Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the years ended December 31, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of Partners Real Estate Investment Trust

We have audited the accompanying consolidated statements of Partners Real Estate Investment Trust, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Partners Real Estate Investment Trust as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 28, 2018

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For the years ended December 31, 2017 and 2016

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

As at	**December 31, 2017**	December 31, 2016
ASSETS		
Non-current assets		
Income producing properties (Note 4)	**$ 462,928,003**	$ 500,989,997
	462,928,003	500,989,997
Current assets		
Other assets (Note 5)	**4,384,057**	3,013,980
Accounts receivable (Note 6)	**1,068,211**	1,562,192
Cash	**6,664,907**	9,134,036
	12,117,175	13,710,208
	$ 475,045,178	$ 514,700,205
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 7)	**$ 228,515,582**	$ 149,957,876
Convertible debentures (Note 8)	**-**	22,627,538
	228,515,582	172,585,414
Current liabilities		
Mortgages payable (Note 7)	**45,327,618**	146,453,085
Convertible debentures (Note 8)	**7,563,686**	34,136,882
Accounts payable and other liabilities	**9,333,956**	9,303,357
Distributions payable (Note 13)	**956,918**	713,087
	63,182,178	190,606,411
	291,697,760	363,191,825
UNITHOLDERS' EQUITY	**183,347,418**	151,508,380
	$ 475,045,178	$ 514,700,205

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Consolidated Statements of Comprehensive Income
audited (Cdn $)

	Year ended December 31,	
	2017	2016
Revenues from income producing properties (Note 10)	**$ 52,904,430**	$ 56,778,859
Property operating expenses	**(8,484,658)**	(8,938,584)
Realty taxes	**(11,657,490)**	(13,537,537)
Property management fees	**(884,402)**	(1,342,098)
	31,877,880	32,960,640
Other expenses:		
Financing costs	**$ 14,907,403**	$ 17,798,889
General and administrative expenses	**4,563,031**	4,397,084
	19,470,434	22,195,973
Income before other gains/(losses)	**12,407,446**	10,764,667
Fair value losses (Note 11)	**(8,044,379)**	(2,731,607)
Gain on sale of investment property (Note 4)	**917,110**	1,017,378
Comprehensive income	**$ 5,280,177**	$ 9,050,438
INCOME PER UNIT (Note 12)		
Basic and diluted	**$ 0.13**	$ 0.27

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

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

	Year ended December 31, 2017	2016
Trust Units (Note 13)		
BALANCE, BEGINNING OF YEAR	**$ 220,237,798**	$ 218,173,771
Issuance of units under rights offering, net of costs	**35,181,465**	-
Issuance of units under DRIP, net of costs	**1,437,697**	2,064,027
Issuance of units under OUPP, net of costs	**1,000**	-
BALANCE, END OF YEAR	**256,857,960**	220,237,798
Contributed Surplus		
BALANCE, BEGINNING OF YEAR	**565,080**	565,080
BALANCE, END OF YEAR	**565,080**	565,080
Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF YEAR	**(69,294,498)**	(69,850,767)
Comprehensive income	**5,280,177**	9,050,438
Distributions to unitholders (Note 13)	**(10,061,301)**	(8,494,169)
BALANCE, END OF YEAR	**(74,075,622)**	(69,294,498)
TOTAL UNITHOLDERS' EQUITY	**$ 183,347,418**	$ 151,508,380
DISTRIBUTIONS PER UNIT	**$ 0.25**	$ 0.25

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

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

	Year ended December 31, 2017	2016
OPERATING ACTIVITIES		
Comprehensive income	**$ 5,280,177**	$ 9,050,438
Adjusted for non-cash items:		
Gain on sale of investment property	**(917,110)**	(1,017,378)
Fair value losses (Note 11)	**8,044,379**	2,731,607
Non-cash unit compensation expense	**595,290**	-
Straight-line rent	**91,762**	(257,652)
Tenant incentives and direct leasing costs amortization	**986,622**	851,061
Financing cost amortization	**1,406,678**	1,515,961
Market interest rate adjustment on mortgages	**(647,801)**	(899,752)
Interest accretion expense	**106,439**	234,895
Interest expense	**14,042,087**	16,947,785
Net change in working capital (Note 14)	**(931,464)**	3,001,495
Interest paid	**(14,299,806)**	(16,905,665)
Cash flow provided by operating activities	**13,757,253**	15,252,795
FINANCING ACTIVITIES		
Proceeds from mortgages	**95,680,000**	36,200,000
Financing costs of mortgages	**(1,330,252)**	(507,356)
Repayments of mortgages at maturity	**(81,640,973)**	(28,413,644)
Repayments of mortgages with property sale	**(26,686,338)**	(6,608,651)
Regular principal repayments on mortgages	**(8,667,961)**	(9,171,018)
Convertible debenture repayments	**(49,910,000)**	-
Credit facility draws	**1,000,000**	5,500,000
Credit facility repayments	**(1,000,000)**	(7,500,000)
Financing costs of credit facility	**-**	(116,124)
Proceeds from rights offering	**35,397,245**	-
Costs to issue units (Note 13)	**(231,947)**	(16,961)
Distributions to unitholders	**(8,332,078)**	(6,403,881)
Units purchased under the OUPP	**1,000**	-
Cash flow used by financing activities	**(45,721,304)**	(17,037,635)
INVESTING ACTIVITIES		
Net proceeds from disposition of income producing properties	**38,919,696**	12,462,230
Capital improvements, net of recoveries	**(7,676,128)**	(3,282,109)
Expenditures on tenant incentives and direct leasing costs	**(1,748,646)**	(931,266)
Cash flow provided by investing activities	**29,494,922**	8,248,855
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	**(2,469,129)**	6,464,015
CASH, BEGINNING OF YEAR	**9,134,036**	2,670,021
CASH END OF YEAR	**$ 6,664,907**	$ 9,134,036

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

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on March 23, 2015. The address of its registered office and principal place of business is 36 Toronto Street, Suite 1160, Toronto, Ontario, M5C 2C5. The principal business activity of Partners REIT is acquiring, developing and operating commercial retail properties. The units of the REIT were originally listed on the Toronto Stock Exchange on April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) *Statement of compliance*

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs").

