PARTNERS REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS

THREE MONTHS AND YEAR ENDED DECEMBER 31, 2018 AND 2017

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, the timing and amount of any special distribution in the event the REIT completes the proposed sale of its Quebec properties, and other risks and factors described from time to time in the documents filed by the REIT with securities regulators. 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 18, 2019 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 MD&A for the three months and year ended December 31, 2018 (the "fourth quarter" and "2018", respectively) includes material information up to March 18, 2019. 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, 2018, 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, 2018 and the REIT's most recently filed annual information form ("AIF").

The REIT defines net operating income ("NOI") as gross revenues from income producing properties less operating expenses (which excludes interest expense, general and administrative expenses, amortization of leasing fees ("LFs") and tenant allowances ("TAs"), income taxes, corporate transaction costs and fair value gains or losses). NOI is an important measure used to assess operating performance. The components of NOI are provided on page 24.

Funds from operations ("FFO") is a widely-used measure in analyzing real estate. It is defined as net income before fair value gains or losses on income producing properties and financial instruments, amortization of leasing fees ("LFs") and tenant allowances ("TAs"), gains or losses from the sale of properties and incremental leasing costs related to the REIT's internal leasing team. A reconciliation of net income to FFO is provided on page 26.

Adjusted funds from operations ("AFFO") is a recurring economic earnings measure. It adjusts net income for the same items listed above in defining FFO, and in addition, removes the impact of non-cash straight-line rent and allows for sustaining leasing costs and capital expenditures. A reconciliation of net income to AFFO is provided on page 27.

Adjusted cash flow from operations (ACFO) is a cash flow measure meant to show an entity's sustainable, economic cash flows and is used to measure the ability to cover distributions, as may be approved by the REIT's Trustees from time to time. It is defined as cash flow from operations adjusted for the impact of changes in working capital and accrued interest, amortization of deferred financing costs and allows for sustaining leasing costs and capital expenditures. A reconciliation of cash flow from operations to ACFO is provided on page 28.

NOI, NOI – same property, FFO, AFFO and ACFO do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. The RealPac guidelines and the REIT's treatment for these measures are more specifically defined in Part II – Performance Measurement on page 17.

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 December 10, 2018. 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. 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 the REIT was changed from Charter Real Estate Investment Trust 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 ownership and management of a 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 in Ontario, Manitoba and Quebec. 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.

As at December 31, 2018, the REIT's portfolio consisted of 23 properties that comprised approximately 1.7 million square feet of Gross Leasable Area ("GLA").

On January 2, 2019, the REIT announced that it had entered into a sale agreement for its 11 properties located in Quebec (the "Quebec Sale Transaction"). On March 11, 2019 the purchaser of the eleven Quebec properties waived its due diligence conditions; however, completion of the sale remains subject to a number of closing conditions. The Quebec properties' carrying value and disposition price are $178 million and this will result in net cash proceeds of approximately $63 million, after payment of related mortgages and transaction expenses. The REIT anticipates closing the sale during April 2019.

During 2018, the REIT disposed of substantially all its properties in western Canada. The sale of the western properties generated approximately $50 million in net cash proceeds, of which approximately $40 million was returned to unitholders through a special distribution payment of $0.87 per unit. As a consequence of these dispositions and the special distribution to unitholders, the REIT reduced its regular monthly distribution from the annualized rate of $0.25 per unit to $0.18 per unit.

Strategy of the REIT

In the event that the Quebec Sale Transaction is completed, the REIT will then own 11 retail properties in Ontario and one property in Manitoba, aggregating approximately 623,000 square feet of leasable space.

In these circumstances, the board of trustees (the "Board") intends to review the REIT's strategic alternatives, taking into account a variety of factors, including, among others, general industry, retailer and economic conditions in the markets in which the REIT then operates, and the anticipated impact of those conditions on the REIT and its remaining properties. Those alternatives will likely include a possible sale of either the REIT itself or its then remaining properties, together with other options that are in the best interests of the REIT and its unitholders.

If the Quebec Sale Transaction is completed, the Board expects to consider the payment of a special cash distribution to all unitholders of a portion of the net cash proceeds from the sale of the REIT's Quebec properties. The Board expects to determine the amount of any such special distribution in due course based upon, among other things, the anticipated on-going cash requirements of the REIT.

In the event that the Quebec Sale Transaction is completed, the Board will review the appropriateness of the REIT's current normal monthly distribution of $0.015 per unit ($0.18 per unit annually), including whether such distribution should be reduced or discontinued in light of the smaller size of the REIT's remaining property portfolio and other relevant factors.

Canadian Retail Marketplace

Retail real estate in Canada can be characterized into two asset types;

1) Fashion retail centres which are usually either large format developments or enclosed shopping centre, and
2) Necessity-based retail centres which are anchored by grocery, pharmacy, liquor, and quick service restaurants (QSR). Personal care, restaurant, and medical uses round out the type of retail activity found in the majority of these assets.

Retailers who operate the majority of their locations in the fashion or in the large format assets have been announcing store closures or significant restructuring since 2015. In 2018 and 2019 these announcements include but are not limited to: Sears, HBC Home Outfitters, The Gap, Gymboree, Payless, and Toys R Us. The REIT, by the end of 2018, had sold its fashion and large format assets and had reduced its exposure to fashion retailers in the remaining assets. The most significant exposure the REIT previously had to fashion assets was associated with Thunder Power Centre and Cornwall Square, which were disposed during June 2017 and December 2018, respectively.

The REIT's core assets focus on necessity-based retailers, who currently have not had as many challenges as the other classes of retail. The REIT has been proactive in managing the retail lease expiries for both 2018 and 2019. In addition the 2018 year ending occupancy provides evidence that even in this changing retail landscape there is sufficient demand for the majority of its units that were due to become vacant in 2018 or expected to be vacant in 2019.

The decisions in 2016 to internalize management west of Quebec and moving Quebec to a single source provider have led to improved tenant relations, leasing prospects, and tenant retention.

For the year ended December 31, 2018, the REIT renewed a total of 156,612 sq. ft. of leases that would otherwise have expired in 2018. As at December 31, 2018, lease expiries for 2019 and 2020, excluding leases renewed in advance, represent 1.4% or approximately 24,000 sq.ft. and 13.9% or approximately 233,000 sq.ft., respectively, of the REIT's total GLA. 2019 lease expiries have been actively managed throughout the 2018 period. The REIT started 2018 with 2019 expiries totalling 13.2% or approximately 307,000 sq.ft. of the REIT's total GLA prior to the sale of western Canada and Cornwall Square. During the year, the REIT has executed approximately 283,000 sq.ft, of 2019 renewals.

Financing

<u>Prospective</u>

The REIT has $40.2 million (22.4%) in mortgages maturing over the next two years over seven properties. Of this balance of maturing mortgages, $21.0 million (11.7%) over four properties relates to properties classified as held for sale. The weighted average contractual interest rate of the seven maturing mortgages is 3.45%.

<u>2018</u>

During 2018, the REIT completed five financings totaling $46.2 million at a weighted average contractual interest rate of 4.48%. After repayment of the maturing mortgages, these 2018 re-financings generated approximately $6.7 million in net cash proceeds. During the second quarter the REIT utilized $2.0 million of these proceeds for the full repayment of the REIT's maturing $10 million Credit Facility with First National Financial LP.

On September 6, 2018, the REIT completed the sale of Mariner Square for $39.0 million. After costs and mortgage repayments, the disposition generated $13.6 million in net cash proceeds.

On October 24, 2018 the REIT completed the sale of nine of its western properties, generating approximately $36.6 million in net cash proceeds.

On December 11 2018 the REIT completed the sale of Cornwall Square for $8.4 million. In order to fund costs and mortgage repayments, the disposition required additional closing funds of $4.6 million.

<u>2017</u>

During 2017, the REIT completed nine financings totaling $95.7 million, at a weighted average contractual interest rate of 3.90%. After repayment of the maturing mortgages, these 2017 re-financings generated approximately $14.1 million in net cash proceeds.

On June 30, 2017, the REIT completed the sale of Thunder Centre for $39.75 million. After costs and mortgage repayments, the disposition netted $12.2 million and these proceeds were used to fund the July 31, 2017 partial 50% repayment of the Series II unsecured convertible debentures ("Series II Debentures").

On July 19, 2017, the REIT closed a Rights Offering that raised gross proceeds of $35.4 million and resulted in the issuance of 11,418,466 REIT units. Also, on August 18, 2017, the REIT repaid the final 50% of the Series II Debentures and 67% of the $23.0 million Series III 5.5% unsecured convertible debentures ("Series III Debentures"). As at December 31, 2017, only $7.6 million principal amount of the Series III Debentures remained outstanding. On January 17, 2018 the REIT repaid the final $7.6 million outstanding amount prior to the March 31, 2018 maturity through net monies raised through the re-financing of maturing mortgages.

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, 2018	Dec 31, 2017	**Dec 31, 2018**	Dec 31, 2017
Revenues from income producing properties	**$ 10,509,699**	$ 12,908,715	**$ 48,831,873**	$ 52,904,430
Comprehensive income (loss)	**(31,445,786)**	1,977,343	**(32,871,630)**	5,280,177
Comprehensive income (loss) per unit - basic	**(0.68)**	0.05	**(0.71)**	0.13
NOI - same properties[(1)]	**5,400,521**	5,094,535	**21,269,705**	20,881,162
NOI - all properties[(1)]	**6,136,135**	7,943,296	**29,540,534**	32,864,502
FFO[(1)]	**4,294,564**	3,858,612	**14,858,843**	13,544,809
FFO per unit[(1)]	**0.09**	0.08	**0.32**	0.34
AFFO[(1)]	**3,606,832**	3,049,086	**11,382,350**	10,290,518
AFFO per unit[(1)]	**0.08**	0.07	**0.25**	0.26
ACFO[(1)]	**3,679,245**	2,957,679	**11,918,221**	10,443,764
Distributions[(2)]	**2,364,698**	2,881,814	**11,061,163**	10,061,301
Distributions per unit[(2)]	**0.06**	0.06	**0.24**	0.25
ACFO distribution payout ratio[(3)]	**64.3%**	97.4%	**92.8%**	96.3%
Cash distributions[(4)]	**2,515,036**	2,635,002	**10,496,414**	8,332,078
Cash distributions per unit[(4)]	**0.06**	0.06	**0.23**	0.21

As at	**Dec 31, 2018**	Dec 31, 2017	Dec 31, 2016
Total assets	**$ 288,694,169**	$ 475,045,178	$ 514,700,205
Total debt[(5)]	**180,009,332**	283,331,535	354,556,805
Total equity	**99,663,422**	183,347,418	151,508,380
Weighted average units outstanding - basic	**45,977,087**	39,435,646	33,690,649
Weighted average units outstanding - diluted	**46,292,330**	39,559,729	33,690,649
Debt-to-gross book value including debentures[(5)]	**62.1%**	59.4%	68.6%
Debt-to-gross book value excluding debentures[(5)]	**62.1%**	57.8%	57.5%
Interest coverage ratio[(6)]	**2.52**	2.02	1.75
Debt service coverage ratio[(6)]	**1.44**	1.25	1.14
Mortgages weighted average effective interest rate[(7)]	**3.99%**	4.10%	4.41%
Portfolio occupancy[(8)]	**96.9%**	95.3%	95.1%

(1) NOI – same properties and all properties, FFO, AFFO and ACFO are non-IFRS financial measures widely used in the real estate industry. See “Part II – Performance Measurement” (page 17) for further details and advisories.

(2) Represents distributions to unitholders on an accrual basis and excludes the special distribution of $0.87 per unit (declared October 2018 and paid November 2018). 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 include the 3% bonus units given to participants in the Distribution Reinvestment and the Deferred Unit Plan.

