MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS AND YEAR ENDED DECEMBER 31, 2016 AND 2015

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 22, 2017 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, 2016, (the "fourth quarter" and "2016", respectively) includes material information up to March 22, 2017. 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 months and year ended December 31, 2016, 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, 2016 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, 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 pages 21-22, and a reconciliation of net income and also cash flow from operations to FFO and AFFO on pages 23-26. 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 22, 2017 the REIT is also listed on the OTC Pink Tier 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 necessity based 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 in the core businesses of grocery, pharmacy, liquor and other service uses. 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 35 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").

Strategy of the REIT

The REIT's stated mission is to "reward its unitholders with sustainable, long-term returns by developing a retail real estate portfolio that features open-air or standalone properties located in stable primary and secondary markets which are anchored by necessity based retailers. The REIT derives value from this portfolio by prioritizing superior tenant client service, focused leasing activities 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 through small tenant improvements. These centres are typically up to 250,000 square feet and anchored by, supermarkets, pharmacies and/or liquor retailers. The REIT intends to maximize the value of its centres by remerchandising, redeveloping, or renewing leases 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, remerchandising and effective lease management.

Accretive opportunities in less competitive markets: The REIT applies an acquisition strategy whereby it seeks to acquire high quality properties in less competitive markets. Management believes that focusing 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 the secondary market.

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

Stable rents via national and regional tenants: The REIT focuses on acquiring retail properties with national and regional retail tenants. These tenants are most likely to fulfill the lease terms to which they have committed and thus offer a stable source of cash flows

Institutional grade properties: The REIT focuses on acquiring properties that are of "institutional grade". 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 cost effective market rates.

Leasing

During the years ended December 31, 2016 and December 31, 2015, the REIT has renewed a total of 370,274 square feet or 95.9% of leasable space that was originally set to expire during 2016. As of December 31, 2016, lease expiries for 2017 and 2018, excluding leases already renewed, represented 8.4% and 7.1%, respectively, of the REIT's total GLA.

Since January 2015, a number of retailers have announced closures, restructurings or bankruptcies in Canada. The REIT's exposure to these retailers has been limited. However, any closures from larger retailers will result in increased supply of retail locations across Canada over the short-term, and potentially affect both retail rental rates and leasing fundamentals. Despite this changing landscape, the REIT believes there is sufficient demand for the majority of its locations due to become vacant during 2017**.** Expiries during 2017 are spread geographically and are generally well located at properties with high demand. The REIT has minimal exposure to Alberta with just three properties representing approximately 5% of total GLA. All three properties are anchored by drugstores or grocers, and surrounded by banks and national/regional chains.

Management believes that the internalization of property management activities that occurred during the second quarter of 2016 is already leading to improved tenant relationships and leasing prospects, as illustrated by the recent activity at Cornwall and a number of new commercial retail unit (“CRU”) leases across the portfolio. The recent consolidation of the properties management in Quebec under a single manager has yielded similar leasing improvements. Barring a further deterioration of the retail leasing environment, management expects that these changes should continue to contribute to improvements in long term occupancy, through both increased efforts to lease currently vacant premises, and increased retention of tenants at future expiries.

Financing

The REIT has $157.3 million (53.0%) in mortgages maturing over the next two years, including $138.9 million in maturing mortgages on twelve properties within the next twelve months. These maturing mortgages have a weighted average contractual interest rate of 4.99%. Based on current financing conditions, management expects that refinancing this portion of the REIT’s debt should result in future reductions to the REIT’s finance costs.

During 2016, the REIT completed $36.2 million in financing at an average contractual rate of 2.91%. During 2015, the REIT completed $51.3 million of new financings at an average contractual interest rate of 4.45%, including second mortgages completed to repay in part the Series I, 8.0% debenture in December of 2015.

On October 22, 2015, the REIT completed a Rights Offering and issued 100% of the units available under the Rights Offering (6,649,364 units) raising gross proceeds of approximately $20.6 million. 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.

During the fourth quarter of 2015, 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 $28.8 million of 8.0% convertible unsecured subordinated debentures (the "Series I Debentures"). The Series I Debentures were scheduled to mature on March 31, 2016.

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, 2016	Dec 31, 2015	**Dec 31, 2016**	Dec 31, 2015
Revenues from income producing properties	**$ 14,391,853**	$ 14,374,728	**$ 56,778,859**	$ 57,089,498
Net income (loss)	**(11,467)**	(11,632,441)	**9,050,438**	(14,556,117)
Net income (loss) per unit - basic	**(0.00)**	(0.41)	**0.27**	(0.52)
NOI - same properties[1]	**8,488,032**	8,006,107	**33,128,189**	32,454,019
NOI - all properties[1]	**8,643,554**	8,234,229	**33,811,701**	33,290,048
FFO[1]	**3,279,396**	2,830,049	**11,882,970**	9,812,733
FFO per unit[1]	**0.10**	0.09	**0.35**	0.35
AFFO[1]	**3,092,884**	2,492,019	**10,855,174**	8,972,457
AFFO per unit[1]	**0.09**	0.08	**0.32**	0.32
Distributions[2]	**2,135,983**	2,105,285	**8,494,169**	7,119,832
Distributions per unit[2]	**0.06**	0.06	**0.25**	0.25
AFFO distribution payout ratio[3]	**69.1%**	84.5%	**78.2%**	79.4%
Cash distributions[4]	**1,601,932**	1,624,306	**6,403,881**	5,625,130
Cash distributions per unit[4]	**0.05**	0.05	**0.20**	0.20

As at	**Dec 31, 2016**	Dec 31, 2015	Dec 31, 2014
Total assets	**$ 514,700,205**	$ 520,970,422	$ 542,551,040
Total debt[6]	**354,556,805**	364,550,117	381,967,023
Total equity	**151,508,380**	148,888,084	149,036,368
Weighted average units outstanding - basic	**33,690,649**	27,831,288	26,206,391
Debt-to-gross book value including debentures[5]	**68.6%**	69.5%	70.0%
Debt-to-gross book value excluding debentures[5]	**57.5%**	58.6%	54.2%
Interest coverage ratio[6]	**1.81**	1.59	1.80
Debt service coverage ratio[6]	**1.18**	1.07	1.22
Mortgages weighted average effective interest rate[7]	**4.41%**	4.57%	4.43%
Portfolio occupancy[8]	**95.1%**	94.6%	94.3%

(1) NOI – same properties and all properties, FFO and AFFO are non-IFRS financial measures widely used in the real estate industry. See “Part II – Performance Measurement” for further details and advisories.

(2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month. Distributions per unit exclude the 5% bonus units, or 3% bonus units for distributions with a record date after March 1, 2016, 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) 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.

(6) 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.

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

(8) Portfolio occupancy is calculated as economic occupancy, not physical occupancy. A unit is considered occupied once it is committed to a lease with a minimum one-year term.

Results for the Three-Month Period Ending December 31, 2016

Revenue from all income producing properties for the fourth quarter was $14.4 million, unchanged from the same prior year period. When compared to the prior quarter's revenue from income producing properties of $14.0 million, the fourth quarter increased by $0.4 million primarily as a result of seasonal tenancies and recoveries adjustments in the fourth quarter.

The small net loss for the fourth quarter represents an improvement of $11.6 million when compared to a net loss of $11.6 million for the fourth quarter of 2015. This improvement was primarily due to a decrease of $10.3 million in unrealized fair value losses, a $1.0 million realized gain on the sale of an income producing property and reduced financing costs. When compared to the prior quarter's net income of $3.3 million, the current quarter's net loss represents a reduction of $3.3 million in income. The reduction is primarily the result of fair value losses in the fourth quarter.

Same properties NOI for the fourth quarter was $8.5 million, an improvement of $0.5 million from the same prior year period. The improvement was a result of cost savings from internalization of the REIT's property management outside of Quebec (excluding three properties in Ontario) and from consolidating property management under one service provider in Quebec. When compared to the prior quarter, fourth quarter same properties NOI increased by $0.2 million mainly as the result of increased revenues as discussed above.

All property NOI for the fourth quarter was $8.6 million, an improvement of $0.4 million from the same prior year period. The improvement is due to the factors discussed in same properties NOI above, partially offset by the removal of results related to one property sold during December 2016. When compared to the prior quarter, the NOI for all properties in the fourth quarter increased by $0.1 million mainly as the result of increased revenues as discussed above.

FFO for the fourth quarter was $3.3 million, a $0.5 million increase when compared to $2.8 million for the same period in the prior year. The increase to FFO was primarily a result of increased NOI and lower finance expense following the repayment of the Series I Debentures. When compared to the prior quarter's FFO of $3.2 million, FFO increased by $0.1 million, due primarily to improved NOI.

AFFO for the fourth quarter was $3.1 million, an increase of $0.6 million when compared to $2.5 million for the same period in the prior year. This improvement was due primarily to improved NOI and decreased interest expense. AFFO increased by $0.2 million when compared to the prior quarter due primarily to increased NOI and lower finance expenses.

