments made in 2015.

All property NOI for the full year of 2015 was $33.3 million, a decrease of $2.7 million (7%) when compared to the prior year amount of $36.0 million. The decrease was driven by the sale of three Canadian Tire properties during the third quarter of 2014, in addition to those factors that impacted same property NOI.

Net loss for the full year of 2015 was $14.6 million, an improvement of $12.5 million when compared to the prior year loss of $27.1 million. This improvement to income was primarily a result of decreased fair value losses and other transaction costs, and was partially offset by reduced all property NOI.

FFO for the full year of 2015 was $9.8 million, an increase of $0.3 million (3%) when compared to the prior year amount of $9.5 million. The increase was primarily a result of reductions to both financing costs and general and administrative expenses, and was partially offset by the sale of three Canadian Tire properties in the prior year.

AFFO for the full year of 2015 was $9.0 million, a decrease of $0.8 million (9%) when compared to the prior year amount of $9.8 million. The decrease was due to the sale of three Canadian Tire properties in September 2014, increased vacancy at a single property in Ontario, and increased sustaining capital expenditures. The sustaining capital reserve deduction recognized in the calculation of AFFO was $2.3 million for the full year 2015, a $0.3 million (14%) increase when compared to the full year 2014 amount of $2.0 million. This increase recognizes the REIT's 2015 adoption of an annual sustaining capital reserve of $0.90 per square foot.

Distributions for full year of 2015 were $7.1 million, a decrease of $3.3 million (32%) when compared to the prior year amount of $10.4 million. This decrease can be attributed to the REIT's August 2014 decision to reduce its annual distribution from $0.50/unit to $0.25/unit (effective for the August distribution paid in September 2014).

The AFFO payout ratio for the year of 2015 was 79% (December 31, 2014 – 106%). Taking into account the REIT's dividend re-investment plan ("DRIP"), the AFFO cash payout ratio for the year of 2015 was 63% (December 31, 2014 – 101%). The current period's AFFO cash payout ratio is expected to provide the REIT with cash for capital re-investment purposes.

Financial Position

The REIT's total assets as at December 31, 2015 were $521 million, a $22 million (4%) decrease when compared to $543 million as at December 31, 2014. This decline was primarily as a result of $23.6 million in fair value losses recognized on the REIT's property portfolio. The fair value losses were largely concentrated in Quebec and at a single property in Ontario. The fair value losses recognized are a result of detailed analysis completed in relation to refinancing activities and required capital investments. The decline in total assets was partially offset by the benefit of capital work performed on the REIT's properties.

The REIT's total debt as at December 31, 2015 was $365 million, an $18 million (5%) decrease when compared to $383 million at December 31, 2014. This decrease was the result of the repayment of the $28.8 million Series I Debentures, as well regular monthly repayments of mortgage principal of $8.9 million. These repayments were partially offset by net re-financings or new financings that provided the REIT with $17.7 million in incremental mortgage financing ($51.3 million in total proceeds less $33.6 million in mortgages repayments), as well as net $2.0 million draws on the REIT's $10.0 million credit facility.

The REIT's debt-to-gross book value at December 31, 2015 was 69.5%, or 58.6% when excluding the impact of convertible debentures. These metrics stood at 70.0% and 54.2%, respectively, as at December 31, 2014.

Changes in this metric were primarily caused by the repayment of the $28.8 million in Series I Debentures, the refinancing activity during 2015 and the reduction to total assets from $23.6 million in fair value losses.

The REIT's weighted average effective interest rate for mortgages at December 31, 2015 was 4.57%, an increase from 4.43% as at December 31, 2014. This increase was primarily the result of two new second mortgage financings totaling $15.0 million. These financings carried contractual interest rates of 5.5%, and were deployed against the Series I Debentures, which carried a contractual interest rate of 8.0%.

Partners' interest coverage ratio at December 31, 2015 was 1.59, a decrease from 1.80 as at December 31, 2014. The REIT's debt service coverage ratio at December 31, 2015 was 1.07, a decrease from 1.22 at December 31, 2014. These declines can be attributed to both the decrease in NOI and increased debt levels during 2015.

Occupancy as at December 31, 2015 was 94.6%, an increase when compared to 94.3% as at December 31, 2014. This improvement was the result of new leases at several of the REIT's properties. Management believes that the REIT's 2016 leasing plans for renewals are progressing well, despite the recent increase in available Canadian retail square footage. As at December 31, 2015, 97.5% of anchor, major and free standing build units were leased.

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 December 31, 2015, the REIT's net asset value was $4.46 per unit, a decrease of $1.19 per unit when compared to $5.65 per unit at December 31, 2014. This decrease is the result of the REIT's $14.6 million net loss and $5.6 million in cash distributions, which reduced the REIT's equity. These factors were compounded by an increase in the number of the REIT's units as a result of both the DRIP participation and the equity issued as part of the October 2014 Rights Offering.

REAL ESTATE PORTFOLIO

Portfolio Summary

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:							
Centuria Urban Village Kelowna, British Columbia	Mixed Use Commercial/ Residential	2007	Nesters Market, Shoppers Drug Mart	32,625	100.0%	2.0%	$22.52
Evergreen Shopping Centre Sooke, British Columbia	Retail Strip Centre	1978/2010	Western Foods, Shoppers Drug Mart, BC Liquor	68,877	95.5%	2.9%	$16.24
Mariner Square Shopping Centre Campbell River, British Columbia	Retail Strip Centre	2006/2007	Save-On Foods, Starbucks, London Drugs, BC Liquor	100,257	100.0%	4.7%	$17.33
Washington Park Shopping Centre Courtenay, British Columbia	Retail Strip Centre	1992/1993	Great Canadian Superstore, TD Bank	32,652	87.8%	1.9%	$25.10
Alberta:							
137th Ave. Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart, PartSource	15,922	100.0%	0.8%	$17.84
Cobblestone Shopping Centre Grand Prairie, Alberta	Retail Strip Centre	2006/2007	Shoppers Drug Mart, TD Bank, Starbucks	42,980	100.0%	3.1%	$26.64
Manning Crossing Edmonton, Alberta	Retail Strip Centre	1993 - 1996	Safeway, RBC	64,544	100.0%	4.1%	$23.80
Manitoba:							
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	1.1%	$24.40
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,685	100.0%	0.9%	$20.00
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart, Medical Practitioners	21,005	100.0%	1.2%	$21.04
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,780	100.0%	1.2%	$27.40
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	1.3%	$28.00
Ontario:							
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears, Shoppers Drug Mart	251,192	78.4%	6.4%	$12.11
Crossing Bridge Square Stittsville, Ontario	Retail Strip Centre	1995	Farm Boy, McDonalds, IDA	45,913	95.2%	2.1%	$18.29
Grand Bend Towne Centre, Grand Bend, Ontario	Retail Strip Centre	2002	Sobey's, Shoppers Drug Mart	41,567	94.2%	1.7%	$16.57
King George Square Brantford, Ontario	Retail Strip Centre	1988	Shoppers Drug Mart, Dollarama	66,983	98.2%	3.2%	$17.99
Place Val Est Sudbury, Ontario	Retail Strip Centre	1983/1987, 1990, 1998	Metro, LCBO, RBC, Pharmasave	110,577	90.4%	3.4%	$12.66
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick, Home Depot Best Buy, BMO	85,200	100.0%	4.0%	$17.69
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.4%	$3.86
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.1%	$2.69
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.1%	$1.63