(3) ACFO distribution payout ratio is a non-IFRS financial measure that has a standardized meaning under RealPac. It is calculated as total distributions as a percentage of ACFO (a new measure standardized by RealPac – see Part II Performance Measurement on page 17). 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 the Deferred Unit 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, 2018

Revenue from all income producing properties for the fourth quarter was $10.5 million, a decrease of $2.4 million when compared to $12.9 million in the same prior year period. This decrease was primarily the result of the sale of one property during September 2018, nine properties during October 2018 and one property during December 2018. When compared to the third quarter of 2018's revenue from income producing properties of $12.5 million, the fourth quarter decreased by $2.0 million.

Same properties NOI for the fourth quarter was $5.4 million, a $0.3 million increase when compared to the prior period's same property NOI. The increase was a result of various new tenant lease-ups and contributions from new developments.

All properties NOI for the fourth quarter, which includes contributions from properties not owned for the full current and prior year periods, was $6.1 million, a $1.8 million decrease when compared to all properties NOI of $7.9 million in the same prior year period. The decrease is the result of a property dispositions, partially offset by the increase to same properties NOI as discussed above.

Comprehensive loss for the fourth quarter was $31.4 million, a decrease in earnings of $33.4 million compared to comprehensive income of $2.0 million in the same prior year period. This decrease was mainly due to fair value losses on income producing properties and the realized loss recognized on ten properties disposed during the fourth quarter that were partially offset by reduced financing costs, compared to the same prior year period. The current quarter's comprehensive loss of $31.4 million was also a $30.4 million decrease in earnings when compared to a $1.0 million comprehensive loss in the prior quarter.

FFO for the fourth quarter was $4.3 million, which is a $0.4 million increase from the prior year's comparable quarter amount of $3.8 million. The increase to FFO was primarily a result of reduced overhead expenses and lower finance expenses following dispositions and related debt reduction, partially offset by reduced NOI discussed above. When compared to the prior quarter's FFO of $3.8 million, FFO increased by $0.5 million.

AFFO for the fourth quarter was $3.6 million, an increase of $0.6 million when compared to $3.0 million for the same prior year period. This increase was the result of the same factors discussed for FFO above, further compounded by a lower sustaining capital reserve deduction due to lower overall GLA following the dispositions in the fourth quarter. In the calculation of AFFO for the fourth quarter of 2018, there is a sustaining capital reserve deduction of $0.7 million (the fourth quarter's reserve was set at $0.375 per square foot or $1.50 per square foot per year). The comparative prior year quarter has a sustaining capital reserve deduction of $0.8 million ($0.325 per square foot or $1.30 per square foot annualized). AFFO increased by $0.7 million when compared to $2.9 million in the prior quarter.

ACFO for the fourth quarter was $3.7 million, an increase of $0.7 million when compared to $3.0 million in the same period in the prior year. The improvement was due to the factors affecting FFO and AFFO. When compared to the prior quarter's ACFO of $3.0 million, the current quarter was higher by $0.7 million, and this was due to the same factors as discussed above regarding FFO and AFFO.

The regular monthly distributions for the fourth quarter were $2.4 million ($0.06 per unit), a decrease from the prior year's comparable quarter amount and the prior quarter amount. The decrease was a direct result of the November 2018 decision to reduce the annual distribution from $0.25 per unit ($0.02083 per unit per month) to $0.18 per unit ($0.015 per unit per month). The reduction to the monthly distribution was done following the sale of the REIT's Western Canadian assets and Special Distribution of $0.87 per unit (see PART III – Recent Developments).

The ACFO payout ratio for the fourth quarter was 64.3% an improvement from 97.4% in the comparable prior year period.

Results for the Year Ending December 31, 2018

Revenue from all income producing properties for the year ended December 31, 2018 was $48.8 million, a decrease of $4.1 when compared to $52.9 million for the year ended December 31, 2017. This decrease was primarily the result of lost contributions from the eleven properties sold during 2018, partially offset by contributions from new developments and other leasing activities.

Same properties NOI for the year ended December 31, 2018 was $21.3 million, an increase of $0.4 million from the prior year's amount of $20.9 million. This increase in same properties NOI was the result of various lease-ups and contributions from new developments.

All properties NOI for the year ended December 31, 2018 was $29.5 million, a decrease of $3.3 million when compared to all properties NOI of $32.8 million in the same prior year period. The decrease was the result of the loss of contribution from the eleven properties sold during 2018, partially offset by increased contributions from the same property grouping discussed above.

Comprehensive loss for the year ended December 31, 2018 was $32.9 million, a decrease to earnings of $38.2 million when compared to comprehensive income of $5.3 million for the prior year. This decrease to income was primarily due to a $35.2 increase in fair value losses on the REIT's portfolio during 2018 and to a lesser extent the realized losses from transactions costs on the sale of eleven properties during 2018.

FFO for the year ended December 31, 2018 was $14.9 million, a $1.3 million increase when compared to $13.6 million for the prior year. The increase to FFO was primarily a result of lower finance expenses from the mortgage refinancing activities combined with the debt reduction from property sales, partially offset by lower all property NOI following property dispositions.

AFFO for the year ended December 31, 2018 was $11.4 million, an improvement of $1.1 million when compared to $10.3 million in the prior year due to the same factors discussed for FFO above, partially offset by a higher sustaining capital reserve allowance during 2018.

ACFO for the year ended December 31, 2018 was $11.9 million, an increase of $1.5 million when compared to $10.4 million in the prior year. This improvement was primarily a result of the current period's reduced finance expenses, partially offset by lower all property NOI following the property dispositions.

The regular monthly distributions for the year ended December 31, 2018 were $11.1 million ($0.24 per unit), an increase of $1.0 million when compared to $10.1 million ($0.25 per unit) for the prior year. This increase in total regular distributions can be attributed to the increased number of units outstanding as a result of the July 2017 rights offering completed by the REIT and the issuance of units through the REIT's Dividend Re-investment and Optional Unit Purchase Plan (the "Plan") and the Deferred Unit Plan ("DUP"). In addition to the regular monthly distribution, during 2018 the REIT made a special distribution of $40.0 million (87 cents per unit) from excess cash generated from the sale of ten Western Canada properties.

The ACFO payout ratio on the regular monthly distributions for the year ended December 31, 2018 was 92.8% (December 31, 2017 – 96.3%).

Financial Position

The REIT's total assets as at December 31, 2018 were $289 million, a reduction of $186 million when compared to the December 31, 2017 balance of $475 million. The reduction is the result of disposing of eleven properties during 2018 and distributing the excess cash to unitholders, combined with the effect of fair value losses recognized on the REIT's portfolio.

The REIT's total debt as at December 31, 2018 was $180 million, a decrease of $103 million when compared to $283 million at December 31, 2017. This decrease was the result of the repayment of $94 million in mortgages associated with properties disposed, repayments of the final $7 million in Series III subordinated unsecured convertible debentures, regularly scheduled principal repayments of $8 million, partially offset by new financings net of repayments on maturing mortgages of $6 million.

The REIT's debt-to-gross book value at December 31, 2018 was 62.1% an increase from 59.4% at December 31, 2017.

The REIT's weighted average effective interest rate for mortgages at December 31, 2018 was 3.99%, an improvement from December 31, 2017's average of 4.10%. The REIT's weighted average contractual interest rate for mortgages at December 31, 2018 was 3.68%, an improvement from December 31, 2017's average of 3.89%.

Partners' rolling twelve-month interest coverage ratio (ICR) at December 31, 2018 was 2.52, an improvement from 2.02 at December 31, 2017. The REIT's debt-service coverage ratio (DSCR) at December 31, 2018 was 1.44, an improvement from 1.25 at December 31, 2017.

Occupancy as at December 31, 2018 was 96.9%, an improvement from 95.3% as at the end of the prior year. Management believes that the REIT's 2019 leasing plans for renewals are progressing very well, despite the recent increase in available square footage and resulting competition in the overall market for retail locations.

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, 2018, the REIT's net asset value was $2.16 per unit, a decrease of $1.84 per unit from $4.00 at December 31, 2017. This decrease was a result of the $0.87 per unit special distribution paid in November 2018 combined with the impact to equity from the $47 million of realized and unrealized fair value losses on income producing properties.

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)
Ontario:							
Crossing Bridge Square Stittsville, Ontario	Retail Strip Centre	1995	Farm Boy, McDonalds, IDA	45,905	93.2%	3.5%	$19.46
Grand Bend Town Centre, Grand Bend, Ontario	Retail Strip Centre	2002	Sobey's, Shoppers Drug Mart	41,567	100.0%	2.8%	$16.11
King George Square Brantford, Ontario	Retail Strip Centre	1988	Shoppers Drug Mart, Dollarama	66,715	97.6%	5.2%	$19.18
Place Val Est Sudbury, Ontario	Retail Strip Centre	1983/1987, 1990, 1998	Metro, LCBO, RBC	111,147	95.5%	5.7%	$12.88
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick, Home Depot Best Buy, BMO	85,232	100.0%	6.5%	$18.21
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.7%	
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.2%	
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.2%	
St. Clair Beach Tecumseh, Ontario	Retail Strip Centre	2004	Shoppers Drug Mart	38,923	100.0%	3.7%	$22.41
Timmins Power Centre Timmins, Ontario	Retail Strip Centre	2007 - 2009	MNP, Soucie Salo Safety	43,611	89.7%	1.8%	$11.05
Wellington Southdale London, Ontario	Retail Strip Centre	1986, 2000, 2004, 2006	Landmark Theatres, Dollarama	86,700	97.3%	5.7%	$16.21
Québec (Held for Sale):							
Centre Le Village Shopping Centre Nuns Island, Montréal, Québec	Enclosed Mall	1977, 1991, 2001, 2010, 2012	Loblaws, SAQ	96,361	92.2%	7.4%	$19.96
Centre Commercial Chateauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart, Staples, Québec Government	117,048	100.0%	6.3%	$12.95
Marcel-Laurin Shopping Centre Saint Laurent, Québec	Retail Strip Centre	2011	Metro, Brunet Pharmacy	119,925	100.0%	9.5%	$18.87
Mega Centre Montréal, Québec	Power Centre	1973/1993, 1999, 2000, 2004, 2014	Walmart, Michaels, Brault & Martineau	277,167	100.0%	12.9%	$11.10
Place Desormeaux Longueuil, Québec	Enclosed Mall	1971/1998,2009, 2010	Walmart, Metro, Québec Government	254,706	93.2%	12.2%	$12.22
Place Elgar Nuns Island, Montréal, Québec	Retail Strip Centre	1969, 1989	Couche Tard	10,121	100.0%	0.7%	$15.59
Plaza des Seigneurs Terrebonne, Québec	Retail Strip Centre	1998	Uniprix, SAQ, Banque Nationale	20,833	100.0%	1.8%	$20.30
Repentigny Shopping Centre Repentigny, Québec	Mixed Use Strip Centre	1988/2009	Familiprix, Dollarama, Québec Government	48,605	93.1%	3.1%	$16.26
Saint-Remi Shopping Centre Saint-Remi, Québec	Retail Strip Centre	2009 - 2011	Sobey's, SAQ, Uniprix, Tim Hortons	62,347	100.0%	4.7%	$18.13
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,028	100.0%	1.8%	
Sorel Shopping Centre, Sorel, Québec	Retail Strip Centre	2010 - 2012	SAQ, Tim Hortons	31,038	74.9%	2.2%	$22.83

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)
Manitoba (Held for Sale):							
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,685	100.0%	1.4%	
Total				**1,678,466**	**96.9%**	**100%**	**$14.68**

Province	Retail (sq.ft.)(1)	Occupancy(2)(3)	% of annualized base rental revenue(3)	Weighted average rent(4)
Ontario	606,602	97.3%	36.0%	$14.58
Quebec (Held for Sale)	1,055,179	96.6%	62.6%	$14.66
Eastern Sub-Total	**1,661,781**	**96.8%**	**98.6%**	**$14.63**
Manitoba (Held for Sale)	16,685	100.0%	1.4%	
Western Sub-Total	**16,685**	**100.0%**	**1.4%**	
Total	**1,678,466**	**96.9%**	**100%**	**$14.68**

