Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three and nine months ended September 30, 2019 and 2018

PARTNERS REAL ESTATE INVESTMENT TRUST
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For the three and nine months ended September 30, 2019 and 2018

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

As at	September 30, 2019	December 31, 2018
ASSETS		
Non-current assets		
Income producing properties (Note 3)	**$ 102,415,000**	$ 98,650,000
	102,415,000	98,650,000
Current assets		
Other assets (Note 4)	**907,376**	858,377
Accounts receivable (Note 5)	**1,220,277**	2,894,888
Cash	**4,004,412**	3,068,578
	6,132,065	6,821,843
Assets held for sale (Note 6)	**-**	183,222,326
	$ 108,547,065	$ 288,694,169
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 7)	**$ 44,649,856**	$ 45,735,092
	44,649,856	45,735,092
Current liabilities		
Mortgages payable (Note 7)	**20,993,128**	19,494,289
Accounts payable and other liabilities	**3,312,914**	6,961,455
Distributions payable (Note 12)	**-**	697,667
	24,306,042	27,153,411
Liabilities associated with assets held for sale (Note 6)	**-**	116,142,244
	68,955,898	189,030,747
UNITHOLDERS' EQUITY	**39,591,167**	99,663,422
	$ 108,547,065	$ 288,694,169

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

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

unaudited (Cdn $)

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Revenues from income producing properties (Note 9)	**$ 3,258,821**	$ 12,523,530	**$ 18,175,326**	$ 38,322,174
Property operating expenses	**(368,109)**	(1,802,698)	**(2,630,909)**	(6,049,667)
Realty taxes	**(813,867)**	(2,937,573)	**(4,454,239)**	(8,965,587)
Property management (fees) recoveries	**17,163**	(220,701)	**(436,784)**	(654,724)
	2,094,008	7,562,558	**10,653,394**	22,652,196
Other expenses:				
Financing costs	**$ 587,669**	$ 2,809,445	**$ 3,366,735**	$ 8,681,575
General and administrative expenses	**1,156,237**	1,268,964	**3,658,255**	4,395,417
	1,743,906	4,078,409	**7,024,990**	13,076,992
Income before other gains/(losses)	**350,102**	3,484,149	**3,628,404**	9,575,204
Fair value gains (losses) (Note 10)	**(120,143)**	(3,721,523)	**814,358**	(10,260,446)
Gain (Loss) on sale of investment properties	**112,367**	(740,602)	**(2,258,284)**	(740,602)
Comprehensive income (loss)	**$ 342,326**	$ (977,976)	**$ 2,184,478**	$ (1,425,844)
INCOME (LOSS) PER UNIT (Note 11)				
Basic and diluted	**$ 0.01**	$ (0.02)	**$ 0.05**	$ (0.03)

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Trust Units (Note 12)				
BALANCE, BEGINNING OF PERIOD	**$ 257,537,254**	$ 257,295,459	**$ 257,537,254**	$ 256,857,960
Issuance of units under the DRIP, net of costs	**-**	145,794	**-**	583,293
BALANCE, END OF PERIOD	**257,537,254**	257,441,253	**257,537,254**	257,441,253
Contributed Surplus				
BALANCE, BEGINNING OF PERIOD	**565,080**	565,080	**565,080**	565,080
BALANCE, END OF PERIOD	**565,080**	565,080	**565,080**	565,080
Accumulated Other Comprehensive Loss				
BALANCE, BEGINNING OF PERIOD	**(218,853,493)**	(80,314,314)	**(158,438,912)**	(74,075,622)
Comprehensive income (loss)	**342,326**	(977,976)	**2,184,478**	(1,425,844)
Distributions to unitholders (Note 12)	**-**	(2,905,641)	**(62,256,733)**	(8,696,465)
BALANCE, END OF PERIOD	**(218,511,167)**	(84,197,931)	**(218,511,167)**	(84,197,931)
TOTAL UNITHOLDERS' EQUITY	**$ 39,591,167**	$ 173,808,402	**$ 39,591,167**	$ 173,808,402