These consolidated financial statements were approved and authorized for issue by the Board of Trustees on March 28, 2018.

(b) *Basis of presentation*

The financial statements have been prepared on a going concern basis and have been presented in Canadian dollars. The consolidated financial statements have been prepared under the historical cost convention, except for the revaluation of income producing properties and certain financial instruments at fair value (as discussed in Note 2(d) and Note 2(g)). The accounting policies set out below have been applied consistently in all material respects. Standards and guidelines not effective for the current accounting period are described in Note 3.

(c) *Basis of consolidation*

The financial statements include the accounts of the REIT and its subsidiaries. Subsidiaries are entities over which the REIT has control, where the REIT has control when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

(d) Income producing properties

Income producing properties fall within the definition of investment properties under IAS 40 – *Investment Properties* ("IAS 40") and consist of commercial retail properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as income producing properties.

Management must assess whether the acquisition of property through the purchase of a corporate vehicle, or directly, should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such items the transaction is treated as an asset acquisition.

Commercial retail properties, developments and redevelopments are measured initially at cost for transactions accounted for as asset acquisitions. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), improvement of the properties and market interest rate adjustments on assumed debt. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to income producing properties. Costs that are directly attributable to income producing properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and other costs directly attributable to the development.

Subsequent to initial recognition, income producing properties are measured at fair value, determined based on valuations performed by third-party appraisers or available market evidence in accordance with IAS 40. Gains or losses arising from changes in the fair value of income producing properties are included in net income in the period in which they arise.

The carrying value of income producing properties includes straight-line rent receivable, tenant incentives and direct leasing costs, since these amounts are incorporated in the appraised values of real estate properties.

Income producing properties are reclassified to assets held for sale when criteria set out in IFRS 5 - *Non-Current Assets Held for Sale and Discontinued Operations* are met.

An income producing property is derecognized upon disposal or when the property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

(e) Income Taxes

The Income Tax Act (Canada) (the "Tax Act") levies tax on certain trusts and partnerships that are "specified investment flow-through entities" ("SIFTs") in defined circumstances with an exemption for entities that qualify as "real estate investment trusts". A trust that meets prescribed conditions to qualify as a "real estate investment trust" under the Tax Act is not subject to the tax on SIFTs. The REIT's management has determined that the REIT met all the prescribed conditions to qualify as a "real estate investment trust" and as a mutual fund trust ("MFT") under the Tax Act throughout the year. The REIT intends to continue to operate in a manner so as to qualify as a "real estate investment trust" and as an MFT.

The REIT intends to distribute all of its taxable income to unitholders and to deduct such distributions for income tax purposes. Canadian income tax obligations relating to distributions of the REIT are the obligations of the unitholders. Accordingly, no provision has been made for Canadian income taxes under Part I of the Tax Act.

(f) Revenue recognition

The REIT has retained substantially all of the risks and benefits of ownership of its income producing properties and therefore, accounts for leases with its tenants as operating leases. Revenue recognition under a lease commences when the tenant has a right to use the leased assets. Generally, this occurs on the lease inception date or, when the REIT is required to make additions to the property in the form of tenant improvements which enhances the value of the property, when substantially complete. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease. A straight-line rent receivable is included in the carrying amount of the income producing property and is recorded for the difference between the rental revenue recorded and the contractual amount received. Deducted from revenues are the amortization of tenant incentives and direct leasing costs.

Rental revenue also includes percentage participating rents and recoveries of operating expenses, including realty taxes. Percentage participating rents are recognized when tenants' specified sales targets have been met. Operating expense recoveries are recognized in the period that recoverable costs are chargeable to tenants.

(g) Financial instruments

Non-derivative financial instruments comprise cash, accounts receivable, mortgages payable, convertible debentures, accounts payable and other liabilities, and distributions payable. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss ("FVTPL"), any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured as described below:

Financial assets at FVTPL - An instrument is classified at FVTPL if it is held for trading or is designated as such upon initial recognition. Financial instruments at FVTPL are measured at fair value, and changes therein are recognized in the statements of comprehensive income, with attributable transaction costs being recognized in net income when incurred.

Available-for-sale financial assets - Available for sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories.

Loans and receivables - Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are measured at amortized cost using the effective interest method, less any impairment losses. The effective interest method is used to spread the total costs of or income from a financial instrument over the life of the instrument. Financial assets included within this category for the REIT are cash and accounts receivable.

Other liabilities – The REIT's financial liabilities, which are measured at amortized cost using the effective interest method, include mortgages payable, convertible debentures, accounts payable and other liabilities, and distributions payable.

Financial liabilities at FVTPL - A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the REIT manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the REIT's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in net income. The net gain or loss recognized in net income incorporates any interest paid on the financial liability. The REIT's financial liabilities at FVTPL include the embedded derivative feature of the convertible debentures and interest rate swap contracts.