Notes:

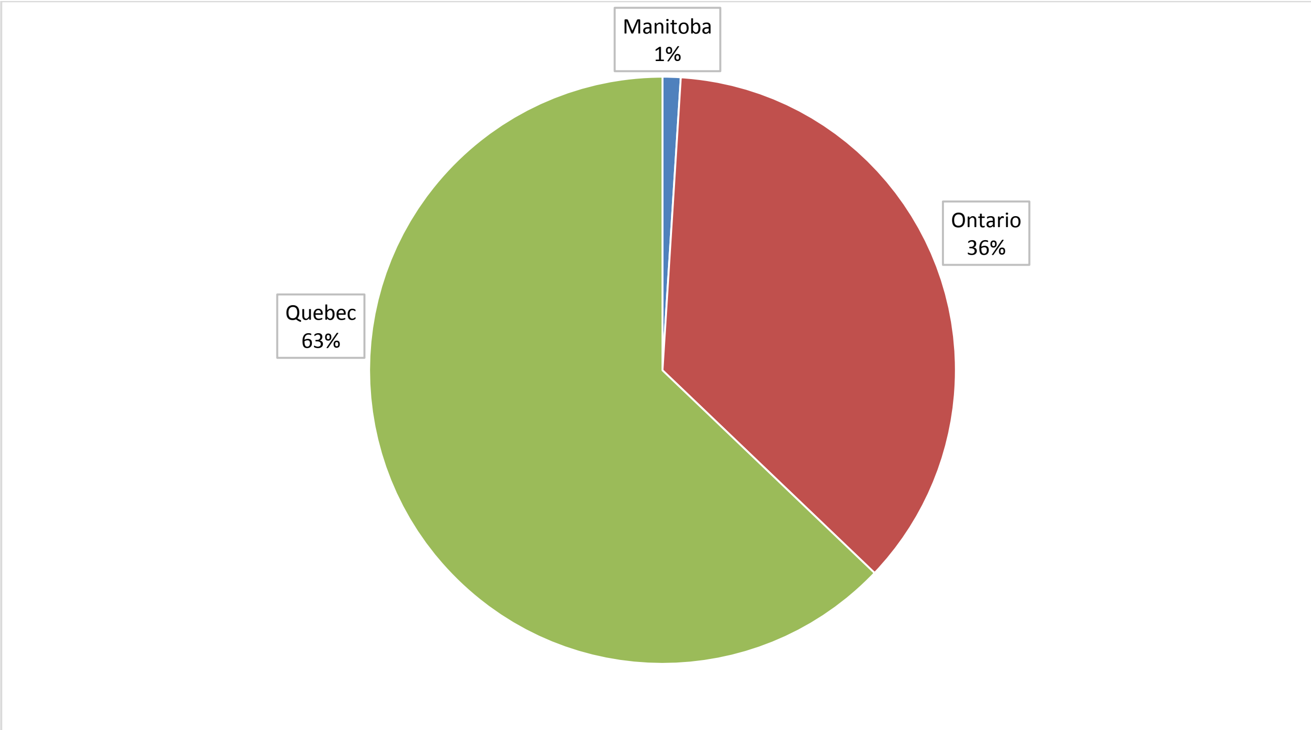
(1) Includes office space in mixed-use retail properties.

(2) Committed occupancy excluding storage space.

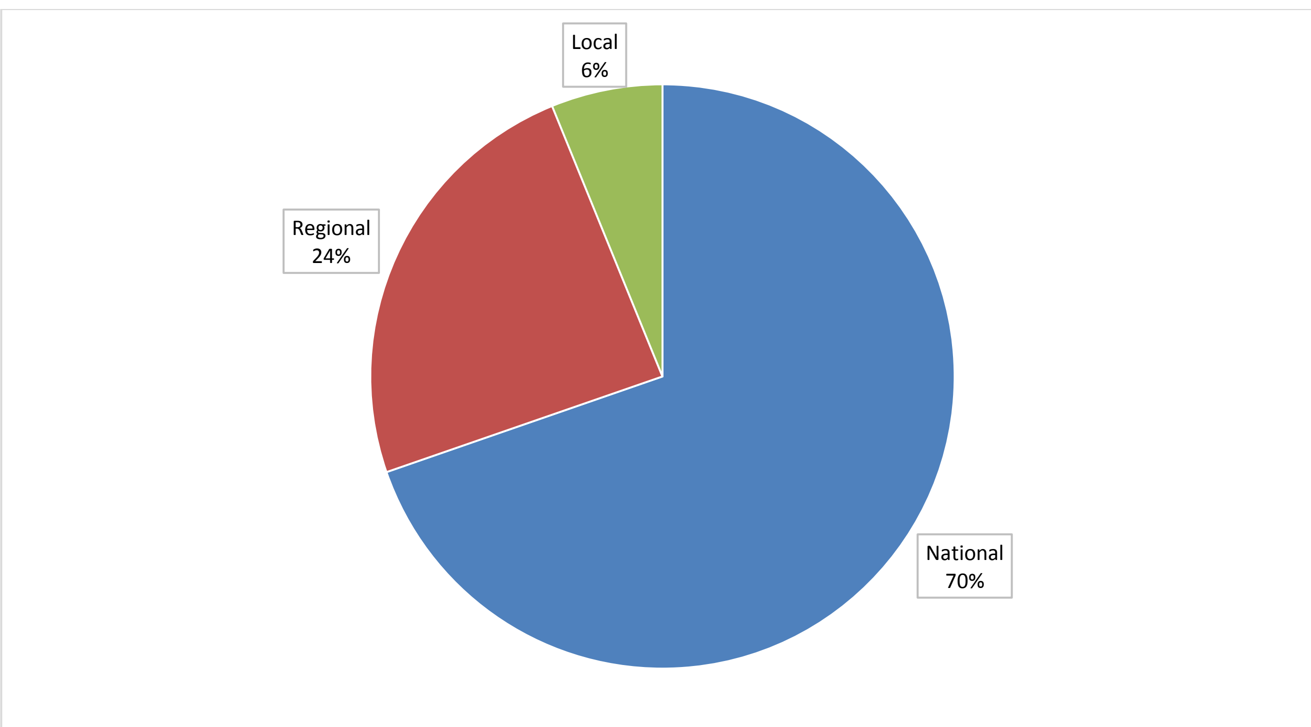
(3) Includes square footage of all material executed leases, regardless of occupancy date, and excludes square footage of all documented material lease terminations updated through December 31, 2018.

(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, 2018, including the REIT's ten largest tenants by base rent and leased square feet excluding storage with weighted average lease term ("WALT") remaining is provided in the table below.

Top Tenants by Base Rent	%	WALT	Top Tenants by Leased Area	%	WALT
Loblaw & SDM	12.9%	4.21	Walmart	10.7%	5.62
QC Government	8.3%	5.04	QC Government	9.0%	5.04
Metro Inc	8.1%	7.50	Loblaw & SDM	8.9%	4.21
Walmart	4.6%	5.62	Metro Inc	8.1%	7.50
Sobeys	4.4%	9.04	Lowes/Rona	5.3%	1.20
Staples	2.9%	3.66	Brault & Martineau	4.8%	2.42
Dollarama	2.9%	3.29	Sobeys	4.2%	9.04
Leon's	2.5%	4.35	Staples	3.1%	3.66
Brault & Martineau	2.3%	2.42	Dollarama	2.5%	3.29
Michaels	2.1%	6.17	Leon's	2.2%	4.35

When excluding the REIT's eleven properties in Quebec that are under contract for sale, the following table shows the ten largest tenants by base rent and leased area:

Top Tenants by Base Rent	%	WALT	Top Tenants by Leased Area	%	WALT
Loblaw & SDM	17.3%	4.54	Lowes/Rona	14.3%	1.20
Leon's	6.8%	4.35	Loblaw & SDM	11.2%	4.54
Landmark	4.6%	6.92	Leon's	5.9%	4.35
Sobeys	4.3%	4.35	Landmark	5.6%	6.92
Canadian Tire	4.3%	2.69	Metro Inc	5.4%	5.08
Metro Inc	4.0%	5.08	Sobeys	4.3%	4.35
Best Buy	3.7%	5.09	Canadian Tire	3.8%	2.69
Dollarama	3.6%	4.92	Rossy	3.7%	1.67
Cara Operations	3.0%	9.06	Best Buy	3.3%	5.09
Pet Valu	3.0%	8.77	Dollarama	3.2%	4.92

Leasing Activity and Occupancy

The table below shows the remaining future lease expiries as at December 31, 2018:

	Expiries (sq.ft.)	Expiries (%)	Rent PSF ($)
2019	24,030	1.4%	21.50
2020	233,950	13.9%	9.27
2021	338,520	20.2%	12.23
2022	136,384	8.1%	19.10
2023	176,955	10.5%	16.45
Thereafter	716,163	42.7%	16.14
Vacant	52,464	3.1%	-
Total	1,678,466	100.0%	14.68
Weighted average remaining lease term: 5.08 years			

When excluding the REIT's eleven properties in Quebec that are under contract for sale, the following table show the remaining future lease expiries as at December 31, 2018:

	Expiries (sq.ft.)	Expiries (%)	Rent PSF ($)
2019	5,665	0.9%	20.43
2020	165,447	26.5%	8.16
2021	67,679	10.9%	19.26
2022	24,222	3.9%	17.25
2023	81,523	13.1%	18.31
Thereafter	262,204	42.1%	16.23
Vacant	16,547	2.7%	-
Total	623,287	100.0%	14.73
Weighted average remaining lease term: 4.52 years			

Lease expiries, new leasing and renewals completed for the year ended December 31, 2018 and year ended December 31, 2017 by number of transactions and total square feet are as follows:

Year ended	**December 31, 2018**				December 31, 2017			
	Sq. Ft.	**(%)**	#	**(%)**	Sq. Ft.	(%)	#	(%)
Leases renewed	156,612	83.0%	37	82.2%	236,712	84.3%	44	69.8%
Leases in progress or not renewed	32,038	17.0%	8	17.8%	44,240	15.7%	19	30.2%
Total scheduled expiries	188,650	100.0%	45	100.0%	280,952	100.0%	63	100.0%
Abandonment or early termination	103,305		4		4,545		2	
New leases or expansions	47,307		16		65,017		20	

As at December 31, 2018, the REIT had renewed a total of 156,612 square feet, comprising 37 units, in respect of the 45 units that were set to expire during 2018. The balance of 8 units that expired during 2018, totaling 32,038 square feet, have either gone month to month or will require new tenant prospects. The success in securing new leases and lease renewals for 2018 expiries reflects the REIT's increased focus and efforts on proactive leasing activities over the past two years. These efforts have intensified following the 2016 internalization of property management activities at the REIT's properties outside of Quebec and the consolidation of 10 of the 11 Quebec properties under a single Quebec based manager. The abandonment or early termination amount above is reflective of the termination of the Sears Canada lease during January 2018.

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.)	Committed (sq.ft.)	Committed (%)
December 31, 2018[(2)]	1,678,466	1,626,002	96.9%
September 30, 2018[(2)]	2,224,849	2,017,278	90.7%
June 30, 2018	2,331,061	2,118,972	90.9%
March 31, 2018[(1)]	2,330,566	2,115,655	90.8%
December 31, 2017	2,327,246	2,218,384	95.3%
September 30, 2017	2,327,264	2,221,262	95.4%
June 30, 2017[(2)]	2,327,259	2,208,258	94.9%
March 31, 2017	2,496,576	2,379,684	95.3%
Average	2,255,411	2,113,187	93.8%

(1) *Reflects loss of tenant – the Sears abandonment at Cornwall Square*
(2) *Reflects the sale of a property(s)*
(3) *Reflects the sale of Cornwall Square*

The REIT measures occupancy on a committed basis, which includes tenants who have committed to leasing a location, but are not yet physically occupying that location. When removing the impact of committed leases totaling 13,757 square feet at December 31, 2018, the REIT's economic occupancy is 96.1%.

