



**MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2011**

MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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FORWARD-LOOKING INFORMATION ADVISORY

This Management 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 (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, enabling the REIT to grow through acquisitions; (2) demand for vacant space at our Ontario and Quebec properties will improve as a result of anticipated general and economic growth; (3) capital expenditures at Méga Centre and Place Val Est will be on budget, on time and will contribute to the improvement in occupancy rates; and (4) there is continued responsiveness to raising funds through equity and debt markets. Other assumptions are discussed throughout this MD&A; in particular under Part IV – 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 flow and distributions; the impact of newly adopted accounting principles on the REIT’s accounting policies and on period-to-period comparisons of financial results; and other risks and factors described from time to time in the documents filed by the REIT. The REIT undertakes no obligations 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 Annual information Form, dated March 31, 2011, which is available on www.sedar.com.

These forward-looking statements are made as of November 10, 2011 and presents material information up to this date, unless otherwise noted.

PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

OVERVIEW OF THE BUSINESS

Effective November 3, 2010, the name of Charter Real Estate Investment Trust was changed to Partners Real Estate Investment Trust. All references to “Partners Real Estate Investment Trust”, “Partners REIT”, the “REIT” and similar references in this management discussion and analysis refer to Charter Real Estate Investment Trust prior to the name change.

Partners REIT is a publicly traded Canadian commercial real estate investment trust whose units are listed on the TSX Venture Exchange under the trading symbol PAR.UN.

The REIT's current business strategy is to focus on acquiring and managing a portfolio of retail and mixed-use retail community and neighbourhood centres, primarily in the mid-market value range of \$10 to \$50 million, from both primary and secondary markets throughout Canada. The REIT currently owns twenty retail and mixed-use retail properties located in Ontario, Québec, Manitoba, and British Columbia. In 2011, the REIT acquired nine of its twenty properties as follows:

- six properties occupied primarily by Shoppers Drug Mart (the “SDM properties”) located in Manitoba and Québec were acquired in March 2011;
- the majority of retail units at Centuria Urban Village's mixed-use retail and residential high-rise property located in Kelowna, British Columbia was acquired in May 2011;
- Place Desormeaux, an enclosed shopping centre located in Longueuil, Québec was acquired in August 2011; and
- Evergreen Shopping Centre, a five-building open-air shopping centre, situated in Sooke, BC was acquired in September 2011.

On June 4, 2010, the REIT entered into a transaction with League Assets Corp. (“League”) that resulted in a transformational change in the REIT's ownership structure, whereby one of League's affiliates, IGW Public Limited Partnership (“IGW Public”), acquired 6,047,095 units, representing a 33% ownership position in the REIT, from C.A. Bancorp and entered into a new asset management agreement with the REIT. IGW Public became the REIT's major unitholder and new sponsor. On July 23, 2010, IGW Public acquired an additional 6,765,765 units for \$9,404,413 through a rights offering; resulting in a 49.9% ownership position in the REIT.

At the end of December 2010, the REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public's ownership interest in the REIT to 41.5%.

The REIT's mandate is to grow its business and reposition its operations in the market place. To facilitate this mandate, the REIT is focused on building its internal infrastructure. During 2010, the REIT rebalanced its Board by replacing three members and adding a sixth member to its Board of Trustees all of whom have extensive executive management experience in commercial real estate and real estate development. The REIT's new executive management team is also extensively experienced in commercial real estate and real estate development. We also continue to examine ways to lever our existing asset base to enable growth in our operations.

Current Business Strategy

Partners REIT's current portfolio of properties consists of retail and mixed-use retail centres whereby the majority of rents are derived from national and regional retailers with multi-year leases. These centres typically provide growth opportunities through the lease-up of vacant space, the increase in rental rates through contractual escalations, and through management's active remerchandising and redevelopment of the properties. The REIT believes it has created a base of retail assets that provide reliable and stable cash flow, and continues to pursue opportunities that yield growth through lease renewals, redevelopment and/or development of assets. The goal of Partners REIT is to own “institutional grade” properties or properties with the potential to become “institutional grade” through remerchandising and redevelopment.

Management has previously acquired assets in secondary markets to take advantage of opportunities to obtain well-tenanted centres with strong national and regional retailers at attractive capitalization rates. Partners REIT

is focused on building a geographically diversified portfolio of quality real estate assets with stabilized income that are accretive on a per unit basis.

The REIT is also focused on improving its existing assets through redevelopment and leasing initiatives in 2011 and beyond.

FINANCIAL HIGHLIGHTS

The financial information presented and discussed in this MD&A has been prepared in accordance with International Financial Reporting Standards (“IFRS”). Previously issued financial information for periods ended December 31, 2010, and prior, was prepared in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”) which, at the time, did not require Canadian financial statements to be prepared in accordance with IFRS. Comparative information presented in this MD&A has been restated to conform to IFRS. Refer to Part II – International Financial Reporting Standards, for a discussion of the impact of IFRS adoption on the REIT’s financial statements.

The following is a summary of key financial information and statistics for the periods indicated (see Part III – Performance Measurement for a description of the key terms):

	As at and for the three months ended		As at and for the nine months ended	
	Sept. 30, 2011	Sept. 30, 2010	Sept. 30, 2011	Sept. 30, 2010
NOI ⁽¹⁾	\$ 4,137,945	\$ 2,498,519	\$ 10,802,497	\$ 7,325,831
NOI – same property ⁽¹⁾	2,630,849	2,498,519	7,509,907	7,325,831
FFO ⁽¹⁾	1,262,428	940,313	3,602,159	2,602,438
FFO per unit ⁽¹⁾	0.04	0.04	0.12	0.13
Net income	2,113,239	2,522,061	4,192,601	2,122,821
Net income (loss) per unit	0.07	0.13	0.14	0.13
Distributions ⁽²⁾	1,243,624	1,029,665	3,722,820	2,513,965
Distributions per unit ⁽²⁾	0.04	0.04	0.12	0.12
Cash distributions ⁽³⁾	1,162,701	867,554	3,526,056	2,225,963
Cash distributions per unit ⁽³⁾	0.04	0.04	0.11	0.11
Total assets	256,486,723	134,894,045	256,486,723	134,894,045
Total debt ⁽⁴⁾	197,559,240	85,207,938	197,559,240	85,207,938
Debt-to-gross book value ⁽⁵⁾	73.3%	57.5%	73.3%	57.5%
Interest coverage ratio ⁽⁶⁾	1.65	1.67	1.65	1.67
Debt service coverage ratio ⁽⁶⁾	1.26	1.36	1.26	1.36
Weighted average interest rate ⁽⁷⁾	5.42%	5.88%	5.42%	5.88%
Portfolio occupancy	98.2%	95.2%	98.2%	95.2%

(1) Net operating income or “NOI” and funds from operations or “FFO” are non-IFRS financial measures widely used in the real estate industry. See “Part III – Performance Measurement” for further details and advisories.

(2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month. Distributions per unit exclude the 5% bonus units given to participants in the Distribution Reinvestment and Optional Unit Purchase Plan.

(3) Represents distributions on a cash basis, and as such excludes the non-cash distributions of units issued under the Distribution Reinvestment and Optional Unit Purchase Plan.

(4) Includes secured debt, unsecured debt and bank credit facility.

(5) See calculation under “Debt-to-Gross Book Value” in “Part V – Results of Operations.”

(6) Calculated on a rolling four quarter basis.

(7) Represents the weighted average effective interest rate for secured debt excluding the bank credit facility, which has a floating rate of interest.

Net operating income (“NOI”) for the three and nine months ended September 30, 2011 increased substantially over the same period in 2010 by \$1.6 million (62%) and \$3.5 million (48%) respectively. This is primarily due to the acquisition of the Wellington Southdale property, the SDM properties, Centuria Urban Village, Evergreen Shopping Centre, and Place Desormeaux noted above. The NOI during the three and nine months ended September 30, 2011 compared to the same period in 2010 after removing the effect of acquisitions subsequent to September 30, 2010 (NOI – same property) is consistent.

Funds from operations increased for the three and nine months ended September 30, 2011 by 34% and 38% respectively compared to the same period in 2010, primarily due to the acquisition of nine properties since September 30, 2010. FFO per unit in the three months ended September 30, 2011 remained consistent at 0.04, compared to the same prior year period. FFO per unit for the nine months ended September 30, 2011 decreased by 0.01 compared to the same period in 2010, as the increased weighted average number of units from the completion of the REIT’s offering at the end of July 2010 and again upon the public unit offering in December 2010 more than offset the 38% increase in FFO over the same prior year period.

Distributions per unit remained at \$0.04 quarterly for the third quarter of 2011, consistent with distributions per unit throughout 2010 and the first two quarters of 2011. Distributions are made on a monthly basis to unitholders of record on the last day of the month, payable on or around the 15th day of the following month. Increases noted in both distributions and cash distributions are due entirely to the increase in outstanding units.

The REIT has nearly doubled its assets as at September 30, 2011 compared to September 30, 2010, as demonstrated by an increase in assets of \$122 million. The increase in assets is due to the acquisitions of nine properties since September 30, 2010, adding a combined fair value of \$113 million to the REIT’s income producing property portfolio. The remaining increase is a result of an increase in fair value of the REIT’s existing properties, and increases in cash and working capital.