(h) Provisions

Provisions are recognized when the REIT has a present obligation (legal or constructive) as a result of a past event, it is probable that the REIT will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

(i) Critical judgment in applying accounting policies

i. Income producing properties

The REIT's accounting policy relating to income producing properties is described in Note 2(d) above. In applying this policy, judgment is applied in determining the extent and frequency of utilizing independent, third-party appraisals to measure the fair value of the REIT's investment property. Judgment is also applied in determining whether certain costs are additions to the carrying amount of the property and, for property under development, identifying the point at which practical completion of the property occurs and identifying the directly attributable costs to be included in the carrying value of the development property. In addition, judgment is also applied to assess whether the acquisition of property through the purchase of a corporate vehicle or directly should be accounted for as an asset acquisition or a business combination.

ii. Leases

The REIT's policy for property rental revenue recognition is described in Note 2(f) above. Where the REIT is the lessor, the REIT makes judgments in determining whether certain leases, in particular leases to anchor tenants, are considered operating or finance leases. The REIT has determined that all of its leases are operating leases.

iii. Financial instruments

The REIT's accounting policies relating to financial instruments are described in Note 2(g). The critical judgments inherent in these policies relate to applying the criteria set out in IAS 39 to designate financial instruments into categories and to determine the identification of embedded derivatives in certain hybrid instruments that are subject to fair value measurement.

(j) Key accounting estimates and assumptions

The REIT makes estimates and assumptions that affect carrying amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the year. Actual results could materially differ from estimates. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

i. Income producing properties

The choice of valuation method to determine the fair value of the REIT's income producing properties and the critical estimates and assumptions underlying the fair value determination of its commercial retail properties are set out in Note 4. Significant estimates used in determining the fair value of the REIT's income producing properties includes capitalization rates and stabilized net operating income (which is influenced by inflation rates, vacancy rates, standard costs). A change to any one of these inputs could significantly alter the fair value of an income producing property.

ii. Financial liabilities at FVTPL

The fair valuation of embedded derivatives employs pricing models. The models require estimates and assumptions to be made with regard to the models' inputs, such as, the underlying asset volatility, risk free rates, employee exit rates and option holder's risk aversion, as applicable. Changes in assumptions about these factors could affect the reported fair value of the financial liability. Fair values are most sensitive to change in asset volatility.

3. FUTURE ACCOUNTING POLICIES

From time to time, the International Accounting Standards Board (“IASB”) issues new accounting standards and revises existing accounting standards. The following standards, not yet effective as at the date of these consolidated financial statements and accordingly not applied to these consolidated financial statements, may have a future impact:

Financial Instruments

IFRS 9 – *Financial Instruments* (“IFRS 9”) was issued in July 2014. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The REIT does not believe this standard will have a material impact on its consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15 – *Revenue from Contract with Customers* (“IFRS 15”) was issued in May 2014 and establishes a new five-step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT does not believe this standard will have a material impact on its consolidated financial statements. Based on the nature of the REIT’s operations, the REIT does not expect there to be a material impact on the timing and measurement of revenue recognized as compared to the previous standard. Additional disclosures will be required to comply with IFRS 15.

Leases

IFRS 16 – *Leases* (“IFRS 16”) is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirements in IAS 17, with enhanced disclosure requirements that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. This standard supersedes IAS 17 - *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives*, and SIC-27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The REIT is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

Investment Properties

IAS 40 – Investment Property (“IAS 40”) was amended during December 2016 to clarify certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management’s intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The REIT is currently assessing the impact on its consolidated financial statements and intends to adopt the amended standard on the required effective date.

Share-Based Payment

On June 20, 2016, the IASB issued amendments to IFRS 2 *Share-based Payment*, clarifying how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective application is permitted if information is available without the use of hindsight. The REIT will adopt the amendments to IFRS 2 in its financial statements for the annual period beginning on January 1, 2018. The REIT does not expect the amendments to have a material impact on the financial statements.

4. INCOME PRODUCING PROPERTIES

As at		**December 31, 2017**		December 31, 2016
Balance, beginning of year	**$**	**500,989,997**	$	511,817,617
Property disposition at carrying value		**(38,002,586)**		(11,444,852)
Capital improvements (net of recoveries)		**7,676,128**		3,282,109
Expenditures on tenant incentives and direct leasing costs		**1,748,646**		931,266
Amortization of tenant incentives and direct leasing costs		**(986,622)**		(851,061)
Recognition of straight-line rent		**(91,762)**		257,652
Unrealized fair value losses		**(8,405,798)**		(3,002,734)
Balance, end of year	**$**	**462,928,003**	$	500,989,997

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

For the year ended December 31, 2017 the fair value of the REIT’s income producing property portfolio was determined either internally by the REIT using the Direct Capitalization methodology or by obtaining external appraisals.

During 2017, external appraisals were obtained for twelve of the REIT’s properties with an aggregate fair value of $190.8 million, representing 41.2% of the fair value of the income producing property portfolio. During the year ended December 31, 2016, external appraisals were obtained for thirteen of the REIT’s properties with an aggregate fair value of $173.9 million, representing 34.7% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs unless there is evidence of a significant change in the fair value of the property. The value of the remainder of the REIT’s income producing property portfolio is determined internally by the REIT by applying significant new information obtained to adjust previous externally prepared appraisals.