The following table summarizes occupancy by anchor / major / free-standing building ("FSB") and CRU tenants as at December 31, 2018 and December 31, 2017:

		31-Dec-18		
Lease type	Leased sq. ft.	Total sq. ft.	Leased (%)	W.A. rent PSF
Anchor / Major / FSB	1,224,243	1,228,751	99.6%	$ 13.07
CRU	401,759	449,715	89.3%	19.53
Total	1,626,002	1,678,466	96.9%	$ 14.68
		31-Dec-17		
Lease type	Leased sq. ft.	Total sq. ft.	Leased (%)	W.A. rent PSF
Anchor / Major / FSB	1,631,083	1,659,707	98.3%	$ 14.16
CRU	587,301	667,539	88.0%	20.00
Total	2,218,384	2,327,246	95.3%	$ 15.70

The historical portfolio committed and economic occupancy for the REIT's property portfolio is as follows:

	2018				2017			
(%)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Committed	96.9%	90.7%	90.9%	90.8%	95.3%	95.4%	94.9%	95.3%
Economic	96.1%	90.2%	89.4%	89.4%	93.9%	93.5%	93.3%	93.2%

The REIT's overall portfolio committed occupancy rate is calculated as leased GLA divided by total portfolio GLA. During the year, the committed occupancy rate increased by 1.7% from 95.3% as at December 31, 2017. This increase was primarily due to the disposition of Cornwall Square that had a lower average occupancy than the full portfolio combined with strong tenant retention and new leasing activities.

The historical portfolio weighted average in-place rent for the REIT's properties is as follows:

	2018				2017			
($)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
W.A. inplace rent per sq. ft.	$ 14.68	$ 16.23	$ 16.26	$ 16.34	$ 15.70	$ 15.63	$ 15.58	$ 15.79

Average in-place rent decreased during the fourth quarter due to the sale of ten properties in BC, Alberta and Manitoba, which had a higher average rent per square foot than the portfolio average. Partially offsetting this reduction to average rent per square foot are the new leases in the fourth quarter of 2018 at higher average rates and 2018 renewals at an average rate higher than maturing leases as shown below.

A summary of the REIT's full year 2018 and full year 2017 new leasing activity for the property portfolio is as follows:

	2018					**2017**				
	Full Year	Q4	Q3	Q2	Q1	**Full Year**	Q4	Q3	Q2	Q1
Square feet leased	**47,307**	13,757	6,520	24,014	3,016	**65,017**	6,548	16,225	21,316	20,928
Average rent per square foot	**$ 14.37**	$ 14.51	$ 20.79	$ 9.70	$ 37.05	**$ 15.18**	$ 17.65	$ 20.17	$ 13.96	$ 11.79

A summary of the REIT's full year 2018 and full year 2017 renewal leasing activity (regardless of the original expiry date of the renewed lease) for the property portfolio, excluding anchor tenants, is as follows:

	2018					**2017**				
	Full Year	Q4	Q3	Q2	Q1	**Full Year**	Q4	Q3	Q2	Q1
Square feet renewed	**164,710**	82,340	31,068	29,272	22,030	**212,392**	65,648	33,740	43,810	69,194
Average net rent per PSF	**$ 16.42**	$ 15.96	$ 12.82	$ 17.65	$ 21.57	**$ 18.58**	$ 19.41	$ 15.22	$ 22.68	$ 16.85
Increase (decrease) in average net rent PSF	**$ 0.31**	$ 0.50	$ 0.38	$ (0.04)	$ 0.62	**$ (0.69)**	$ (1.69)	$ (0.58)	$ (0.05)	$ (0.19)
% increase (decrease) in average net rent PSF	**2.6%**	3.2%	3.1%	(0.2%)	3.0%	**(3.6%)**	(8.0%)	(3.7%)	(0.2%)	(1.1%)

Including anchor tenants, the components of renewal activity (regardless of the original expiry date of the renewed lease) are as follows:

	2018					2017				
	Full Year	Q4	Q3	Q2	Q1	**Full Year**	Q4	Q3	Q2	Q1
Square feet renewed	**197,773**	82,340	31,068	62,335	22,030	**305,294**	65,648	33,740	95,063	110,843
Average net rent PSF	**$ 15.51**	$ 15.96	$ 12.82	$ 14.10	$ 21.57	**$ 17.44**	$ 19.41	$ 15.22	$ 17.92	$ 16.53
Increase (decrease) in average net rent PSF	**$ 0.69**	$ 0.50	$ 0.38	$ 0.04	$ 0.62	**$ 0.91**	$ (1.69)	$ (0.58)	$ 0.24	$ 3.47
% increase (decrease) in average net rent PSF	**2.2%**	3.2%	3.1%	0.3%	3.0%	**5.5%**	(8.0%)	(3.7%)	1.4%	26.6%

Rental rates vary based on the type of retailer and type of tenancy. Certain retailers pay more rent on a square foot basis than others due to the nature of their business and the retailers' gross margins. The results on a quarterly basis reflect the basket of retailers that expire in a given quarter. Management considers longer-term statistics to be more indicative of the performance of the REIT's properties.

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");
- Adjusted Cash Flow from Operations ("ACFO");
- Debt Service Coverage Ratio ("DSCR");
- Weighted average interest rate; and
- Occupancy levels.

We have provided the analysis of NOI, FFO, AFFO and ACFO 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 and Adjusted Funds from Operations

Funds from operations ("FFO") and adjusted funds from operations ("AFFO") are non-IFRS financial measure of operating performance widely used by the real estate industry. Partners REIT bases its calculation of FFO and AFFO on the recommendations of the Real Property Association of Canada ("RealPac") as defined in RealPac's Whitepaper on FFO and AFFO, originally issued February 2017 and subsequently updated February 2018. The definitions are meant to standardize the calculation and disclosure of FFO and AFFO across real estate entities in Canada.

Funds from Operations

Management considers FFO a meaningful measure of operating performance for management, 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.

In applying this definition to the REIT, the key measures for consideration are the net income under IFRS, adjusting for fair value gains or losses on income producing properties and financial instruments, amortization of leasing fees ("LFs") and tenant allowances ("TAs"), gains or losses from the sale of properties and incremental leasing costs related to the REIT's internal leasing team (otherwise expensed in calculating net income under IFRS).

A reconciliation of net income to FFO is provided on page 26.

Adjusted Funds from Operations

Adjusted funds from operations ("AFFO") measures the recurring economic earnings and includes a deduction for the portion of depreciation that is economic. RealPac has defined the adjustments that it recommends being made to net income under IFRS in calculating AFFO. In applying this definition to the REIT, the key measures for consideration are the same items listed above in defining FFO, with additional adjustments to remove the impact of non-cash straight-line rent and deduct incremental leasing costs (excluding costs relating to development efforts) and sustaining capital expenditures. RealPac's guidance on calculating the sustaining capital deduction is to include landlord capex (ie - recoverable and non-recoverable capital costs) and leasing activities (tenant improvements, allowances and capitalized leasing costs) that relate to sustaining and maintaining existing units. In calculating the deduction for sustaining capital costs, the REIT excludes costs relating to acquisitions, developments and re-developments.

In the calculation of AFFO, the REIT recognizes landlord capex and leasing costs together as sustaining capital costs. After review of the last three years' capital costs and the definition of AFFO, the REIT will recognize a sustaining capital reserve deduction of $1.50 per square foot for fiscal 2018 ($0.375 per square foot per quarter). The prior year had reported the annual reserve at $1.30 per square foot ($0.325 per square foot per quarter). The sustaining capital reserve is calculated based on the actual costs for the past three years and these costs include all capital costs incurred except for acquisition(s), development and re-development projects. Based on an assessment of the ongoing capital costs of the current portfolio, management believes that $1.50 per square foot or $3.5 million per year closely approximates the ongoing annual sustaining capital cost requirement of the REIT (i.e. – the landlord capex and capitalized leasing costs). Furthermore, management believes that using a reserve based on actual historical costs, instead of the current quarter's actual capital costs provides a more accurate operating performance measure for AFFO. The use of a reserve avoids quarterly fluctuations that would otherwise occur from reporting actual sustaining capital costs. The actual sustaining capital costs for the quarter are provided on page 30.

A reconciliation of net income to AFFO is provided on page 27.

Adjusted Cash Flow from Operations

Adjusted cash flow operations ("ACFO") is a non-IFRS financial measure that is defined in RealPac's Whitepaper on ACFO, issued February 2017 and updated February 2018. RealPac defines ACFO as a sustainable, economic cash flow metric that is meant to show an entity's ability to pay distributions.

ACFO is calculated as cash flow from operations as determined under IFRS, adjusted to eliminate the impact of certain changes in working capital, as well as the amortization of deferred financing costs and to deduct sustaining costs of the internalized leasing team and capital expenditures (as done with the AFFO calculation).

Management believes that using a reserve based on actual historical costs, instead of the current quarter's actual capital costs provides a more accurate cash flow measure for ACFO. The use of a reserve avoids quarterly fluctuations that would otherwise occur from reporting actual sustaining capital costs. While ACFO does not take into consideration working capital changes and non-cash amortization of deferred finance charges, management believes that ACFO, as opposed to FFO and AFFO is the most appropriate metric to measure the current portfolio's ongoing cash being generated and therefore available for distributions.

The REIT calculates ACFO in accordance with RealPac's guidance. A reconciliation of cash flow from operations to ACFO is provided on page 28.

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

Debt Service Coverage Ratio

Debt service coverage ratio ("DSCR") is a non-IFRS measure used to determine the REIT's ability 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 a borrower's ability to cover both interest and principal payments and is a common financial covenant contained within lending agreements. The REIT's DSCR is provided on page 33.

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. The REIT's weighted average effective interest rate is provided on page 6.

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" on page 14 for the REIT's occupancy performance.

PART III – RECENT DEVELOPMENTS & SUBSEQUENT EVENTS

Debt Financings (Property Mortgages)

During 2017, the REIT completed nine mortgage re-financings for gross proceeds of $95.7 million, replacing maturing mortgages totaling $81.6 million. These new mortgages carry a weighted average contractual interest rate of 3.90%, replacing mortgages with a weighted average contractual rate of 5.28%. These new mortgages have terms ranging from 3 to 10 years and amortization periods ranging from 22 to 25 years.

In January 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%. As part of repaying the maturing mortgage, the REIT’s Credit Facility borrowing limit was reduced from $10.0 million to $5.0 million.

In March 2018, the REIT closed a $21.5 million mortgage on the Place Desormeaux property in Longueil, Quebec. The mortgage has a 3-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%.

In June 2018, the REIT completed a $5.2 million financing secured by a multi-tenant property in Repentigny, Quebec. The mortgage has a term of five years with an interest rate of 4.13% per annum with an amortization period of 25 years. This financing replaced a maturing mortgage with a principal balance of $4.9 million and a contractual interest rate of 3.34%.

In June 2018, the REIT completed a $4.64 million bridge loan financing secured by a single tenant property in Winnipeg, Manitoba. The REIT pays interest only for the term of six months with an interest rate of prime plus 3% (6.45% at the time of issuance). The financing replaced a mortgage originally set to mature in 2019 with a principal balance of $1.3 million and a contractual interest rate of 6.70% at the time of maturity. The REIT utilized $2 million of the net proceeds of the bridge loan to repay the amount owed on the maturing Credit Facility with First National Financial LP.

In September 2018, with the proceeds from a disposed property in Campbell River, British Columbia, the REIT repaid a $4.64 million bridge loan financing obtained in June 2018 and a $20.4 million mortgage secured by the disposed property. The bridge loan carried a variable rate of prime plus 3% (6.70% at the time of repayment) and the mortgage secured by the disposed property carried an interest rate of 3.77%.

In September 2018, the REIT completed a $1.85 million financing secured by a multi-tenant property in Timmins, Ontario. The mortgage has a term of two years with an interest rate of 4.05% per annum with an amortization period of 25 years. This financing replaced a maturing mortgage with a principal balance of $4.1 million and a contractual interest rate of 6.00%.