In the calculation of AFFO, the REIT recognizes sustaining capital costs on a reserve basis calculated at $1.00 per square foot for fiscal 2016. As such, during each quarter of 2016, the REIT's sustaining capex reserve was $0.25 per square foot per quarter for a total of $1.00 per square foot (year ended December 31, 2015 - $0.90 per square foot). Based on its assessment of the current portfolio, management believes that $1.00 per square foot or $2.5 million closely approximates the ongoing annual sustaining capital expenditures and leasing costs.

Distributions for the fourth quarter were $2.1 million ($0.06 per unit), unchanged from the fourth quarter of 2015 and from the third quarter of 2016.

The AFFO payout ratio for the fourth quarter was 69% (December 31, 2015 – 85%).

Results for the Year Ending December 31, 2016

Revenue from all income producing properties for the year ended December 31, 2016 was $56.8 million, a $0.3 million (1%) decrease when compared to $57.1 million for the year ended December 31, 2015. This decrease was primarily the result of lower recoverable expenses incurred, that had a corresponding reduction to revenues.

Net income for the year ended December 31, 2016 was $9.1 million, an improvement of $23.6 million when compared to a net loss of $14.5 million for the prior year. This increase to net income was primarily due to a reduction in unrealized fair value losses of $21.5 million, a reduction in financing costs of $1.9 million and lower property operating and realty tax costs.

Same properties NOI for the year ended December 31, 2016 was $33.1 million, a $0.7 million increase when compared to $32.4 million for the prior year. This increase to NOI was primarily a result of cost savings from property management improvements and reductions to property operating and realty tax costs, partially offset by reduced recovery revenues resulting from lower property level costs.

All properties NOI for the year ended December 31, 2016 was $33.8 million, a $0.5 million increase when compared to $33.3 million for the prior year. The increase is the result of the same factors discussed above for same properties NOI, partially offset by the inclusion of a property which was sold during December 2016.

FFO for the year ended December 31, 2016 was $11.9 million, a $2.1 million increase when compared to $9.8 million for the prior year. The increase to FFO was primarily a result of lower interest expense following the repayment of the Series I Debentures ($28.8 million at 8.0% - repaid during the fourth quarter 2015) and improvements to NOI as discussed above.

AFFO for the year ended December 31, 2016 was $10.9 million, an improvement of $1.9 million compared to $9.0 million in the prior year due to decreased interest expense and improved all properties NOI, partially offset by a higher allowance for sustaining capital expenditures and leasing costs.

Distributions for the year ended December 31, 2016 were $8.5 million ($0.25 per unit), an increase of $1.4 million (19%) when compared to $7.1 million ($0.25 per unit) for the prior year. 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 AFFO payout ratio for the year ended December 31, 2016 was 78% (December 31, 2015 – 79%).

Financial Position

The REIT's total assets as at December 31, 2016 were $514.7 million, a $6.3 million (1.2%) decrease when compared to $521.0 million as at December 31, 2015. This decrease was primarily a result of the sale of a property during 2016. A portion of the proceeds from the sale were used to repay mortgage financing associated with the property.

The REIT's total debt as at December 31, 2016 was $354.6 million, a $10.0 million (2.6%) decrease when compared to $364.6 million at December 31, 2015. This decrease was the result of $9.2 million of regularly scheduled principal payments on the REIT's mortgages, the repayment of a $6.6 million mortgage secured by a property that was sold and $2.0 million in net repayments made on the REIT's credit facility exceeding the $7.8 million in additional principal borrowed from refinancing activities.

The REIT's debt-to-gross book value at December 31, 2016 was 68.6%, or 57.5% when excluding the impact of convertible debentures. These metrics were 69.5% and 58.6%, respectively, as at December 31, 2015.

The REIT's weighted average effective interest rate for mortgages at December 31, 2016 was 4.41%, which is a 0.16% decrease from December 31, 2015's average of 4.57%. This improvement was a result of the recent refinancings.

Partners' interest coverage ratio at December 31, 2016 was 1.81, an improvement from 1.59 at December 31, 2015. The REIT's debt service coverage ratio at December 31, 2016 was 1.18, an improvement from 1.07 at December 31, 2015.

Occupancy as at December 31, 2016 was 95.1%, an improvement when compared to 94.6% as at December 31, 2015 and unchanged from the prior quarter. Management believes that the REIT's 2017 leasing plans for renewals are progressing well, despite the recent increase in available square footage in the overall market for retail space. As at December 31, 2016, 98.3% of anchors, majors and freestanding build units were leased. This is an increase from 97.5% at the end of 2015 primarily due to the lease up of 15,000 square feet of previously vacant premises at Cornwall to Dollarama.

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, 2016, the REIT's net asset value was $4.46 per unit, unchanged from December 31, 2015.

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%	2.1%	$23.38
Evergreen Shopping Centre Sooke, British Columbia	Retail Strip Centre	1978/2010	Western Foods, Shoppers Drug Mart, BC Liquor	68,025	98.1%	3.2%	$17.86
Mariner Square Shopping Centre Campbell River, British Columbia	Retail Strip Centre	2006/2007	Save-On Foods, Starbucks, London Drugs, BC Liquor	106,473	100.0%	5.1%	$17.66
Alberta:							
137th Avenue Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart, PartSource	15,922	100.0%	0.8%	
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	96.8%	4.1%	$24.17
Manitoba:							
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	1.1%	
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,685	100.0%	0.9%	
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart, Medical Practitioners	20,956	100.0%	1.3%	
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,780	100.0%	1.2%	
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	1.3%	
Ontario:							
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears, Shoppers Drug Mart, Dollarama	250,021	84.6%	6.4%	$11.22
Crossing Bridge Square Stittsville, Ontario	Retail Strip Centre	1995	Farm Boy, McDonalds, IDA	45,913	85.8%	2.1%	$19.33
Grand Bend Town Centre, Grand Bend, Ontario	Retail Strip Centre	2002	Sobey's, Shoppers Drug Mart	41,567	94.2%	1.8%	$16.57
King George Square Brantford, Ontario	Retail Strip Centre	1988	Shoppers Drug Mart, Dollarama	66,983	100.0%	3.3%	$18.06
Place Val Est Sudbury, Ontario	Retail Strip Centre	1983/1987, 1990, 1998	Metro, LCBO, RBC, Pharmasave	110,577	93.4%	3.7%	$13.36
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick, Home Depot Best Buy, BMO	85,192	100.0%	4.1%	$17.80
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.4%	
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.1%	
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.1%	
St. Clair Beach Tecumseh, Ontario	Retail Strip Centre	2004	Shoppers Drug Mart	39,476	100.0%	2.3%	$21.99

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]
Thunder Centre Thunder Bay, Ontario	Power Centre	2004 - 2007	Home Outfitters, LCBO, Home Depot, Old Navy, Dollarama, Mark's	168,087	98.5%	7.9%	$17.70
Timmins Power Centre Timmins, Ontario	Retail Strip Centre	2007 - 2009	Michaels, Mark's	43,774	100.0%	2.0%	$19.30
Wellington Southdale London, Ontario	Retail Strip Centre	1986, 2000, 2004, 2006	Landmark Theatres, Dollarama	86,243	95.0%	3.9%	$17.45
Québec:							
Centre Le Village Shopping Centre Nuns Island, Montréal, Québec	Enclosed Mall	1977, 1991, 2001, 2010, 2012	Loblaws, SAQ	97,458	94.7%	3.7%	$14.73
Centre Commercial Chateauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart, Staples, Québec Government	117,048	98.5%	3.9%	$12.51
Marcel-Laurin Shopping Centre Saint Laurent, Québec	Retail Strip Centre	2011	Metro, Brunet Pharmacy	119,956	100.0%	6.1%	$18.66
Mega Centre Montréal, Québec	Power Centre	1973/1993, 1999, 2000, 2004, 2014	Walmart, Michaels, Brault & Martineau	272,036	97.5%	7.9%	$11.04
Place Desormeaux Longueuil, Québec	Enclosed Mall	1971/1998,2009, 2010	Walmart, Super C, Québec Government	249,910	93.4%	7.3%	$11.63
Place Elgar Nuns Island, Montréal, Québec	Retail Strip Centre	1969, 1989	Couche Tard	10,121	100.0%	0.4%	$14.40
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	47,800	77.4%	1.7%	$16.53
Saint-Remi Shopping Centre Saint-Remi, Québec	Retail Strip Centre	2009 - 2011	Sobey's, SAQ, IGA Uniprix, Tim Hortons	64,112	96.4%	3.0%	$17.91
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,028	100.0%	1.1%	
Sorel Shopping Centre, Sorel, Québec	Retail Strip Centre	2010 - 2012	SAQ, Tim Hortons	30,950	75.1%	1.4%	$22.83
Total				**2,489,702**	**95.1%**	**100%**	**$15.61**