The REIT’s total debt increased by \$112 million as at September 30, 2011 compared to September 30, 2010. The increase is due to new financing since September 30, 2010 consisting of: a \$25 million first mortgage on the Cornwall property; \$13 million in assumed and new mortgages on the Wellington Southdale Plaza; the issuance of \$27 million in corporate unsecured debentures, net of issue costs; and the assumption of \$17 million on six first mortgages upon purchase of the SDM properties, an \$11 million mortgage on the acquisition of Evergreen Mall, a \$23 million first mortgage on the acquisition of Place Desormeaux and an additional \$17 million in corporate secured debt used to fund acquisitions. These increases in debt were offset by the reduction of the REIT’s outstanding bank credit facility, and repayment of corporate secured debt of \$9 million and \$10 million, respectively.

REAL ESTATE PORTFOLIO

The REIT currently owns twenty retail and mixed use retail properties in British Columbia, Manitoba, Ontario and Québec as follows:

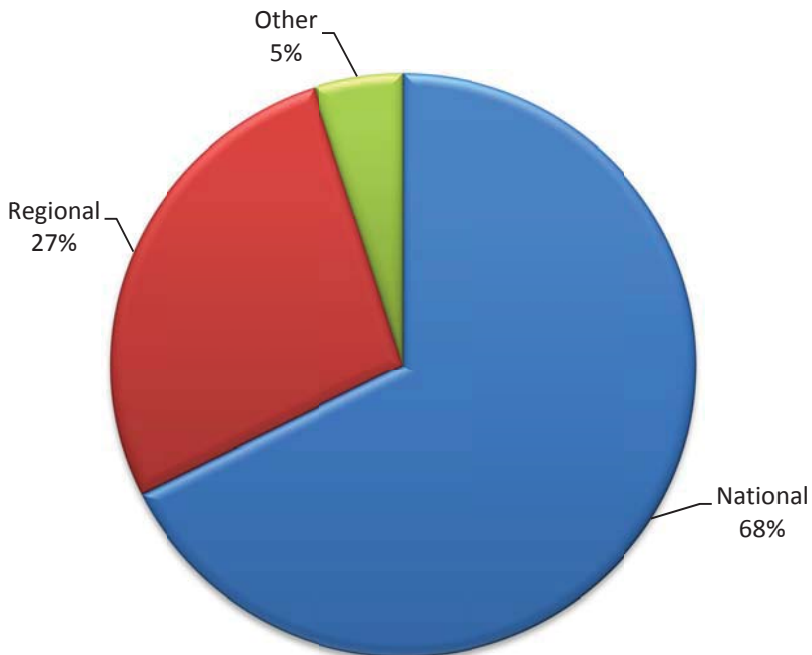
Property and location	Property type	Date built /redeveloped	Anchor tenants	Gross Leasable Area (sq.ft.)		Occupancy ^{(2) (3)}	% of annualized base rental revenue ⁽³⁾	Weighted average rent ⁽³⁾
				Retail ⁽¹⁾	Storage space			
British Columbia:								
Evergreen Shopping Centre Sooke, British Columbia	Shopping Centre	1978/2010	Shoppers Drug Mart	81,650	-	92.5%	5.0%	\$15.66
Centuria Urban Village Kelowna, British Columbia	Condominium Shopping Centre	2007	Nesters Market	32,128	-	100%	3.0%	\$20.85
Manitoba:								
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart	21,005	-	100.0%	2.2%	\$20.92
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	-	100.0%	2.5%	\$21.75
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,800	-	100.0%	2.8%	\$25.77
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	-	100.0%	2.2%	\$26.50
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,670	-	100.0%	1.6%	\$19.02
Ontario:								
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	250,779	1,319	98.3%	16.0%	\$13.36
Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,512	-	93.7%	6.3%	\$12.10
Wellington Southdale London, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Empire Theatres	86,629	-	95.8%	8.3%	\$19.90
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	-	100.0%	3.9%	\$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	-	100.0%	3.7%	\$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	-	100.0%	3.0%	\$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	-	100.0%	0.7%	\$3.54
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	-	100.0%	0.2%	\$1.49
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	-	100.0%	0.2%	\$2.47
Québec:								
Méga Centre Montréal, Québec	Community Power Centre	1973/1993, 1999, 2000, 2004	Brault & Martineau Staples Future Shop	277,477	36,081	100.0% ⁽⁴⁾	13.9%	\$9.88
Place Desormeaux Longueuil, Québec	Shopping Centre	1971/1998,2009 2010	Shoppers Drug Mart Staples	249,710	-	98.7%	14.4%	\$11.55

Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	114,650	-	96.5%	7.3%	\$12.99
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,035	-	100.0%	2.8%	\$23.99
Total				1,586,967	37,400	98.2% ⁽⁵⁾	100%	\$12.71 ⁽⁵⁾

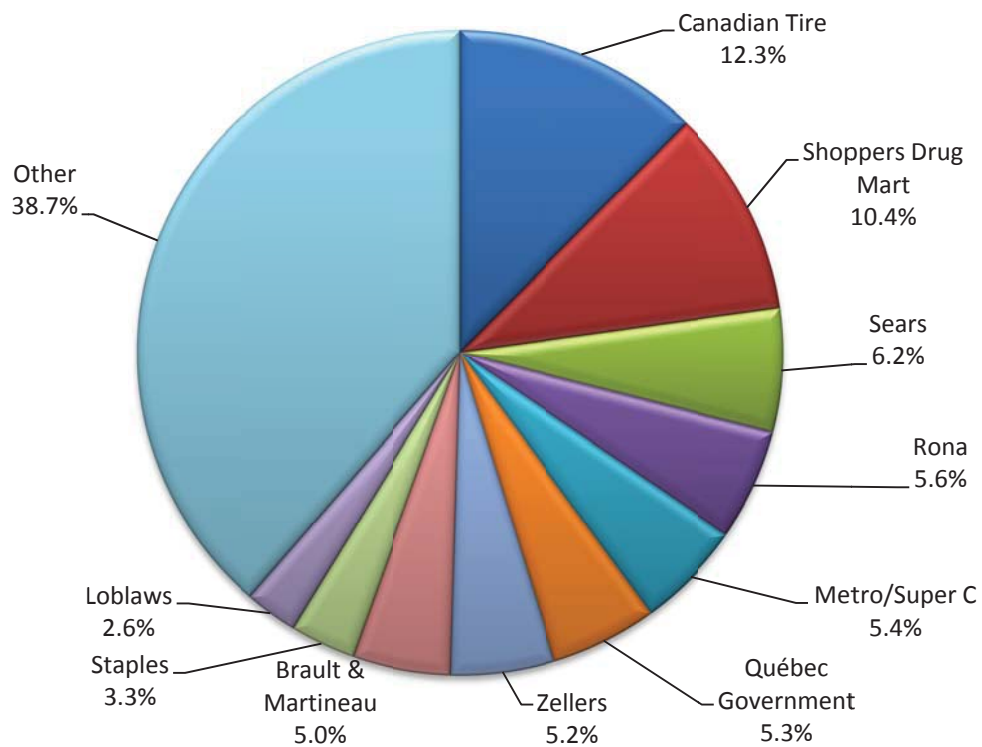
Notes:

- (1) Includes office space in mixed-use retail properties.
- (2) 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 November 10, 2011.
- (4) Includes 101,118 square feet leased to short-term or month-to-month tenants.
- (5) Represents weighted average for the portfolio.

The REIT has a strong mix of national and regional tenants as follows:

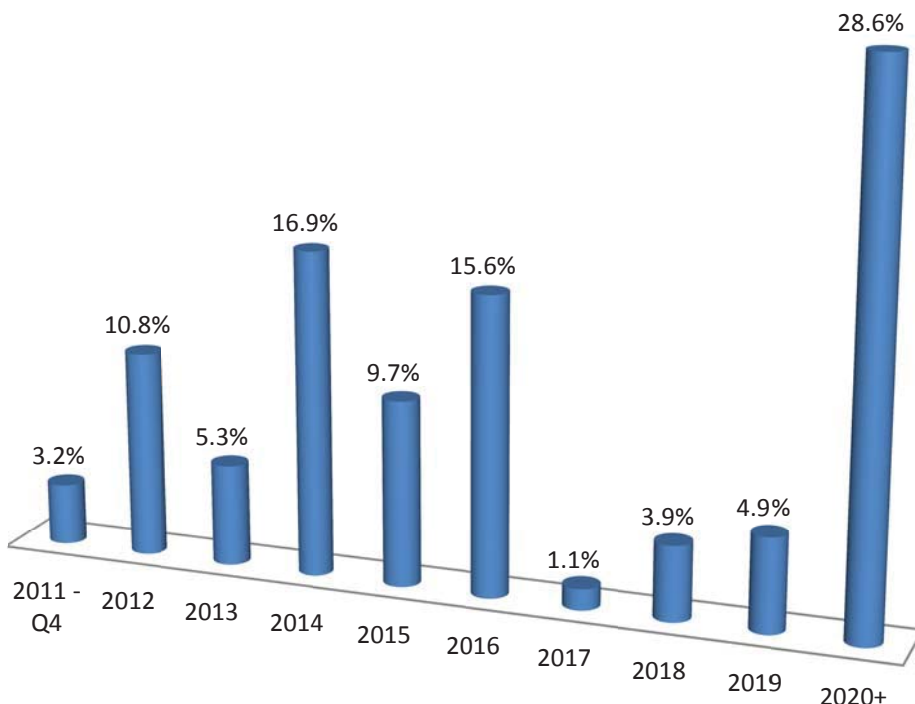


The tenant mix for the properties as at September 30, 2011 is as follows:



Note: Based on total leased sq. ft. excluding storage

The weighted average term to maturity of existing leases is approximately seven years. The chart below shows the lease expiration schedule of the properties as a percentage of leased square feet for the remainder of 2011 and beyond:



Leasing Activity and Occupancy

Lease expiries for 2011, new leasing and renewals completed by the date of this MD&A are as follows:

Three months ended:	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	Total 2011	Total 2010
Lease expiries	36,791	3,329	6,979	17,751	64,850	88,958
Base rent per square foot ⁽¹⁾	\$ 20.18	\$ 18.87	\$ 24.69	\$ 16.27	\$ 19.53	\$ 14.18
Lease renewals	21,923	4,407	10,266	7,261	43,857	57,411
Base rent per square foot ⁽¹⁾	\$ 21.52	\$ 17.76	\$ 28.59	\$ 21.82	\$ 22.85	\$ 14.91
New Leasing	-	21,354	5,978	5,869	33,201	47,637
Base rent per square foot ⁽¹⁾	\$ -	\$ 16.04	\$ 28.36	\$ 19.49	\$ 18.87	\$ 9.93

(1) weighted average

In the regular course of operations, the REIT occasionally encounters tenants who vacate their space before the lease is scheduled to expire due to financial difficulties or corporate restructuring. The REIT monitors tenants closely to avoid these situations, but when an unexpected vacancy occurs and a suitable long-term tenant is not readily available, the REIT endeavours to occupy the space with short-term tenants in order to minimize lost revenues. When short-term tenants are signed to short-term leases or, in some cases, month-to-month leases, the REIT does not include them as an expiry, renewal or new lease in the above chart.

The gross leasable area in Partners REIT's portfolio increased during the third quarter of 2011 by 331,571 square feet (26%). The increase is attributable to the acquisition of Evergreen Shopping Centre and Place Desormeaux. The weighted average occupancy rate for the entire portfolio at September 30, 2011 was 98.2%, compared with 98.3% at June 30, 2011 and 95.2% at September 30, 2010. The improved occupancy rate over the quarter ended September 30, 2010 was mainly due to the nine properties acquired during 2011, of which seven properties were 100.0% occupied upon acquisition; and the REIT's endeavors to increase occupancy rates at Place Val Est, Châteauguay and Méga Centre.

Management remains committed to actively pursuing new leases and lease renewals with the objective of increasing occupancy and weighted average rental income per square foot of gross leasable area. One of the REIT's goals is to generate organic growth through redevelopment and lease renewal activities at its existing centres. As at the date of this MD&A, the REIT had lease renewals of approximately 44,000 square feet, and new signed leases of approximately 33,000 square feet; which is 13,000 square feet in excess of the anticipated lease expiries for the year. The REIT expects the portfolio's occupancy rate to improve over the remainder of 2011 from property acquisitions and new/renewed leases.

The following provides an update on the progress made as at the date of the MD&A.

At the Cornwall Square property in Ontario, Shoppers Drug Mart completed their expansion early in the third quarter and now occupies 13,152 square feet. In addition, two new tenants occupying approximately 3,000 square feet are expected to commence rental payments in the fourth quarter of 2011.

At the Méga Centre property in Québec, we are in the process of revisiting our leasing strategy and in order to maximize revenues during this process we have entered into some short-term or month-to-month leases. We believe that Méga Centre's location, transportation access, visibility and the surrounding community's demographics are positive in terms of being able to redevelop, renew leases, and stabilize the centre. As of November 10, 2011, the REIT has 101,118 square feet of retail space leased to short-term or month-to-month tenants. Through discussions with the tenants and the property manager, the REIT expects these tenants to remain at the property throughout the remainder of 2011 and into 2012.

At the Châteauguay property in Québec, a new tenant occupying 10,126 square feet began making rental payments early in the third quarter of 2011. In addition, the REIT signed a new lease for a tenant occupying 1,886 square feet. This tenant is expected to occupy the space and commence rental payments in the fourth quarter of 2011.

On August 31, 2011 Partners REIT completed the acquisition of Place Desormeaux in Longueuil, Québec. Partners REIT has entered into an agreement with Wal-Mart for the transfer and assignment of the lease and space currently occupied by Zellers. It is expected that Wal-Mart will occupy the 81,000 square foot store in early 2013.

PART II – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Partners REIT has presented its financial results for the third quarter of 2011 and the comparative prior period information in accordance with International Accounting Standard 34 – *Interim Financial Reporting* ("IAS 34") using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Prior to the first quarter of 2011, the REIT issued its financial results in accordance with Canadian GAAP, which at the time, did not require Canadian financial statements to be presented in accordance with IFRS.

IFRS is based upon a conceptual framework similar to that previously utilized under Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. Although the adoption of IFRS did not have an impact on our reported net cash flows, it does have a material impact on our consolidated statements of financial position (previously referred to as "consolidated balance sheets") and consolidated statements of comprehensive income. Comparative information as at January 1, 2010 (the "Transition Date") and December 31, 2010 and for the three and nine months ended September 30, 2010 has

been adjusted from previously reported financial results in order to present comparative financial information in accordance with IFRS.

First-Time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1 – *First-Time Adoption of International Financial Reporting Standards* (“IFRS 1”), which provides guidance for an entity’s initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions.

(a) Elected exemptions from full retrospective application

In preparing these condensed consolidated financial statements in accordance with IFRS 1, the REIT has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i. Business combinations

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3 – *Business Combinations* retrospectively to past business combinations that occurred before the date of transition to IFRS. Accordingly, the REIT has made this election in order to only apply IFRS 3 to business combinations prospectively (i.e., to those business combinations that took place subsequent to the Transition Date).

ii. Financial instruments

Under IFRS 1, an entity is required to identify, recognize, classify and measure, as appropriate, all financial assets and financial liabilities qualifying at the date of transition for recognition in accordance with IFRS. IFRS 1 allows the entity to treat any adjustment to the carrying amount of a financial asset or financial liability as a result of adopting IFRS as a transition adjustment to be recognized in the opening balance of retained earnings at the date of transition. The REIT has applied this exemption to deferred unit-based compensation. Previously, under Canadian GAAP this was categorized as equity; under IFRS this is categorized as a liability. An adjustment to record this financial liability at fair value through profit or loss (“FVTPL”) was recorded as an adjustment to opening retained earnings.

iii. Leases

IFRS 1 allows an entity to determine whether an arrangement existing at the date of transition contains a lease on the basis of facts and circumstances existing at that date. The REIT has concluded that it is only involved in operating leases, consistent with the accounting policy applied under Canadian GAAP.

(b) Mandatory exceptions to retrospective application

In preparing these condensed consolidated financial statements in accordance with IFRS 1 the REIT has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied are described below.

i. Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Canadian GAAP are consistent with the application under IFRS.

Upon adoption of IFRS, all previously recognized financial assets and financial liabilities have been designated consistent with the designations under Canadian GAAP, with the exception of the deferred unit-based compensation which has been designated as FVTPL under IFRS. As a result of this designation, the deferred unit-based compensation plan is recorded at fair value. This financial liability was previously designated as equity under Canadian GAAP.

Impact of IFRS on the Consolidated Statements of Changes in Unitholders' Equity

The following is a reconciliation of the REIT's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at the Transition Date:

	Trust units	Contributed surplus	Retained earnings (deficit)	Total Unitholders' equity
As reported under Canadian GAAP - Dec. 31, 2009	\$ 54,697,477	\$ 1,040,336	\$ (16,241,749)	\$ 39,496,064
Differences increasing (decreasing) reported amount:				
Deferred unit-based compensation (i)	-	(470,506)	470,506	-
Investment property (ii)	-	-	(1,876,060)	(1,876,060)
As reported under IFRS - Jan. 1, 2010	\$ 54,697,477	\$ 569,830	\$ (17,647,303)	\$ 37,620,004

The following is a reconciliation of the REIT's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at September 30, 2010:

	Trust units	Contributed surplus	Retained earnings (deficit)	Total Unitholders' equity
As reported under Canadian GAAP - Sept. 30, 2010	\$ 63,299,413	\$ 1,040,336	\$ (21,548,326)	\$ 42,791,423
Differences increasing (decreasing) reported amount:				
Deferred unit-based compensation (i)	-	(470,506)	470,506	-
Investment property (ii)	-	-	3,039,373	3,039,373
As reported under IFRS - Sept. 30, 2010	\$ 63,299,413	\$ 569,830	\$ (18,038,447)	\$ 45,830,796

The following is a reconciliation of the REIT's equity reported in accordance with Canadian GAAP to its equity in accordance with IFRS at December 31, 2010:

	Trust units	Contributed surplus	Retained earnings (deficit)	Total Unitholders' equity
As reported under Canadian GAAP - Dec. 31, 2010	\$ 69,848,343	\$ 1,040,336	\$ (23,329,428)	\$ 47,559,251
Differences increasing (decreasing) reported amount:				
Deferred unit-based compensation (i)	-	(470,506)	470,506	-
Investment property (ii)	-	-	6,301,097	6,301,097
As reported under IFRS - Dec. 31, 2010	\$ 69,848,343	\$ 569,830	\$ (16,557,825)	\$ 53,860,348

(i) Deferred Unit-Based Compensation

Under IAS 32 – *Financial Instruments: Presentation* (“IAS 32”), the options issued as deferred unit-based compensation are considered financial liabilities under IFRS and reclassified from equity to liabilities on the financial statements. As at the Transition Date, the REIT determined that the fair value of the outstanding options was nil (September 30, 2010: nil; December 31, 2010: nil). Amounts previously recorded under Canadian GAAP to contributed surplus with regard to the valuation of the options were reclassified to retained earnings since they would have been recorded as compensation expense under IFRS.