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)
St. Clair Beach Towne Centre Tecumseh, Ontario	Retail Strip Centre	2004	Shoppers Drug Mart	40,088	87.0%	2.2%	$23.09
Thunder Centre Thunder Bay, Ontario	Power Centre	2004 - 2007	Home Outfitters, LCBO, Home Depot, Old Navy, Dollarama, Mark's	168,047	98.5%	7.6%	$17.20
Timmins West Power Centre Timmins, Ontario	Retail Strip Centre	2007 - 2009	Michaels, Mark's	43,774	100.0%	2.0%	$17.29
Wellington Southdale London, Ontario	Retail Strip Centre	1986, 2000, 2004, 2006	Landmark Theatres, Dollarama	86,243	100.0%	4.6%	$19.65
Québec:							
Centre Village Shopping Centre Nuns Island, Montréal, Québec	Enclosed Mall	1977, 1991, 2001, 2010, 2012	Loblaws, SAQ	96,957	94.2%	3.6%	$14.58
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart, Staples, Québec Government	115,295	98.4%	4.0%	$13.07
Elgar Place Nuns Island, Montréal, Québec	Retail Strip Centre	1969, 1989	Couche Tard	10,121	100.0%	0.4%	$16.00
Marcel Laurin Saint Laurent, Québec	Retail Strip Centre	2011	Metro, Brunet Pharmacy	120,222	97.1%	5.5%	$17.59
Méga Centre Montréal, Québec	Power Centre	1973/1993, 1999, 2000, 2004, 2014	Walmart, Michaels, Brault & Martineau	272,034	100.0%	8.0%	$10.95
Place Desormeaux Longueuil, Québec	Enclosed Mall	1971/1998,2009, 2010	Walmart, Super C, Québec Government	249,530	92.8%	7.2%	$11.61
Plaza des Seigneurs Terrebonne, Québec	Retail Strip Centre	1998	Uniprix, SAQ, Banque Nationale	20,833	100.0%	1.2%	$22.16
Repentigny Shopping Centre Repentigny, Québec	Mixed Use Strip Centre	1988/2009	Familiprix, Dollarama, Québec Government	49,365	79.9%	1.7%	$16.17
Saint Remi Shopping Centre Saint Remi, Québec	Retail Strip Centre	2009 - 2011	Sobey's, SAQ, IGA Uniprix, Tim Hortons	62,522	92.0%	2.8%	$17.95
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,028	100.0%	1.1%	$24.00
Sorel Shopping Centre, Sorel, Québec	Retail Strip Centre	2010 - 2012	Uniprix, SAQ	31,038	74.9%	1.4%	$22.38
Total				**2,516,483**	**94.6%**	**100%**	**$15.65**

Notes:

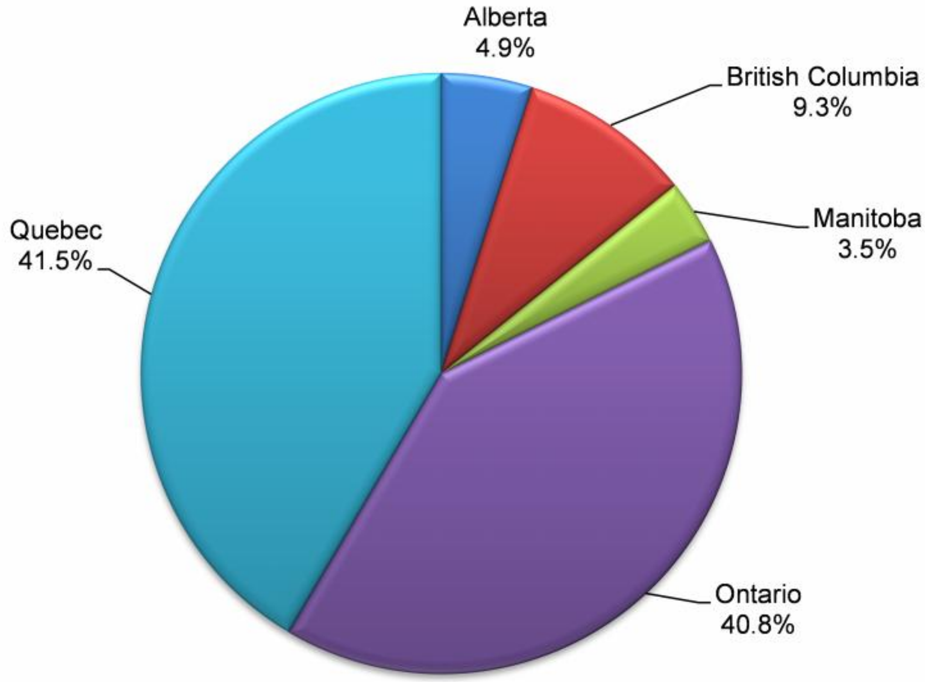
(1) Includes office units in mixed-use retail properties.

(2) Excluding storage units.

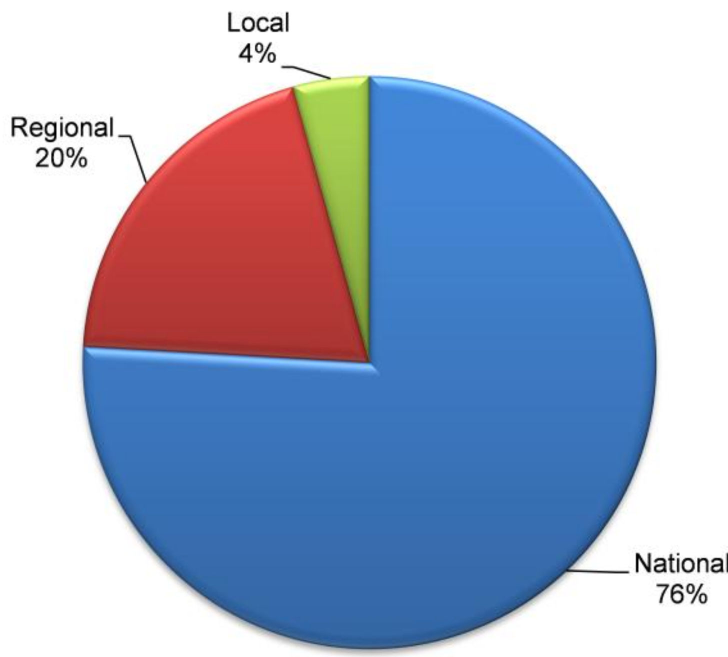
(3) Includes square footage of all material executed leases, regardless of occupancy date, and excludes square footage of all documented material lease terminations updated through December 31, 2015.

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

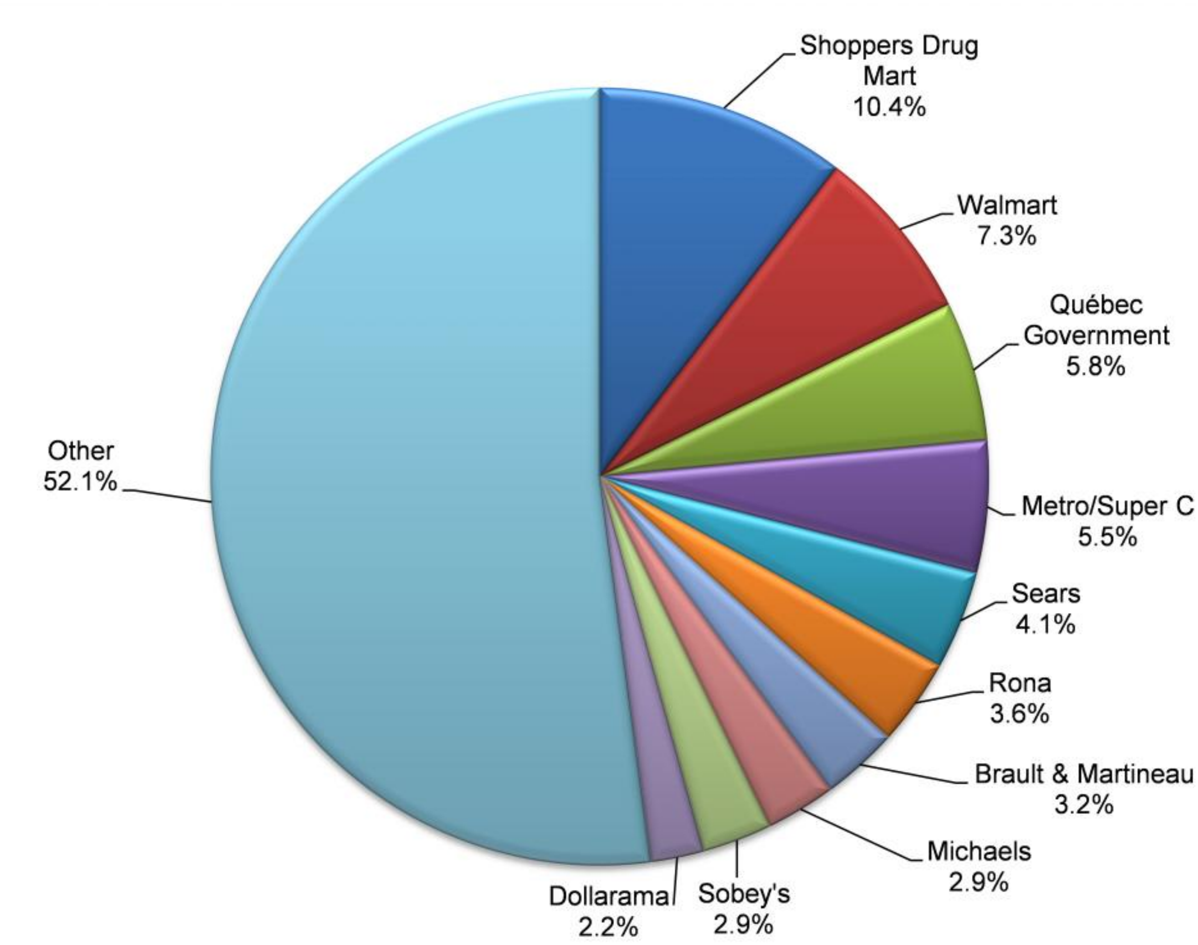
The geographic diversification of the portfolio by GLA is as follows:



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 December 31, 2015, including the REIT's ten largest tenants by lease square feet excluding storage, is as follows:



Note: Shopper Drug Mart shown separately from Loblaws tenancies.