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

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

	Three months ended September 30, 2019	Three months ended September 30, 2018	Nine months ended September 30, 2019	Nine months ended September 30, 2018
OPERATING ACTIVITIES				
Comprehensive income (loss)	**$ 342,326**	$ (977,976)	**$ 2,184,478**	$ (1,425,844)
Adjusted for non-cash items:				
Loss (gain) on sale of investment properties	**(112,367)**	740,602	**2,258,284**	740,602
Fair value (gains) losses (Note 10)	**120,143**	3,721,523	**(814,358)**	10,260,446
Non-cash unit compensation expense	**-**	158,567	**-**	627,637
Straight-line rent	**(30,151)**	(3,696)	**(10,197)**	(161)
Tenant incentives and direct leasing costs amortization	**68,022**	255,422	**379,815**	752,205
Financing cost amortization	**39,163**	207,659	**249,382**	664,005
Market interest rate adjustment on mortgages	**-**	(27,013)	**-**	(133,715)
Interest accretion expense	**-**	-	**-**	2,406
Interest expense	**548,506**	2,628,799	**3,117,353**	8,148,879
Net change in working capital (Note 13)	**(135,537)**	(2,545,580)	**(2,291,034)**	(1,029,310)
Interest paid	**(550,128)**	(2,697,217)	**(3,447,512)**	(8,138,767)
Cash flow provided by operating activities	**289,977**	1,461,090	**1,626,211**	10,468,383
FINANCING ACTIVITIES				
Proceeds from mortgages	**-**	1,850,000	**-**	46,190,000
Financing costs of mortgages	**-**	(51,424)	**(1,040)**	(702,036)
Repayments of mortgages at maturity	**-**	(4,113,367)	**-**	(39,528,730)
Repayments of mortgages with property sale	**-**	(25,050,222)	**(110,974,769)**	(25,050,222)
Regular principal repayments on mortgages	**(565,742)**	(1,999,614)	**(3,060,608)**	(5,988,584)
Convertible debenture repayments (Note 8)	**-**	-	**-**	(7,590,000)
Credit facility draws	**-**	-	**-**	2,000,000
Credit facility repayments	**-**	-	**-**	(2,000,000)
Costs to issue units (Note 12)	**-**	(46,817)	**-**	(65,188)
Distributions to unitholders	**-**	(2,687,828)	**(62,923,596)**	(7,981,378)
Cash flow used by financing activities	**(565,742)**	(32,099,272)	**(176,960,013)**	(40,716,138)
INVESTING ACTIVITIES				
Net proceeds from dispositions of income producing properties	**112,367**	38,610,890	**176,701,003**	38,610,890
Capital improvements, net of recoveries	**(76,654)**	(1,343,998)	**(139,252)**	(3,035,384)
Expenditures on tenant incentives and direct leasing costs	**(35,831)**	(213,767)	**(292,115)**	(545,159)
Cash flow provided (used) by investing activities	**(118)**	37,053,125	**176,269,636**	35,030,347
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	**(275,883)**	6,414,943	**935,834**	4,782,592
CASH, BEGINNING OF PERIOD	**4,280,295**	5,032,556	**3,068,578**	6,664,907
CASH, END OF PERIOD	**$ 4,004,412**	$ 11,447,499	**$ 4,004,412**	$ 11,447,499

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

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and last amended and restated on December 10, 2018. The address of its registered office and principal place of business is 249 Saunders Road, Unit 3, Barrie, Ontario, L4N 9A3. The principal business activity of Partners REIT is operating commercial retail properties. The units of the REIT were originally listed on the Toronto Stock Exchange on April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

On October 10, 2019 the REIT and McCowan and Associates Ltd. ("MAA") jointly announced that they have entered into an arrangement agreement pursuant to which MAA will acquire all of the outstanding units of the REIT, except for approximately 20.03% of the outstanding units already owned by MAA and its affiliates (note 20).

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

These condensed consolidated financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Statements*. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the REIT's audited financial statements for the year ended December 31, 2018 which have been prepared in accordance with IFRS, since they do not contain all disclosures required by IFRS for annual financial statements. These condensed consolidated financial statements reflect all normal and recurring adjustments which are in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on November 6, 2019.