In October 2018, with the proceeds from nine properties disposed in BC, Alberta and Manitoba, the REIT repaid a total of $56.6 million over eight mortgages. The eight mortgages carried a weighted average interest rate of 3.88%

In December 2018, with the proceeds of disposition and excess cash on hand, the REIT repaid a $12.6 million mortgage secured by the Cornwall Square property. The mortgage carried a variable rate of interest of 6.20% at the time of sale.

Rights Offering and Repayment of Unsecured Debt

During July, 2017, the REIT closed a rights offering raising gross proceeds of $35.4 million, which resulted in the issuance of 11,418,466 REIT units.

Subsequently during July, 2017, the REIT repaid 50% of the $34.5 million Series II Debentures plus accrued interest. Then during August, 2017 the REIT repaid the remaining 50% of the Series II Debentures and 67% of the $23.0 million Series III Debentures. On January 17, 2018 the REIT repaid the final 33% of the Series III Debentures plus accrued interest to that date.

Sale of Western Properties & Special Distribution & Termination of the Dividend Re-Investment and Optional Unit Purchase Plan

In 2018, the REIT disposed of 10 of its 11 properties in Western Canada generating net cash of approximately $50 million. One property was sold during September 2018 and the other nine properties were sold on October 24, 2018. The REIT returned approximately $40 million to unitholders through a special distribution of $0.87 per unit. As a consequence of these dispositions and the special distribution to unitholders, the REIT reduced its regular monthly distribution from the annualized rate of $0.25 per unit to $0.18 per unit. It also terminated the REIT's Dividend Re-Investment and Optional Unit Purchase Plan (the "Plan") effective with the November 2018 distribution.

Sale of Quebec Properties

In September 2018, the REIT retained BMO Capital Markets Real Estate Inc. to canvass the market for a possible sale of some or all of the REIT's 11 retail properties in Quebec and on January 2, 2019 the REIT announced an agreement to sell the 11 Quebec properties. On March 11, 2019, the purchaser waived its due diligence conditions; however, completion of the sale remains subject to a number of closing conditions. The REIT anticipates closing the sale during April 2019.

The Quebec properties' carrying value and disposition price are $178 million and this will result in net cash proceeds of approximately $63 million, after payment of related mortgages and transaction expenses. The Board expects to consider the payment of a special cash distribution to all unitholders of a portion of the net cash proceeds from the sale of the Quebec properties. The Board will determine the amount of that special cash distribution in due course based upon, among other things, the ongoing cash requirements of the REIT.

In the event that the Quebec Sale Transaction is completed, the Board will review the appropriateness of Partners' current normal monthly distribution of $0.015 per unit ($0.18 per unit annually), including whether such distribution should be reduced or discontinued in light of the smaller size of the remaining portfolio and other relevant factors.

In the event that the Quebec Sale Transaction is completed, the REIT will then own 11 retail properties in Ontario and one in Manitoba, aggregating approximately 623,000 square feet of leasable space. In those circumstances the Board intends to review the REIT's strategic alternatives, taking into account a variety of factors, including, among others, general industry, retailer and economic conditions in the markets in which the REIT then operates, and the anticipated impact of those conditions on the REIT and its remaining properties. Those alternatives will likely include a possible sale of either the REIT itself or its then remaining properties, together with other options that are in the best interests of the REIT and its unitholders.

Amendment to the REIT's Declaration of Trust

On December 10, 2018, the REIT held a special meeting of unitholders of record as of October 30, 2018, to vote on an amendment to the REIT's Declaration of Trust (the constitution of the REIT) to provide the REIT's Board of Trustees (the "Board") with the authority, should the Board determine to do so, to sell all or substantially all of the assets of the REIT, distribute the net proceeds of any such sales to the REIT's unitholders, and wind-up, liquidate, dissolve or take any similar action to terminate the REIT, in each case without any requirement for further unitholder approval. The amendment to the REIT's Declaration of Trust was approved at the December 10, 2018 meeting of unitholders.

PART IV – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is financial information from the consolidated statements of comprehensive income (loss) for the three months and year ended December 31, 2018 for all properties, which includes twelve properties sold during June 2017, September 2018, October 2018 and December 2018:

Three months ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Revenues from income producing properties	**$**	**10,509,699**	$	12,908,715	$	(2,399,016)	(19%)
Property operating expenses		**(1,991,531)**		(2,164,382)		172,851	8%
Realty taxes		**(2,396,474)**		(2,836,239)		439,765	16%
Property management fees		**(208,180)**		(205,710)		(2,470)	(1%)
		5,913,514		7,702,384		(1,788,870)	(23%)
Other expenses:							
Financing costs		**2,005,458**		3,008,257		(1,002,799)	(33%)
General and administrative expenses		**(127,759)**		1,134,657		(1,262,416)	(111%)
		1,877,699		4,142,914		(2,265,215)	(55%)
Income before FV gains (losses)		**4,035,815**		3,559,470		476,345	13%
Loss on sale of investment property		**(2,276,987)**		-		(2,276,987)	0%
Fair value losses		**(33,204,614)**		(1,582,127)		(31,622,487)	(1,999%)
Comprehensive income (loss)	**$**	**(31,445,786)**	$	1,977,343	$	(33,423,129)	(1,690%)
Income (loss) per unit, basic	**$**	**(0.68)**	$	0.05	$	(0.73)	(1,460%)

Year ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Revenues from income producing properties	**$**	**48,831,873**	$	52,904,430	$	(4,072,557)	(8%)
Property operating expenses		**(8,041,198)**		(8,484,658)		443,460	5%
Realty taxes		**(11,362,061)**		(11,657,490)		295,429	3%
Property management fees		**(862,904)**		(884,402)		21,498	2%
		28,565,710		31,877,880		(3,312,170)	(10%)
Other expenses:							
Financing costs		**10,687,033**		14,907,403		(4,220,370)	(28%)
General and administrative expenses		**4,267,658**		4,662,349		(394,691)	(8%)
		14,954,691		19,569,752		(4,615,061)	(24%)
Income before FV gains (losses)		**13,611,019**		12,308,128		1,302,891	11%
Gain (loss) on sale of investment property		**(3,017,589)**		917,110		(3,934,699)	(429%)
Fair value losses		**(43,465,060)**		(7,945,061)		(35,519,999)	(447%)
Comprehensive income (loss)	**$**	**(32,871,630)**	$	5,280,177	$	(38,151,807)	(723%)
Income (loss) per unit, basic	**$**	**(0.71)**	$	0.09	$	(0.80)	(889%)

Comprehensive Income (Loss)

Comprehensive loss for the fourth quarter was $31.4 million, a decrease in earnings of $33.4 million compared to comprehensive income of $2.0 million in the same prior year period. This decrease was mainly due to fair value losses on income producing properties and the realized loss (mainly transaction costs) recognized on ten properties disposed during the fourth quarter, partially offset by reduced financing costs, compared to the same prior year period. The fourth quarter's comprehensive loss of $31.4 million was also a $30.4 million decrease in earnings when compared to a $1.0 million in comprehensive loss in the third quarter of 2018.

Comprehensive loss for the year ended December 31, 2018 was $32.9 million, a decrease to earnings of $38.2 million when compared to net income of $5.3 million for the prior year. This decrease to comprehensive income was primarily due to larger fair value losses on the REIT's portfolio during 2018 and the realized losses from transaction costs on the sale of eleven properties during 2018 as compared to a realized gain on the sale of one property in 2017.

Finance Expenses

The REIT's finance expenses 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 for the fourth quarter were $2.0 million, a decrease of $1.0 million (33%) from the same prior year period amount of $3.0 million. This decrease was due to both the reduction to the average balance of the total debt outstanding combined with lower average effective interest rates.

For the year ended December 31, 2018, financings costs were $10.7 million, a decrease of $4.2 million (28%) from the prior year amount of $14.9 million as a result of the significant debt reduction during the second half of 2017 and 2018, combined with lower average effective interest rates resulting from the past years re-financing activities and the repayment of debt that had higher interest rates.

General and Administrative Expenses

General and administrative expense for the fourth quarter of 2018 was a net recovery of $0.1 million, a decrease in spending of $1.2 million from the same prior year period amount of $1.1 million.

For the year ended December 31, 2018, general and administrative expenses were $4.3 million, a decrease of $0.4 million when compared to $4.7 million for the prior year.

Fair Value Gains and Losses

The fair value loss of $33.2 million for the three months ended December 31, 2018 was mainly due to the $33.5 million reduction in the fair value of income producing properties. The REIT's reduction to the fair value of its income producing properties was mainly the result of adjusting for increases to capitalization rates ("Cap Rates") for the REIT's Ontario and Quebec assets from a weighted average Cap Rate of 6.85% as at September 30, 2018 to a weighted average Cap Rate of 7.31% as at December 31, 2018, together with management's current expectations regarding future tenancies (in particular, anticipated timing, cost and rental rates). In determining the increase to the REIT's weighted average Cap Rate, the REIT considered a number of relevant factors, including, among others, general industry, retailer and economic conditions in the markets in which the REIT operates and, in particular, negative market conditions in Ontario particularly for retail properties in secondary and tertiary markets such as those owned in Ontario by the REIT; the results of the marketed sale process undertaken by the REIT in respect of its Quebec properties with the assistance of the REIT's independent financial advisor, and the terms of the Quebec Sale Transaction; independent property appraisals prepared for the REIT in respect of certain of its Ontario assets; and the results of an independent Cap Rate review report prepared for the REIT.

Fair value losses of $43.4 million for 2018 are composed of $43.6 million in fair value losses on the REIT's property portfolio and $0.2 million on interest rate swaps utilized on three of the REIT's property mortgages, partially offset by a $0.4 million gain on the liability owed to deferred unitholders. Included in the $43.6 million of fair value losses on the REIT's property portfolio are $7.6 million in properties sold during 2018, $16.1 million in properties classified as held for sale and $19.9 million on the remaining portfolio. These fair value losses on the REIT's property portfolio were as a consequence of upward pressure on Cap Rates and managements assumptions regarding future tenancies (timing, cost and rental rates). During 2018, the REIT obtained fifteen independent external appraisals representing 59.0% of the fair value of the income producing portfolio and also an independently prepared Cap Rate review report. During the year ended December 31, 2017, external appraisals were obtained for twelve of the REIT's properties representing 41.2% of the fair value of the income producing property portfolio as of that date.

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. 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 properties 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 twelve properties sold since the start of 2017. Same properties NOI for the fourth quarter of 2018 is as follows:

						Change	
Three months ended		**Dec 31, 2018**		Dec 31, 2017		($)	(%)
Revenues from income producing properties	**$**	**9,044,130**	$	8,505,451	$	538,679	6%
Property operating expenses		**(1,554,712)**		(1,334,080)		(220,632)	(17%)
Realty taxes		**(2,065,475)**		(2,048,117)		(17,358)	(1%)
Property management fees		**(208,180)**		(205,701)		(2,479)	(1%)
		5,215,763		4,917,553		298,210	6%
Amortization of tenant costs		**184,758**		176,982		7,776	4%
Net operating income	**$**	**5,400,521**	$	5,094,535	$	305,986	6%
NOI as a % of revenues		***59.7%***		*59.9%*			*-0.2%*

Same properties NOI for the fourth quarter was $5.4 million, a $0.3 million increase when compared to the prior period's same property NOI. The increase to same properties NOI is the result of new leasing activity and contractual rent escalations across the portfolio.