Province	Retail (sq.ft.)[1]	Occupancy[2] [3]	% of annualized base rental revenue[3]	Weighted average rent[4]
British Columbia	207,123	99.4%	10.4%	$18.63
Alberta	123,446	98.3%	8.0%	$24.22
Manitoba	87,246	100.0%	5.7%	$24.30
Ontario	1,024,635	93.5%	38.2%	$14.75
Quebec	1,047,252	95.1%	37.7%	$14.00
Total	**2,489,702**	**95.1%**	**100%**	**$15.61**

Notes:

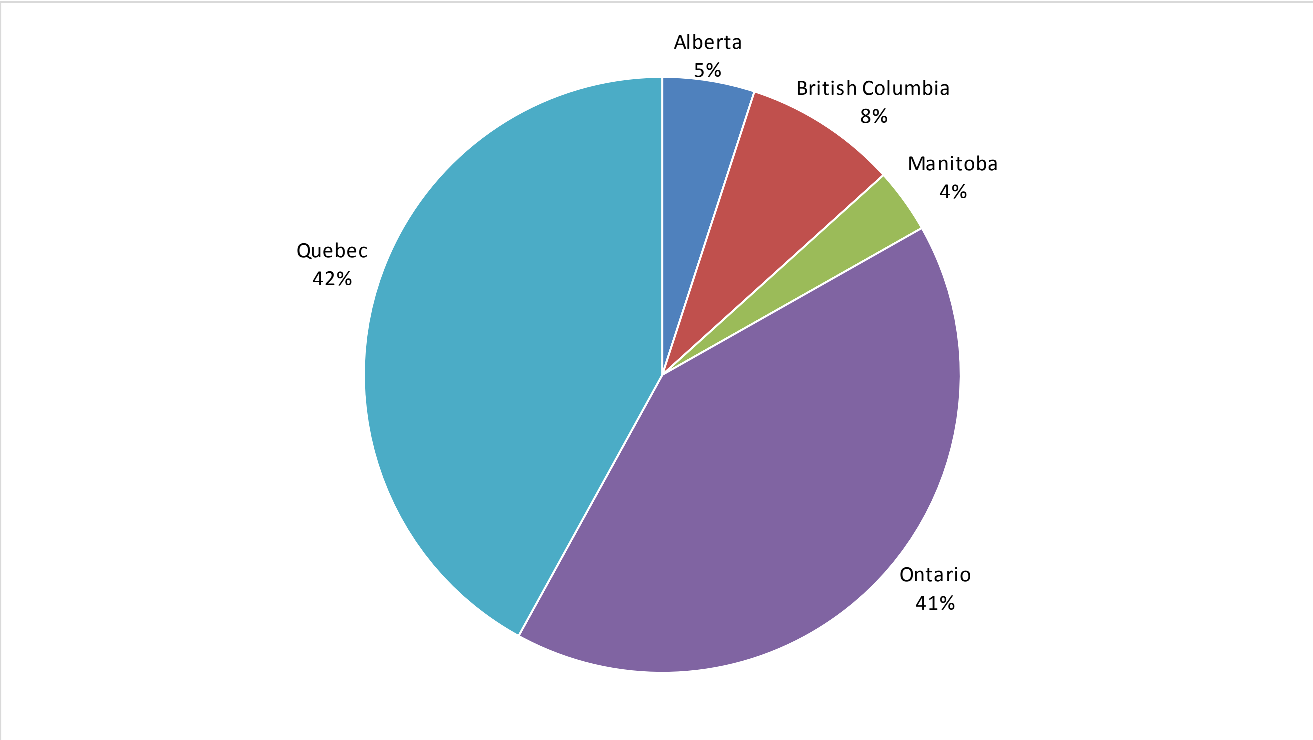
(1) Includes office space in mixed-use retail properties.

(2) Committed occupancy excluding storage space.

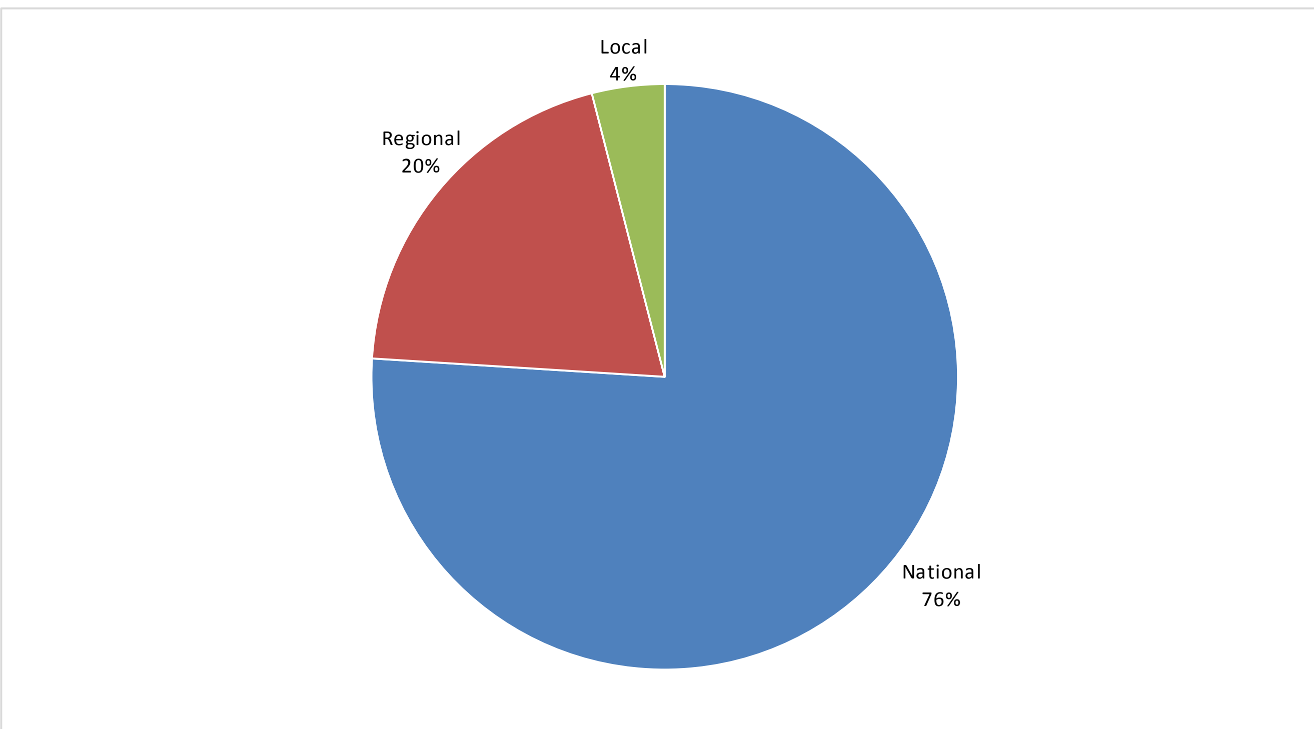
(3) Includes square footage of all material executed leases, regardless of occupancy date, and excludes square footage of all documented material lease terminations updated through December 31, 2016.

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

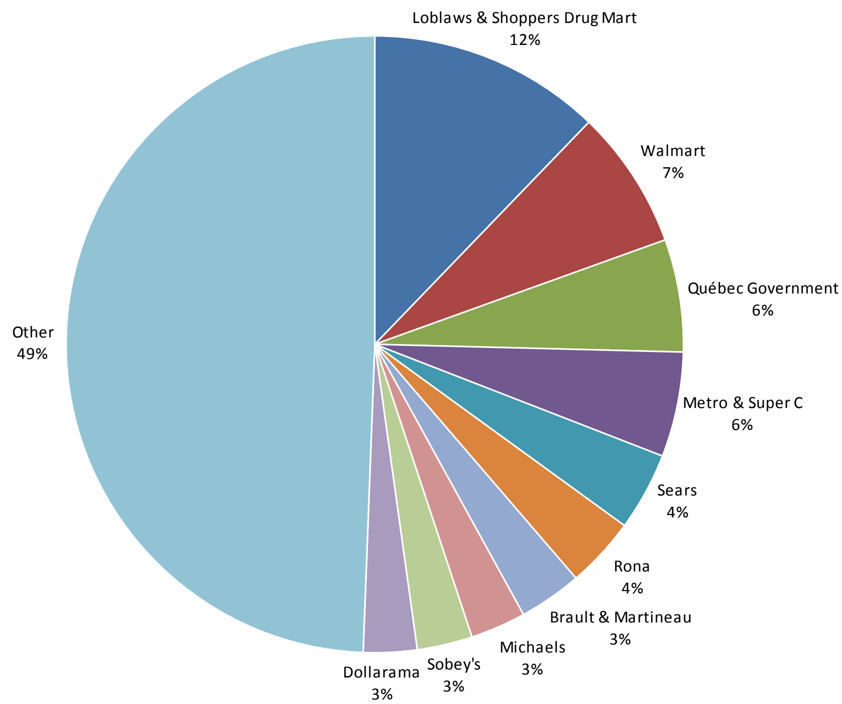
The geographic diversification of the portfolio by GLA is as follows:



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, 2016, including the REIT's ten largest tenants by lease square feet excluding storage, is as follows:



Leasing Activity and Occupancy

The weighted average term to maturity of existing leases is more than five years. As at December 31, 2016, the REIT had renewed a total of 76,768 square feet of leased space that was originally set to expire during 2017. The table below shows the scheduled lease expiries as at December 31, 2016:

	Expiries (sq.ft.)	Expiries (%)	Rent PSF ($)
2017	209,751	8.4%	15.59
2018	177,882	7.1%	16.59
2019	364,016	14.6%	13.39
2020	359,911	14.5%	13.34
2021	447,537	18.0%	15.06
Thereafter	809,838	32.5%	17.66
Vacant	120,767	4.9%	-
Total	2,489,702	100.0%	$ 15.61
Weighted average remaining lease term (years) - **5.04 years**			

Lease expiries, new leasing and renewals completed by December 31, 2016 by number of transactions is as follows:

Year ended	**December 31, 2016**		December 31, 2015	
	# of Transactions	**(%)**	# of Transactions	(%)
Leases renewed	68	87.2%	34	75.6%
Leases in progress or not renewed	10	12.8%	11	24.4%
Total scheduled expiries 2016	78	100.0%	45	100.0%
Abandonment or early termination	5		9	
New leases or expansions	23		19	

Lease expiries, new leasing and renewals completed by December 31, 2016 by total square feet is as follows:

Year ended	**December 31, 2016**		December 31, 2015	
	Sq. Ft.	**(%)**	Sq. Ft.	(%)
Leases renewed	370,274	95.9%	156,129	89.0%
Leases in progress or not renewed	15,882	4.1%	19,324	11.0%
Total scheduled expiries 2016	386,156	100.0%	175,453	100.0%
Abandonment or early termination	15,810		11,344	
New leases or expansions	56,586		32,146	

As at December 31, 2016, the REIT had renewed a total of 370,274 square feet, comprising 68 units, in respect of 78 units that had expired during the year. The balance of 10 units that have expired during 2016, totaling 15,882 square feet, are either in the process of being renewed or will require new tenant prospects. The success in securing new leases and lease renewals for 2016 expiries reflects the REIT's increased focus and efforts on proactive leasing activities over the past year. These efforts have intensified following the recent internalization of property management activities at the REIT's properties outside of Quebec (excluding three properties in Ontario) and the consolidation of the property management function in Quebec under a single Quebec based manager.

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

Quarter Ended	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)
December 31, 2016	2,489,702	2,368,935	95.1%
September 30, 2016	2,519,150	2,394,478	95.1%
June 30, 2016	2,514,885	2,368,535	94.2%
March 31, 2016	2,516,483	2,369,541	94.2%
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%
Average	2,514,521	2,380,253	94.7%

The REIT measures occupancy on a committed basis, which includes tenants who have committed to leasing a space, but are not yet physically occupying that space. When removing the impact of committed leases totaling 46,985 square feet at December 31, 2016, the REIT's economic occupancy is 93.5%.

The following table summarizes occupancy at December 31, 2016 and December 31, 2015 between anchor / major / free standing building ("FSB") and CRU tenants:

		31-Dec-16		
Lease type	Leased sq. ft.	Total sq. ft.	Leased (%)	W.A. rent PSF
Anchor / Major / FSB	1,710,515	1,739,870	98.3%	$ 14.07
CRU	658,419	749,832	87.8%	19.60
Total	2,368,934	2,489,702	95.1%	$ 15.61
		31-Dec-15		
Lease type	Leased sq. ft.	Total sq. ft.	Leased (%)	W.A. rent PSF
Anchor / Major / FSB	1,698,500	1,742,921	97.5%	$ 14.05
CRU	680,959	773,562	88.0%	19.63
Total	2,379,459	2,516,483	94.6%	$ 15.65

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 both comprehensive income and cash provided by operations to FFO in a manner equivalent to the RealPac definition (see pages 23-26).

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 (i.e. - 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 as 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 and related leasing costs 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.

In the calculation of AFFO, the REIT recognizes sustaining capital and leasing costs on a reserve basis calculated at $1.00 per square foot annually. As such, during the fourth quarter, the REIT's sustaining capex reserve was $0.25 per square foot (December 31, 2015 - $0.25 per square foot). Based on its assessment of the current portfolio, management believes that $1.00 per square foot closely approximates the ongoing annual sustaining capital and leasing costs. This reserve amount is re-evaluated annually and the 2017 sustaining capital reserve will be determined and reported with the March 31, 2017 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, 2016, the rolling four-quarter DSCR was 1.18 to 1, an improvement from 1.07 to 1 at December 31, 2015.

Mortgages Weighted Average Effective Interest Rate

The REIT's weighted average effective interest rate is a non-IFRS financial measure that includes interest on secured debt and excludes interest on debentures and the credit facility. Effective interest rates include the impact of costs paid to secure financing and mark to market interest rate adjustments. 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, 2016, the REIT's weighted average effective interest rate for mortgages was 4.41%, improved from 4.57% as at December 31, 2015.

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

During the second quarter of 2016, with the exception of three Ontario properties the REIT has completed the internalization of the property management of its 25 properties in Ontario, Manitoba, Alberta, and British Columbia. Plans to internalize were first announced on March 16, 2016, in a press release titled, *Partners Real Estate Investment Trust Announces Increased Property Management Focus*. With the exception of the finance and accounting functions, these properties had been managed by an external third party that has worked with the REIT in some capacity since September 2014.

In the same press release the REIT also announced its intention to consolidate the property management of the REIT's 10 properties in Quebec under the oversight of a single external property manager. On June 16, 2016, the REIT announced that the mandate had been awarded to COGIR Real Estate following a formal Request for Proposals and a thorough selection process. The change to a single manager was effective August 1, 2016. The REIT believes this strategy will result in both cost efficiencies and an enhanced tenant experience.

Changes to Senior Management and the Board of Trustees

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.

On March 16, 2016, Partners announced the resignation of Marc Charlebois from the REIT's Board of Trustees.

On May 25, 2016, based on voting results at the Annual General Meeting, Jane Domenico was elected to the REIT'S Board of Trustees.

On February 23, 2017, the REIT announced that Mr. C. Ian Ross would replace Mr. Dexter John as Chairman of the Board of Trustees and that Mr. John had tendered his resignation as a Trustee effective February 28, 2017.

On March 7, 2017, the REIT announced that Mr. Grant Anthony joined the Board of Trustees.

Debt Financings (Property Mortgages)

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 5.50%. A portion of the proceeds from these mortgages was used to complete the redemption of the final 25% of its $28.8 million 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 all 2015, Partners completed $51.3 million of new debt financings, inclusive of refinancing maturing mortgages, at an average rate of 4.45%.

On June 30, 2016, Partners completed a $13.7 million mortgage financing at the REIT's Wellington Southdale property in London, Ontario. This new mortgage, held by Manulife Financial, is for a five-year term and carries an interest rate of 2.94%. $9.8 million of the proceeds were used for the full repayment of the property's two existing mortgages, which carried an average contractual interest rate of 5.71%. The remaining net proceeds of $3.9 million were partially deployed towards a $3.0 million repayment on Partners' Credit Facility.

On September 28, 2016, the REIT completed an $11.9 million financing secured on a multi-tenant property in British Columbia. The mortgage has a term of five years with an interest rate of 2.85% per annum and an amortization period of 25 year. This financing replaced a maturing mortgage with a principal balance of $9.1 million and a contractual interest rate of 3.80%.

On November 18, 2016, the REIT completed a $10.7 million financing secured on a multi-tenant property in Quebec. The mortgage has a term of five years with an interest rate of 2.95% per annum and an amortization period of 25 years. This financing replaced a maturing mortgage with a principal balance of $9.5 million and a contractual interest rate of 3.42%.

In December 2016, the REIT extended the maturity of a $17.0 million mortgage from December 31, 2016 to March 31, 2017.

In December 2016, the REIT repaid a $6.6 million mortgage with funds from the sale of the property that had secured the mortgage. The mortgage carried a contractual interest rate of 3.84% and was set to mature in June 2017.

Equity Financings (Rights Offering)

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 for $3.10 per unit, representing 100% of the units available under the Rights Offering.

The REIT applied the net proceeds from the Rights Offering 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.

Certified 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.

As a result of information obtained subsequently, 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.