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

As at	**December 31, 2017**	December 31, 2016
Capitalization rates		
Maximum	**9.25%**	8.75%
Minimum	**5.75%**	5.75%
Weighted Average	**6.63%**	6.64%

At December 31, 2017, a 0.25% increase in capitalization rates for income producing properties would decrease fair value by $17.5 million (December 31, 2016 - $19.0 million) and a 0.25% decrease in capitalization rates would increase fair value by $18.9 million (December 31, 2016 - $20.4 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at December 31, 2017, income producing properties included $4.9 million (December 31, 2016 - $5.2 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

Dispositions of income producing properties

On June 30, 2017 the REIT completed a sale of a retail power centre in Thunder Bay, Ontario. The selling price of the property totaled $39.75 million, excluding transaction costs. A portion of the proceeds from the disposition were used to repay two mortgages secured by the property, totaling $26.7 million and bearing a weighted average interest rate of 5.07%. The property had a carrying value of $38.0 million at the time of sale, resulting in a gain on disposition of $0.9 million after closing costs of approximately $0.8 million.

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 totaled $12.8 million, excluding transaction costs. A portion of the proceeds from the disposition was used to repay a $6.6 million mortgage, bearing interest at 3.84%, which was secured by the property. The property had a total carrying value of $11.4 million at the time of sale, resulting in a gain on disposition of $1.0 million after closing costs of $0.4 million.

5. OTHER ASSETS

The major components of other assets are as follows:

As at	December 31, 2017	December 31, 2016
Prepaid realty taxes and insurance	**$ 1,439,879**	$ 1,508,945
Restricted cash - amounts held in escrow	**1,824,618**	648,500
Prepaid expenses and other	**1,087,303**	745,990
Deferred financing costs on undrawn credit facility	**32,257**	110,545
	$ 4,384,057	$ 3,013,980

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

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

6. ACCOUNTS RECEIVABLE

As at		December 31, 2017		December 31, 2016
Rents receivable	**$**	**395,334**	$	936,996
Unbilled recoveries		**554,392**		539,180
Other receivables		**396,354**		585,535
		1,346,080		2,061,711
Allowance for doubtful accounts		**(277,869)**		(499,519)
	$	**1,068,211**	$	1,562,192

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis. See note 19 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

7. MORTGAGES PAYABLE

As at		December 31, 2017		December 31, 2016
Mortgage principal	**$**	**275,741,535**	$	297,056,805
Unamortized above market interest rate adjustments		**301,992**		949,793
Unamortized commitment and other fees		**(2,200,327)**		(1,595,637)
	$	**273,843,200**	$	296,410,961
Non-current	**$**	**228,515,582**	$	149,957,876
Current		**45,327,618**		146,453,085
	$	**273,843,200**	$	296,410,961

Scheduled repayments of mortgage principal are as follows:

		Principal instalments		Principal maturing		Total
2018	$	7,464,461	$	38,197,668	$	45,662,129
2019		7,312,271		18,590,780		25,903,051
2020		6,159,156		40,937,018		47,096,174
2021		5,277,764		33,715,355		38,993,119
2022		3,922,626		18,632,356		22,554,982
Thereafter		8,429,194		87,102,886		95,532,080
Contractual obligations	$	38,565,472	$	237,176,063	$	275,741,535

Mortgages payable are secured by the properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 3.03% and 6.04% per annum (December 31, 2016 – 2.43% and 7.08%) and contractual rates ranging between 2.83% and 6.70% (December 31, 2016 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.10% per annum (December 31, 2016 – 4.41%). The total carrying value of the properties pledged as security is $457.9 million (December 31, 2016 - $496.0 million).

Included in the mortgages payable at December 31, 2017 are $81.7 million in mortgages over seven properties with an institutional lender (December 31, 2016 - $112.4 million over 10 properties), over which a significant Unitholder of the REIT (with over 20% of the outstanding units on March 28, 2018), has significant influence.

Interest rate swaps are in place to fix the interest rates for three mortgages payable for a notional amount of $17.3 million between 3.34% and 3.72% until 2020. As at December 31, 2017, the fair value of the interest rate swap is a liability of an insignificant amount (December 31, 2016 - $0.4 million) and is included in accounts payable and accrued liabilities on the statement of financial position. For the year ended December 31, 2017, a fair value gain on the interest rate swaps of $0.4 million was recorded on the statements of comprehensive income (2016 – fair value loss of $0.3 million).

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. As at December 31, 2017 the REIT is in compliance with the covenant for this property and as a result the outstanding mortgage balance of $10.1 million has been classified non-current debt (December 31, 2016 - $10.5 million classified as current on the statements of financial position).

During the year ended December 31, 2017, the following mortgages were refinanced:

In March 2017, the REIT completed a $2.6 million financing secured on a multi-tenant property in Terrebonne, Quebec. The mortgage has a term of five years with an interest rate of 3.113% per annum and an amortization period of 25 years. This financing replaced a maturing mortgage with a principal balance of $1.8 million and a contractual interest rate of 3.50% per annum.

In March 2017, the REIT completed a $4.4 million financing secured on a single tenant property in Gatineau, Quebec. The mortgage has a term of five years with an interest rate of 3.113% per annum and an amortization period of 22 years. This financing replaced a maturing mortgage with a principal balance of $3.1 million and a contractual interest rate of 5.93%.

In April 2017, the REIT completed a $3.0 million financing secured by two free-standing buildings in Edmonton, Alberta. The mortgage has a five-year term, a 25-year amortization period and an interest rate of 3.91%. The mortgage replaced a $2.1 million mortgage, which carried an interest rate of 4.23%.