(ii) Investment Property

The REIT considers its income producing properties to be investment properties under IAS 40 – *Investment Property* (“IAS 40”). Investment property includes land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. However, subsequent to the initial recognition, IFRS requires that an entity choose either the cost or fair

value model to account for the investment property. The REIT has elected to use the fair value method upon initial transition to IFRS and in subsequent reporting periods. This adjustment to retained earnings represents the cumulative unrealized gain in respect of the fair value of the REIT's investment property under IFRS on January 1, 2010, and December 31, 2010. This fair value adjustment is net of the derecognition of related intangible assets and liabilities which are inherently reflected in the fair value of income producing property, and the reclassification of straight-line rent receivable and direct leasing costs.

Impact of IFRS on the Consolidated Statements of Financial Position

The following provides a reconciliation of the REIT's comparative consolidated statements of financial position from Canadian GAAP to IFRS standards as reported at January 1, 2010 and December 31, 2010. All other assets and liabilities not specifically addressed below maintained their designations consistent with the designations made under Canadian GAAP and were not significantly impacted by the adoption of IFRS.

As at	(i)	Canadian GAAP January 1, 2010	IFRS Adjustments	Presentation Reclassification	IFRS January 1, 2010
ASSETS					
Non-current assets					
Income producing properties	(ii)	\$ 122,216,906	\$ 8,365,961		\$ 130,582,867
Deferred financing costs	(ii)	403,390	(209,262)	(194,128)	-
Intangible assets	(ii)	9,738,939	(9,738,939)		-
		132,359,235	(1,582,240)	(194,128)	130,582,867
Current assets					
Other assets		346,206	-		346,206
Accounts receivable	(ii)	819,242	(561,431)		257,811
Cash		1,074,765	-		1,074,765
		2,240,213	(561,431)	-	1,678,782
Total assets		\$ 134,599,448	\$ (2,143,671)	\$ (194,128)	\$ 132,261,649
LIABILITIES					
Non-current liabilities					
Mortgages payable	(i)	\$ 71,725,963	\$ (1,298,790)		\$ 70,427,173
Debentures		-	-		-
Intangible liabilities	(ii)	267,611	(267,611)		-
Bank credit facility		20,500,000	-	(194,128)	20,305,872
		92,493,574	(1,566,401)	(194,128)	90,733,045
Current liabilities					
Mortgages payable	(i)	-	1,298,790		1,298,790
Accounts payable and other liabilities		2,363,034	-		2,363,034
Distributions payable		246,776	-		246,776
		2,609,810	1,298,790	-	3,908,600
Total liabilities		95,103,384	(267,611)	(194,128)	94,641,645
UNITHOLDERS' EQUITY					
		39,496,064	(1,876,060)		37,620,004
Total liabilities and unitholders' equity		\$ 134,599,448	\$ (2,143,671)	\$ (194,128)	\$ 132,261,649

As at	(i)	Canadian GAAP December 31, 2010	IFRS Adjustments	IFRS December 31, 2010
ASSETS				
Non-current assets				
Income producing properties	(ii)	\$ 138,612,235	\$ 17,294,785	\$ 155,907,020
Deferred financing costs	(ii)	390,528	(321,629)	68,899
Intangible assets	(ii)	10,058,263	(10,058,263)	-
		149,061,026	6,914,893	155,975,919
Current assets				
Other assets		3,291,985	-	3,291,985
Accounts receivable	(ii)	1,092,045	(823,346)	268,699
Cash		6,869,242	-	6,869,242
		11,253,272	(823,346)	10,429,926
Total assets		\$ 160,314,298	\$ 6,091,547	\$ 166,405,845
LIABILITIES				
Non-current liabilities				
Mortgages payable	(i)	\$ 107,086,726	\$ (2,144,220)	\$ 104,942,506
Debentures		-	-	-
Intangible liabilities	(ii)	209,551	(209,551)	-
Bank credit facility		-	-	-
		107,296,277	(2,353,771)	104,942,506
Current liabilities				
Mortgages payable	(i)	-	2,144,221	2,144,221
Accounts payable and other liabilities		5,046,083	-	5,046,083
Distributions payable		412,687	-	412,687
		5,458,770	2,144,221	7,602,991
Total liabilities		112,755,047	(209,550)	112,545,497
UNITHOLDERS' EQUITY				
		47,559,251	6,301,097	53,860,348
Total liabilities and unitholders' equity		\$ 160,314,298	\$ 6,091,547	\$ 166,405,845

(i) Presentation of Financial Statements

Under IAS 1 – *Presentation of Financial Statements* (“IAS 1”), the consolidated statements of financial position is presented as a classified statement of financial position which means that there are separate classifications for current and non-current assets and liabilities. Previously, the consolidated balance sheets, under Canadian GAAP, were presented using reverse liquidity.

IAS 1 requires balances to be classified as current and non-current. This requirement has been applied to mortgages payable, which results in two amounts for mortgages on the statements of financial position. Under both Canadian GAAP and IFRS, the REIT’s mortgages payable are classified as other financial liabilities and are measured at amortized cost, and as such, there is no impact on the financial statements other than a presentation change.

(ii) Adoption of IAS 40 – Investment Property

The REIT considers its income producing properties to be investment properties under IAS 40. Investment property includes land and buildings held primarily to earn rental income or for capital appreciation, or both; rather than for use in the production or supply of goods or for sale in the ordinary course of business. Similar to Canadian GAAP, investment property is initially recorded at cost under IAS 40. Subsequent to initial recognition, IFRS requires an entity to choose either the fair value or cost model to account for its investment property. The REIT has elected to use the fair value model. Fair values are determined based on valuations performed by third party appraisers or available market evidence. Gains or losses resulting from changes in fair value are recorded in profit or loss.

Unlike Canadian GAAP, there is no requirement under IFRS to segregate intangible assets and liabilities from investment properties in the statements of financial position. The determination of the fair value of an income producing property takes into consideration leasing commission costs, customer relationships, lease origination fees, in-place leases, straight-line rent receivables, and above or below market leases related to the property. Accordingly, amounts previously reported on the balance sheet in accordance with Canadian GAAP as deferred costs, intangible assets, accounts receivable, and intangible liabilities have been reclassified to income producing properties under IFRS.

The following is a reconciliation of the REIT's income producing property balances reported in accordance with Canadian GAAP to its balances in accordance with IFRS at December 31, 2010:

As at	December 31, 2010	January 1, 2010
Income producing properties as reported under Canadian GAAP	\$ 138,612,235	\$ 122,216,906
Amounts reclassified from:		
Deferred costs	321,629	209,262
Intangible assets	10,058,263	9,738,939
Accounts receivable	823,346	561,431
Intangible liabilities	(209,551)	(267,611)
Fair market value adjustment recognized in opening retained earnings	(1,876,060)	(1,876,060)
Add back amortization recognized in 2010 under Canadian GAAP	5,527,770	-
Fair market value adjustment	2,649,388	-
Income producing properties as reported under IFRS	\$ 155,907,020	\$ 130,582,867

Valuation Process of Commercial Retail Properties

At the Transition Date, the REIT's portfolio of income producing properties was appraised at fair value by qualified external valuation professionals in accordance with IAS 40.

At December 31, 2010 the properties were also appraised at fair value by qualified external valuation professionals. The fair value at September 30, 2011 was determined internally by updating the data and assumptions used by the external valuation professionals for changes that occurred between January 1, 2011 and September 30, 2011.

The external valuation of the investment properties utilized the "Direct Capitalization" method. This method applies the capitalization rate to stabilized net operating income. The resulting stabilized value is then adjusted for factors including lost revenues and recoveries on vacant units; anticipated inducement and leasing commission costs of vacant units; and present value of capital expenditures.

At the Transition Date, capitalization rates ranging from 7.5% to 9.0% were used to determine stabilized value. At December 31, 2010, capitalization rates ranging from 7.0% to 8.5% were used to determine stabilized value. Capitalization rates vary due to property type, market conditions, and building specific conditions, including the property's occupancy rate, capital expenditure requirements, and anticipated net operating income.

The overall weighted average capitalization rate for our portfolio as at January 1, 2010 was approximately 8.3%. At December 31, 2010, the overall weighted average capitalization rate was approximately 7.8%.

Impact of IFRS on the Consolidated Statements of Comprehensive Income

The following discussion and reconciliation describes the significant recurring differences between Canadian GAAP and IFRS that impact net income.

Fair Value Gains or Losses

As a result of electing to recognize income producing properties at fair value in the statements of financial position, net income for any given period may be greater or less than that determined under Canadian GAAP depending on whether an increase or decrease in the fair value occurs during that period. Fluctuations to the fair value of income producing properties are recorded to the consolidated statements of comprehensive income under IFRS as fair value gains or losses. The impact of the fair value changes resulted in an increase to net income of \$1.8 million for the three months ended September 30, 2010 (nine months ended September 30, 2010 - \$0.7 million) and an increase to net income of \$2.6 million for the year ended December 31, 2010.