Leasing Activity and Occupancy

The weighted average term to maturity of existing leases is approximately six years. As at December 31, 2015, the REIT had renewed a total of 299,678 square feet of leased space that was originally set to expire during 2016. This represents advance renewals of 78% of the GLA originally set to expire during 2016. The table below shows the remaining lease expiries as at December 31, 2015:

	Expiries (sq.ft.)	(% of sq. ft.)	Rent PSF ($)
2016	82,332	3.3%	$ 16.67
2017	274,504	10.9%	16.67
2018	171,428	6.8%	18.46
2019	365,562	14.5%	13.50
2020	447,070	17.8%	12.12
Thereafter	1,038,562	41.3%	17.11
Vacant	137,024	5.4%	-
Total	2,516,483	100.0%	$ 15.65
Weighted average remaining lease term - **6.11 years**			

Lease expiries, new leasing and renewals completed by December 31, 2015 by number of transactions are as follows:

Year ended	December 31, 2015		December 31, 2014	
	# of Transactions	(%)	# of Transactions	(%)
Leases renewed	34	75.6%	53	76.8%
Leases in progress and not renewed	11	24.4%	16	23.2%
Total scheduled expiries 2015	45	100.0%	69	100.0%
Abandonment or early termination	9		6	
New leases or expansions	19		24	

Lease expiries, new leasing and renewals completed by December 31, 2015 by total square feet are as follows:

Year ended	December 31, 2015		December 31, 2014	
	Sq. Ft.	(%)	Sq. Ft.	(%)
Leases renewed	156,129	89.0%	377,434	83.4%
Leases in progress and not renewed	19,324	11.0%	75,257	16.6%
Total scheduled expiries 2015	175,453	100.0%	452,691	100.0%
Abandonment or early termination	11,344		11,822	
New leases or expansions	32,146		69,762	

During the year ended December 31, 2015, the REIT renewed a total of 156,129 square feet in respect of units that expired during the year. The balance of leased units that expired during the fourth quarter of 19,324 square feet, comprising eleven tenancies, is either in the process of being renewed or will require new tenant prospects. The success in securing new leases and lease renewals for 2015 and 2016 expiries reflects the REIT's increased focus and efforts on proactive leasing activities in over the past year.

GLA and occupancy of the REIT on a quarter by quarter basis over the last eight quarters was as follows:

Quarter Ended	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)
December 31, 2015	2,516,483	2,379,459	94.6%
September 30, 2015	2,516,360	2,390,149	95.0%
June 30, 2015	2,520,364	2,385,229	94.6%
March 31, 2015	2,522,745	2,385,697	94.6%
December 31, 2014	2,522,974	2,380,007	94.3%
September 30, 2014	2,518,523	2,418,895	96.0%
June 30, 2014	2,711,464	2,623,747	96.8%
March 31, 2014	2,716,951	2,619,958	96.4%
Average	2,568,233	2,447,892	95.3%

The following table summarizes occupancy at December 31, 2015 and 2014 between anchor/major and commercial retail unit (CRU) tenants:

		31-Dec-15			
Lease type	Leased sq. ft.	Total sq. ft.	Leased (%)		W.A. rent PSF
Anchor/Major	1,698,500	1,742,921	97.5%	$	14.05
CRU	680,958	773,561	88.0%		19.63
Total	2,379,459	2,516,483	94.6%	$	15.65
		31-Dec-14			
Lease type	Leased sq. ft.	Total sq. ft.	Leased (%)		W.A. rent PSF
Anchor/Major	1,698,336	1,742,757	97.5%	$	13.90
CRU	681,671	780,217	87.4%		19.58
Total	2,380,007	2,522,974	94.3%	$	15.53

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, other corporate transaction costs, amortization, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. Amortization of tenant costs (an expense) are netted against revenues for IFRS purposes, but are added back in the calculation of NOI. NOI is a non-IFRS financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results from operations that 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 bases its calculation of FFO 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). The REIT has reconciled FFO to cash provided by operations in an equivalent manner to the RealPac definition on page 24.

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 a non-IFRS financial measure defined as FFO plus the non-cash amortization of deferred financing costs, mortgage penalties from early payout of mortgage financings and interest accretion expense, less any straight line rental revenue that has otherwise been included in income, less sustaining capital expenditures. Sustaining capital expenditures is made up of leasing activities that maintain current rental operations (ie - leasing fees, tenant allowances and tenant improvements costs) and property maintenance activities that maintain the physical aspects of the properties (ie – landlord's recoverable and non-recoverable capital costs). Management considers these on-going leasing and properties' maintenance costs to be sustaining capital expenditures and they are fundamental to the operating activities of the REIT and therefore not a discretionary investment.

The calculation of AFFO excludes revenue enhancing capital expenditures that relate to the generation of a new rental stream, as a consequence of leasing existing vacant space to a new tenant or the development or re-development of incremental retail space.

These sustaining capital expenditures are funded from cash generated from operations. Management 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.

For 2015 the REIT determines it's sustaining capital expenditures based on a reserve. The reserve represents a proxy for actual historical costs, anticipated future costs and any significant changes in the nature and age of the properties in the portfolio as it evolves over time. The long-term ongoing capital expenditures necessary to maintain the properties, as opposed to that period's actual expenditures (in prior years the REIT would identify specific maintenance related capital expenditures in each quarter, resulting in significant quarter over quarter fluctuations). For the three months ended March 31, 2015 the REIT used a reserve of $0.15 per square foot. For the second to fourth quarters of 2015, the REIT used a reserve of $0.25 per square foot, resulting in an annual reserve for 2015 of $0.90 per square foot. Based on its assessment of the current portfolio, management believes that $0.90 per square foot closely approximates the ongoing annual sustaining capital expenditures. This reserve amount is re-evaluated annually and the 2016 sustaining capital reserve will be determined and reported with the March 31, 2016 reporting period.

Debt Service Coverage Ratio

Debt service coverage ratio ("DSCR") is a non-IFRS 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 December 31, 2015, the rolling four-quarter DSCR was 1.07 to 1, down from 1.22 to 1 at December 31, 2014.

Mortgages Weighted Average Effective Interest Rate

The REIT's weighted average effective interest rate is a non-IFRS financial measure and includes interest on secured debt and excludes interest on 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 December 31, 2015, the REIT's weighted average effective interest rate for mortgages was 4.57%, an increase from 4.43% at December 31, 2014.

The increase to mortgages weighted average effective interest rate is as a direct result of the $15.0 million in second mortgage financings completed at a 5.5% contractual rate (the net proceeds were utilized to complete the repayment of the Series I Debentures that had a contractual rate of 8.0%). During 2015, the REIT completed $51.3 million of new financings at an average contractual interest rate of 4.45%. When excluding non-maturing mortgages, the REIT completed $33.9 million of new mortgage financings at an average contractual interest rate of 4.10%.

Occupancy Levels

Occupancy levels are presented in different manners depending on their context. Occupancy levels 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.

PART III – RECENT DEVELOPMENTS & SUBSEQUENT EVENTS

Property Management Update

Throughout the second quarter of 2016, the REIT will be internalizing the management of its 25 properties in Ontario, Manitoba, Alberta, and British Columbia. The REIT anticipates that this transition will take place gradually, and be substantially complete by June 30, 2016. With the exception of their finance and accounting functions, these properties have been managed by Epic Realty Partners, an external third party that has worked with the REIT in some capacity since September 2014. This internalization of the REIT's property management is expected to generate significant savings with an annual impact of approximately $0.5 million to the REIT's AFFO.

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

Uncertified Class Action Lawsuit

In April 2014, Partners purchased three retail centres in Ontario from Holyrood Holdings ("Holyrood") for a purchase price of approximately $83.2 million.