(b) Basis of presentation

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

(c) Adoption of new accounting policies effective January 1, 2019

IFRS 16 – *Leases* ("IFRS 16") is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. Under IFRS 16, the REIT assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The REIT recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the REIT's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is re-measured when there are changes in the following: i) the lease term; ii) the REIT's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which the cumulative effect of initial application would be recognized as at January 1, 2019. The information presented for 2018 has not been restated and remains as previously reported under IAS 17. On initial application, the REIT elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of $5.1 million were recorded as at January 1, 2019, with no impact on unitholders' equity. These right-of-use assets all relate to the 11 Quebec properties that were sold on May 7, 2019 (see note 6) and as such, were derecognized upon the closing of the transaction.

The REIT has applied the following recognition exemptions and practical expedients:

- Applied the recognition exemption not to recognize short-term less than 12 months of lease term or leases of low-value assets;
- Applied IFRS 16 only to contracts that were previously identified as leases; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

3. INCOME PRODUCING PROPERTIES

As at		**September 30, 2019**		December 31, 2018
Balance, beginning of period	**$**	**98,650,000**	$	462,928,003
Gross proceeds from property dispositions		**178,000,000**		-
Property reclassified to IPP from assets held for sale		**3,765,000**		-
Property disposition at carrying value		**(178,093,381)**		(141,911,499)
Capital improvements (net of recoveries)		**139,252**		3,524,860
Expenditures on tenant incentives and direct leasing costs		**292,115**		537,348
Amortization of tenant incentives and direct leasing costs		**(379,815)**		(974,824)
Recognition of straight-line rent		**10,197**		(66,207)
Unrealized fair value gains (losses)		**31,632**		(43,622,681)
		102,415,000		280,415,000
Assets held for sale (Note 6)		**-**		(181,765,000)
Balance, end of period	**$**	**102,415,000**	$	98,650,000

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

For the period ended September 30, 2019 the fair value of the REIT’s income producing property portfolio was determined internally by the REIT using the Direct Capitalization methodology.

During the nine months ended September 30, 2019, no external appraisals were obtained. During 2018, external appraisals were obtained for fifteen of the REIT’s properties with an aggregate fair value of $165.6 million, representing 59.0% of the fair value of the income producing property portfolio at that time. The value of the REIT’s income producing property portfolio is determined internally by the REIT by applying significant new information obtained to adjust previous externally prepared appraisals.

The following table outlines the range and weighted average of the capitalization rates applied to the stabilized net operating income in estimating the fair value for the REIT’s properties excluding properties held for sale as described in note 6:

As at	**September 30, 2019**	December 31, 2018
Capitalization rates		
Maximum	**12.64%**	12.64%
Minimum	**6.80%**	6.23%
Weighted Average	**7.44%**	7.31%

At September 30, 2019, a 0.25% increase in capitalization rates for income producing properties would decrease fair value by $3.4 million (December 31, 2018 - $9.5 million) and a 0.25% decrease in capitalization rates would increase fair value by $3.7 million (December 31, 2018 - $10.1 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at September 30, 2019, income producing properties included $1.4 million (December 31, 2018 - $4.0 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term.

4. OTHER ASSETS

The major components of other assets are as follows:

As at		**September 30, 2019**		December 31, 2018
Prepaid realty taxes and insurance	**$**	**316,790**	$	304,399
Restricted cash as required under loan and sales agreements		**447,144**		418,193
Prepaid expenses and other		**143,442**		1,081,658
		907,376		1,804,250
Other assets associated with assets held for sale (Note 6)		**-**		(945,873)
Balance, end of period	**$**	**907,376**	$	858,377

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

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

5. ACCOUNTS RECEIVABLE

As at		**September 30, 2019**		December 31, 2018
Rents receivable	**$**	**744,541**	$	341,354
Unbilled recoveries		**155,749**		573,383
Other receivables		**510,173**		2,709,760
		1,410,463		3,624,497
Allowance for doubtful accounts		**(190,186)**		(218,156)
		1,220,277		3,406,341
Accounts receivable associated with assets held for sale (Note 6)		**-**		(511,453)
Balance, end of period	**$**	**1,220,277**	$	2,894,888

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis. See note 18 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

6. ASSETS HELD FOR SALE

On May 8, 2019 the REIT completed the sale of its eleven Quebec properties, for gross proceeds of $178.0 million generating approximately $65 million in net cash proceeds after settlement of mortgage liabilities and transaction costs. During second quarter of 2019, the REIT recognized $3.2 million in closing costs associated with the transaction, which were recognized within the loss on sale of investment property on the statement of comprehensive income. These eleven properties, plus one free standing centre in Selkirk, Manitoba were previously classified as held for sale as at December 31, 2018 since management had committed to a plan of sale. Following the sale of the Quebec properties, the REIT has reclassified the Selkirk, Manitoba property, previously classified as held for sale, to income producing properties.