Depreciation and Amortization Expense

Depreciation is not recorded as a result of electing to recognize income producing properties at fair value in the statements of financial position. Amortization previously recorded under Canadian GAAP for income producing properties, intangible assets and intangible liabilities has been eliminated under IFRS. This has resulted in a decrease in the depreciation and amortization expense of \$1.4 million for the three months ended September 30, 2010 (nine months ended September 30, 2010 - \$4.2 million) and \$5.5 million for the year ended December 31, 2010.

Recognition of Revenues from Income Producing Properties

IFRS requires rental revenues to be determined on a straight-line basis considering all rentals from the inception of the lease. The adoption of IFRS did not require significant changes to revenue recognition from income producing properties, and an adjustment to net income was not required upon transition to IFRS.

Financial Instruments

Options issued as deferred unit-based compensation are classified as financial liabilities at FVTPL under IFRS, and as such require a revaluation at each reporting period. As at the Transition Date, the REIT determined that the fair value of the outstanding options was nil (September 2010: nil; December 2010: nil). Since a change in fair market value did not occur from the Transition Date to September 30, 2010 or to December 31, 2010, there was no impact on net income upon transition to IFRS as it relates to deferred unit-based compensation.

Reconciliation of Net Income as Reported Under Canadian GAAP and IFRS

The following is a reconciliation of the REIT's net income reported in accordance with Canadian GAAP to its net income in accordance with IFRS for the year ended December 31, 2010 and nine months ended September 30, 2010:

	Year ended December 31, 2010	Nine months ended September 30, 2010
Net income (loss) and comprehensive income (loss) as reported under Canadian GAAP	\$ (3,473,323)	\$ (2,792,612)
Differences increasing (decreasing) reported amount:		
Investment property (i)		
Fair value gain (loss)	2,649,388	712,776
Reverse Canadian GAAP amortization expense	5,527,770	4,202,657
Net income (loss) and comprehensive income (loss) as reported under IFRS	\$ 4,703,835	\$ 2,122,821

(i) Investment Property

As permitted by IFRS, the REIT measures investment property at fair value and records changes in fair value in income during the period of change. The REIT's income producing properties, which are classified as investment property under IFRS, were, under Canadian GAAP, recorded at cost and amortized over its estimated life. In addition, the amortization of intangible assets and liabilities recognized on the acquisition of investment property was amortized to profit or loss under Canadian GAAP, which will no longer be the case under IFRS as the value of the intangible assets and liabilities are considered in the determination of the fair value of the investment property.

Other Comprehensive Income

There weren't any reconciling items between the REIT's other comprehensive income reported in accordance with Canadian GAAP to its other comprehensive income reported in accordance with IFRS for the nine months ended September 30, 2010 and for the year ended December 31, 2010.

Impact of IFRS on the Consolidated Statements of Cash Flows

There weren't any material adjustments to the cash flow statement as a result of the conversion to IFRS.

Internal Control over Financial Reporting and Disclosure

The conversion to IFRS from Canadian GAAP impacts the way financial results are compiled and presented. In preparation for this conversion, a new general ledger accounting system was developed and implemented. This enabled the REIT to maintain its historical cost information and track its fair value adjustments under IFRS. Additionally, the impact of the conversion on the REIT's financial reporting systems, processes and controls was evaluated. As part of this process, all significant changes in accounting policies, changes in measurement and disclosure requirements were documented. All necessary updates and adjustments to its financial reporting systems, processes and controls were implemented in order to effect a successful conversion to IFRS from Canadian GAAP.

PART III – PERFORMANCE MEASUREMENT

The key performance indicators by which management measures Partners REIT's performance are as follows:

- Net operating income ("NOI");
- Funds from operations ("FFO");
- Debt service coverage ratio ("DSCR");
- Weight average interest rate; and
- Occupancy levels.

We have provided the analysis of net operating income and funds from operations under Part V – Results of Operations.

Net Operating Income

Net operating income, or 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, administration, amortization, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. NOI is a non-IFRS financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results from operations which is useful in analyzing the performance of the property portfolio.

Funds from Operations

Funds from operations ("FFO") is a non-IFRS financial measure of operating performance widely used by the real estate industry. Partners REIT calculates FFO in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). The definition is meant to standardize the calculation and disclosure of FFO across real estate entities in Canada, and is modeled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States. NAREIT's definition of FFO is net income (calculated in accordance with IFRS) excluding gains or losses from the sale of property and fair value increases or decreases in property values; plus depreciation and amortization; adjusted for items that are not indicative of operating performance; and after adjustments for unconsolidated partnerships and joint ventures (which is also calculated to reflect FFO on the same basis).

Management considers FFO, a meaningful measure of operating performance for financial analysts, investors and unitholders, as they primarily reject the assumption that the value of real estate investments diminishes predictably 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.

NOI and FFO 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

DSCR is a measure used to determine if a property will be able to sustain its debt based on its current cash flow. DSCR is calculated by dividing the REIT's EBITDA by the total annual interest and principal payments made on its debt portfolio. The DSCR is a tool that financial institutions use to evaluate the risk associated with the ability to recover both interest and principal payments and is a common financial covenant contained within lending agreements. Our bank credit facility DSCR ratio minimum requirement is 1.25 to 1. As at September 30, 2011, the DSCR was 1.26 to 1.

Weighted Average Interest Rate

Our weighted average interest rate includes secured debt and excludes the bank credit facility, which has a floating rate of interest. This calculation is a useful measure because it allows us to compare movements in interest rates period over period; and to compare the average rate to the current market rates at that point in time. As at September 30, 2011, the REIT's weighted average contractual interest rate was 5.46%.

Occupancy Levels

Occupancy levels are presented in different manners depending on its context. It 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 this a useful measure in assessing the overall performance of its portfolio and is an essential tool to determine which properties require further investigation if performance lags.

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing the performance of operations through such measures as NOI and FFO, we consider the following to be key internal drivers of our current and future financial performance:

- Increases in occupancy by leasing vacant space; and
- Increases in base rent rates when market conditions permit.

We anticipate that leases representing approximately 65,000 square feet of leasable space will expire in 2011. As at the date of the MD&A, the REIT has entered into new or renewed leases for approximately 77,000 square feet. New and renewed leases are at similar or increased base rent rates to those of the expiring leases. Management considers these indicators of positive performance.

Our key external performance drivers include:

- The ability to access equity capital at a competitive/reasonable cost;
- The ability to access debt with terms and conditions that is cost effective; and
- The ability to acquire new properties that enhances our portfolio.

During the first quarter ended March 31, 2011, Partners REIT issued \$25 million of 8% extendable convertible unsecured subordinated debentures, which, in part, was used to replace \$8.6 million of debt scheduled to mature in 2013, bearing interest at 8.75% per annum. The REIT purchased the SDM properties in March, 2011. During the second quarter ended June 30, 2011 the REIT purchased Centuria Urban Village in May, 2011. During the third quarter ended September 30, 2011, the REIT purchased Evergreen Mall and Place Desormeaux. The REIT also renewed its bank credit facility at improved terms in comparison to its previous bank credit facility. Management considers all of these achievements as indicators of positive performance.

PART IV – RECENT DEVELOPMENTS

In April 2009, the Board of Trustees of the REIT began a process to develop various strategic alternatives that would enable Partners REIT to reposition its operations given the lack of growth in the business as a result of the challenging economic environment and reaching an impasse in the stock market. As a result of this initiative, in June 2010, the REIT entered into a transaction with League Assets Corp. that has resulted in a transformational change in the REIT's ownership structure. League's affiliate, IGW Public Limited Partnership bought C.A. Bancorp's 33% interest in Partners REIT and entered into a new asset management agreement with Partners REIT, thereby becoming Partners REIT's major unitholder and new sponsor. League is a Victoria, British Columbia based real estate company that indirectly owns and manages in excess of \$940 million in commercial, retail and residential properties.

As part of the transaction and ownership change, IGW Public also agreed to invest additional funds in Partners REIT through supporting a rights offering that closed on July 23, 2010. IGW Public invested an additional \$9,404,413 in Partners REIT. The ownership interest held by IGW Public at this time was approximately 49.9% of the units of Partners REIT.

At the end of December 2010, the REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public's ownership interest in the REIT to 41.5%.

Management believes that the change in ownership has enabled Partners REIT to reposition itself in the market through the following:

- Changing the composition of the Board of Trustees – Partners REIT's six member Board has four new trustees. The new Board is now comprised of members that have an average of 30 years' experience in commercial real estate, including extensive experience with publicly traded real estate companies.
- Changing its core management – Partners REIT has a new Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer who have a combined total of 62 years of professional experience, of which, 48 years have been in the commercial real estate and real estate development sectors.
- Managing its current asset base to refinance current properties and potentially raise new debt – as part of its ongoing obligation, Partners REIT is seeking new opportunities to recapitalize its existing properties at attractive terms and conditions; and building relationships with potential lenders for current strategic property acquisitions.
- Develop a thoroughly vetted strategic plan – in the third and fourth quarters of 2010, Partners REIT's Board of Trustees, executive management team and invited advisors met to discuss the direction that Partners REIT will take to strategically position itself in the market.
- Provide access to League's re-implemented financial and accounting systems – League is currently redesigning its financial and accounting system. This design is expected to provide more timely and accurate financial and asset management data; will have a sophisticated forecasting, budgeting and acquisition modeling module; and will enable Partners REIT to manage its leases through its data base.