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 former Trustees of the REIT. The class action was certified on November 8, 2016. 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 former Officer and former Trustees 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 IV – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is financial information from the condensed consolidated statements of comprehensive income for the three months and year ended December 31, 2016:

Three months ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Revenues from income producing properties	$	**14,391,853**	$	14,374,728	$	17,125	0%
Property operating expenses		**(2,358,329)**		(2,445,918)		87,589	4%
Realty taxes		**(3,406,680)**		(3,459,045)		52,365	2%
Property management fees		**(225,870)**		(450,722)		224,852	50%
		8,400,974		8,019,043		381,931	5%
Other expenses:							
Financing costs		**4,303,819**		4,610,637		(306,818)	(7%)
General and administrative expenses		**1,060,340**		793,543		266,797	34%
Other transaction costs		**49,971**		(101,241)		151,212	149%
		5,414,130		5,302,939		111,191	2%
Income before FV gains (losses)		**2,986,844**		2,716,104		270,740	10%
Gain on sale of investment property		**1,017,378**		-		1,017,378	0%
Fair value losses		**(4,015,689)**		(14,348,545)		10,332,856	72%
Comprehensive loss	$	**(11,467)**	$	(11,632,441)	$	11,620,974	100%
Loss per unit, basic	$	**(0.00)**	$	(0.41)	$	0.41	100%

Year ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Revenues from income producing properties	$	**56,778,859**	$	57,089,498	$	(310,639)	(1%)
Property operating expenses		**(8,938,584)**		(9,179,846)		241,262	3%
Realty taxes		**(13,537,537)**		(13,754,143)		216,606	2%
Property management fees		**(1,342,098)**		(1,664,536)		322,438	19%
		32,960,640		32,490,973		469,667	1%
Other expenses:							
Financing costs		**17,798,889**		19,726,810		(1,927,921)	(10%)
General and administrative expenses		**4,129,842**		3,750,505		379,337	10%
Other transaction costs		**267,242**		417,776		(150,534)	(36%)
		22,195,973		23,895,091		(1,699,118)	(7%)
Income before FV gains (losses) and insurance		**10,764,667**		8,595,882		2,168,785	25%
Insurance proceeds		**-**		1,059,763		(1,059,763)	(100%)
Gain on sale of investment property		**1,017,378**		-		1,017,378	0%
Fair value losses		**(2,731,607)**		(24,211,762)		21,480,155	89%
Comprehensive income (loss)	$	**9,050,438**	$	(14,556,117)	$	23,606,555	162%
Income (loss) per unit, basic	$	**0.27**	$	(0.52)	$	0.79	(152%)

Comprehensive Income (Loss)

The small net loss for the fourth quarter represents an improvement of $11.6 million when compared to a net loss of $11.6 million for the fourth quarter of 2015. This improvement was primarily due to a decrease of $10.3 million in unrealized fair value losses, a $1.0 million realized gain on the sale of an income producing property and reduced financing costs. When compared to the prior quarter's net income of $3.3 million, the current quarter's net loss represents a reduction of $3.3 million in income. The reduction is primarily the result of fair value losses in the fourth quarter.

Net income for the year ended December 31, 2016 was $9.1 million, an improvement of $23.6 million when compared to a net loss of $14.5 million for the prior year. This increase to net income was primarily due to a reduction in unrealized fair value losses of $21.5 million, a reduction in financing costs of $1.9 million and lower property operating and realty tax costs.

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 $4.3 million, a decrease of $0.3 million (7%) from the same prior year period amount of $4.6 million. For the year ended December 31, 2016, financing costs of $17.8 million represented a decrease of $1.9 million (10%) from $19.7 million in the prior year. These decreases were due to a reduction in both interest and the amortization of deferred financings costs that were as a direct result of the repayment of the Series I Debentures during the fourth quarter of 2015. Finance costs were also reduced in part due to the REIT's ability to refinance maturing mortgages at lower interest rates.

General and Administrative Expenses

General and administrative expense for the fourth quarter of 2016 was $1.1 million, an increase of $0.3 million (34%) when compared to $0.8 million during the same prior year period. For the year ended December 31, 2016 general administrative expense of $4.1 million increased by $0.4 million (10%) from $3.7 million for the prior year. This increase in costs for both periods relates primarily to the incremental costs from the opening of the Toronto corporate office.

Other Transaction Costs

Other transactions costs were $0.1 million for the fourth quarter of 2016, an increase from the prior year recovery of $0.1 million. For the year ended December 31, 2016 other transactions costs totaled $0.3 million, a reduction of $0.1 million from the balance of $0.4 million in the prior year. The costs in 2016 relate to legal matters stemming from the Holyrood transaction.

Fair Value Gains and Losses

The fair value loss was $4.0 million for the three months ended December 31, 2016 and $2.7 million for the year ended December 31, 2016. These losses were recognized primarily as a result of changes in capital reserves and future leasing assumptions. During 2016 the REIT obtained thirteen independent external appraisals representing 34.7% of the fair value of the income producing portfolio. During the year ended December 31, 2015, external appraisals were obtained for thirteen of the REIT's properties with an aggregate fair value of $237.7 million, representing 46.4% of the fair value of the income producing property portfolio as of that date.

Realized Gain on Sale of Investment Property

On December 22, 2016 the REIT completed a sale of a retail strip centre located in Courtenay, British Columbia. The selling price of the property was $12.8 million, with $0.4 million in closing costs for net proceeds of $12.4m. The REITS book value was $11.4m, resulting in a gain on disposition of $1.0 million.

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 Properties 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. As a result, the below same properties NOI amounts exclude the results of the property sold during December 2016.

						Change	
Three months ended		**Dec 31, 2016**		Dec 31, 2015		($)	(%)
Revenues from income producing properties	**$**	**14,137,046**	$	14,067,218	$	69,828	0%
Property operating expenses		**(2,317,386)**		(2,429,839)		112,453	5%
Realty taxes		**(3,347,986)**		(3,402,055)		54,069	2%
Property management fees		**(223,757)**		(442,139)		218,382	49%
		8,247,917		7,793,185		454,732	6%
Amortization of tenant costs		**240,115**		212,922		27,193	13%
Net operating income	**$**	**8,488,032**	$	8,006,107		481,925	6%
NOI as a % of revenues		***60.0%***		*56.9%*			*3.1%*

Same properties NOI for the fourth quarter was $8.5 million, an improvement of $0.5 million from the same prior year period. The improvement was a result of higher revenues and the cost savings from internalization of the REIT's property management outside of Quebec (excluding three properties in Ontario) and from consolidating property management under one service provider in Quebec.

						Change	
Year ended		**Dec 31, 2016**		Dec 31, 2015		($)	(%)
Revenues from income producing properties	**$**	**55,724,711**	$	55,895,650	$	(170,939)	(0%)
Property operating expenses		**(8,807,797)**		(9,066,991)		259,194	3%
Realty taxes		**(13,300,428)**		(13,526,181)		225,753	2%
Property management fees		**(1,329,811)**		(1,638,556)		308,745	19%
		32,286,675		31,663,922		622,753	2%
Amortization of tenant costs		**841,514**		790,097		51,417	7%
Net operating income	**$**	**33,128,189**	$	32,454,019		674,170	2%
NOI as a % of revenues		***59.4%***		*58.1%*			*1.4%*

Same properties NOI for the year ended December 31, 2016 was $33.1 million, a $0.7 million increase when compared to $32.4 million for the prior year. This increase to NOI was primarily a result of cost savings from property management improvements and reductions to property operating and realty tax costs, partially offset by reduced recovery revenues resulting from lower property level costs.

All Properties NOI

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

Three months ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Revenues from income producing properties	$	**14,391,853**	$	14,374,730	$	17,123	0%
Property operating expenses		**(2,358,329)**		(2,445,922)		87,593	4%
Realty taxes		**(3,406,680)**		(3,459,042)		52,362	2%
Property management fees		**(225,870)**		(450,723)		224,853	50%
		8,400,974		8,019,043		381,931	5%
Amortization of tenant costs		**242,580**		215,186		27,394	13%
Net operating income	$	**8,643,554**	$	8,234,229	$	409,325	5%
NOI as a % of revenues		***60.1%***		*57.3%*			*2.8%*

All property NOI for the fourth quarter was $8.6 million, and improvement of $0.4 million from the same prior year period. The improvement is due to the same factors discussed in same properties NOI above, partially offset by the removal of results related to one property sold during December 2016.

Year ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Revenues from income producing properties	$	**56,778,859**	$	57,089,498	$	(310,639)	(1%)
Property operating expenses		**(8,938,584)**		(9,179,846)		241,262	3%
Realty taxes		**(13,537,537)**		(13,754,143)		216,606	2%
Property management fees		**(1,342,098)**		(1,664,536)		322,438	19%
		32,960,640		32,490,973		469,667	1%
Amortization of tenant costs		**851,061**		799,075		51,986	7%
Net operating income	$	**33,811,701**	$	33,290,048	$	521,653	2%
NOI as a % of revenues		***59.5%***		*58.3%*			*1.2%*

All properties NOI for the year ended December 31, 2016 was $33.8 million, a $0.5 million increase when compared to $33.3 million for the prior year. The increase is the result of the same factors discussed for same properties NOI, partially offset by the inclusion of a property which was sold during December 2016

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

A reconciliation of IFRS net income to FFO and AFFO for the three months ended December 31, 2016 is as follows:

Three months ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Net income	**$**	**(11,467)**	$	(11,632,441)	$	11,620,974	100%
Amortization of deferred leasing costs		**242,581**		215,186		27,395	13%
Other transaction costs		**49,971**		(101,241)		151,212	149%
Fair value (gains) losses		**4,015,689**		14,348,545		(10,332,856)	(72%)
Gain on sale of property		**(1,017,378)**		-		(1,017,378)	0%
FFO		**3,279,396**		2,830,049		449,347	16%
Straight-line rent		**31,242**		(197,769)		229,011	116%
Deferred financing amortization, interest accretion		**412,246**		426,739		(14,493)	(3%)
Prepayment penalties on mortgages		**-**		63,000		(63,000)	(100%)
Sustaining capex		**(630,000)**		(630,000)		-	0%
AFFO	**$**	**3,092,884**	$	2,492,019	$	600,865	24%
Weighted average units outstanding - basic		**33,908,284**		31,808,036		2,100,248	7%
FFO per unit	**$**	**0.097**	$	0.089	$	0.008	9%
AFFO per unit	**$**	**0.091**	$	0.078	$	0.013	17%

FFO for the fourth quarter was $3.3 million, a $0.5 million increase when compared to $2.8 million for the same period in the prior year. The increase to FFO was primarily a result of increased NOI and lower interest expense following the repayment of the Series I Debentures. When compared to the prior quarter's FFO of $3.2 million, FFO increased by $0.1 million, due primarily to improved NOI.