In May 2014, shortly after the closing of the transaction, the REIT's Trustees were presented with information that persuaded them, after investigation and retention of independent counsel advice, that Ron McCowan, the REIT's interim Chief Executive Officer at the time (and holder of 15% of the REIT's outstanding units) had a sufficiently close business relationship with Laura Philp, Holyrood's owner, that they could be considered as acting together under applicable regulations. The REIT's Trustees would not have approved the Holyrood transaction had they known that Mr. McCowan and Ms. Philp may not have been acting at arm's length.

As a result of this development, the REIT's Trustees initiated a process to reverse the Holyrood Transaction. On October 2, 2014 the REIT and Holyrood obtained an Order from the Ontario Superior Court of Justice that rescinded the April 2014 acquisition.

On December 4, 2014, the REIT announced that it had been notified that a statement of claim dated November 28, 2014 had 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 several parties, including a former officer and both current and former Trustees of the REIT. Partners 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.

Partners 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.

Strategic Review

On May 12, 2015, the REIT's Board of Trustees resolved to terminate its ongoing review of strategic alternatives, and to focus on growth and stability within the REIT's existing core business. The REIT will devote itself to improving its net operating income via a revitalization of its existing portfolio, as well as an improvement of the REIT's balance sheet and financial position. The strategic review commenced on May 6, 2014 with the purpose of examining strategic alternatives to maximize value for all unitholders.

Changes to Senior Management and the Board of Trustees

On June 18, 2015, Partners announced the results of voting conducted on June 17, 2015, at the REIT's Annual General Meeting of Unitholders. Among matter proposed and passed, three new Trustees were elected including Allan Kimberley, Simon Nyilassy, and C. Ian Ross. All three new Trustees possess significant real estate experience. More information on the Trustees elected on June 17, 2015 can be found in the REITs Management Information Circular, dated May 17, 2015, and available on both the REIT's website (www.partnersreit.com) and SEDAR.

On July 14, 2015, the REIT announced the appointment of Jane Domenico as the REIT's President and Chief Executive Officer. Ms. Domenico has served as the REIT's interim Chief Executive Officer since May 4, 2014, and as the REIT's Chief Operating Officer since February 14, 2014.

On January 25, 2016, the REIT announced the appointment of Paul Harrs as Chief Operating Officer. Mr. Harrs will oversee the REIT's leasing, development and property management relationships.

Debt Financings (Property Mortgages)

On February 17, 2015, the REIT refinanced three properties located in Manitoba, all anchored by Shoppers Drug Mart. This refinancing increased the amount of capital available for funding improvements across the REIT's property portfolio, in addition to addressing a maturing mortgage at one of the properties. The refinancing consisted of first mortgages that amounted to an aggregate of $5.6 million, and provided the REIT with $4.1 million in additional liquidity to fund previously identified capital investments. These first mortgages carry an average weighted interest rate of 2.88% and an average term to maturity of 5.5 years.

On October 1, 2015, the REIT refinanced its Place Val Est asset in the greater Sudbury area of Ontario. The REIT secured a $9.2 million mortgage with a five year term carrying a 3.15% interest rate. The refinancing provided the REIT with approximately $2.8 million in additional liquidity to fund capital investments intended to improve the overall quality of the REIT's portfolio, while $6.3 million of this new mortgage was directed towards the repayment of the property's previous and maturing mortgage, which carried an interest rate of 5.17%. Both the new and previous mortgages originated with the Canadian CMBS division of the Royal Bank of Canada.

On November 12, 2015, the REIT secured a $4.0 million mortgage at the REIT's Shoppers Drug Mart property in Brandon, Manitoba. The $4.0 million mortgage has a five-year term, and an interest rate of 3.32. $2.0 million of this mortgage was directed towards repayment of the property's previous and maturing mortgage, which carried an interest rate of 5.90%. Remaining net proceeds were deployed towards the reduction of the REIT's debt on other properties. Both the new and previous mortgages originated with Montrose Winnipeg Inc.

Also on November 12, 2015, the REIT announced that it had finalized two new second mortgages with a total value of $15.0 million. These included a second mortgage with a value of $11.0 million and a twenty-month term at Partners' Thunder Centre in Thunder Bay, as well as a second mortgage with a value of $4.0 million and a two-year term at Partners' Mariner Square Shopping Centre in Campbell River, British Columbia. Both mortgages carry an interest rate of 5.5%. A portion of the proceeds from these mortgages was used to complete the redemption of the final 25% of its $28,750,000 outstanding in Series I Debentures.

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

During 2015, Partners completed $51.3 million of new financings, inclusive of refinancing maturing mortgages, at an average rate of 4.45%.

Equity Financings (Rights Offering)

On August 20, 2015, Partners announced that it would issue to each of the holders of its outstanding units the right to subscribe for additional units of the REIT. The record date for establishing the unitholders entitled to receive the Rights was 5:00 p.m. Eastern time on September 14, 2015. A unitholder in Canada was entitled to subscribe for one unit for every four Rights held upon payment of the subscription price of $3.10 per unit. The Rights Offering expired at 5:00 PM Eastern on October 21, 2015.

Holders of Rights that exercised in full their basic subscription privilege were also entitled to subscribe for additional units that were not otherwise purchased by other holders of the Rights. The maximum number of additional units for which an eligible holder was able to subscribe was limited to such holders pro-rata share (based on the basic subscription privilege exercised by that unitholder relative to other unitholders) of the total amount of additional units available.

On October 22, 2015, the REIT announced the successful conclusion of the Rights Offering, which raised proceeds of approximately $20.6 million as a result of high basic subscription and some over allotment subscription. As a result, the REIT issued 6,649,364 units, or 100% of the units available under the Rights Offering.

The REIT applied the net proceeds towards the redemption of 75% of the $28,750,000 owing on the Series I Debentures which were scheduled to mature on March 31, 2016. These Series I Debentures were redeemed on November 23, 2015, on a pro-rata basis and in accordance with their terms. The REIT completed two second mortgages with a total value of $15.0 million to repay the final 25% of its Series I Debentures, which were redeemed on December 15, 2015.

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 and year ended December 31, 2015:

Three months ended		**Dec 31, 2015**		Dec 31, 2014		Change ($)	(%)
Revenues from income producing properties	**$**	**14,374,728**	$	14,935,452	$	(560,724)	(4%)
Property operating expenses		**(2,445,918)**		(3,181,427)		735,509	23%
Realty taxes		**(3,459,045)**		(3,647,192)		188,147	5%
Property management fees		**(450,722)**		(172,225)		(278,497)	(162%)
		8,019,043		7,934,608		84,435	1%
Other expenses:							
Financing costs		**4,610,637**		5,770,812		(1,160,175)	(20%)
General and administrative expenses		**793,543**		1,175,388		(381,845)	(32%)
Other transaction costs		**(101,241)**		182,099		(283,340)	(156%)
		5,302,939		7,128,299		(1,825,360)	(26%)
Income before FV losses		**2,716,104**		806,309		1,909,795	237%
Fair value losses		**(14,348,545)**		(3,900,519)		(10,448,026)	(268%)
Gain on sale of investment properties		**-**		82,519		(82,519)	(100%)
Comprehensive loss	**$**	**(11,632,441)**	$	(3,011,691)	$	(8,620,750)	(286%)
Loss per unit, basic	**$**	**(0.41)**	$	(0.11)	$	(0.30)	(264%)

Year ended		**Dec 31, 2015**		Dec 31, 2014		Change ($)	(%)
Revenues from income producing properties	**$**	**57,089,498**	$	59,821,021	$	(2,731,523)	(5%)
Property operating expenses		**(9,179,846)**		(10,102,526)		922,680	9%
Realty taxes		**(13,754,143)**		(13,325,296)		(428,847)	(3%)
Property management fees		**(1,664,536)**		(1,052,319)		(612,217)	(58%)
		32,490,973		35,340,880		(2,849,907)	(8%)
Other expenses:							
Financing costs		**19,726,810**		21,900,772		(2,173,962)	(10%)
General and administrative expenses		**3,750,505**		4,537,367		(786,862)	(17%)
Other transaction costs		**417,776**		8,802,691		(8,384,915)	(95%)
		23,895,091		35,240,830		(11,345,739)	(32%)
Income (loss) before FV losses and insurance		**8,595,882**		100,050		8,495,832	8,492%
Insurance proceeds		**1,059,763**		-		1,059,763	0%
Fair value losses		**(24,211,762)**		(27,977,187)		3,765,425	13%
Gain on sale of investment properties		**-**		793,537		(793,537)	(100%)
Comprehensive loss	**$**	**(14,556,117)**	$	(27,083,600)	$	12,527,483	46%
Loss per unit, basic	**$**	**(0.52)**	$	(1.03)	$	0.51	(49%)

Net Income (Loss)

Net loss for the fourth quarter was $11.6 million, an $8.6 million higher loss when compared to a $3.0 million loss for the fourth quarter of 2014. This decrease to income was primarily due to the higher fair value losses, which were partially offset by reductions in financing costs, general and administrative expenses and other transaction costs. Net loss for the full year of 2015 was $14.6 million, an improvement of $12.5 million when compared to the prior year loss of $27.1 million. This improvement to income was primarily a result of decreased fair value losses and other transaction costs, and was partially offset by reduced all property NOI.