On March 8, 2011, the REIT closed its public offering of \$25,000,000 in aggregate principal amount of 8.0% extendible convertible unsecured subordinated debentures; and on March 15, 2011 closed the overallotment option of the public offering for an additional \$3,750,000 of similar debt, for a total issuance of \$28,750,000 aggregate principal amount. The debentures bear interest at an annual rate of 8% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011. The debentures mature on March 31, 2016.

On March 17, 2011, the REIT announced the purchase of the SDM properties for an aggregate purchase price of \$33 million. The purchase was funded by the assumption of existing mortgages of \$17 million and cash raised from the issuance of debentures (as discussed above).

On May 16, 2011, the REIT completed an acquisition of the majority of the retail units in Centuria Urban Village, a food and drug store anchored mixed-use retail and high-rise residential property located in Kelowna, British Columbia, for an aggregate purchase price of \$9.4 million. The purchase has been funded by cash raised from the issuance of debentures (as discussed above) and bank credit facility as described below.

On May 16, 2011, the REIT renewed its revolving operating and acquisition facility for \$5.8 million, with upward expansion. The new facility bears interest at a rate equal to the Bank's prime rate plus 2.25% (previously 3.50%) per annum or the Banker's Acceptance stamping fee plus 3.25% (previously 4.50%) per annum. As at November 10, 2011, the amount drawn on the facility was \$5.7 million. The drawn amount was used to fund the purchase of Evergreen Mall in Sooke, British Columbia.

On July 14, 2011, the REIT acquired a second mortgage from Mortgage Fund Three in the amount of \$4 million. This mortgage is secured by the SDM properties located in Manitoba. It is an interest only loan maturing April 30, 2013 and bears interest at a floating rate equal to the prime rate plus 4%.

On August 31, 2011, the REIT completed the acquisition of Place Desormeaux, a 250,000 square foot enclosed shopping centre in Longueuil, Québec on the south shore of the Greater Montreal Region. The REIT paid approximately \$32.2 million for the property with approximately \$3.6 million in additional acquisition and capital improvement costs to be incurred in the future. The purchase was funded by a \$23.0 million loan from OMERS Administration Corporation, secured by the property, with a three year term and bearing contractual interest at a rate of 4.05%. The balance of the purchase price was funded by a portion of the \$13.5 million, three year revolving loan facility from Firm Capital Corporation, secured against the REIT's portfolio of properties. The revolving loan facility bears a floating interest rate that is the greater of 9.00% or the TD Canada Trust Posted Bank Prime Rate of Interest plus 4.00%.

On September 1, 2011, the REIT completed the acquisition of the Evergreen Shopping Centre, a five building 88,200 square foot open-air shopping centre located in Sooke, British Columbia approximately 37 kilometers west of Victoria. The shopping centre was acquired for approximately \$15.9 million and was funded by a new \$10.5 million five-year mortgage on the property with a contractual interest rate of 3.8%. The balance of the purchase price was paid in cash from the REIT's bank credit facility.

On October 12, 2011, the REIT refinanced its property located in Chateauguay, Quebec. The loan is secured by a first mortgage on the property. The loan amount is for \$11 million, bears interest at a rate equal to 3.4%, with a term to maturity of 5 years. The REIT used \$8.6 million of the loan proceeds to pay down the previous first mortgage.

On October 17, 2011, the REIT announced that an acquisition agreement was entered with NorRock Realty Finance Corporation ("NorRock"), whereby Partners REIT will acquire all the assets of NorRock in exchange for the issuance of Partners REIT units, certain rights to acquire Partners REIT units and cash. It is anticipated that, at closing, holders of NorRock preferred shares will receive \$23.75 per share in Partners REIT units (based on an agreed issue price of \$1.73 per Partners REIT unit), and the holders of NorRock Class A shares will receive \$5.94 per share in Partners REIT units together with rights to receive additional value of approximately \$1.47 per share, resulting in proceeds potentially totaling approximately \$7.41 per NorRock Class A share.

At closing of the agreement, Partners REIT will pay for the cash and cash equivalents held by NorRock, currently valued at approximately \$38.3 million. In addition, Partners REIT will pay for the non-cash assets of NorRock through an initial payment of \$12.6 million, subject to any required adjustments. To the extent that the assets are sold prior to closing, the amount of the net proceeds will be deducted from the assets at closing and added to the cash at closing. After closing, Partners REIT may retain or may sell the non-cash assets acquired from NorRock. The agreement is expected to be completed in December, 2011.

The trustees of Partners REIT have resolved to seek unitholder approval for a consolidation of its units on a one for four basis. If approved, the holders of Partners REIT units will receive one post-consolidation unit for every four units held by them as of the record date for such consolidation. This consolidation of Partners REIT units is conditional upon the transaction with NorRock closing.

PART V – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is selected financial information from the condensed consolidated statements of comprehensive income for the three months ended September 30, 2011 and 2010 and for the nine months ended September 30, 2011 and 2010.

Three months ended	September 30, 2011	September 30, 2010	Change
Revenues from income producing properties	\$ 6,157,707	\$ 4,047,910	52%
Property operating expenses	(887,817)	(753,361)	18%
Realty taxes	(1,058,972)	(745,471)	42%
Property management fees	(108,923)	(95,736)	14%
	4,101,995	2,453,342	67%
Other expenses:			
Financing costs	2,675,790	1,371,553	95%
General and administrative expenses	391,758	265,099	47%
Other transaction costs	34,810	61,667	(44%)
	3,102,358	1,698,319	83%
Income before fair value gains	999,637	755,023	32%
Fair value gains	1,113,602	1,767,038	
Net income and comprehensive income	\$ 2,113,239	\$ 2,522,061	(13%)
Earnings per unit, basic and diluted	\$ 0.07	\$ 0.13	

Nine months ended	September 30, 2011	September 30, 2010	Change
Revenues from income producing properties	\$ 16,695,709	\$ 12,134,842	38%
Property operating expenses	(2,434,500)	(2,081,015)	17%
Realty taxes	(3,189,594)	(2,547,091)	25%
Property management fees	(399,305)	(301,126)	33%
	10,672,310	7,205,610	48%
Other expenses:			
Financing costs	6,521,120	4,156,017	57%
General and administrative expenses	1,212,105	773,922	57%
Other transaction costs	313,978	865,556	(64%)
	8,047,203	5,795,565	39%
Income before fair value gains	2,625,107	1,410,045	86%
Fair value gains	1,567,494	712,776	
Net income and comprehensive income	\$ 4,192,601	\$ 2,122,821	101%
Earnings per unit, basic and diluted	\$ 0.14	\$ 0.11	

Net Income and Comprehensive Income

The REIT reported income before fair value gains increases of 32% during the third quarter of 2011 compared to the same quarter in 2010. This increase was more than offset by a 37% reduction in fair value gains in income producing properties during the third quarter of 2011, resulting in an overall decline in net income and comprehensive income of 13%.

Similarly, income before fair value gains increased by 86% for the year to date period ended September 30, 2011, compared to the same prior year period. A further 120% increase in fair value gains, predominantly from fair value gains in income producing properties, results in an overall 101% increase in income and comprehensive income for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010.

See "Net Operating Income" below for discussion on NOI for all properties and same properties for the quarter ended September 30, 2011 compared to the same period in 2010.

Financing Costs

Financing costs are comprised primarily of interest expense and amortization of deferred financing costs on debt secured by the income producing properties. Financing costs also include amortization of interest rate differentials recognized on assumed mortgages upon property acquisitions and other incidental interest income and expenses incurred during the normal course of business.

Financing costs for the three months ended September 30, 2011 increased compared to the same period in 2010 by \$1.3 million (95%). The change is due to increases in interest and deferred financing fees recognized on first mortgages obtained or assumed on new acquisitions since September 30, 2010 of approximately \$755,000. The increase in financing costs is also attributable to the debenture issued during March 2011 of \$723,000, of corporate secondary financing obtained to fund new acquisitions of \$168,000, and an increase in amortization of deferred financing fees from new debt. These increases in financing costs were partially offset by reductions in interest of \$218,000 during the comparable periods from CREIT corporate secured debt that was paid down in full during Q1 2011, and from a reduction in interest of \$208,000 on the REIT's bank credit facility.

Financing costs for the nine months ended September 30, 2011 increased in comparison to the same period in 2010 by \$2.4 million (57%). The increase in interest in 2011 is a result of the REIT's acquisition activity in the latter part of 2010 and for 2011; whereby the REIT assumed or obtained new mortgages and issued debentures to facilitate the purchase of property or replace high cost debt. The result is a 2011 year to date increase of approximately \$1.9 million in additional first mortgage interest. As well, the REIT has incurred \$1.3 million in additional interest related to the convertible debentures issued in March 2011, \$168,000 in interest on corporate secured debt acquired to facilitate acquisitions, and increases in amortization of deferred financing from the costs of obtaining new debt.

General and Administrative Expenses

General and administrative expenses for the three months ended September 30, 2011 increased approximately \$127,000 (47%) from the same period in the prior year. This increase was due primarily to \$108,000 in additional management fees incurred on properties acquired since September 30, 2010.

General and administrative expenses for the nine months ended September 30, 2011 increased by approximately \$438,000 (57%) from the same period in the prior year. This increase is partially due to \$182,000 in additional management fees incurred on properties acquired since September 30, 2010; \$41,000 increase in travel costs; \$110,000 increase in accounting and audit fees partially due to an under-accrual of these costs for the nine months ended September 30, 2010; \$44,000 of unit-based compensation with regard to unit options issued in February 2011; and \$63,000 increase in consulting costs, legal and professional fees.