Same properties NOI for year ended December 31, 2018 is as follows:

						Change	
Year ended		**Dec 31, 2018**		Dec 31, 2017		($)	(%)
Revenues from income producing properties	**$**	**35,421,445**	$	34,146,576	$	1,274,869	4%
Property operating expenses		**(5,280,043)**		(4,955,895)		(324,148)	(7%)
Realty taxes		**(8,730,119)**		(8,146,450)		(583,669)	(7%)
Property management fees		**(862,904)**		(836,190)		(26,714)	(3%)
		20,548,379		20,208,041		340,338	2%
Amortization of tenant costs		**721,326**		673,121		48,205	7%
Net operating income	**$**	**21,269,705**	$	20,881,162		388,543	2%
NOI as a % of revenues		***60.0%***		*61.2%*			*-1.1%*

Same properties NOI for the year ended December 31, 2018 was $21.3 million, an increase of $0.4 million from the prior year amount of $20.9 million. This increase was as a result of various leasing improvements and cost management.

All Properties NOI

The REIT's complete property portfolio for the fourth quarter of 2018 is included in the "All Properties NOI" data below.

Three months ended		**Dec 31, 2018**		Dec 31, 2017		Change ($)	Change (%)
Revenues from income producing properties	**$**	**10,509,699**	$	12,908,715	$	(2,399,016)	(19%)
Property operating expenses		**(1,991,531)**		(2,164,382)		172,851	8%
Realty taxes		**(2,396,473)**		(2,836,239)		439,766	16%
Property management fees		**(208,179)**		(205,710)		(2,469)	(1%)
		5,913,516		7,702,384		(1,788,868)	(23%)
Amortization of tenant costs		**222,619**		240,912		(18,293)	(8%)
Net operating income	**$**	**6,136,135**	$	7,943,296	$	(1,807,161)	(23%)
NOI as a % of revenues		***58.4%***		*61.5%*			*-3.1%*

All properties NOI for the fourth was $6.1 million, a $1.8 million decrease when compared to all properties NOI of $7.9 million in the same prior year period. The decrease is the result of a property dispositions, partially offset by the increase to same properties NOI.

The REIT's all property NOI for the year ended December 31, 2018 is included in the "All Properties NOI" data below.

Year ended		**Dec 31, 2018**		Dec 31, 2017		Change ($)	Change (%)
Revenues from income producing properties	**$**	**48,831,873**	$	52,904,430	$	(4,072,557)	(8%)
Property operating expenses		**(8,041,198)**		(8,484,658)		443,460	5%
Realty taxes		**(11,362,061)**		(11,657,490)		295,429	3%
Property management fees		**(862,904)**		(884,402)		21,498	2%
		28,565,710		31,877,880		(3,312,170)	(10%)
Amortization of tenant costs		**974,824**		986,622		(11,798)	(1%)
Net operating income	**$**	**29,540,534**	$	32,864,502	$	(3,323,968)	(10%)
NOI as a % of revenues		***60.5%***		*62.1%*			*-1.6%*

All properties NOI for the year ended December 31, 2018 was $29.5 million, a decrease of $3.4 million when compared to all properties NOI of $32.9 million in the same prior year period. The decrease was the result of the loss of contribution from a twelve properties sold during 2017 and 2018 partially offset by increased contributions from the same property.

Funds from Operations ("FFO")

A reconciliation of IFRS net income to FFO for the three months ended December 31, 2018 is as follows:

Three months ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Comprehensive income (loss)	**$**	**(31,445,786)**	$	1,977,343	$	(33,423,129)	(1,690%)
Fair value losses on IPP		**33,472,585**		1,647,344		31,825,241	1,932%
Amortization of deferred leasing costs		**222,619**		240,913		(18,294)	(8%)
Loss on sale of property		**2,276,987**		-		2,276,987	0%
Fair value gains on financial instruments		**(300,841)**		(65,217)		(235,624)	(361%)
Internal leasing costs		**69,000**		58,229		10,771	18%
FFO	**$**	**4,294,564**	$	3,858,612	$	435,952	11%
FFO per unit - diluted	**$**	**0.092**	$	0.084	$	0.008	10%

FFO for the fourth quarter was $4.3 million, which is a $0.4 million increase from the prior year's comparable quarter amount of $3.8 million. The increase to FFO was primarily a result of reduced overhead expenses.

A reconciliation of IFRS net income to FFO for the year ended December 31, 2018 is as follows:

Year ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Comprehensive income	**$**	**(32,871,630)**	$	5,280,177	$	(38,151,807)	(723%)
Fair value losses on IPP		**43,622,681**		8,405,798		35,216,883	419%
Amortization of deferred leasing costs		**974,824**		986,622		(11,798)	(1%)
(Gain) loss on sale of property		**3,017,589**		(917,110)		3,934,699	429%
Fair value gains on financial instruments		**(157,621)**		(460,737)		303,116	66%
Internal leasing costs		**273,000**		250,059		22,941	9%
FFO	**$**	**14,858,843**	$	13,544,809	$	1,314,034	10%
FFO per unit - diluted	**$**	**0.321**	$	0.342	$	(0.021)	(6%)

FFO for the year ended December 31, 2018 was $14.9 million, a $1.4 million increase when compared to $13.5 million for the prior year. The increase to FFO was primarily a result of lower finance expenses from the debt reduction initiatives, partially offset by lower all property NOI following property dispositions.

Adjusted Funds from Operations ("AFFO")

A reconciliation of IFRS net income to AFFO for the three months ended December 31, 2018 is as follows:

Three months ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Comprehensive income (loss)	**$**	**(31,445,786)**	$	1,977,343	$	(33,423,129)	(1,690%)
Fair value (gains) losses on IPP		**33,472,585**		1,647,344		31,825,241	1,932%
Amortization of deferred leasing costs		**222,619**		240,913		(18,294)	(8%)
Gain on sale of property		**2,276,987**		-		2,276,987	0%
Fair value gains on financial instruments		**(300,841)**		(65,217)		(235,624)	(361%)
Internal leasing costs - total		**69,000**		58,229		10,771	18%
Internal leasing costs - sustaining		**(62,100)**		(52,406)		(9,694)	(18%)
Sustaining capital expenditures - reserve		**(692,000)**		(755,000)		63,000	8%
Straight-line rent adjustment		**66,368**		(2,120)		68,488	3,231%
AFFO	**$**	**3,606,832**	$	3,049,086	$	557,746	18%
AFFO per unit - diluted	**$**	**0.078**	$	0.066	$	0.012	18%

FFO includes non-cash straight line rent in revenues and excludes any deduction for the cost of sustaining capital and leasing expenditures. Consequently, AFFO is presented above as an alternative measure that determines the recurring economic earnings.

AFFO for the fourth quarter was $3.6 million, an increase of $0.6 million when compared to $3.0 million for the same prior year period. This increase was the result of the same factors discussed for FFO (see previous page), further assisted from a lower sustaining capital reserve deduction which was due to lower overall GLA following the dispositions in the fourth quarter.

When calculating AFFO for the fourth quarter of 2018, a sustaining capital reserve deduction of $0.7 million was calculated from using an annual reserve of $1.50 per square foot ($0.375 per square foot per quarter). The prior year's comparable quarter uses a sustaining capital reserve of $1.30 per square foot ($0.325 per square foot per quarter). For actual sustaining capital costs see the analysis of Statement of Cash Flows – Investing Activities (page 30).

A reconciliation of IFRS net income to AFFO for the year ended December 31, 2018 is as follows:

Year ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Comprehensive income	**$**	**(32,871,630)**	$	5,280,177	$	(38,151,807)	(723%)
Fair value (gains) losses on IPP		**43,622,681**		8,405,798		35,216,883	419%
Amortization of deferred leasing costs		**974,824**		986,622		(11,798)	(1%)
Gain on sale of property		**3,017,589**		(917,110)			
Fair value gains on financial instruments		**(157,621)**		(460,737)		303,116	66%
Internal leasing costs - total		**273,000**		250,059		22,941	9%
Internal leasing costs - sustaining		**(245,700)**		(225,053)		(20,647)	(9%)
Sustaining capital expenditures - reserve		**(3,297,000)**		(3,121,000)		(176,000)	(6%)
Straight-line rent adjustment		**66,207**		91,762		(25,555)	(28%)
AFFO	**$**	**11,382,350**	$	10,290,518	$	1,091,832	11%
AFFO per unit - diluted	**$**	**0.246**	$	0.260	$	(0.014)	(5%)

AFFO for the year ended December 31, 2018 was $11.4 million, an improvement of $1.1 million when compared to $10.3 million in the prior year due to the same factors discussed for FFO (see previous page), partially offset by a higher sustaining capital reserve allowance during 2018.

Adjusted Cash Flow from Operations ("ACFO")

A reconciliation of IFRS cash flow from operations to ACFO for the three months ended December 31, 2018 is as follows:

						Change	
Three months ended		**Dec 31, 2018**		Dec 31, 2017		($)	(%)
Cash flow from operations	**$**	**5,527,317**	$	3,973,358	$	1,553,959	39%
Change in working capital and accrued interest		**(1,023,078)**		(2,378)		(1,020,700)	(42,923%)
Sustaining capital expenditures, net of leasing reserve		**(685,100)**		(749,177)		64,077	9%
Amortization of deferred financing costs		**(139,894)**		(264,124)		124,230	47%
ACFO	**$**	**3,679,245**	$	2,957,679	$	721,566	24%

ACFO for the fourth quarter was $3.7 million, an increase of $0.7 million when compared to $3.0 million in the same prior year period. The increase to ACFO was primarily a result of reduced overhead expenses that exceeded the lost income from the disposed properties.

In the above table, the deduction for sustaining capital expenditures is netted with the portion of internal leasing costs which are considered revenue enhancing.

A reconciliation of IFRS cash flow from operations to ACFO for the year ended December 31, 2018 is as follows:

						Change	
Year ended		**Dec 31, 2018**		Dec 31, 2017		($)	(%)
Cash flow from operations	**$**	**15,995,700**	$	13,757,253	$	2,238,447	16%
Change in working capital and accrued interest		**(3,880)**		1,189,183		(1,193,063)	(100%)
Sustaining capital expenditures, net of leasing reserve		**(3,269,700)**		(3,095,994)		(173,706)	(6%)
Amortization of deferred financing costs		**(803,899)**		(1,406,678)		602,779	43%
ACFO	**$**	**11,918,221**	$	10,443,764	$	1,474,457	14%

ACFO for the year ended December 31, 2018 was $11.9 million, an increase of $1.5 million when compared to $10.4 million in the prior year. This improvement was primarily a result of the current period's reduced finance expenses, partially offset by lower all property NOI following the disposition of eleven properties.

For the year ended December 31, 2018, the REIT made $11.1 million in regular distributions and this resulted in an ACFO payout ratio of 92.8% (December 31, 2017 – 96.3%). In assessing its distribution policy, the REIT considers whether certain costs are expected to recur as well as the impact of items that may not be included in cash from operations, particularly where the timing of such cash flows may differ from the timing of payment of distributions. Over the medium term, management expects that cash flows from operating activities will be sufficient to fund distributions, as may be approved by Trustees from time to time, provided that sufficient net cash is generated from the re-financing of maturing mortgages and from other sources to cover annual principal payments on amortizing mortgages and other cash payments not included in determining cash flow from operating activities. Management and the REIT's Trustees regularly review forecasted ACFO with the objective of determining the appropriate level of sustainable distributions.

For the year ended December 31, 2018, the REIT generated $16.0 million in cash flow from operations while making $11.1 million in regular distributions resulting in a surplus of $4.9 million. In addition to the regular distribution during November the REIT paid an approximately $40 million special distribution from net cash generated from the sale of the western properties. The regular monthly distributions during 2018, which are less than the REIT's cash flow from operations, would be considered a return on capital. The approximately $40 million special distribution which was paid from the net proceeds of property dispositions would be considered a return of capital.

Fiscal 2018's positive working capital adjustment of $0.3 million (2017 - $1.2 million positive adjustment) is comprised of the changes to accounts receivable, other assets and accounts payable excluding certain non-cash items that affect these financial statement line items. This change in working capital is also disclosed in the REIT's consolidated financial statements on the statement of cash flows as changes in working capital and the difference between interest expensed in the year and interest paid in the year.