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 and leasing expenditures. As a consequence, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the fourth quarter was $3.1 million, an increase of $0.6 million when compared to $2.5 million for the same period in the prior year. This improvement was due primarily to improved NOI and decreased interest expense. AFFO increased by $0.2 million when compared to the prior quarter due primarily to increased NOI.

A reconciliation of IFRS cash flow provided by operating activities to FFO and AFFO for the three months ended December 31, 2016 is as follows:

Three months ended	Dec 31, 2016	Dec 31, 2015	Change ($)	Change (%)
Cash flow provided by operating activities	**$ 5,309,466**	$ 5,145,647	$ 163,819	3%
Straight line rent	**(31,242)**	197,769	(229,011)	(116%)
Deferred financing amortization, interest accretion	**(412,246)**	(489,739)	77,493	16%
Interest differential	**213,953**	356,516	(142,563)	(40%)
Change in working capital and accrued interest	**(1,850,506)**	(2,278,903)	428,397	19%
Other transaction costs	**49,971**	(101,241)	151,212	149%
FFO	**3,279,396**	2,830,049	449,347	16%
Straight-line rent	**31,242**	$ (197,769)	229,011	116%
Deferred financing amortization, interest accretion	**412,246**	426,739	(14,493)	(3%)
Prepayment penalties on mortgages	**-**	63,000	(63,000)	(100%)
Sustaining capex	**(630,000)**	(630,000)	-	0%
AFFO	**$ 3,092,884**	$ 2,492,019	$ 600,865	24%
Weighted average units outstanding - basic	**33,908,284**	31,808,036	2,100,248	7%
FFO per unit	**$ 0.097**	$ 0.089	$ 0.008	9%
AFFO per unit	**$ 0.091**	$ 0.078	$ 0.013	17%

For the three months ended December 31, 2016, the REIT generated $5.3 million in cash flows from operating activities while making $2.1 million in distributions resulting in an aggregate cash surplus of $3.2 million. The main driver of the fourth quarter’s cash surplus is from cash generated from improvements to working capital balances. The entire current period’s distributions are considered a return on capital.

A reconciliation of IFRS net income to FFO and AFFO for the year ended December 31, 2016 is as follows:

Year ended	Dec 31, 2016	Dec 31, 2015	Change ($)	Change (%)
Net income	**$ 9,050,438**	$ (14,556,117)	$ 23,606,555	162%
Amortization of deferred leasing costs	**851,061**	799,075	51,986	7%
Other transaction costs	**267,242**	417,776	(150,534)	(36%)
Fair value (gains) losses	**2,731,607**	24,211,762	(21,480,155)	(89%)
Gain on sale of property	**(1,017,378)**	-	(1,017,378)	0%
Insurance proceeds	**-**	(1,059,763)	1,059,763	100%
FFO	**11,882,970**	9,812,733	2,070,237	21%
Straight-line rent	**(257,652)**	(696,302)	438,650	63%
Deferred financing amortization, interest accretion	**1,750,856**	2,062,026	(311,170)	(15%)
Prepayment penalties on mortgages	**-**	63,000	(63,000)	(100%)
Sustaining capex	**(2,521,000)**	(2,269,000)	(252,000)	(11%)
AFFO	**$ 10,855,174**	$ 8,972,457	$ 1,882,717	21%
Weighted average units outstanding - basic	**33,690,649**	27,831,288	5,859,361	21%
FFO per unit	**$ 0.353**	$ 0.353	$ -	0%
AFFO per unit	**$ 0.322**	$ 0.322	$ -	0%

FFO for the year ended December 31, 2016 was $11.9 million, a $2.1 million increase when compared to $9.8 million for the prior year. The increase to FFO was primarily a result of lower interest expense following the repayment of the Series I Debentures ($28.8 million at 8.0% - repaid during the fourth quarter 2015) and improvements to NOI.

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 and leasing expenditures. As a consequence, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the year ended December 31, 2016 was $10.9 million, an improvement of $1.9 million compared to $9.0 million in the prior year due to decreased interest expense and improved all properties NOI, partially offset by a higher allowance for sustaining capital and leasing expenditures.

A reconciliation of IFRS cash flow provided by operating activities to FFO and AFFO for the year ended December 31, 2016 is as follows:

Year ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Cash flow provided by operating activities	**$**	**15,252,795**	$	9,305,937	$	5,946,858	64%
Straight line rent		**257,652**		696,302		(438,650)	(63%)
Deferred financing amortization, interest accretion		**(1,750,856)**		(2,125,026)		374,170	18%
Interest differential		**899,752**		1,025,883		(126,131)	(12%)
Change in working capital and accrued interest		**(3,043,615)**		1,551,624		(4,595,239)	(296%)
Other transaction costs		**267,242**		417,776		(150,534)	(36%)
Insurance proceeds		**-**		(1,059,763)		1,059,763	100%
FFO		**11,882,970**		9,812,733		2,070,237	21%
Straight-line rent		**(257,652)**		(696,302)		438,650	63%
Deferred financing amortization, interest accretion		**1,750,856**		2,062,026		(311,170)	(15%)
Prepayment penalties on mortgages		**-**		63,000		(63,000)	(100%)
Sustaining capex		**(2,521,000)**		(2,269,000)		(252,000)	(11%)
AFFO	**$**	**10,855,174**	$	8,972,457	$	1,882,717	21%
Total weighted average units		**33,690,649**		27,831,288		5,859,361	21%
FFO per unit	**$**	**0.353**	$	0.353	$	-	0%
AFFO per unit	**$**	**0.322**	$	0.322	$	-	0%

For the year ended December 31, 2016, the REIT generated $15.3 million in cash flows from operating activities while making $8.5 million in distributions resulting in an aggregate cash surplus of $6.8 million. As a result, the year's distributions would be considered a return on capital.

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

The following table summarizes cash flows for the three months ended December 31, 2016:

Three months ended		**Dec 31, 2016**		Dec 31, 2015		Change ($)	(%)
Cash flow provided by operating activities	**$**	**5,309,466**	$	5,145,647	$	163,819	3%
Cash flow used by financing activities		**(9,599,273)**		(4,580,333)		(5,018,940)	(110%)
Cash flow provided (used) by investing activities		**10,469,799**		(1,000,258)		11,470,057	1,147%
NET INCREASE (DECREASE) IN CASH		**6,179,992**		(434,944)		6,614,936	1,521%
CASH, OPENING		**2,954,044**		3,104,965		(150,921)	(5%)
CASH, ENDING	**$**	**9,134,036**	$	2,670,021	$	6,464,015	242%

Operating Activities

Cash flow from operating activities for the fourth quarter was $5.3 million, a $0.2 million increase when compared to a $5.1 million for the fourth quarter of 2015. This increase to operating cash flows was primarily the result of improvements to working capital balances during the fourth quarter of 2016.

Financing Activities

Cash flows used by financing activities for the fourth quarter was $9.6 million, which is an $5.0 million decrease to cash as compared to the $4.6 million used in the prior year's comparative period. The current period's $9.6 million net cash outflow from financing activities was the result of the repayment of a $6.6 million mortgage secured by a property sold in the period, $2.3 million of regular principal mortgage repayments, $1.6 million of cash distributions and $0.3 million of financing costs to obtain a new mortgage and extend the credit facility, partially offset by $1.2 million additional financing received from mortgage refinancing activity.

Investing Activities

Cash flows provided by investing activities for the fourth quarter were $10.5 million, an increase of $10.9 million when compared to $0.4 million used during 2015's comparable period. The net cash provided during the fourth quarter of 2016 was the result of $12.5 million in net proceeds from a property disposition exceeding $2.0 million in capital expenditures.

For the three months ended December 31, 2016 and 2015, capital expenditures were as follows:

Three months ended		**Dec 31, 2016**		Dec 31, 2015
Recoverable from tenants	**$**	**347,586**	$	521,040
Non-recoverable from tenants		**634,133**		(60,774)
Development or re-development		**659,909**		134,808
		1,641,628		595,074
Leasing activities		**350,802**		405,183
	$	**1,992,430**	$	1,000,257

Actual sustaining capital expenditures for the three months ended December 31, 2016 were $1.3 million (three months ended December 31, 2015 - $0.7 million).