Financing Costs

The REIT's financing costs are incurred on debt 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 financing costs and market interest rate adjustments. Financing costs also include non-cash accretion expense and other incidental interest income and expenses.

Financing costs for the fourth quarter were $4.6 million, a decrease of $1.2 million (20%) from the fourth quarter of 2014 amount of $5.8 million. The decrease was due to a $0.4 million reduction in mortgage prepayment costs incurred, compounded by a lower interest accrual for the Series I Debentures which were repaid during Q4 2015, lower interest accretion and lower amortization of deferred financing costs.

General and Administrative Expenses

General and administrative expenses for the fourth quarter of 2015 were $0.8 million, a decrease of $0.4 million when compared to the fourth quarter of 2014 amount of $1.2 million. This decrease from the same prior year period is due primarily to increased payroll allocations to recoverable property level expenses combined with general decreases of all overhead costs. The full year general and administrative expenses are $3.8 million which closely approximates the original guidance for 2015 of $3.7 million (as originally disclosed in the December 31, 2014 management discussion and analysis filed March 26, 2015).

Other Transaction Costs

Other transaction costs for the fourth quarter were in a recovery position of $0.1 million, an improvement of $0.3 million when compared to the fourth quarter of 2015 amount of $0.2 million. This improvement was a result of insignificant over accruals of costs during the third quarter of 2015.

Insurance Proceeds

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

Fair Value Losses

The fourth quarter's fair value loss of $14.3 million ($13.7 related to IPP and $0.6 million related to interest rate swap agreements) was recognized as a result of management's recent completion of a five year capital spending budget combined with a review of lease-up assumptions for all of the REIT's properties. In addition there were some adjustments directly relating to management obtaining third party appraisals at six properties.

OPERATING RESULTS

Net Operating Income – Same Properties and All Properties

The amortization of the cost of tenant allowances and leasing fees (commissions and legal) 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 allowances and leasing fees that otherwise reduce revenues are added back in calculating NOI.

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		**Dec 31, 2015**		Dec 31, 2014		Change ($)	Change (%)
Revenues from income producing properties	**$**	**14,374,730**	$	14,967,768	$	(593,038)	(4%)
Property operating expenses		**(2,445,922)**		(3,181,172)		735,250	23%
Realty taxes		**(3,459,042)**		(3,647,194)		188,152	5%
Property management fees		**(450,723)**		(172,225)		(278,498)	(162%)
		8,019,043		7,967,177		51,866	1%
Amortization of tenant costs		**215,186**		105,005		110,181	105%
Net operating income	**$**	**8,234,229**	$	8,072,182	$	162,047	2%
NOI as a % of revenues		***57.3%***		*53.9%*			*3.4%*

Same property NOI for the fourth quarter was $8.2 million, a $0.1 million (2%) increase when compared to $8.1 million for the fourth quarter of 2014. This increase was a result of bad debt recoveries, partially offset by small NOI variances across the remainder of the portfolio. When compared to the prior quarter, same property NOI decreased by $0.3 million (3%) due primarily to increases in cyclical property operating costs.

Year ended		**Dec 31, 2015**		Dec 31, 2014		Change ($)	Change (%)
Revenues from income producing properties	**$**	**57,089,498**	$	58,103,758	$	(1,014,260)	(2%)
Property operating expenses		**(9,179,846)**		(10,049,769)		869,923	9%
Realty taxes		**(13,754,143)**		(13,325,300)		(428,843)	(3%)
Property management fees		**(1,664,536)**		(1,052,316)		(612,220)	(58%)
		32,490,973		33,676,373		(1,185,400)	(4%)
Amortization of tenant costs		**799,075**		618,484		180,591	29%
Net operating income	**$**	**33,290,048**	$	34,294,857	$	(1,004,809)	(3%)
NOI as a % of revenues		***58.3%***		*59.0%*			*-0.7%*

Same property NOI for the year of 2015 was $33.3 million, a decrease of $1.0 million (3%) when compared to the prior year amount of $34.3 million. The decrease was as a result of increased vacancy at one property in Ontario, the incremental cost of the re-externalization of property management in the third quarter of 2014 along with prior years' recovery revenue adjustments made in 2015.

All Properties NOI

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

Three months ended		**Dec 31, 2015**		Dec 31, 2014		Change ($)	Change (%)
Revenues from income producing properties	**$**	**14,374,730**	$	14,935,452	$	(560,722)	(4%)
Property operating expenses		**(2,445,922)**		(3,181,427)		735,505	23%
Realty taxes		**(3,459,042)**		(3,647,192)		188,150	5%
Property management fees		**(450,723)**		(172,224)		(278,499)	(162%)
		8,019,043		7,934,609		84,434	1%
Amortization of tenant costs		**215,186**		105,003		110,183	105%
Net operating income	**$**	**8,234,229**	$	8,039,612		194,617	2%
NOI as a % of revenues		***57.3%***		*53.8%*			*3.5%*

All property NOI for the third quarter was $8.2 million, a $0.2 million (2%) increase when compared to $8.0 million for the fourth quarter of 2014. This increase was a result of bad debt recoveries, partially offset by small NOI variances across the remainder of the portfolio. When compared to the prior quarter, all property NOI decreased by $0.3 million (3%) due primarily to increases in cyclical property operating costs.

Year ended		**Dec 31, 2015**		Dec 31, 2014		Change ($)	Change (%)
Revenues from income producing properties	**$**	**57,089,498**	$	59,821,021	$	(2,731,523)	(5%)
Property operating expenses		**(9,179,846)**		(10,102,526)		922,680	9%
Realty taxes		**(13,754,143)**		(13,325,296)		(428,847)	(3%)
Property management fees		**(1,664,536)**		(1,052,319)		(612,217)	(58%)
		32,490,973		35,340,880		(2,849,907)	(8%)
Amortization of tenant costs		**799,075**		618,482		180,593	29%
Net operating income	**$**	**33,290,048**	$	35,959,362		(2,669,314)	(7%)
NOI as a % of revenues		***58.3%***		*60.1%*			*-1.8%*

All property NOI for the year of 2015 was $33.3 million, a decrease of $2.7 million (7%) when compared to the prior year amount of $36.0 million. The decrease was driven by the sale of three Canadian Tire properties during the third quarter of 2014 as well as the same factors that weighed on same property NOI.

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO")

A reconciliation of IFRS cash flow provided by operating activities to FFO and AFFO is as follows:

Three months ended		Dec 31, 2015		Dec 31, 2014		Change ($)	Change (%)
Cash flow provided by operating activities	**$**	**5,145,647**	$	5,637,982	$	(492,335)	(9%)
Straight line rent		**197,769**		102,765		95,004	92%
Deferred financing amortization, interest accretion		**(489,739)**		(1,261,617)		771,878	61%
Interest differential		**356,516**		228,589		127,927	56%
Change in working capital and accrued interest		**(2,278,903)**		(3,798,283)		1,519,380	40%
Other transaction costs		**(101,241)**		182,099		(283,340)	(156%)
FFO		**2,830,049**		1,091,535		1,738,514	159%
Straight-line rent		**(197,769)**		(102,765)		(95,004)	(92%)
Deferred financing amortization, interest accretion		**426,739**		685,868		(259,129)	(38%)
Prepayment penalties on mortgages		**63,000**		482,528		(419,528)	(87%)
Sustaining capex		**(630,000)**		(882,795)		252,795	29%
AFFO	**$**	**2,492,019**	$	1,274,371	$	1,217,648	96%
Weighted average units outstanding - basic		**31,808,036**		26,326,980		5,481,056	21%
FFO per unit	**$**	**0.09**	$	0.04	$	0.05	115%
AFFO per unit	**$**	**0.08**	$	0.05	$	0.03	62%

FFO for the fourth quarter was $2.8 million, a $1.7 million increase when compared to $1.1 million for the same prior year period. The increase was primarily a result of lower general and administrative expenses and lower mortgage prepayment costs during Q4 2015. When compared to the prior quarter FFO of $2.4 million, FFO increased by $0.4 million primarily due to lower general and administrative expenses.