Other transaction costs consist of expenses incurred on property acquisitions no longer pursued, costs incurred upon early extinguishment of debt, costs incurred to transition to IFRS reporting, and corporate transaction costs.

During the three months ended September 30, 2011, the REIT expended \$35,000 incurred to transition to IFRS. There were no such costs recognized during the same period in 2010, although \$62,000 was incurred during the

three months ended September 30, 2010 as part of corporate transactions relating to the strategic review process.

Other transaction costs for the nine months ended September 30, 2011 decreased by \$552,000 from the same period in the prior year. The decrease is due to the one-time corporate transactions costs as mentioned above in 2010; which was partially offset by the incurrence of \$67,000 on costs related to acquisitions that are no longer being pursued in 2011.

OPERATING RESULTS

Net Operating Income – Same Properties and All Properties

As at September 30, 2011 the REIT owns twenty properties. Ten of the REIT's twenty properties were owned by the REIT during the three and nine months ended September 30, 2010. An eleventh property was purchased during December 2010 and the six SDM properties were purchased in March 2011. The REIT's eighteenth acquisition was for the majority of the retail units at Centuria Urban Village, for the total of 32,500 square feet of retail space, and was purchased mid-May 2011. Place Desormeaux, a 250,000 square foot enclosed shopping centre located in Longueuil, Quebec was purchased on August 31, 2011. The next day the REIT purchased Evergreen Shopping Centre, a five building 88,200 square foot open-air shopping centre located in Sooke, British Columbia. Due to the ten acquisitions since September 30, 2010, the three and nine months ended September 30, 2011 is not directly comparable to the same period in the prior year. To address this, "Same property NOI" compares net operating income from only those properties that were contributing to operations in both periods. More detail on the acquisitions is noted in the "All Properties NOI" section below.

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. In order to calculate NOI as defined above in Part III, this amortization of tenant incentives and direct leasing costs must be removed from revenues.

Same Properties NOI

The Wellington Southdale Plaza, SDM properties, Centuria Urban Village, Place Desormeaux, and Evergreen Shopping Centre properties were acquired subsequent to September 30, 2010. The operating results of these properties have been excluded from the same properties net operating income data below for the three months ended September 30, 2011.

Three months ended	September 30, 2011	September 30, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	\$ 4,138,601	\$ 4,047,910	\$ 90,691
Property operating expenses	(714,185)	(753,361)	39,176
Realty taxes	(758,504)	(745,471)	(13,033)
Property management fees	(69,025)	(95,736)	26,711
	2,596,887	2,453,342	143,545
Amortization of tenant costs	33,962	45,177	(11,215)
Net operating income	\$ 2,630,849	\$ 2,498,519	\$ 132,330

NOI from same properties for the three months ended September 30, 2011 are consistent compared to the same period in 2010, resulting in an increase in NOI of \$132,000 (5%). Revenues from same properties increased by 2% during the third quarter of 2011 compared to the same period in 2010. The remaining 3% increase in same property NOI is a result of various favourable variances on property operating costs. As the REIT has recently brought the majority of the property accounting function in-house, property management fees have decreased for same properties during the three months ended September 30, 2011 compared to the same prior year period as a result of renegotiating external property management agreements for reduced rates.

Nine months ended	September 30, 2011	September 30, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	\$ 12,412,867	\$ 12,134,842	\$ 278,025
Property operating expenses	(2,119,569)	(2,081,015)	(38,554)
Realty taxes	(2,613,218)	(2,547,091)	(66,127)
Property management fees	(298,372)	(301,126)	2,754
	7,381,708	7,205,610	176,098
Amortization of tenant costs	128,199	120,221	7,978
Net operating income	\$ 7,509,907	\$ 7,325,831	\$ 184,076

NOI from same properties for the nine months ended September 30, 2011 are consistent from the same period in 2010, resulting in an increase of \$184,000 (3%). Increases in revenues during this period over same prior year period are mainly a result of a net increase in rents from month to month tenant's at Mega Centre of \$140,000, an increase of \$63,000 at the Chateauguay property from straight-line rents from the Superclub and Dooley's tenant's plus increased base rents of \$66,000 from the Pharmaprix tenant who began leasing March 2010, and a total increase of \$175,000 in revenues at Place Val Est due largely to common area recovery increases of \$60,000 at the Place Val Est property due mainly to snow removal costs that exceed budget, and \$90,000 in additional base rents from new tenant, Rossy which began leasing September 2010. These revenue increases were offset by a net revenue decrease of \$178,000 at the Cornwall property from smaller tenant's either leaving the centre or negotiating leases as percent rent in lieu of base rent.

All Properties NOI

The REIT completed ten acquisitions since September 30, 2010 as follows:

The REIT's acquisition of Wellington Southdale Plaza closed on December 22, 2010. This property, located in Ontario, contains 86,629 of gross leasable area with a weighted average base rent per square of \$19.72 and is anchored by Empire Theatres. This acquisition is expected to add \$1.6 million to the REIT's annualized net operating income.

On March 17, 2011 the REIT acquired the SDM properties; five of the properties are situated in Manitoba and one in Gatineau, Québec. In aggregate the properties add a gross leasable area of 104,335 to the REIT's portfolio, with a weighted average base rent of \$22.89 per square foot. This acquisition is expected to add \$2.3 million to the REIT's annualized net operating income.

On May 16, 2011, the REIT completed an acquisition of the majority of the retail units in Centuria Urban Village, a food and drug store anchored mixed-use retail and high-rise residential property located in Kelowna, British Columbia, for an aggregate cost of \$9.4 million. The acquisition will contribute approximately \$650,000 to the REIT's NOI on an annualized basis.

On August 31, 2011, the REIT completed the acquisition of Place Desormeaux, a 250,000 square foot enclosed mall in Longueuil, Quebec. The centre offers the opportunity to enhance income through the expansion of existing tenants and the development of three new retail pad sites. The property currently generates rental income, net of property operating expenses, of approximately \$2.4 million on an annualized basis, and management expects it will contribute approximately \$600,000 in incremental annualized income, after interest expense.

On September 1, 2011, the REIT acquired Evergreen Shopping Centre, a five building 88,200 square foot open-air shopping centre in Sooke, British Columbia approximately 37 kilometers west of Victoria. The property is anchored by Western Foods grocery store, a newly constructed Shoppers Drug Mart, a BC Liquor outlet, and a Royal Bank branch. The property currently generates rental income, net of property operating expenses, of approximately \$1.2 million on an annualized basis and management expects it will contribute approximately \$400,000 after interest expense in incremental annualized net income.

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

Three months ended	September 30, 2011	September 30, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	\$ 6,157,707	\$ 4,047,910	\$ 2,109,797
Property operating expenses	(887,817)	(753,361)	(134,456)
Realty taxes	(1,058,972)	(745,471)	(313,501)
Property management fees	(108,923)	(95,736)	(13,187)
	4,101,995	2,453,342	1,648,653
Amortization of tenant costs	35,950	45,177	(9,227)
Net operating income	\$ 4,137,945	\$ 2,498,519	\$ 1,639,426

The increase in all properties NOI for the three months ended September 30, 2011 compared to the same period in 2010 of \$1.6 million (66%) is largely from a full quarter of operations from Wellington Southdale Plaza, the SDM properties, Centuria Urban Village, and one month of operations from Place Desormeaux and Evergreen Shopping Centre which contributed \$412,000 (10%), \$602,000 (15%), \$176,000 (4%), 231,000 (6%), and 86,000 (2%) respectively, to the REIT's NOI during the third quarter of 2011. The NOI contributions from properties acquired since September 30, 2010 represent a combined 92% of the increase in the REIT's NOI for the three months ended September 30, 2011 compared to the same prior year period. The remaining 8% increase in NOI is a result from minor increases from the Cornwall Square, Place Val Est, and Chateauguay properties, offset by minor decreases in the REIT's remaining properties.

Increases in the property operating expenses, realty taxes and property management fees for all properties during the three months ended September 30, 2011 are almost entirely a result of the REIT's recent acquisitions since September 30, 2010, noted above.

Nine months ended	September 30, 2011	September 30, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	\$ 16,695,709	\$ 12,134,842	\$ 4,560,867
Property operating expenses	(2,434,500)	(2,081,015)	(353,485)
Realty taxes	(3,189,594)	(2,547,091)	(642,503)
Property management fees	(399,305)	(301,126)	(98,179)
	10,672,310	7,205,610	3,466,700
Amortization of tenant costs	130,187	120,221	9,966
Net operating income	\$ 10,802,497	\$ 7,325,831	\$ 3,476,666

NOI for all properties for the nine months ended September 30, 2011 increased substantially by \$3.5 million (47%), over the same period in the prior year. This was the first full nine month period for net operating results from the REIT's recent acquisition of Wellington Southdale Plaza, which contributed to \$1.2 million (12%) of the NOI for the year to date period, and to 34% of the increase in NOI over the same period in the prior year. The REIT's acquisition of the SDM properties in March 2011 resulted in seven months of net operating income from these properties contributing \$1.4 million (13%) of the REIT's total NOI for all properties included in the nine month period ending September 30, 2011. The SDM NOI contributed to 40% to the increase in NOI all properties for the nine months ended September 30, 2011 over the same prior year period. The four and a half months of NOI contribution from the recent acquisition of the retail space at Centuria Urban Village to the year to date period ended September 30, 2011 was \$274,000, and accounts for 8% of the NOI increase over the same prior period. The one month of net operating activities from Place Desormeaux and Evergreen Shopping Centre combined contributed to 9% of the increase in NOI for the year to date period ending September 30, 2011 compared to the same prior year period. As a result, acquisitions since September 30, 2010 contributed to approximately 91% of the increase in the year to date NOI for all properties compared to the same period. The remaining 9% increase is from minor increases in Chateauguay, Place Val Est and Mega Centre properties, offset by a minor decrease in NOI from the Cornwall Square property.