In May 2017, the REIT completed a $13.0 million financing secured by an enclosed mall in Cornwall, Ontario. The mortgage has a three-year term, a 25-year amortization period and an interest rate of prime plus 2.25%, with an interest rate floor of 4.95%. The mortgage replaced a $16.8 million mortgage, which carried an interest rate of prime plus 2.30%.

In May 2017, the REIT completed a $27.0 million financing secured by a power centre located in Montreal, Quebec. The mortgage has a ten-year term, a 23-year amortization period and an interest rate of 3.564%. The mortgage replaced a $23.7 million mortgage, which carried an interest rate of 5.327%.

In August 2017, the REIT completed a $7.8 million financing secured by a retail strip centre located in Tecumseh, Ontario. The mortgage has a ten-year term, a 25-year amortization period and an interest rate of 3.867%. The mortgage replaced a $5.1 million mortgage, which carried an interest rate of 4.604%.

In August 2017, the REIT completed a $5.6 million financing secured by a retail strip centre located in Grand Bend, Ontario. The mortgage has a ten-year term, a 25-year amortization period and an interest rate of 3.898%. The mortgage replaced a $3.3 million mortgage, which carried an interest rate of 5.118%.

In September 2017 and in December 2017, the REIT extended, for two additional three month periods, a $21.7 million mortgage secured by an enclosed mall located in Longueuil, Quebec. The mortgage, which will now expire in April 2018. Subsequent to December 31, 2017 the REIT completed a $21.5 million financing. This new mortgage completed March 23, 2018 has a three-year term, a 25-year amortization and an interest rate of 4.56%.

In December 2017, the REIT completed a $20.8 million financing secured by a retail strip centre located in Campbell River, British Columbia. The mortgage has a five-year term, a 25-year amortization period and an interest rate of 3.77%. The mortgage replaced two existing mortgage totaling $16.3 million, a weighted average rate interest of 5.68%.

In December 2017, the REIT completed an $11.5 million financing secured by a retail strip centre located in Grand Prairie, Alberta. The mortgage has a five-year term, a 25-year amortization period and an interest rate of 3.70%. The mortgage replaced two existing mortgage totaling $9.8 million, a weighted average rate interest of 4.77%.

During the year ended December 31, 2016, the following mortgages were refinanced or repaid:

In June 2016, the REIT completed a $13.7 million financing secured on a multi-tenant property in Ontario. The mortgage has a term of five years with an interest rate of 2.94% per annum and an amortization period of 25 years. This financing replaced two maturing mortgages with a combined principal balance of $9.8 million and a weighted average contractual interest rate of 5.71% per annum.

In September 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 years. This financing replaced a maturing mortgage with a principal balance of $9.1 million and a contractual interest rate of 3.80%.

In November 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.

8. CONVERTIBLE DEBENTURES

As at		**December 31, 2017**		December 31, 2016
6.0% convertible debentures		**-**		34,427,608
5.5% convertible debentures		**7,587,594**		22,963,547
Debentures, excluding convertible feature		**7,587,594**		57,391,155
Fair value of convertible features at issuance		**150,000**		660,000
Accumulated fair value gain on convertible feature		**(150,000)**		(660,000)
Convertible feature		**-**		-
Issue costs		**(1,203,195)**		(2,886,983)
Accumulated amortization of issue costs		**1,179,287**		2,260,248
Issue costs, net		**(23,908)**		(626,735)
	$	**7,563,686**	$	56,764,420
Non-current	**$**	**-**	$	22,627,538
Current		**7,563,686**		34,136,882
	$	**7,563,686**	$	56,764,420

In September, 2012, the REIT issued $34,500,000 of 6.0% unsecured subordinated convertible debentures (the Series II Debentures") due September 30, 2017. The fair value of the convertible feature of the Series II Debentures as at December 31, 2017 is nil (December 31, 2016 - nil). On July 31, 2017 the REIT repaid 50% of the $34.5 million Series II Debentures plus accrued interest, and on August 18, 2017 the REIT repaid the remaining 50% of the Series II Debentures plus accrued interest up to that date.

In March, 2013, the REIT issued $23,000,000 of 5.5% unsecured subordinated convertible debentures (the "Series III Debentures") due March 31, 2018. The fair value of the convertible feature of the Series III Debentures as at December 31, 2017 is nil (December 31, 2016 - nil). On August 18, 2017, the REIT repaid 67% of the $23.0 million Series III Debentures leaving a remaining balance of $7.6 million outstanding. On January 17, 2018, the REIT repaid the final $7.6 million of outstanding Series III Debentures plus accrued interest up to that date.

9. CREDIT FACILITY

As at December 31, 2017, the REIT's credit facility (the "Credit Facility") was undrawn (December 31, 2016 - undrawn).

As at December 31, 2017 the Credit Facility had a credit limit of $10.0 million, with interest at prime plus 3.5% for borrowings up to $5.0 million and prime plus 5.5% for borrowings in excess of $5.0 million. The Credit Facility bears a standby fee of 0.25% of the undrawn balance, quarterly in arrears. The Credit Facility was renewed in October 2016 and matures June 1, 2018. Subsequent to the end of 2017, the security for the Credit Facility was adjusted to remove a property that was refinanced during January 2018 and the REIT was notified that the borrowing limit was reduced to $5.0 million. During February the Lender indicated that the borrowing limit was further reduced to $2.0 million. During March the Lender indicated that the Credit Facility would not be renewed or extended past its June 1, 2018 maturity. After the January 2018 refinancing, the security for the Credit Facility is composed of second charges on two properties in Ontario.