FFO includes non-cash straight line rent in revenues and income deductions for the amortization of deferred financing costs and excludes any deduction for the cost of sustaining capital expenditures. As a consequence, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the fourth quarter was $2.5 million, a $1.2 million (96%) increase when compared to $1.3 million for the fourth quarter of 2014. This increase was primarily due lower general and administrative expenses and financing costs. When compared to the prior quarter, AFFO increased by $0.5 million (23%) primarily as a result of decreased general and administrative expenses during Q4 2015.

For the three months ended December 31, 2015, the REIT had distributions of $2.1 million and cash flow from operating activities of $5.1 million. For comments on the sustainability of distributions, see page 25.

Year ended		Dec 31, 2015		Dec 31, 2014		Change ($)	Change (%)
Cash flow provided by operating activities	**$**	**9,305,937**	$	1,161,648	$	8,144,289	701%
Straight line rent		**696,302**		787,884		(91,582)	(12%)
Deferred financing amortization, interest accretion		**(2,125,026)**		(3,156,150)		1,031,124	33%
Interest differential		**1,025,883**		992,787		33,096	3%
Change in working capital and accrued interest		**1,551,624**		932,363		619,261	66%
Other transaction costs		**417,776**		8,802,691		(8,384,915)	(95%)
Interest on exchangeable LP units		**-**		18,439		(18,439)	(100%)
Insurance proceeds		**(1,059,763)**		-		(1,059,763)	0%
FFO		**9,812,733**		9,539,662		273,071	3%
Straight-line rent		**(696,302)**		(787,884)		91,582	12%
Deferred financing amortization, interest accretion		**2,062,026**		2,580,401		(518,375)	(20%)
Prepayment penalties on mortgages		**63,000**		482,528		(419,528)	(87%)
Sustaining capex		**(2,269,000)**		(1,996,094)		(272,906)	(14%)
AFFO	**$**	**8,972,457**	$	9,818,613	$	(846,156)	(9%)
Weighted average units outstanding - basic		**27,831,288**		26,206,391		1,624,897	6%
Weighted average exchangeable LP units		**-**		48,658		(48,658)	(100%)
Total weighted average units		**27,831,288**		26,255,049		1,576,240	6%
FFO per unit	**$**	**0.35**	$	0.36	$	(0.01)	(3%)
AFFO per unit	**$**	**0.32**	$	0.37	$	(0.05)	(14%)

FFO for the full year of 2015 was $9.8 million, an increase of $0.3 million (3%) when compared to the prior year amount of $9.5 million. The increase was primarily a result of reductions to both financing costs and general and administrative expenses, and was partially offset by the sale of three Canadian Tire properties in the prior year.

AFFO for the full year of 2015 was $9.0 million, a decrease of $0.8 million (9%) when compared to the prior year amount of $9.8 million. The decrease was due to the sale of three Canadian Tire properties in September 2014, increased vacancy at a single property in Ontario, and increased sustaining capital expenditures. The sustaining capital reserve deduction recognized in the calculation of AFFO was $2.3 million for the full year 2015, a $0.3 million (14%) increase when compared to the full year 2014 amount of $2.0 million. This increase recognizes the REIT's 2015 adoption of an annual sustaining capital reserve of $0.90 per square foot (2014 - $0.79 per square foot).

For the year ended December 31, 2015 the REIT's cash flow provided by operating activities was $9.3 million which provided excess cash flows of $2.2 million after deducting distributions of $7.1 million.

In assessing its distribution policy, the REIT considers whether certain costs are expected to recur and the impact of items that may not be included in cash from operations, where the timing of cash flows may differ from the timing of payment of distributions. The future sustainability of the distributions will be dependent on the REIT being able to continue to generate similar cash flow from operating activities and the continued ability to re-finance mortgages as they come due (while obtaining cash from the refinancing of these maturing mortgages at regular loan to asset value ratios for commercial retail real estate companies and REITs). Management expects distributions will be sustainable from similar cash flows from operating activities while also obtaining net cash from the regular refinancing of maturing mortgages. Management and the REIT's Trustees review the REIT's distribution plans on a quarterly basis, with the objective of establishing distributions that are sustainable for a reasonably foreseeable period.

Statement of Cash Flows – Three Months Ended December 31, 2015

Three months ended		Dec 31, 2015		Dec 31, 2014		Change ($)	Change (%)
Cash flow provided by operating activities	**$**	**5,145,647**	$	5,637,982	$	(492,335)	(9%)
Cash flow used by financing activities		**(4,580,333)**		(15,559,348)		10,979,015	71%
Cash flow used by investing activities		**(1,000,258)**		(1,941,544)		941,286	48%
NET DECREASE IN CASH		**(434,944)**		(11,862,910)		11,427,966	96%
CASH, OPENING		**3,104,965**		14,015,181		(10,910,216)	(78%)
CASH, ENDING	**$**	**2,670,021**	$	2,152,271	$	517,750	24%

<u>Operating Activities</u>

Cash flow from operating activities for the fourth quarter was $5.1 million, a $0.5 million decrease when compared to the $5.6 million cash flow from operations for the fourth quarter of 2014. This year over year reduction to operating cash flows was primarily the result of a $3.0 million reduction in funds from working capital, partially offset by reductions to property operating costs, general and administrative and other transaction costs.

<u>Financing Activities</u>

Cash flows used by financing activities for the fourth quarter were $4.6 million, which is an $11.0 million increase to cash as compared to the $15.6 million used in the prior year's comparative period. The current period's net cash flow used by financing activities was the result of a $28.8 million repayment of the Series I Debentures, net repayments of $5.0 million on the REIT's credit facility, $2.2 million in regular monthly principal repayments on the REIT's mortgages, $1.6 million in cash distributions to unitholders and $1.0 million in costs associated with financing activities, partially offset by a $20.6 million rights offering and $13.6 million in net refinancings of mortgages.

<u>Investing Activities</u>

Cash outflows from investing activities for the fourth quarter were $1.0 million, a decrease of $0.9 million when compared to the $1.9 million used during 2014's comparable period. The decrease to cash outlay related primarily to lower capital spending during the fourth quarter of 2015, then as compared to 2014.

Statement of Cash Flows – Year Ended December 31, 2015

Year ended		Dec 31, 2015		Dec 31, 2014		Change ($)	Change (%)
Cash flow provided by operating activities	**$**	**9,305,937**	$	1,161,648	$	8,144,289	701%
Cash flow used by financing activities		**(4,329,700)**		(9,652,865)		5,323,165	55%
Cash flow provided/(used) by investing activities		**(4,458,487)**		10,778,356		(15,236,843)	(141%)
NET INCREASE IN CASH		**517,750**		2,287,139		(1,769,389)	(77%)
CASH (BANK INDEBTEDNESS), OPENING		**2,152,271**		(134,868)		2,287,139	1,696%
CASH, ENDING	**$**	**2,670,021**	$	2,152,271	$	517,750	24%

<u>Operating Activities</u>

Cash flows from operating activities for the year of 2015 were $9.3 million, an $8.2 million increase as compared cash flow from operations of $1.2 million from the prior year. This increase cash flow from operations was primarily the result of the $8.4 million reduction in other transaction costs.

Financing Activities

Cash flows used by financing activities for the year of 2015 were $4.3 million, which is a $5.3 million decrease from the prior year's cash outlay of $9.6 million. The current year's net cash flow used by financing activities was the result of a $28.8 million repayment of the Series I Debentures, $8.9 million in regular monthly principal repayments on the REIT's mortgages, $5.6 million is cash distributions to unitholders and $1.4 million in costs associated with financing activities, partially offset by a $20.6 million rights offering, $17.7 million in net re-financings of long term mortgages and net draws of $2.0 million on the REIT's credit facility.

Investing Activities

Cash outflows from investing activities for the year of 2015 were $4.4 million, a decrease of $15.2 million over the $10.8 million provided during 2014. The decrease in cash from investing activities is as a result of the prior year sale of three Canadian Tire properties combined with a $0.3 million increase in 2015's capital and lease-up expenditures of $5.0 million exceeding 2014's amount of $4.7 million.