The value of the held for sale properties is measured at fair market value as required under IAS 40 – *Investment Property*, which states that when an entity has previously measured an investment property at fair value, it is required to continue measuring the property at fair value until disposal.

The components of the assets and associated liabilities held for sale at December 31, 2018 are as follows:

As at		**December 31, 2018**
Assets		
Income producing properties	**$**	**181,765,000**
Other assets		**945,873**
Accounts receivable		**511,453**
Assets held for sale		**183,222,326**
Liabilities		
Mortgages payable	**$**	**113,382,108**
Accounts payable and other liabilities		**2,760,136**
Liabilities associated with assets held for sale	**$**	**116,142,244**

7. MORTGAGES PAYABLE

As at		**September 30, 2019**		December 31, 2018
Mortgage principal	**$**	**65,973,956**	$	180,009,332
Unamortized commitment and other fees		**(330,972)**		(1,397,843)
		65,642,984		178,611,489
Mortgages associated with assets held for sale (Note 6)		**-**		(113,382,108)
	$	**65,642,984**	$	65,229,381
Non-current	**$**	**44,649,856**	$	45,735,092
Current		**20,993,128**		19,494,289
		65,642,984		65,229,381

Scheduled repayments of mortgage principal are as follows:

		Principal instalments		Principal maturing		Total
2019 (3 months remaining)		570,625		17,442,723		18,013,348
2020		1,538,468		11,441,151		12,979,619
2021		1,093,214		11,653,804		12,747,018
2022		546,179		10,144,236		10,690,415
2023		398,076		-		398,076
Thereafter		1,636,751		9,508,729		11,145,480
Contractual obligations	$	5,783,313	$	60,190,643	$	65,973,956

Mortgages payable are secured by the properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 3.14% and 5.13% per annum (December 31, 2018 – 3.14% and 5.53%) and contractual rates ranging between 2.83% and 4.06% (December 31, 2018 – 2.83% and 4.60%). The REIT's weighted average effective interest rate is 3.75% per annum (December 31, 2018 – 3.99%). The total carrying value of the properties pledged as security is $100.0 million (December 31, 2018 - $277.0 million).

Included in the mortgages payable at September 30, 2019 are $17.6 million in mortgages over two properties with an institutional lender (December 31, 2018 - $18.0 million over 2 properties), over which a significant Unitholder of the REIT (with over 20% of the outstanding units on September 30, 2019), has significant influence.

8. CONVERTIBLE DEBENTURES

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

9. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three and nine months ended September 30, 2019 were $3.3 million and $18.2 million, respectively (three and nine months ended September 30, 2018 - $12.5 million and $38.3 million, respectively). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, and in many cases with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the three and nine months ended September 30, 2019 of $1.1 million and $6.4 million, respectively (three and nine months ended September 30, 2018 - $4.1 million and $12.8 million, respectively), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs which for the three and nine months ended September 30, 2019 totaled $0.1 million and $0.4 million, respectively (three and nine months ended September 30, 2018 - $0.3 million and $0.8 million, respectively).

As at September 30, 2019, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

	Within 12 months	2 to 5 years	Beyond 5 years
Operating lease revenue	$ 8,805,265	$ 27,448,308	$ 13,105,232

10. FAIR VALUE GAINS (LOSSES)

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

	Three months ended September 30,		**Nine months ended September 30,**	
	2019	2018	**2019**	2018
Unrealized gain (loss) on income producing properties	**$ (74,614)**	$ (3,810,634)	**$ 31,632**	$ (10,150,096)
Financial liabilities designated as FVTPL:				
Fair value gain (loss) on interest rate swaps	**-**	89,111	**202,032**	(110,350)
Fair value gain (loss) on deferred units	**(45,529)**	-	**580,694**	-
Total fair value gains (losses)	**$ (120,143)**	$ (3,721,523)	**$ 814,358**	$ (10,260,446)

Fair value gains (losses) on deferred units are recognized on the change to the REIT's liability to deferred unit holders that occurs as a consequence of changes in the public trading value of PAR units. During the third quarter of 2019, the public trading value of PAR units went from $0.53 per unit as of June 30, 2019 to $0.65 per unit as at September 30, 2019 and this unit price improvement increased the liability to deferred unit holders by $45,529. For the nine months ended September 30, 2019, the public trading value of PAR units went from $2.13 per unit as of December 31, 2018 to $0.65 per unit as at September 30, 2019 and this unit price reduction decreased the liability to deferred unit holders by $580,694.