The Credit Facility is with an institutional lender over which a significant Unitholder of the REIT (with over 20% of the outstanding units on March 28, 2018), has significant influence.

10. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the year ended December 31, 2017 were $52.9 million (2016 - $56.8 million). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, and in many cases with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the year ended December 31, 2017 of $17.6 million (2016 - $19.6 million), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs which for the year ended December 31, 2017 totaled $1.0 million (2016 - $0.9 million).

As at December 31, 2017, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 34,144,449	$ 101,841,302	$ 60,064,536

11. FAIR VALUE GAINS (LOSSES)

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

	Year ended December 31,	
	2017	2016
Unrealized loss on income producing properties	**$ (8,405,798)**	$ (3,002,734)
Financial liabilities designated as FVTPL:		
Fair value gain on interest rate swaps	**361,419**	271,127
Total fair value gains (losses)	**$ (8,044,379)**	$ (2,731,607)

12. INCOME PER UNIT

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

	Year ended December 31,	
	2017	2016
Numerator		
Comprehensive income - basic and diluted	**$ 5,280,177**	$ 9,050,438
Denominator		
Weighted average units outstanding - basic	**39,435,646**	33,690,649
Weighted average deferred units outstanding	**124,083**	-
Weighted average units outstanding - diluted	**39,559,729**	33,690,649
Income per unit - basic and diluted	**$ 0.13**	$ 0.27

13. UNITHOLDERS' EQUITY

(a) Distributions

For the year ended December 31, 2017 the REIT made monthly cash distributions to unitholders in an amount of $0.02083 per unit, representing an annualized distribution of $0.25 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Trustees. The Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act. As at December 31, 2017, distributions accrued but not yet paid totaled $1.0 million (December 31, 2016 - $0.7 million).

(b) Distribution reinvestment plan

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

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

Units issued in connection with the DRIP and OUPP are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 3% (5% for distributions prior to the March 2016 DRIP payable in April 2016) of each cash distribution.

At December 31, 2017, the REIT had 667,936 units remaining in its reserve for issuance of units under the DRIP and OUPP (December 31, 2016 – 1,097,855 units in reserve).

(c) Rights Offering

During May 2017, the REIT announced its intention to raise gross proceeds of $35.4 million by issuing rights entitling unitholders to subscribe for one additional REIT unit for each three REIT units held as of the record date of June 7, 2017 and with payment of a subscription price of $3.10 per REIT unit. The Rights Offering closed on July 19, 2017 and the maximum amount available of $35.4 million, excluding issuance costs of $0.2 million, was raised and the REIT issued 11,418,466 units.

(d) Outstanding Units

As at	December 31, 2017			December 31, 2016		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of year	**33,983,594**	**$**	**220,237,798**	33,387,646	$	218,173,771
Units issued:						
Rights offering	**11,418,466**		**35,397,245**	-		-
Distribution reinvestment plan	**429,640**		**1,453,864**	595,948		2,080,988
Optional unit purchase plan	**279**		**1,000**	-		-
Unit issue costs	**-**		**(231,947)**	-		(16,961)
	45,831,979	**$**	**256,857,960**	33,983,594	$	220,237,798

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Year ended December 31,			
		2017		2016
Net change in working capital				
Net change in accounts receivable	**$**	**493,981**	$	1,665,216
Net change in other assets		**(1,448,364)**		242,730
Net change in accounts payable and other liabilities		**22,919**		1,093,549
	$	**(931,464)**	$	3,001,495

15. UNIT-BASED COMPENSATION PLANS

(a) *Incentive unit option plan*

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

As at December 31, 2017 there are no options outstanding under the incentive unit option plan.

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

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

The issue price of the units under the DUP is volume-weighted average price of the units for the last five trading days preceding the date of issuance. Additional units earned through the DRIP on outstanding deferred units are issued based on the volume-weighted average price of the units for the last 20 trading days preceding the DRIP issuance date.

The DUP became effective May 17, 2015 and was amended and restated effective November 1, 2016.

The following presents information on the number of deferred units outstanding as at December 31, 2017:

	December 31, 2017			December 31, 2016		
	Deferred Units		**Dollars**	Deferred Units		Dollars
Deferred units outstanding, beginning of year	**-**	**$**	**-**	-	$	-
Deferred units issued:						
Officer bonus	**81,744**		**300,000**	-		-
Trustee fees	**116,550**		**394,226**	-		-
DRIP on deferred units	**9,830**		**31,508**	-		-
Deferred units redeemed:	**(3,616)**		**(12,912)**			
Fair value gain on deferred units	**-**		**(99,298)**	-		-
	204,508	**$**	**613,524**	-	$	-

As at December 31, 2017, the liability related to the DUP was $0.6 million (December 31, 2016 – $nil) and is included in accounts payable and other liabilities. The related expense in comprehensive income amounts to $0.6 million for the year, with $0.3 million accrued during the year ended December 31, 2017.

16. INCOME TAXES

All of the REIT's corporate entities that consolidate into the REIT are nominee corporations and do not have any taxable income and therefore do not have any current income tax payable.