Statement of Cash Flows

The following table summarizes cash flows for the three months ended December 31, 2018:

						Change	
Three months ended		**Dec 31, 2018**		Dec 31, 2017		($)	(%)
Cash flow provided by operating activities	**$**	**5,527,317**	$	3,973,358	$	1,553,959	39%
Cash flow provided (used) by financing activities		**(114,307,199)**		1,353,941		(115,661,140)	(8,543%)
Cash flow provided (used) by investing activities		**100,400,961**		(1,645,138)		102,046,099	6,203%
NET INCREASE (DECREASE) IN CASH		**(8,378,921)**		3,682,161		(12,061,082)	(328%)
CASH, OPENING		**11,447,499**		2,982,746		8,464,753	284%
CASH, ENDING	**$**	**3,068,578**	$	6,664,907	$	(3,596,329)	(54%)

<u>Operating Activities</u>

Net cash flow from operating activities for the fourth quarter was $5.5 million, a $1.5 million increase when compared to $4.0 million for the fourth quarter of 2017. This increase to operating cash flows was primarily the result of lower financing costs following property disposition and the final repayment of convertible debentures early in 2018, partially offset by lower all property NOI that was due to property dispositions. Also impacting operating cash flow for the quarter was a positive variance of $0.8 million in working capital against the comparative period. This was primarily the result of property dispositions resulting in the settlement of related working capital.

<u>Financing Activities</u>

Net cash flow used by financing activities for the fourth quarter was $114.3 million, a $115.7 million increase in cash used compared to $1.4 million generated in the prior year's comparative period. The increase to cash used by financing activities is primarily the result of the repayment of a $69.3 million in mortgages associated with ten properties disposed in the quarter and the resulting $42.9 million in distributions to unitholders ($40.1 million special distribution in November 2018, $0.4 million special distribution to deferred unitholders and $2.4 million in regular monthly cash distributions).

<u>Investing Activities</u>

Net cash flow provided by investing activities for the fourth quarter was $100.4 million, an increase to cash provided of $102.0 million when compared to $1.6 million used by investing activities during the prior year's comparable period. The difference between the current and prior year period was the result of ten property dispositions during the current period that provided net proceeds prior to mortgage repayments of $101.3 million and lower overall capital spending.

For the three months ended December 31, 2018 and 2017, capital expenditures were as follows:

Three months ended		Dec 31, 2018		Dec 31, 2017
Recoverable from tenants	$	**257,259**	$	217,090
Non-recoverable from tenants		**47,922**		65,367
Development		**8,648**		649,649
Re-development		**3,915**		1,372
		317,744		933,478
Leasing activities		**163,921**		711,658
	$	**481,665**	$	1,645,136

Actual sustaining capital expenditures for the three months ended December 31, 2018 were $0.5 million (three months ended December 31, 2017 - $1.0 million).

The following table summarizes cash flows for the year ended December 31, 2018:

Year ended		Dec 31, 2018		Dec 31, 2017		Change ($)	Change (%)
Cash flow provided by operating activities	$	**15,995,700**	$	13,757,253	$	2,238,447	16%
Cash flow used by financing activities		**(155,023,337)**		(45,721,304)		(109,302,033)	(239%)
Cash flow provided by investing activities		**135,431,308**		29,494,922		105,936,386	359%
NET DECREASE IN CASH		**(3,596,329)**		(2,469,129)		(1,127,200)	(46%)
CASH, OPENING		**6,664,907**		9,134,036		(2,469,129)	(27%)
CASH, ENDING	$	**3,068,578**	$	6,664,907	$	(3,596,329)	(54%)

Operating Activities

Net cash flow from operating activities for the year ended December 31, 2018 was $16.0 million, a $2.2 million increase when compared to $13.8 million for the year ended December 31, 2017. This increase to operating cash flows was primarily the result of lower cash payments on finance expenses, resulting from the substantial reduction to the mortgages payable and unsecured subordinated convertible debentures. This improvement to cash flow from operating activities was partially offset by lower contributions to NOI from the property disposals.

Financing Activities

Net cash flow used by financing activities for the year ended December 31, 2018 was $155.0 million, a $109.3 million increase to cash used by financing activities compared to the $45.7 million used in the prior year's comparative period. Cash used for financing activities during 2018 includes repayment of $94.3 million for mortgages associated with disposed properties, $7.6 million in regularly scheduled mortgage repayments, repayment of the final $7.6 million in unsecured convertible debentures and $50.9 million in cash distributions paid to unitholders ($40.1 million special distribution in November 2018, $0.4 million special distribution to deferred unitholders and $10.4 million in regular monthly cash distributions). The prior year balance includes significant debt repayments including mortgages and debentures, partially offset by proceeds from a rights offering.

Investing Activities

Net cash flow provided by investing activities for the year ended December 31, 2018 was $135.4 million, an increase to cash provided of $105.9 million when compared to $29.5 million provided by investing activities during the prior year. The difference between the current and prior year was the result of eleven property dispositions in 2018 compared with one disposition during 2017 and to a lesser extent, a lower level of capital spending during 2018.

For the year ended December 31, 2018 and 2017, capital expenditures were as follows:

Year ended		Dec 31, 2018		Dec 31, 2017
Recoverable from tenants	**$**	**1,657,495**	$	1,382,619
Non-recoverable from tenants		**451,637**		72,550
Development		**17,314**		3,257,479
Re-development		**162,775**		1,485,378
		2,289,221		6,198,026
Leasing activities		**1,772,987**		3,226,748
	$	**4,062,208**	$	9,424,774

Actual sustaining capital expenditures for the year ended December 31, 2018 were $3.9 million (year ended December 31, 2017 - $4.7 million).

FINANCIAL POSITION ANALYSIS

Statement of Financial Position – Total Assets

					Change	
As at		**Dec 31, 2018**		Dec 31, 2017	($)	(%)
Income producing properties	**$**	**98,650,000**	$	462,928,003	$ (364,278,003)	(79%)
Other assets		**858,377**		4,384,057	(3,525,680)	(80%)
Accounts receivable		**2,894,888**		1,068,211	1,826,677	171%
Cash		**3,068,578**		6,664,907	(3,596,329)	(54%)
		105,471,843		475,045,178	(369,573,335)	(78%)
Assets held for sale		**183,222,326**		-	183,222,326	0%
Total assets	**$**	**288,694,169**	$	475,045,178	$ (186,351,009)	(39%)

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 $364 million in income producing properties, or $183 million when excluding reclassification to assets held for sale, was the result of the sale of eleven properties during 2018 and the fair value losses partially offset by capital expenditures incurred.

During 2018, the REIT had fifteen of its properties independently appraised, representing an aggregate fair value of $166 million, or 59.0% of the total portfolio value (including assets held for sale). During the year ended December 31, 2017, the REIT had twelve of its properties independently appraised representing an aggregate fair value of $191 million, or 41.2% of the total portfolio value at that time.

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 and disposition costs, amounts held in escrow and other prepaid expenses. During 2018, the balance of other assets decreased by $3.5 million (80%), or decreased by $2.6 million (59%) when excluding the impact of assets held for sale. The decrease in other assets balance was the result of restricted cash and prepaid balances being settled for properties disposed during the year, partially offset by deferred disposition costs for ongoing disposition activities.

Accounts receivable

The accounts receivable balance at December 31, 2018 of $2.9 million increased by $1.8 million (171%), or $2.3 million (219%) when excluding the impact of assets held for sale, compared to the December 31, 2017 balance of $1.1 million.

Net Asset Value

As at		Dec 31, 2018		Dec 31, 2017	Change ($)/(units)	Change (%)
Units outstanding, end of year		**46,079,673**		45,831,979	247,694	1%
Unitholders' equity	**$**	**99,663,422**	$	183,347,418	$ (83,683,996)	(46%)
Net asset value per unit	**$**	**2.16**	$	4.00	$ (1.84)	(46%)

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, 2018, the net asset value of the REIT was $100 million as compared to $183 million at December 31, 2017. This $83 million decrease to NAV is primarily the result of the approximately $40 million special distribution paid during November 2018 combined with the $46 million in realized and unrealized fair value losses recognized during 2018.

On a per unit basis, NAV is $2.16 per unit, a decrease of $1.84 per unit, as a result of the reduction to NAV (due to special distribution of $0.87 per unit plus effect for realized and unrealized losses) along with the increase to the outstanding number of units (due to dividends re-invested under the REIT's dividend re-investment and optional unit purchase plan).

Capital

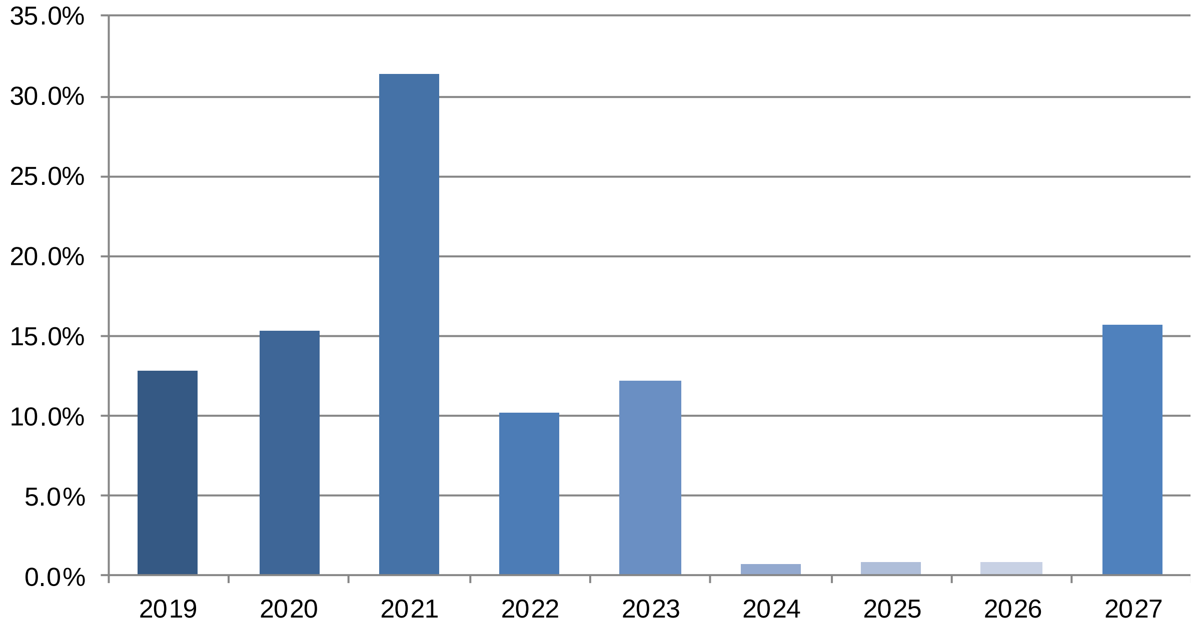
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance 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, 2018 and December 31, 2017:

As at		Dec 31, 2018		Dec 31, 2017	Change ($)	Change (%)
Mortgages payable	**$**	**65,229,381**	$	273,843,200	$ (208,613,819)	(76%)
Debentures		**-**		7,563,686	(7,563,686)	(100%)
Unitholder's equity		**99,663,422**		183,347,418	(83,683,996)	(46%)
		164,892,803		464,754,304	(299,861,501)	(65%)
Liabilities associated with assets held for sale		**116,142,244**		-	116,142,244	0%
Total capital	**$**	**281,035,047**	$	464,754,304	$ (183,719,257)	(40%)

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable as at December 31, 2018:



Over the next two years, the REIT has approximately $40.2 million in mortgages maturing which carry an average contractual interest rate of 3.45%. Of this balance of maturing mortgages, $21.0 million over four properties relates to properties classified as held for sale.

Interest coverage and debt service coverage ratios are as follows:

For the rolling four quarters ended	**Dec 31, 2018**	Dec 31, 2017
Interest coverage ratio(1)	**2.52**	2.02
Debt service coverage ratio(2)	**1.44**	1.25

(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. Prior year calculation has been adjusted to conform to current year presentation.