11. INCOME PER UNIT

The table below presents the net income per unit and weighted average units outstanding calculations.

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Numerator				
Comprehensive income (loss) - basic and diluted	**$ 342,326**	$ (977,976)	**$ 2,184,478**	$ (1,425,844)
Denominator				
Weighted average units outstanding - basic	**46,079,673**	46,015,337	**46,079,673**	45,945,455
Weighted average deferred units outstanding	**379,405**	356,117	**401,513**	284,194
Weighted average units outstanding - diluted	**46,459,078**	46,371,454	**46,481,186**	46,229,649
Income (loss) per unit - basic and diluted	**$ 0.01**	$ (0.02)	**$ 0.05**	$ (0.03)

12. UNITHOLDERS' EQUITY

(a) Distributions

For the first four months of 2019 the REIT declared monthly cash distributions to unitholders in an amount of $0.015 per unit, representing total distributions of $0.06 per unit. Following the disposition of eleven Quebec properties and the payment of $60 million special distribution ($1.28 per unit) in May 2019, the REIT's monthly distributions were discontinued.

The amount of the REIT's cash distributions is determined in accordance with the guidelines established from time to time by the Trustees. The Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act. As at September 30, 2019, distributions accrued but not yet paid totaled $nil (December 31, 2018 – $0.7 million) and is included in accounts payable and other liabilities.

(b) Distribution reinvestment and optional unit purchase plan

Prior to the November 2018 distribution payable in December 2018, the REIT had a Distribution Reinvestment and Optional Unit Purchase Plan (the "Plan") to enable Canadian resident unitholders to acquire additional units of the REIT. Effective for the November 2018 distribution, payable in December 2018, the Plan was terminated.

(c) Outstanding Units

As at	**September 30, 2019**		December 31, 2018	
	Units	**Dollars**	Units	Dollars
Units outstanding, beginning of year	**46,079,673**	**$ 257,537,254**	45,831,979	$ 256,857,960
Units issued:				
Distribution reinvestment plan	**-**	**-**	247,694	746,262
Unit issue costs	**-**	**-**	-	(66,968)
	46,079,673	**$ 257,537,254**	46,079,673	$ 257,537,254

13. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	**2019**	2018
Net change in working capital				
Net change in accounts receivable	**$ 1,361,507**	$ (100,501)	**$ 2,186,064**	$ 238,263
Net change in other assets	**4,609**	854,275	**849,497**	(160,969)
Net change in accounts payable and other liabilities	**(1,501,653)**	(3,299,354)	**(5,326,595)**	(1,106,604)
	$ (135,537)	$ (2,545,580)	**$ (2,291,034)**	$ (1,029,310)

14. UNIT-BASED COMPENSATION PLANS

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

Under the DUP, Trustees have the option to have their fees ("Trustees Fees") and Officers have the option to have annual bonus payments ("Officer Bonus") paid in deferred units of the REIT. The number of units will be equivalent to the cash value of the Trustees Fees or Officer Bonus elected by the Trustee or Officer, as applicable to be paid in units. The maximum number of units reserved for issuance under the DUP is 1% of the issued and outstanding units.

The issue price of the units under the DUP is the volume-weighted average price of the units for the last five trading days preceding the date of issuance. Additional units earned from distributions are issued based on the volume-weighted average price of the units for the last 20 trading days preceding the distribution payment date.

On December 10, 2018 the Board of Trustees cancelled the further issuance of deferred units being earned on Trustees Fees or Officer Bonus.