For the year ended December 31, 2015 and 2014, capital expenditures were as follows:

Year ended		**Dec 31, 2015**		Dec 31, 2014
Recoverable from tenants	**$**	**1,381,640**	$	1,187,487
Non-recoverable from tenants		**133,088**		1,242,260
Development or re-development		**1,166,907**		1,648,828
		2,681,635		4,078,575
Leasing activities		**2,362,352**		688,050
	$	**5,043,987**	$	4,766,625

Actual sustaining capital expenditures for the year ended December 31, 2015 were $2.6 million (2014 - $2.0 million).

FINANCIAL POSITION ANALYSIS

Statement of Financial Position – Total Assets

As at		**Dec 31, 2015**		Dec 31, 2014		Change ($)	Change (%)
Income producing properties	**$**	**511,817,617**	$	531,041,031	$	(19,223,414)	(4%)
Other assets		**3,146,165**		3,650,743		(504,578)	(14%)
Accounts receivable		**3,336,619**		5,706,995		(2,370,376)	(42%)
Cash		**2,670,021**		2,152,271		517,750	24%
Total assets	**$**	**520,970,422**	$	542,551,040	$	(21,580,618)	(4%)

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 are included in profit and loss in the period in which they arise.

The decrease of $19.2 million in income producing properties at December 31, 2015 over December 31, 2014 was due primarily to $23.6 million in fair value loss adjustments, partially offset by $5.0 million of capital improvement work performed throughout the year.

During 2015, the REIT had thirteen of its properties appraised, representing an aggregate fair value of $238 million, or 46.4% of the total portfolio value. During fiscal 2014, the REIT had external appraisals on 23 properties with an aggregate fair value of $348 million, representing 65.5% of the portfolio value at that date.

It is the REIT's accounting policy that properties acquired within the year are valued at the purchase price plus closing costs and at least one third of the portfolio is externally appraised each fiscal year on a rotating basis.

Other assets

Other assets are composed of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow and other prepaid expenses. During 2015, the balance of other assets has decreased by $0.5 million, due primarily to the REIT having restricted cash released after performing required capital work and/or meeting lease-up conditions.

Accounts receivable

Accounts receivable decreased by $2.4 million (42%) during 2015. The decrease was as a result of increased collections of tenant receivables and resolution of previous tenant disputes.

Net Asset Value

						Change	
As at		**Dec 31, 2015**		Dec 31, 2014		($)/(units)	(%)
Units outstanding, end of period		**33,387,646**		26,356,069		7,031,577	27%
Unitholders' equity	**$**	**148,888,084**	$	149,036,368	$	(148,284)	(0%)
Net asset value per unit	**$**	**4.46**	$	5.65	$	(1.19)	(21%)

Net asset value ("NAV") is a measure of the REIT's total assets less its liabilities and is represented on the balance sheet as unitholders' equity. As at December 31, 2015, the net asset value of the REIT was $148.9 million as compared to $149.0 million for December 31, 2014. This $0.1 million decrease to NAV is primarily as a result of $24.2 million in fair value losses and $5.6 million in cash distributions exceeding the combination of net equity raised from the rights offering of $20.2 million, income before gains/losses of $8.2 million and net insurance proceeds of $1.2 million

On a per unit basis, NAV was $4.46 per unit, a decrease of $1.19 per unit from December 31, 2014. This decrease in NAV per unit is as a result of the decrease to NAV compounded by the 7.0 million increase in outstanding units.

Capital

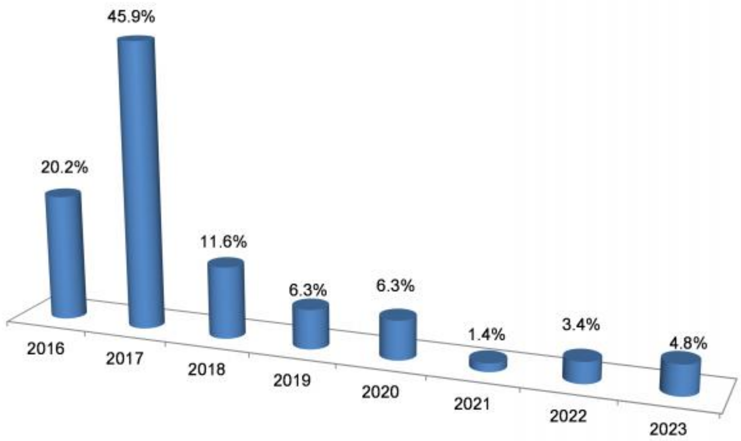
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance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

The following table shows the REIT's capital as at December 31, 2015 and December 31, 2014:

						Change	
As at		**Dec 31, 2015**		Dec 31, 2014		($)	(%)
Mortgages payable	**$**	**304,948,995**	$	296,747,285	$	8,201,710	3%
Debentures		**56,014,181**		83,533,616		(27,519,435)	(33%)
Credit facilities		**1,976,561**		-		1,976,561	0%
Unitholders' equity		**148,888,084**		149,036,368		(148,284)	(0%)
Total capital	**$**	**511,827,821**	$	529,317,269	$	(17,489,448)	(3%)

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at December 31, 2015:



Over the next two years, the REIT has approximately $163.5 million in mortgages maturing which carry an average contractual interest rate of 4.86% and the Series II Convertible Debentures totaling $34.5 million with an interest rate of 6.0%. 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	**Dec 31, 2015**	Dec 31, 2014
Interest coverage ratio(1)	**1.59**	1.80
Debt service coverage ratio(2)	**1.07**	1.22

(1) Interest coverage ratio, a non-IFRS measure, is calculated on a rolling four-quarter basis as EBITDA divided by interest expense (before amortization of financing fees included in interest expense), where EBITDA is net income before fair value gains or losses, interest expense, incentive unit option compensation expense, depreciation and amortization and other transaction costs. EBITDA is a non-IFRS financial measure of operating performance.

(2) Debt service coverage ratio, a non-IFRS measure, 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 year ended December 31, 2015 decreased in comparison to the prior year due to new mortgage financings, and draws on the REIT's credit facility, compounded by a reduction on the REIT's EBITDA.

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 4.49%. Future principal repayments on the mortgages payable are as follows for 2016 to 2020 and thereafter:

Year	Principal installment payments	Principal maturing	Total	W.A. contractual rate on debt maturing
2016	9,048,967	45,374,770	54,423,737	4.58%
2017	6,585,622	118,092,125	124,677,747	4.97%
2018	3,877,441	18,439,813	22,317,254	4.71%
2019	3,690,753	18,590,780	22,281,533	3.61%
2020	2,556,266	28,734,621	31,290,887	3.65%
Thereafter	5,351,852	44,707,107	50,058,959	4.09%
Total	$ 31,110,901	$ 273,939,216	$ 305,050,117	4.49%

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. With the exception of certain mortgages, most of the REIT's mortgages do not contain cross-default provisions that would be triggered by the breach of a financial covenant.

As at December 31, 2015 the REIT was in technical violation of financial covenants on two mortgages secured by properties in Quebec. Under the terms of the two loans with this lender, the annual covenant calculations are due for filing in conjunction with filing of the REIT's annual report and the Lender considers whether or not there is a covenant violation within 30 days following receipt of the covenant calculation. The loan is not in default until the Lender provides written notice thereof. These mortgages do not contain cross-default provisions that would trigger the breach of other financial covenants. Subsequent to December 31, 2015 the REIT obtained a covenant tolerance waiver letter for both these two mortgages. For December 31, 2015 the mortgages which total $16.0 million have been classified as current on the statements of financial position.

Convertible Debentures

During the fourth quarter of 2015, the REIT repaid its $28.8 million, Series I Debentures. As at December 31, 2015, the REIT has two outstanding series of unsecured convertible debentures, details are as follows:

Series	**Issuance Date**	**Expiry Date**		**Principal Amount**	**Contractual Interest rate**		**Fixed Conversion Price**
Series II	September 5, 2012	September 30, 2017		34,500,000	6.00%		10.35
Series III	March 12, 2013	March 31, 2018		23,000,000	5.50%		10.25
			$	57,500,000	5.80%	$	10.31

The debentures' interest payments are payable 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 December 31, 2015, none of the debenture holders had converted their debentures to units of the REIT and given the conversion prices, it would be unlikely for any of the debenture holders to do so. Accordingly, the REIT will be pursuing alternative financing options as the debentures mature.