The following table summarizes cash flows for the year ended December 31, 2016:

Year ended		Dec 31, 2016		Dec 31, 2015		Change ($)	Change (%)
Cash flow provided by operating activities	**$**	**15,252,795**	$	9,305,937	$	5,946,858	64%
Cash flow used by financing activities		**(17,037,635)**		(4,329,700)		(12,707,935)	(294%)
Cash flow provided (used) by investing activities		**8,248,855**		(4,458,487)		12,707,342	285%
NET INCREASE IN CASH		**6,464,015**		517,750		5,946,265	1,148%
CASH, OPENING		**2,670,021**		2,152,271		517,750	24%
CASH, ENDING	**$**	**9,134,036**	$	2,670,021	$	6,464,015	242%

Operating Activities

Cash flow from operating activities for the year ended December 31, 2016 was $15.3 million, a $6.0 million increase when compared to $9.3 million for the prior year. This increase to operating cash flows was primarily the result of increased cash inflows from changes in working capital and lower interest expense following the repayment of the Series I Debentures in the fourth quarter of 2015.

Financing Activities

Cash flows used by financing activities for the year ended December 31, 2016 was $17.0 million, which is a $12.7 million decrease in cash flow as compared to $4.3 million used by financing activities in the prior year. This year over year decrease in cash provided from financing activities is a result of improved operating cash flows and the sale of a property during 2016 that allowed for greater debt reduction.

Investing Activities

Cash provided by investing activities for the year ended December 31, 2016 was $8.2 million, an increase in cash provided of $12.7 million when compared to the $4.5 million used during 2015. The increase to cash outlay was the result of a property sale during the fourth quarter of 2016.

For the year ended December 31, 2016 and 2015, capital expenditures were as follows:

Year ended		Dec 31, 2016		Dec 31, 2015
Recoverable from tenants	**$**	**694,504**	$	1,381,640
Non-recoverable from tenants		**2,202,118**		133,088
Development or re-development		**513,566**		1,166,907
		3,410,188		2,681,635
Leasing activities		**803,187**		2,362,352
	$	**4,213,375**	$	5,043,987

Excluding the current year’s $1.0 million in capital recoveries of prior years’ capital expenditures, the total capital expenditures for the year ended December 31, 2016 were $5.2 million. Of this $5.2 million expenditure, the actual sustaining capital expenditures were $3.6 million (year ended December 31, 2015 - $3.5 million).

The REIT incurred development costs for the following projects:

- Development work for the new Dollarama tenancy at Cornwall Square;
- Design and engineering for the development of a 6,126 square foot building on a vacant pad site at Mariner Square. This pad has been 100% pre-leased to two tenants;
- Design and engineering costs for the future development and densification of Centre Le Village; and,
- Final site restoration costs relating to the 2013 fire at Evergreen Shopping Centre.

FINANCIAL POSITION ANALYSIS

Statement of Financial Position – Total Assets

As at		Dec 31, 2016		Dec 31, 2015		Change ($)	(%)
Income producing properties	$	**500,989,997**	$	511,817,617	$	(10,827,620)	(2%)
Other assets		**3,013,980**		3,146,165		(132,185)	(4%)
Accounts receivable		**1,562,192**		3,336,619		(1,774,427)	(53%)
Cash		**9,134,036**		2,670,021		6,464,015	242%
Total assets	$	**514,700,205**	$	520,970,422	$	(6,270,217)	(1%)

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 $10.8 million in income producing properties at December 31, 2016 over December 31, 2015 was a result of the sale of a property with a carrying value of $11.4 million and the recognition of fair value losses offsetting capital improvement work.

During the year ended December 31, 2016, the REIT had thirteen of its properties appraised representing an aggregate fair value of $173.9 million, or 34.7% of the total portfolio value. During fiscal 2015, the REIT had thirteen of its properties appraised, representing an aggregate fair value of $237.7 million, or 46.4% of the total 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 2016, the balance of other assets has decreased by $0.1 million (4%), due primarily to the release of cash held in escrow, partially offset by an increase to other prepaid expenses.

Accounts receivable

Accounts receivable decreased by $1.8 million (53%) during the year ended December 31, 2016. The decrease was primarily the result of the collection of a significant construction reimbursement and several significant tenant receivables.

Net Asset Value

As at		Dec 31, 2016		Dec 31, 2015		Change ($)/(units)	(%)
Units outstanding, end of period		**33,983,594**		33,387,646		595,948	2%
Unitholders' equity	$	**151,508,380**	$	148,888,084	$	2,620,296	2%
Net asset value per unit	$	**4.46**	$	4.46	$	-	0%

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, 2016, the net asset value of the REIT was $151.5 million as compared to $148.9 million at December 31, 2015. This $2.6 million increase to NAV is a result of units issued under the DRIP and comprehensive income, partially offset by distributions paid to unitholders.

On a per unit basis, NAV was unchanged at $4.41 per unit and this is as a result of increased NAV as discussed above, offset by an increase in units outstanding resulting from the issuance of DRIP units.

Capital

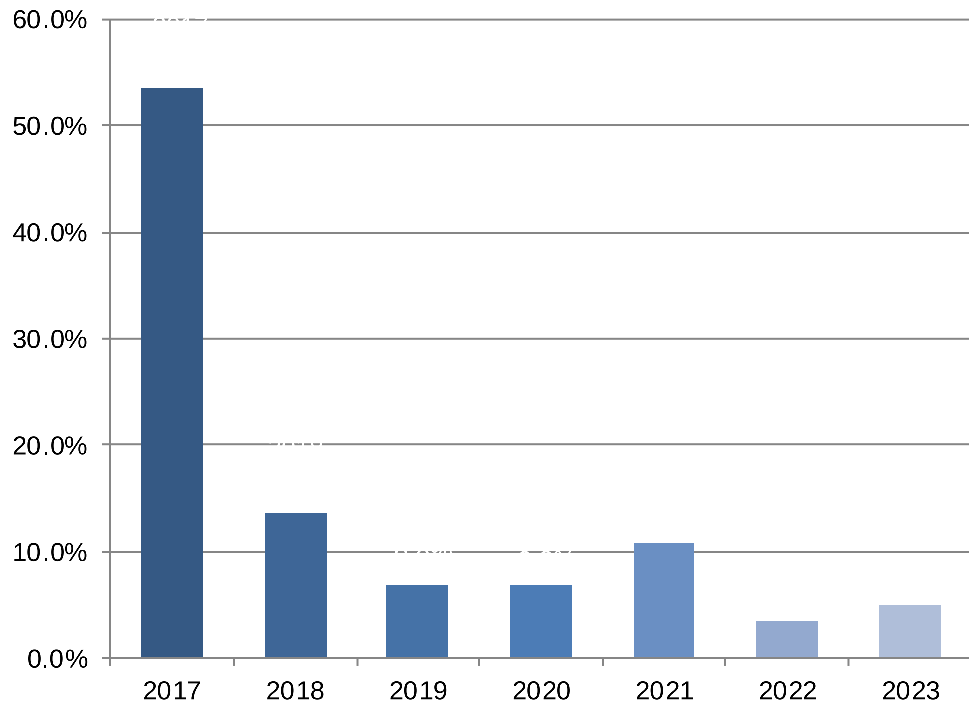
The REIT’s capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance 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, 2016 and December 31, 2015:

						Change	
As at		**Dec 31, 2016**		Dec 31, 2015		($)	(%)
Mortgages payable	**$**	**296,410,961**	$	304,948,995	$	(8,538,034)	(3%)
Debentures		**56,764,420**		56,014,181		750,239	1%
Credit facilities		**-**		1,976,561		(1,976,561)	(100%)
Unitholders' equity		**151,508,380**		148,888,084		2,620,296	2%
Total capital	**$**	**504,683,761**	$	511,827,821	$	(7,144,060)	(1%)

Mortgages and Other Financing

The following is a debt maturity chart for the REIT’s mortgages payable and debentures as at December 31, 2016:



Over the next two years, the REIT has approximately $157.3 million in mortgages maturing which carry an average contractual interest rate of 4.99%. Refinancing the mortgages at current market rates would result in a reduction to the REIT’s average rate of interest. The REIT also needs to re-finance two series of convertible debentures totaling $57.5 million, carrying a weighted average coupon interest rate of 5.8%. Interest coverage and debt service coverage ratios are as follows:

For the rolling four quarters ended	**Dec 31, 2016**	Dec 31, 2015
Interest coverage ratio(1)	**1.81**	1.59
Debt service coverage ratio(2)	**1.18**	1.07

(1) Interest coverage ratio, a non-IFRS measure, is calculated on a rolling four-quarter basis as EBITDA divided by 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 and debt service coverage ratios for the rolling four quarters ended December 31, 2016 improved in comparison to December 31, 2015, primarily as a result of refinancing maturing mortgages at lower rates.

Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable is approximately two and a half years, and the weighted average contractual interest rate as at December 31, 2016 was 4.32% (December 31, 2015 – 4.49%). Future principal repayments on the mortgages payable are as follows for 2017 to 2021 and thereafter:

Year	Principal installment payments	Principal maturing	Total	W.A. contractual rate on debt maturing
2017	7,340,705	138,906,931	146,247,636	5.03%
2018	4,575,333	18,439,813	23,015,146	4.71%
2019	4,403,216	18,590,780	22,993,996	3.61%
2020	3,561,367	19,391,463	22,952,830	3.65%
2021	2,822,784	33,715,355	36,538,139	3.07%
Thereafter	3,416,234	41,892,824	45,309,058	4.04%
Total	$ 26,119,639	$ 270,937,166	$ 297,056,805	4.32%

The REIT's objective in refinancing its property mortgages 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, 2016, the REIT was in technical violation of an annual financial covenant on a mortgage secured by a property in Quebec. This mortgage does not contain a cross-default provision that would trigger the breach of other financial covenants. Subsequent to December 31, 2016, the REIT obtained a covenant tolerance waiver letter for this mortgage. For December 31, 2016 the $10.5 million mortgage has 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, 2016, 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, 2016, 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, 2016, the REIT's credit facility was fully repaid. The remaining availability of the REIT's credit facility is as follows:

		Dec 31, 2016		Dec 31, 2015
Credit facility	**$**	**10,000,000**	$	10,000,000
Line of credit outstanding		**-**		(2,000,000)
Remaining unused credit facility	**$**	**10,000,000**	$	8,000,000

The REIT's credit facility contains a debt to equity covenant that requires the REIT to be less than 2.50 to 1 for each quarterly reporting period. As of December 31, 2016, the REIT's debt to equity ratio was 2.40 and therefore is in compliance with the covenant. The credit facility was renewed during October 2016 and now matures June 1, 2018.

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, 2016 was $2.3 million, which is $0.9 million lower than the December 31, 2015 year-end balance of $3.2 million. The decrease in the unamortized financing costs as at December 31, 2016 is due to recognition of deferred financing costs through financing expense in accordance with the effective interest method. 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. As the opportunity arises, management intends to reduce the debt to gross book value. At December 31, 2016 the REIT has a debt-to-gross book value ratio of 68.6% (December 31, 2015 – 69.5%), calculated as follows:

As at	**Dec 31, 2016**	Dec 31, 2015
Debt:[1]		
Mortgage principal	**297,056,805**	305,050,117
Debentures	**57,500,000**	57,500,000
Credit facilities	**-**	2,000,000
	354,556,805	364,550,117
Gross Book Value of Assets:		
Book value of income producing properties	**500,989,997**	511,817,617
Book value of all other assets	**13,599,663**	9,152,805
Deferred financing fees	**2,332,917**	3,225,396
	516,922,577	524,195,818
Debt-to-Gross Book Value	**68.6%**	69.5%
Debt-to-Gross Book Value Excluding Debentures	**57.5%**	58.6%

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

Unitholders' Equity

For the year ended December 31, 2016, unitholders' equity increased $2.6 million over the balance at December 31, 2015. This increase was due to $9.0 million of net income and $2.1 million of distributions re-invested through the REIT's DRIP program exceeding the $8.5 million in declared distributions.

Distributions

The REIT's Trustees have discretion in declaring distributions and formally review the distributions on a quarterly basis. As of December 31, 2016 the REIT pays a distribution of $0.25 per unit on an annualized basis.

Outstanding units

As at December 31, 2016, the REIT had 33,983,594 (December 31, 2015 - 33,387,646) 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.

QUARTERLY PERFORMANCE

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

	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Total revenues	$ 14,391,853	$ 14,046,194	$ 13,937,629	$ 14,403,183	$ 14,374,728	$ 14,334,061	$ 13,856,589	$ 14,524,120
Operating expenses	5,990,879	5,741,871	5,817,743	6,267,726	6,355,685	6,050,379	5,987,728	6,204,733
Other expenses	5,414,130	5,516,151	5,799,760	5,465,932	5,302,939	6,216,054	5,040,955	6,275,380
Fair value gains (losses)	(2,998,311)	549,798	1,024,664	(290,380)	(14,348,545)	(1,684,003)	(2,038,886)	(6,140,328)
Net income (loss)	(11,467)	3,337,970	3,344,790	2,379,145	(11,632,441)	383,625	789,020	(4,096,321)
Net income (loss) per unit - basic	(0.00)	0.10	0.10	0.07	(0.41)	0.01	0.03	(0.16)
FFO	3,279,396	3,178,325	2,537,933	2,887,316	2,830,049	2,444,179	2,175,256	2,344,810
FFO per unit - basic	0.10	0.09	0.08	0.09	0.10	0.09	0.08	0.09

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, 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 its existing mortgages at maturity, management will obtain new financing terms that provide more balance to 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 has a significant amount of mortgages maturing during 2017 and it is management's strategy of staggering the maturities during the re-financing of these mortgages. This will limit the exposure of future periods having excessive amounts of debt maturing in any one year.

There is interest rate risk associated with the REIT's credit facility and certain variable rate mortgages 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, 2016 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	$	1,468,954	$	0.043
Convertible Debentures		575,000		0.010
	$	2,043,954	$	0.053

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, 2016, 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 from alternative debt or equity sources. Included with the debt are two series of convertible debentures that are set to mature on September 30, 2017 ($34.5 million) and March 31, 2018 ($23.0 million). Refinancing these debentures through a debt financing, an equity issue, a property disposition(s) or a combination thereof is required.

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, 2016 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. This amount is determined on a tenant by tenant basis based on the specific tenant related factors.

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 $10.0 million Credit Facility ($nil drawn at December 31, 2016). Property debt repayment obligations are generally funded from obtaining debt refinancing on maturing mortgages. Convertible debenture obligations that are not converted to equity can be repaid at maturity from either a new convertible debenture issue, mortgage financings on existing properties or property dispositions and/or from an equity raise.

Within the next 12 months the REIT has $7.3 million in regularly scheduled principal repayments and $138.9 million in maturing mortgages on twelve properties for a total mortgage commitment of $146.2 million. The REIT also has $34.5 million in their series II convertible debentures maturing September 30, 2017. There is currently a significant spread between the REIT's unit price and the conversion price for the series II convertible debentures, and this reduces the likelihood that the debentures will be converted to equity in advance of their maturity. The REIT will need to re-finance the maturing mortgages while also raising funds from a debt / equity issue(s) or net cash from property disposition(s), or a combination thereof, so that there is sufficient cash to repay the series II convertible debentures. In addition, the Series III convertible debentures in the amount of $23.0 million mature March 31, 2018.

The REIT attempts to mitigate its liquidity risk by:

- staggering the maturities of its maturing mortgages;
- 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 monthly distributions.

Except for the periodic impact to cash for the $1.7 million in bi-annual interest payments on the two series of 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 the management and forecasting of cash flows and liquidity. As at December 31, 2016, the REIT had $9.1 million in cash and $10.0 million of capacity available under its Credit Facility, thereby providing $19.1 million in liquidity.

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 on-going operating cash flows. Obtaining replacement capital through new debt financing, new equity raises, the sale of property(s), or any combination of these options will be essential to ensuring the REIT's continued financial flexibility.

As at December 31, 2016, the REIT has $190.6 million in current liabilities:

- $10.0 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;
- $128.4 million from thirteen maturing loans across eleven properties to be repaid from regular mortgage re-financings at their respective maturity dates;
- $10.5 million from a mortgage in technical violation of an annual financial covenant. This mortgage is not due until 2020 and the REIT has received a tolerance letter after December 31, 2016.
- $7.6 million in regularly scheduled mortgage payments. These payments are to be made from a combination of working capital assets, ongoing operating cash flows and regular mortgage re-financings;
- $34.1 million from the maturing Series II Convertible Debentures. Management expects to repay this debenture from debt financing, equity issue, property disposition(s) or a combination thereof.

The REIT's interest coverage ratio of 1.81 (1.59 at December 31, 2015) and debt service coverage ratio of 1.18 (1.07 at December 31, 2015) both allow sufficient coverage to service the loans in the current and past reporting periods. Additionally, 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 mortgage 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 frequently engages third party environmental consulting firms to assess a property, particularly in connection with original acquisition and re-financings. 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

Contingent Liability

As a condition of closing the Holyrood Rescission in October 2014, the REIT provided a $35.0 million loan guarantee to the lender of a loan to Holyrood Holdings Ltd. The loan was scheduled to mature June 30, 2015. The REIT has been advised that the loan was not repaid at maturity and that Holyrood was in the process of refinancing the loan with another lender. In the interim the loan has been extended on a short term basis and we have made inquiries and have no reason to believe that all interest payments are not up-to-date. 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.

Certified Class Action Update

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 former Trustees of the REIT. The class action was certified on November 8, 2016.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 former Officer and former Trustees 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 and the REIT has insurance in place, 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, 2016.

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, 2016 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.