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

17. CAPITAL MANAGEMENT

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

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

The debt-to-gross book value ratio is measured as the REIT's total debt, including mortgages payable, corporate secured debt, debentures and credit facility, divided by the gross book value of its assets. At December 31, 2017 the REIT's debt-to-gross book value ratio is 59.4% (December 31, 2016 – 68.6%), calculated as follows:

As at	December 31, 2017	December 31, 2016
Debt[(1)]		
Mortgage principal	**$ 275,741,535**	$ 297,056,805
Debenture principal	**7,590,000**	57,500,000
	$ 283,331,535	$ 354,556,805
Gross Book Value of Assets		
Book value of income producing properties	**$ 462,928,003**	$ 500,989,997
Book value of all other assets	**12,084,917**	13,599,663
Unamortized deferred financing fees	**2,256,493**	2,332,917
	$ 477,269,413	$ 516,922,577
Debt-to-Gross Book Value	**59.4%**	68.6%
Debt-to-Gross Book Value Excluding Debentures	**57.8%**	57.5%

(1) Debt capital refers to the principal portion of mortgages, debenture and the credit facility. This excludes deferred financing costs, the value of the debentures' convertible feature, and unamortized above market interest rate adjustments.

18. FAIR VALUES

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

(a) Income producing properties

The significant assumptions used to determine the fair value of investment properties are disclosed in Note 4.

(b) Current assets and liabilities

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

(c) Mortgages payable

The fair value of secured debt at December 31, 2017 is based on discounted future cash flows, using interest rates ranging between 3.88% and 4.24% that reflect current market conditions for instruments of similar term and risk (December 31, 2016 – rates ranging between 2.94% and 3.60%).

(d) Interest rate swaps

The fair value of the interest rate swap contracts is calculated through discounting future expected cash flows using the appropriate BA rate swap curve adjusted for credit risk. Since the BA rate swap curve is an observable input, these financial instruments are considered Level 2.

(e) Deferred units

The fair value of deferred units is calculated using the five-day volume weighted average price of the REIT's units as of the date of reporting. Since the five-day volume weighted average price of the REIT's units is an observable input, these financial instruments are considered Level 2

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

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

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

	December 31, 2017			December 31, 2016		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 462,928,003**	$ -	$ -	$ 500,989,997
Liabilities measured at fair value:						
Interest rate swaps	**$ -**	**$ 88**	**$ -**	$ -	$ 361,507	$ -
Deferred units	**613,524**	**-**	**-**	-	-	-
Liabilities for which fair values are disclosed:						
Mortgages payable	**$ -**	**$ -**	**$ 272,559,923**	$ -	$ -	$ 300,930,777

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the year ended December 31, 2017 there were no transfers between the hierarchy levels.

19. RISK MANAGEMENT

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

(a) *Interest rate risk*

The REIT is exposed to interest rate risk when funds are drawn under mortgages with floating interest rates. An increase in interest rates would increase the interest cost of these mortgages having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding $34.5 million balance of variable rate debt at December 31, 2017, a 1% increase or decrease in the prime rate would have an impact of $0.3 million increase or decrease, respectively on the REIT's annual interest expense (December 31, 2016 – $0.4 million).

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

(b) *Credit risk*

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2017 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants.

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

As at	**December 31, 2017**	December 31, 2016
Tenant rents receivable		
Less than 30 days past billing date	**244,038**	108,962
30-60 days past billing date	**59,499**	65,099
61-90 days past billing date	**1,880**	14,462
Greater than 90 days past billing date	**89,917**	748,473
	395,334	936,996
Allowance for doubtful accounts - tenant	**(152,869)**	(374,519)
Other receivables	**396,354**	585,535
Allowance for doubtful accounts - other	**(125,000)**	(125,000)
Unbilled recoveries	**554,392**	539,180
	1,068,211	1,562,192

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

		December 31, 2017		December 31, 2016
Opening allowance for doubtful accounts	**$**	**499,519**	$	578,965
Change to allowance for doubtful accounts		**(152,706)**		11,791
Receivables written-off		**(68,944)**		(91,237)
Ending allowance for doubtful accounts	**$**	**277,869**	$	499,519

(c) *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 existing cash ($6.7 million at December 31, 2017) or the Credit Facility. Property debt repayment obligations are generally funded from obtaining debt refinancing on maturing mortgages.

During 2017 the REIT raised monies from financing and investing activities. On June 30, 2017 the REIT disposed of a property and raised net monies of $12.2 million, on July 19, 2017 the REIT closed a Rights Offering that raised net proceeds of approximately $35.2 million and resulted in the issuance of 11,418,466 REIT units. These net proceeds plus $12.7 million from excess funds from the refinancing of maturing mortgages were used to repay the $34.5 million Series II Debentures and $15.4 million (67%) of the Series III Debentures plus accrued interest. During 2017, the REIT refinanced a total of $81.6 million of maturing mortgages with new financings totalling $95.7 million. Based on the REIT's track record of refinancing property mortgages during 2017 and prior years, the REIT expects that it will continue to be able to refinance property mortgages as they mature.

Within the next 12 months the REIT has $7.5 million in regularly scheduled principal repayments and $38.2 million in maturing mortgages on four properties for a total mortgage commitment of $45.7 million. As at December 31, 2017 the REIT also had the remaining $7.6 million in Series III Debentures which were payable within the next twelve months. These debentures were repaid subsequent to the end of the fiscal year, in January 2018.

The REIT manages 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;
- reviewing the current liquidity position and forecasted cash flows in advance of the approval of the monthly distributions; and,
- obtaining sufficient funds from debt / equity issue(s) and/or property disposition(s) to fund the repayment of maturing convertible debentures.