The following table presents information on outstanding deferred units for the nine months ended September 30, 2019 and the year ended December 31, 2018:

	September 30, 2019		December 31, 2018	
	Deferred Units	**Dollars**	Deferred Units	Dollars
Opening Balance	**431,706**	**$ 919,534**	204,508	$ 613,524
Deferred units issued:				
Officer Bonus	**-**	**-**	66,225	200,000
Trustee Fees	**-**	**-**	163,435	474,540
Distributions on deferred units	**15,671**	**31,072**	26,658	77,775
Deferred units redeemed	**(67,972)**	**(123,298)**	(29,120)	(86,739)
Special distribution on deferred units	**-**	**(485,638)**	-	(351,084)
Fair value gain on deferred units	**-**	**(95,056)**	-	(8,482)
	379,405	**$ 246,614**	431,706	$ 919,534

As at September 30, 2019, the liability related to the DUP was $0.2 million (December 31, 2018 – $0.9 million) and is included in accounts payable and other liabilities. The related income in comprehensive income is $0.1 million for the nine months ended September 30, 2019 (nine months ended September 30, 2018 - $0.4 million expense).

15. INCOME TAXES

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

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

16. CAPITAL MANAGEMENT

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

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

The debt-to-gross book value ratio is measured as the REIT's total debt, including mortgages payable and corporate secured debt, divided by the gross book value of its assets. At September 30, 2019 the REIT's debt-to-gross book value ratio is 60.6% (December 31, 2018 – 62.1%), calculated as follows:

As at	**September 30, 2019**	December 31, 2018
Debt(1)		
Mortgage principal	**$ 65,973,956**	$ 180,009,332
	$ 65,973,956	$ 180,009,332
Gross Book Value of Assets		
Book value of income producing properties (incl. AFS)	**$ 102,415,000**	$ 280,415,000
Book value of all other assets	**6,132,065**	8,279,169
Unamortized deferred financing fees	**330,972**	1,397,843
	$ 108,878,037	$ 290,092,012
Debt-to-Gross Book Value	**60.6%**	62.1%

(1) Debt capital refers to the principal portion of mortgages, which excludes deferred financing costs and unamortized above market interest rate adjustments.

17. FAIR VALUES

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

(a) Income producing properties

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

(b) *Current assets and liabilities*

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

(c) *Mortgages payable*

The fair value of secured debt at September 30, 2019 is based on discounted future cash flows, using interest rates ranging between 3.58% and 3.78% that reflect current market conditions for instruments of similar term and risk (December 31, 2018 – rates ranging between 4.06% and 4.16%).

(d) *Interest rate swaps*

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

(e) *Deferred units*

The fair value of deferred units is calculated using the five-day volume weighted average price of the REIT's units as of the date of reporting. Since the five-day volume weighted average price of the REIT's units is determined based on quoted prices of the REIT's units, these financial instruments are considered Level 1.

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

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

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

	September 30, 2019			December 31, 2018		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties (incl. AFS)	**$ -**	**$ -**	**$ 102,415,000**	$ -	$ -	$ 280,415,000
Liabilities measured at fair value:						
Interest rate swaps	**$ -**	**$ -**	**$ -**	$ -	$ 202,032	$ -
Deferred units	**246,614**	**-**	**-**	919,534	-	-
Liabilities for which fair values are disclosed:						
Mortgages payable	**$ -**	**$ -**	**$ 66,043,345**	$ -	$ -	$ 177,693,931

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the nine months ended September 30, 2019 there were no transfers between the hierarchy levels.

18. RISK MANAGEMENT

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

(a) Interest rate risk

The REIT is exposed to interest rate risk when funds are drawn under mortgages with floating interest rates. An increase in interest rates would increase the interest cost of these mortgages having an adverse effect on the REIT's comprehensive income and earnings per unit. At September 30, 2019 the REIT has no variable rate debt outstanding, and thus a 1% increase in the prime rate would have no impact on the REIT's annual interest expense (December 31, 2018 – no variable rate debt).

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

(b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2019 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants.