(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). Prior year calculation has been adjusted to conform to current year presentation.

The interest and debt service coverage ratios for the rolling 12 months ended December 31, 2018 improved in comparison to December 31, 2017 as a result of refinancing the majority of maturing mortgages at lower rates, repayment of unsecured subordinated convertible debentures and the repayment of mortgages associated with properties disposed in the year.

Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable is approximately three and a half years, and the weighted average contractual interest rate at December 30, 2018 was 3.68% (December 31, 2017 – 3.89%). Future principal repayments on the mortgages payable are as follows for 2019 to 2023 and thereafter:

Year		Principal Installment Payments		Principal Maturing		Total	Contractual Rate on Debt Maturing
2019	$	5,681,874	$	17,442,723	$	23,124,597	3.41%
2020		4,727,484		22,797,138		27,524,622	3.48%
2021		3,533,067		52,890,984		56,424,051	3.76%
2022		2,403,752		16,016,156		18,419,908	3.72%
2023		1,804,932		20,125,412		21,930,344	3.91%
Thereafter		5,203,240		27,382,570		32,585,810	3.67%
Total	$	23,354,349	$	156,654,983	$	180,009,332	3.68%

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.

Convertible Debentures

During the first quarter of 2018, the REIT repaid the final $7.6 million of outstanding convertible debentures.

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 at December 31, 2018 was $1.4 million, which is a $0.9 million decrease from the December 31, 2017 year-end balance (prior year balance includes financings costs for the repaid credit facility and convertible debentures). The unamortized portion of the financing costs is netted against the REIT's mortgages payable 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. At December 31, 2018 the REIT has a debt-to-gross book value ratio of 62.1% (December 31, 2017 – 59.4%), calculated as follows:

As at	**Dec 31, 2018**	Dec 31, 2017
Mortgage principal	**180,009,332**	275,741,535
Debentures	**-**	7,590,000
Debt	**180,009,332**	283,331,535
Book value of income producing properties	**280,415,000**	462,928,003
Book value of all other assets	**8,279,169**	12,084,917
Deferred financing fees	**1,397,843**	2,256,493
Gross Book Value of Assets	**290,092,012**	477,269,413
Debt-to-Gross Book Value	**62.1%**	59.4%
Debt-to-Gross Book Value Excluding Debentures	**62.1%**	57.8%

Unitholders' Equity

For year ended December 31, 2018, unitholders' equity decreased $84 million over the balance at December 31, 2017 primarily as a result of the approximately $40 million in special distribution paid during November 2019 and $46 million from realized and unrealized fair value losses recognized on the REIT's property portfolio.

Distributions

The REIT's Trustees have discretion in declaring distributions and formally review the distributions on a quarterly basis, or more frequently when warranted. As of December 31, 2018, the REIT pays a distribution of $0.18 per unit on an annualized basis (prior to November 2018 $0.25 per unit).

On October 24, 2018 the REIT completed the sale of nine Western Properties, generating approximately $37 million in net cash proceeds. This cash combined with the $13 million in net cash proceeds generated from the September sale of Mariner Square generated cash of $50 million. A special distribution of $0.87 per unit ($40 million) was paid on November 9, 2018 to unitholders of record on November 2, 2018.

During the fourth quarter of 2018, the REIT announced the termination of the dividend re-investment program would be effective for the November 2018 distribution paid during December 2018.

In the event that the Quebec Sale Transaction is completed, this will result in net cash proceeds of approximately $63 million, after payment of related mortgages and transaction expenses. The Board expects to consider the payment of a special cash distribution to all unitholders of a portion of the net cash proceeds from the sale of the Quebec properties. The Board will determine the amount of that special cash distribution in due course based upon, among other things, the ongoing cash requirements of the REIT.

In the event that the Quebec Sale Transaction is completed, the Board will review the appropriateness of Partners' current normal monthly distribution of $0.015 per unit ($0.18 per unit annually), including whether such distribution should be reduced or discontinued in light of the smaller size of the remaining portfolio and other relevant factors.

In the event that the Quebec Sale Transaction is completed, the REIT will then own 11 retail properties in Ontario and one in Manitoba, aggregating approximately 623,000 square feet of leasable space. In those circumstances the Board intends to review the REIT's strategic alternatives, taking into account a variety of factors, including, among others, general industry, retailer and economic conditions in the markets in which the REIT then operates, and the anticipated impact of those conditions on the REIT and its remaining properties. Those alternatives will likely include a possible sale of either the REIT itself or its then remaining properties, together with other options that are in the best interests of the REIT and its unitholders.

Outstanding units

As at December 31, 2018, the REIT had 46,079,673 (December 31, 2017 - 45,831,979) issued and outstanding units.

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, as may be approved by the Board of Trustees from time to time. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and revenue enhancing capital (developments, redevelopments and property acquisitions), are generally funded from cash flows from operations. 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. 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 2018[1]	Q3 2018[1]	Q2 2018	Q1 2018	Q4 2017	Q3 2017[1][2]	Q2 2017	Q1 2017
Total revenues	$ 10,509,699	$ 12,908,715	$ 12,823,282	$ 12,975,362	$ 12,908,715	$ 12,641,504	$ 13,482,928	$ 13,871,283
Operating expenses	(4,596,185)	(5,206,331)	(5,214,911)	(5,494,095)	(5,206,331)	(4,887,009)	(4,937,460)	(5,995,750)
Other expenses	(1,877,699)	(4,123,255)	(4,447,538)	(4,551,045)	(4,123,255)	(4,685,739)	(5,250,355)	(5,411,085)
Fair value gains (losses)	(35,481,601)	(1,601,786)	(1,324,815)	(5,214,108)	(1,601,786)	(1,300,085)	(3,908,940)	(316,458)
Net income (loss)	(31,445,786)	1,977,343	1,836,018	(2,283,886)	1,977,343	1,768,671	(613,827)	2,147,990
Net income (loss) per unit - basic	(0.68)	0.05	0.04	(0.05)	0.05	0.08	(0.02)	0.06
FFO	4,294,564	3,858,612	3,493,154	3,236,302	3,858,612	3,275,535	3,599,959	2,810,704
FFO per unit - basic	0.09	0.08	0.08	0.07	0.08	0.08	0.10	0.08

(1) Property(s) sold during the quarter
(2) Equity raise during the quarter

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 and its ability to pay monthly distributions, as may be approved by Trustees from time to time, on its outstanding units, 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. The REIT recently disposed of substantially all of its properties in western Canada and has announced the sale of its Quebec properties pursuant to the Quebec Sale Transaction. Completion of the Quebec Sale Transaction is subject to satisfaction of customary closing conditions. Upon completion of the Quebec Sale Transaction, the Board intends to review the REIT's strategic alternatives, which are likely to include a possible sale of either the REIT itself or its remaining properties in Ontario and Manitoba, together with a review of the appropriateness of the REIT's monthly distribution in the REIT's units. That review may result in a decision by the Board to eliminate or materially reduce the monthly distribution currently paid on the REIT's outstanding units.

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 real estate industry, and specifically within the retail asset sector. The majority of the REIT's current assets are located in Quebec, where the assets are predominately located in the greater Montreal area. There continues to be strong retailer demand for primary market locations. The remainder of the portfolio is located in Ontario plus one asset in Manitoba. Many of the REIT's Ontario assets are located in secondary or tertiary markets. In recent years, the Canadian retail real estate industry has undergone significant adverse changes that include, but are not limited to, a significant number of store closures and store count reductions. These changes have predominantly involved fashion and large format retailers, particularly in secondary and tertiary markets in Ontario and the Prairie Provinces.

The impact of these changes has been greater in the smaller, non-urban, low population growth, markets. The current economic outlook for commercial real estate in these markets is trending negatively, and the increased supply of vacant retail locations has added to the challenge of maintaining and improving rental rates.

The market for commercial retail properties has also changed in recent years, with several REITs and institutional investors having announced disposition programs. This has led to a significant increase in the supply of commercial retail properties being offered for sale in secondary and tertiary markets across Canada, and has unfavourably affected capitalization rates and valuations for these properties.

Fluctuations in commercial property market values, as well as the economic circumstances of the general industry and the retailers, can affect the terms and conditions under which financing is made available. The available financing terms and conditions may limit the REIT's ability to execute its operating and strategic plans.

INTEREST RATE AND FINANCING RISK

The REIT attempts to stagger the maturities of its debt portfolio to effectively manage both interest rate and liquidity risks. As the REIT re-finances its existing mortgages at maturity, management seeks to 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.

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 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, 2018 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	$ 402,399	$ 0.009

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, 2018, 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.

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, 2018 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 on-going working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures and distributions to unitholders, as such distributions may be approved by the Board of Trustees from time to time. All of the these liquidity requirements, except for debt repayment obligations, are generally funded from cash flows from operations or from drawing on existing cash ($3.1 million at December 31, 2018). Property debt repayment obligations are generally funded from obtaining debt re-financing 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 million, on July 19, 2017 the REIT closed a Rights Offering that raised net proceeds of approximately $35 million and resulted in the issuance of 11,418,466 REIT units. These net proceeds plus excess funds from the refinancing of maturing mortgages were used to repay the $35 million Series II Debentures and $15 million (67%) of the Series III Debentures plus accrued interest. During the year ended December 31, 2018, the REIT re-financed five mortgages generating net monies of $5 million. These monies plus excess cash from December 31, 2017 were used to fully repay the $8 million owing on the Series III Debentures.

During 2018 the REIT disposed of 11 properties and after disposition costs and repaying related mortgages generated net cash proceeds of approximately $45 million. On October 24, 2018 the REIT announced that it would make an approximately $40 million special distribution to Unitholders and this was paid during November. After the dispositions, to reflect the smaller size of the REIT the monthly distribution was reduced from the annualized rate of $0.25 per unit to $0.18 per unit.

During 2017 and 2018 the REIT re-financed a total of $121 million of maturing mortgages with new financings totalling $142 million generating net monies of $21 million. Based on these re-financings, 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 $5.7 million in regularly scheduled principal repayments with two maturing mortgages totaling $17.4 million.

The REIT manages its liquidity risk by:

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

The REIT expects to generate sufficient cash from operations, 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 distributions to unitholders, as may be approved by Trustees from time to time.

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 re-financing 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.

Excluding liabilities associated with assets held for sale, as at December 31, 2018, the REIT has $27.2 million in current liabilities:

- $7.7 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;
- $2.1 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;
- $17.4 million in maturating mortgages over two properties which carry a weighted average contractual rate of interest of 3.41%.

Including liabilities associated with assets held for sale, as at December 31, 2018, the REIT has $33.2 million in current liabilities:

- $10.4 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;
- $5.4 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;
- $17.4 million in maturating mortgages over two properties which carry a weighted average contractual rate of interest of 3.41%.

The REIT's interest coverage ratio of 2.52 (2.02 at December 31, 2017) and debt service coverage ratio of 1.44 (1.25 at December 31, 2017) 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 generated to allow for regularly scheduled payments (interest and principal) on 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 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.

FINANCING WITH SIGNIFICANT UNITHOLDER

The REIT has two property mortgage arrangements with an institutional lender, in which a significant unitholder of the REIT (with over 20% of the outstanding units) has a significant interest. In total, the REIT has mortgages with this financial institution on 2 of its 23 properties representing, by aggregate dollar value, approximately 11% of the total outstanding property mortgages (December 31, 2017 - approximately 30% over 7 properties).

LEGAL AND REGULATORY RISKS

Certified Class Action Update

The REIT was notified that a Statement of Claim dated November 28, 2014 was 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. In October 2018, the REIT was notified that the parties to these legal proceedings signed minutes of settlement. The Ontario Superior Court of Justice has approved the minutes of settlement and has dismissed the proceedings and all claims made against the REIT's former Trustees and former Officer. The REIT was not a defendant in the class action.

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 consolidated financial statements for the three months and year ended December 31, 2018.

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 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.