Credit Facilities

During the year ended December 31, 2015, the REIT's credit facility was drawn for $2.0 million. The remaining availability of the REIT's credit facility is as follows:

		Dec 31, 2015		Dec 31, 2014
Credit facility	**$**	**10,000,000**	$	10,000,000
Line of credit outstanding		**(2,000,000)**		-
Remaining unused credit facility	**$**	**8,000,000**	$	10,000,000

The REIT's credit facility contains a debt to equity covenant that requires the REIT to be less than 2.75 to 1 for the 2015 quarterly reporting periods (reducing to 2.50 to 1 for the 2016 quarterly reporting periods). As of December 31, 2015, the REIT's debt to equity ratio was 2.49 and therefore is compliance with the covenant.

Financing Costs

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

The unamortized balance of financing costs related to mortgages, debentures and the credit facility at December 31, 2015 was $3.2 million, which is $1.2 million lower than the December 31, 2014 year-end balance of $4.4 million. The decrease in the unamortized financing costs as at December 31, 2015 is due to recognition of deferred financing costs through financing 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, debentures and credit facility on the statement of financial position.

Debt-to-Gross Book Value

The REIT monitors its debt-to-gross book value ratio, a non-IFRS 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. Management believes that the REIT's financial and strategic flexibility would be improved by a reduction in its debt-to-gross book value ratio. Over time and as the opportunity arises, management intends to reduce the debt to gross book value to more approximate peer averages. At December 31, 2015 the REIT has a debt-to-gross book value ratio of 69.5% (December 31, 2014 – 70.0%), calculated as follows:

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

(1) Debt refers to the principal balance of mortgages, debentures and the credit facility.

Unitholders' Equity

For the year ended December 31, 2015, unitholders' equity decreased $0.1 million over the balance at December 31, 2014 due to a $14.6 net loss and $7.1 million of distributions paid to unitholders, partially offset by net proceeds of $20.2 million from the rights offering closed during the fourth quarter of 2015 and $1.3 million of distributions reinvested through the REIT's DRIP program.

Distributions

The REIT's Trustees have discretion in declaring distributions and formally review the distributions on a quarterly basis. On August 14, 2014, the Trustees announced a reduction in the distribution to $0.25 per unit on an annualized basis, from $0.50 on an annualized basis. The Trustees believe that this lower distribution more accurately reflects the REIT's current and foreseeable liquidity requirements and will allow for greater strategic and financial flexibility going forwards. For further discussion about the REIT's distribution, see "Liquidity Requirements" below.

Outstanding units

As at December 31, 2015, the REIT had 33,387,646 (December 31, 2014 - 26,356,069) issued and outstanding units. The total aggregate principal amount of two series of convertible debentures due between 2017 and 2018 is $57.5 million with a total of 5,577,236 units issuable upon conversion of these debentures. The conversion prices for each series of convertible debenture is significantly higher than the current trading price of REIT units, as such it is not expected that any conversions will take place in the near future.

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 for mortgages and convertible debentures 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 $10.0 million credit facility to fund the equity portion of property acquisitions. For more on Liquidity Requirements – see part V – RISKS & UNCERTAINTIES – Liquidity Risk.

RELATED PARTY TRANSACTIONS

Effective December 27, 2013, McCowan and Associates ("McCowan") purchased the REIT's external management contract for $1.5 million from the REIT's former asset manager, LAPP Global Asset Management Corp. The fees paid to McCowan are included in other transaction costs.

On February 14, 2014 the REIT entered into an employee services agreement with McCowan which permitted certain employees of the REIT to provide specified property, facility management, administrative and support services on to McCowan. The initial term of the agreement was for one year with an option for renewal for a further one year term. The agreement required McCowan to reimburse the REIT a formula based amount using the square footage of McCowan owned properties that were receiving the services of REIT employees.

During July, 2014 the REIT and McCowan mutually agreed to the termination of the Employee Services Agreement allowing the REIT to retain only employees whose duties relate only to REIT properties.

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

QUARTERLY PERFORMANCE

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

	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014	Q1 2014
Total revenues	$ 14,374,728	$ 14,334,061	$ 13,856,589	$ 14,524,120	$ 14,935,452	$ 14,507,888	$ 15,209,785	$ 15,167,896
Operating expenses	6,355,685	6,050,379	5,987,728	6,204,733	7,000,844	5,909,836	5,795,948	5,773,513
Other expenses	5,302,939	6,216,054	5,040,955	6,275,380	7,128,299	7,234,404	12,093,021	8,785,106
Fair value losses	(14,348,545)	(1,684,003)	(2,038,886)	(6,140,328)	(3,900,519)	(14,538,979)	(7,616,226)	(1,921,463)
Net income (loss)	(11,632,441)	383,625	789,020	(4,096,321)	(3,094,210)	(13,175,331)	(10,295,410)	(1,312,186)
Net income (loss) per unit - basic	(0.41)	0.01	0.03	(0.16)	(0.11)	(0.47)	(0.39)	(0.05)
FFO	2,830,049	2,444,179	2,175,256	2,344,810	1,091,535	2,458,189	2,477,042	3,512,896
FFO per unit - basic	0.10	0.09	0.08	0.09	0.04	0.09	0.09	0.13

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. Further description of our risk factors is contained in the REIT's most recently filed 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. As the REIT re-finances their existing mortgages at maturity, management will obtain new financing terms will more balance the current maturity profiles.

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 December 31, 2015 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 in Interest Expense per Unit per Annum
Mortgages	$	1,634,668	$	0.049
Credit Facility		20,000		0.001
	$	1,654,668	$	0.050

Partners REIT's strategy to mitigate interest rate price risk for its variable rate mortgages is to enter into interest rate swap arrangements when deemed necessary. As at December 31, 2015, Partners REIT has three mortgages whereby the Lender has imbedded swap agreements to fix the interest rate. 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 and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2015 relates to the carrying value of the accounts receivable balance without taking into 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

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations are generally funded from cash flows from operations or from drawing on the $10.0 million Credit Facility ($2.0 million drawn at December 31, 2015). Property debt repayment obligations are generally funded from obtaining debt refinancing on maturing mortgages. Convertible debenture obligations that were not converted to equity, can be repaid at maturity from either a new convertible debenture issue, mortgage financing on existing properties and/or from an equity raise.

Within the next 12 months the REIT has $45.4 million in maturing mortgages on four properties (this excludes $16.0 million from two mortgages with one lender classified as current due to technical covenant violations as at December 31, 2015, but for which a covenant tolerance waiver letter was subsequently obtained). The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing, cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows.

The REIT attempts to mitigate its liquidity risk by:

- staggering the maturities of its 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 $1.7 million in bi-annual interest payments on the two 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 December 31, 2015, the REIT had $2.7 million in cash and $8.0 million of capacity available under its Credit Facility, thereby providing $10.7 million in liquidity. Despite this liquidity, management will need to complete re-financings of maturing mortgages and continue to reduce other transaction costs or the REIT may be required to obtain further financings or sell properties.

As at December 31, 2015, the REIT has $81.3 million in current liabilities, however after considering $16.0 million in two mortgages classified as current, but are not otherwise maturing and net of $0.2 million in non-cash deferred financing costs and interest differentials) the net current liabilities are $65.5m and are as follows:

- $9.1 million is made up of accounts payable, accruals and distributions payable. These payables are to be repaid from a combination of working capital assets and ongoing cash flows from operations;

- $45.4 million in four maturing loans. To be repaid from regular mortgage re-financings at their respective maturity dates;
- $9.0 million in regularly scheduled mortgage payments. These payments are to be made from a combination of working capital assets, ongoing cash flows from operations and from regular mortgage re-financings;
- $2.0 million from the maturing credit facility. Management expects to renew this facility upon expiry.

The REIT's interest coverage ratio of 1.59 (1.80 at December 31, 2014) and debt service coverage ratio of 1.07 (1.22 at December 31, 2014) have both declined from the previous year end. Despite the decline to these ratios, there has been sufficient coverage to service the loans in the current and past reporting periods and management forecasts that there will continue to be sufficient cash being generated, to allow for the regularly scheduled payments (interest and principal) of the REIT's debt obligations.

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 removal and remediation or legal claims against the REIT. 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 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. Management understands that environmental laws and regulations are subject to change and the REIT can be adversely impacted if laws and regulations become more rigorous.

LEGAL AND REGULATORY RISKS

<u>Contingent Liability</u>

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.

<u>Uncertified Class Action Update</u>

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.

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 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 three and nine months ended September 30, 2015.

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, the design and operating effectiveness of the Trust's internal controls over financial reporting as at December 31, 2015 using the Committee of Sponsoring Organizations ("COSO") Internal Control – Integrated Framework (as published in 2013).

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.