At December 31, 2017, the REIT had cash and borrowing capacity of $16.7 million. During January, the REIT raised $5.1 million from property re-financing and made the final repayment on the unsecured convertible debentures of $7.6 million. Subsequent to the end of 2017, the security for the Credit Facility was adjusted to remove a property that was refinanced during January 2018 and the REIT was notified that the borrowing limit was reduced to $5.0 million. During February the Lender indicated that the borrowing limit was reduced to $2.0 million. During March the Lender indicated that the Credit Facility would not be renewed or extended past its June 1, 2018 maturity. After considering the effect of these financing transactions and working capital adjustments, the REIT's cash and borrowing capacity was approximately $4 million at the end of February. Management is planning to raise monies from financing(s) and disposition(s) activities that will provide sufficient funds for the REIT to meet its operational requirements, debt obligations, capital spending plans and the distribution to unitholders.

The REIT's financial condition and ability to meet its financial obligations would be adversely affected if it were unable to obtain additional financing either upon refinancing of its maturing obligations or from other financing sources, 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.

The following table shows the contractual cash flows on all of the REIT's non-derivative financial liabilities:

	2018	2019	2020	2021	2022	Thereafter
Mortgages payable						
Interest	$ 9,128,391	$ 8,315,491	$ 6,682,860	$ 5,299,721	$ 3,880,150	$ 4,722,316
Principal payments	7,464,461	7,312,271	6,159,156	5,277,764	3,922,626	8,429,194
Balances due on maturity	38,197,668	18,590,780	40,937,018	33,715,355	18,632,356	87,102,886
Debentures						
Interest	208,725	-	-	-	-	-
Balances due on maturity	7,590,000	-	-	-	-	-
Credit Facility						
Interest	-	-	-	-	-	-
Balances due on maturity	-	-	-	-	-	-
Accounts and distributions payable and other liabilities	10,290,786	-	-	-	-	-
Total	$ 72,880,031	$ 34,218,542	$ 53,779,034	$ 44,292,840	$ 26,435,132	$ 100,254,396

(d) Concentration risk

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $6.6 million in annualized base rents, or 19.0% of the REIT's total annualized base rental revenue.

20. CONTINGENCIES AND COMMITMENTS

(a) Lease commitments – The REIT as lessee

The REIT as lessee is committed under operating leases to renewal periods or notice periods ranging from one year to five years for its three office locations in Barrie, Ontario, Toronto, Ontario and Victoria, British Columbia. In aggregate the leases represent a future commitment to the REIT of approximately $0.8 million.

(b) Certified class action lawsuit

The REIT has been notified that a Statement of Claim dated November 28, 2014 has been issued in the Ontario Superior Court seeking certification of a class action on behalf of persons who held units of the REIT on April 1, 2014 against certain parties, including a former Officer and 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 the 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.

21. TRUSTEE AND KEY MANAGEMENT COMPENSATION

The REIT's current independent trustees include: Simon Nyilassy, Ian Ross, Allan Kimberley and Grant Anthony. Jane Domenico, the REIT's CEO, is also a trustee, but not independent as a result of her position with the REIT. During the year, the REIT's key management personnel include: Jane Domenico, Chief Executive Officer, Derrick West, Chief Financial Officer and Paul Harrs, Chief Operating Officer. The remuneration of the REIT's key management personnel and trustees was as follows:

	Year ended December 31,		Year ended December 31,	
	2017	2016	**2017**	2016
	Trustees		**Key Management**	
Compensation and benefits	**$ 66,323**	246,135	**$ 957,000**	$ 1,298,346
Unit-based payments	**$ 394,226**	-	**$ 300,000**	$ -
	$ 460,549	$ 246,135	**$ 1,257,000**	$ 1,298,346

22. SUBSEQUENT EVENTS

(a) Final Repayment of Series III Subordinated Unsecured Debentures

On January 17, 2018, the REIT repaid the final $7.6 million outstanding on its Series III debentures. Following this redemption all convertible unsecured subordinated debentures have been repaid.

(b) Centre le Village Refinancing and Credit Facility

On January 22, 2018 the REIT closed a $13.0 million mortgage on the REIT's Centre le Village property in Montreal (Nun's Island), Quebec. The mortgage has a three-year term, a 25-year amortization period and an interest rate of 3.76%. Partners devoted $7.8 million of the mortgage towards repayment of the property's existing mortgage, which carried an interest rate of 3.26%.

(c) Resolution of Contingent Liability

On February 20, 2018 the REIT was informed that Holyrood Holdings Ltd. had refinanced the Hamilton City Centre with a different financial institution and that the mortgage loan on which the REIT had provided a guarantee has now been repaid in full. The REIT had previously provided a guarantee of certain mortgage debt related to this property in connection with the rescission agreement in October of 2014 between Holyrood and the REIT.

(d) Possible Sale of Western Properties

On March 21, 2018 the REIT announced that its Board of Trustees has retained BMO Capital Markets as advisors for a possible sale of up to 11 of the REIT's 34 properties. The properties that will be offered for sale are in British Columbia, Alberta and Manitoba and presently account for approximately 30% of the REIT's assets based on IFRS carrying value and 29% of the REIT's net operating income in the year ended December 31, 2017.

(e) Place Desormeaux Refinancing

On March 23, 2018 the REIT closed a $21.5 million mortgage on the REIT's Place Desormeaux property in Longueil, Quebec. The mortgage has a three-year term, a 25-year amortization period and an interest rate of 4.56%. Partners devoted the full proceeds to the repayment of the property's existing mortgage, which carried an interest rate of 5.45%.