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

As at	**September 30, 2019**	December 31, 2018
Tenant rents receivable		
Less than 30 days past billing date	**39,767**	30,535
30-60 days past billing date	**124,702**	17,279
61-90 days past billing date	**126,341**	2,280
Greater than 90 days past billing date	**453,731**	291,260
	744,541	341,354
Allowance for doubtful accounts - tenant	**(65,186)**	(93,156)
Other receivables	**510,173**	2,709,760
Allowance for doubtful accounts - other	**(125,000)**	(125,000)
Unbilled recoveries	**155,749**	573,383
	1,220,277	3,406,341
Accounts receivable associated with properties available for sale (Note 6)	**-**	(511,453)
	1,220,277	2,894,888

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

		September 30, 2019		December 31, 2018
Opening allowance for doubtful accounts	**$**	**218,156**	$	277,869
Change to allowance for doubtful accounts		**27,779**		43,451
Receivables written-off		**(55,749)**		(103,164)
Ending allowance for doubtful accounts	**$**	**190,186**	$	218,156

(c) Liquidity risk

The REIT's main liquidity requirements arise from on-going working capital requirements, debt servicing and repayment obligations, and capital and leasing expenditures. All of these liquidity requirements, except for debt repayment obligations, are generally funded from cash flows from operations or from drawing on existing cash ($4.0 million at September 30, 2019). Property debt repayment obligations are generally funded from obtaining debt re-financing on maturing mortgages.

During 2018 the REIT disposed of 11 properties and after disposition costs and repaying related mortgages generated net cash proceeds of approximately $45 million. During October 2018, the REIT announced that it would make a $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 2019 the REIT disposed of 11 properties and after disposition costs and repaying related mortgages generated net cash proceeds of approximately $65 million. During May 2019, the REIT announced and paid a $60 million special distribution to Unitholders. After the dispositions, to reflect the smaller size of the REIT, the monthly distributions were discontinued.

From the beginning of 2017 through September 30, 2019, 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 anticipates that it will continue to be able to refinance property mortgages.

The REIT manages its liquidity risk by:

- staggering the maturities of its maturing 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 any distribution(s).

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 and capital spending plans.

The REIT's financial condition and ability to meet its financial obligations would be adversely affected if it were unable to obtain additional financing either upon refinancing of its maturing obligations or from other financing sources, or if it were unable to meet its other liquidity requirements from on-going operating cash flows. Obtaining replacement capital through new debt financing, new equity raises, the sale of property(s), or any combination of these options will be essential to ensuring the REIT's continued financial flexibility.

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

	2019	2020	2021	2022	2023	Thereafter
Mortgages payable						
Interest	$ 519,273	$ 1,524,984	$ 1,061,940	$ 569,645	$ 435,520	$ 1,627,921
Principal payments	570,624	1,538,468	1,093,214	546,179	398,076	1,636,751
Balances due on maturity	17,442,723	11,441,151	11,653,804	10,144,236	-	9,508,730
Accounts payable and other liabilities	3,312,914	-	-	-	-	-
Total	$ 21,845,534	$ 14,504,603	$ 13,808,958	$ 11,260,060	$ 833,596	$ 12,773,402

(d) Concentration risk

The REIT has one major tenant with four locations in the REIT's portfolio providing $1.6 million in annualized base rents, or 18.1% of the REIT's total annualized base rental revenue.

19. CONTINGENCIES AND COMMITMENTS

Lease commitments – The REIT as lessee

The REIT as lessee is committed under operating leases to renewal periods or notice periods ranging from one year to two years for its three office locations in Barrie, Ontario, Toronto, Ontario and Victoria, British Columbia. In aggregate the leases represent a future commitment to the REIT of approximately $0.4 million, or less than $0.1 million when excluding offices with sub-leases. During 2018 sub-leases were obtained for the Toronto and Victoria offices which will cover the costs of these offices until their lease expiry dates. The REIT has not recognized these leases as right-of-use assets as they are not considered material.

20. SUBSEQUENT EVENTS

On October 10, 2019 the REIT and McCowan and Associates Ltd. ("**MAA**") jointly announced that they have entered into an arrangement agreement pursuant to which MAA will acquire all of the outstanding units of the REIT (each a "**Unit**"), except for approximately 9,229,704 Units (representing approximately 20.03% of the outstanding Units) owned by MAA and its affiliates, for a price of Cdn. $0.78 per Unit in cash (the "**Transaction**").

The Transaction will be implemented by way of a statutory plan of arrangement under the *Business Corporations Act* (Ontario). Completion of the Transaction, which is expected to occur in the fourth quarter of this year, is subject to customary conditions, including court approval, and approval of at least 66 2/3% of the votes cast by Unitholders at the Meeting and a simple majority of the votes cast by the REIT's minority Unitholders at the Meeting, being all Unitholders other than MAA and its affiliates. The Unitholder meeting is scheduled for December 5, 2019.