Funds from Operations

A reconciliation of IFRS net income to FFO is as follows:

Three months ended	September 30, 2011	September 30, 2010	Change
Net income for the period	\$ 2,113,239	\$ 2,522,061	\$ (408,822)
Amortization of costs	216,981	123,623	93,358
Unit option compensation expense	11,000	-	11,000
Other transaction costs	34,810	61,667	(26,857)
Fair value gains	(1,113,602)	(1,767,038)	653,436
FFO	\$ 1,262,428	\$ 940,313	\$ 322,115
Weighted average units - basic	30,995,705	23,522,397	7,473,308
FFO per unit	\$ 0.04	\$ 0.04	

FFO increased by \$322,000 (34%) during the three months ended September 30, 2011 compared to the same period in 2010 primarily due to an increase in NOI of \$1.6 million which was offset by \$1.2 million in increases in financing costs excluding deferred financing cost amortization and \$116,000 in general and administrative expenses excluding non-cash employee unit option expenses, partially offset by a \$26,000 reduction in other transaction costs during the third quarter of 2011 compared to the same prior year period as discussed above.

The main increase in the REIT's financing costs before amortization of financing fees for the three months ended September 30, 2011 is from approximately \$723,000 in interest, on the \$28.75 million in 8% unsecured subordinated debentures that were issued at the end of the first quarter of 2011. The remainder of the increase in financing costs during this period is a result of the interest on debt secured to the Wellington Southdale Plaza property, Cornwall Square, SDM properties, Place Desormeaux, and Evergreen Shopping Centre of \$755,000 collectively. These increases were offset by a combined net reduction in financing costs on the REIT's bank credit facility and corporate secured debt of \$260,000, during the three months ended September 30, 2011 over the same year prior.

Nine months ended	September 30, 2011	September 30, 2010	Change
Net income for the period	\$ 4,192,601	\$ 2,122,821	\$ 2,069,780
Amortization of costs	619,074	326,837	292,237
Unit option compensation expense	44,000	-	44,000
Other transaction costs	313,978	865,556	(551,578)
Fair value gains	(1,567,494)	(712,776)	(854,718)
FFO	\$ 3,602,159	\$ 2,602,438	\$ 999,721
Weighted average units - basic	30,961,660	20,198,941	10,762,719
FFO per unit	\$ 0.12	\$ 0.13	

FFO increased by \$1 million (38%) during the nine months ended September 30, 2011 compared to the same period in 2010 primarily due to an increase in NOI of \$3.5 million which was offset by increases in financing costs, excluding amortization of deferred financing fees \$2 million and in general and administrative expenses of \$438,000 during the nine months ended September 30, 2011 compared to the same prior year period.

The main increase in the REIT's financing costs for the nine months ended September 30, 2011 is from \$1.3 million in interest on the \$28.75 million in 8% unsecured subordinated debentures that were issued at the end of the first quarter of 2011. The remainder of the increase in financing costs during this period is a result of the interest on debt secured to the Wellington Southdale Plaza, Cornwall Square, SDM properties, Place Desormeaux and Evergreen Shopping Centre properties of \$1.8 million collectively. Increases in financing costs were offset by a combined net reduction in financing costs on the REIT's bank credit facility and corporate secured debt of \$1.1 million, during the nine months ended September 30, 2011 over the same prior year period.

As noted previously, increases in general and administrative expenses of the REIT during the nine month period ending September 30, 2011 over the same prior year period are from an increase in audit and accounting fees of \$110,000, increases in asset management fees of \$182,000, increases travel fees of \$41,000, an increase of \$44,000 in unit-based compensation with regard to unit options issued February 2011, and \$61,000 increase in consulting, legal and other professional fees. The unit-based compensation is excluded in FFO calculations, as these transactions are non-cash.

During the three months ended September 30, 2011, the 34% increase in FFO was offset by an increase in the weighted average units of 32% compared to the same prior year period. As a result FFO per unit for the three months ended September 30, 2011 remained consistent at \$0.04, compared to the same period in prior year.

For the nine months ended September 30, 2011, the FFO, the increase of 38% in FFO was more than offset by the 53% increase in the weighted average number of units, resulting in a \$0.01 decrease in FFO per unit for the nine month period, compared to the same period in the prior year. Weighted average units increased due to the completion of the REIT's rights offering at the end of July 2010 and again upon the public unit offering in December 2010.

FINANCIAL POSITION ANALYSIS

Statement of Financial Position – Total Assets

As at	September 30, 2011	December 31, 2010
Income producing properties	\$ 250,349,826	\$ 155,907,020
Deferred financing costs	-	68,899
Other assets	3,273,124	3,291,985
Accounts receivable	973,103	268,699
Cash	1,890,670	6,869,242
Total assets	\$ 256,486,723	\$ 166,405,845

Income producing properties

As a result of the REIT's transition to IFRS and its election to use the fair value model in accordance with IAS 40, 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 during the reporting period are included in profit and loss in the period in which they arise.

As at January 1, 2010 and December 31, 2010, all of the REIT's properties were appraised by an external valuation company. The fair value of income producing properties as at September 30, 2011 was determined internally by management updating the data and assumptions used by the external valuation professionals for changes that occurred between January 1, 2011 and September 30, 2011. Further discussion regarding the valuation technique used to determine the fair value of income producing properties can be found in Part II above.

The increase of \$94 million in income producing properties at September 30, 2011 over December 31, 2010 is primarily due to the purchases of the SDM properties for \$33 million, Centuria Urban Village for \$9.4 million, Place Desormeaux for \$33 million, and Evergreen Shopping Centre for \$16.1 million; capitalized improvements to income producing properties of \$719,000; expenditures on tenant incentives and direct leasing costs of \$431,000; and fair value gains of \$1.4 million recognized upon valuation of the income producing properties as at September 30, 2011.

There weren't any income producing property dispositions during the nine months ended September 30, 2011 or 2010.

Deferred financing costs

Deferred financing costs consist of financing fees incurred to renew the bank credit facility, net of amortization. The deferred financing costs are amortized over the renewal periods of the bank credit facility to financing costs in the statements of comprehensive income. The change from December 31, 2010 to September 30, 2011 is solely due to amortization recognized in the period.

Other assets

Other assets are comprised mainly of prepaid realty taxes and insurance, deposits on acquisitions, amounts held in escrow and other prepaid expenses. Although the balances as at September 30, 2011 and December 31, 2010 are quite similar, the composition of the balances is materially different.

Other assets of \$3.3 million at September 30, 2011 include prepaid realty taxes and insurance of \$1.3 million, deposits on acquisitions of \$0.2 million, amounts held in escrow of \$1.4 million and other prepaid expenses of \$0.4 million. However, other assets as at December 31, 2010 amounting to \$3.3 million include prepaid realty taxes of \$0.3 million, deposits on acquisition of \$2.7 million, amounts held in escrow of \$0.1 million and other prepaid expenses of \$0.2 million.

The increase in the prepaid realty taxes as at September 30, 2011 over December 31, 2010 of \$1.0 million is a combination of the timing difference in recognizing the prepaid in expenses, and the REIT has 10 additional

properties upon which realty taxes have been prepaid. The decrease in the deposits on acquisitions of \$2.5 million is that the December 31, 2010 balance included a deposit of \$2.5 million on a potential acquisition. As of the nine months ended September 30, 2011, the acquisition was no longer pursued and the deposit was returned to the REIT. Amounts held in escrow are \$1.3 million higher as at September 30, 2011 over December 31, 2010. The difference relates to the acquisition of Place Desormeaux, whereby a restricted fund was set up to fund future capital expenditures on the property.

Accounts receivable

Accounts receivable increased by \$704,000 from December 31, 2010 to September 30, 2011. The increase in accounts receivable is primarily due to: unbilled property tax recoveries of \$120,000 relating to two tenants at Place Val Est; \$220,000 in tenant receivables from Place Desormeaux that were collected subsequent to quarter end; \$50,000 in tenant receivables relating to Wellington Southdale and Evergreen Shopping Centre, of which \$44,000 remains outstanding subsequent to quarter end; \$265,000 in tenant receivables from Mega Centre which relates to one tenant that has been underpaying rent for over a year and for which the REIT has recorded an allowance for doubtful accounts of \$170,000; and \$180,000 in tenant receivables related to the Cornwall property, comprised of percent rent that is collectible subsequent to the quarter end, and one tenant that we are confident that the amount will be collected. The REIT recorded an additional allowance for doubtful accounts of \$90,000 for the third quarter ended September 30, 2011 to reflect the amount that was deemed uncollectible. Accounts receivable are recorded net of allowances for doubtful accounts of \$160,000 (December 31, 2010 - \$41,000).

Cash

The REIT does have cash restrictions in the amount of \$1.4 million that is held in escrow. Please refer to “*Other assets*” above for a more detailed account of amounts held in escrow.

Capital

The REIT’s capital consists of debt and equity capital. The REIT actively manages both its debt and equity capital with the objective of ensuring that the REIT can continue to grow and operate its business.

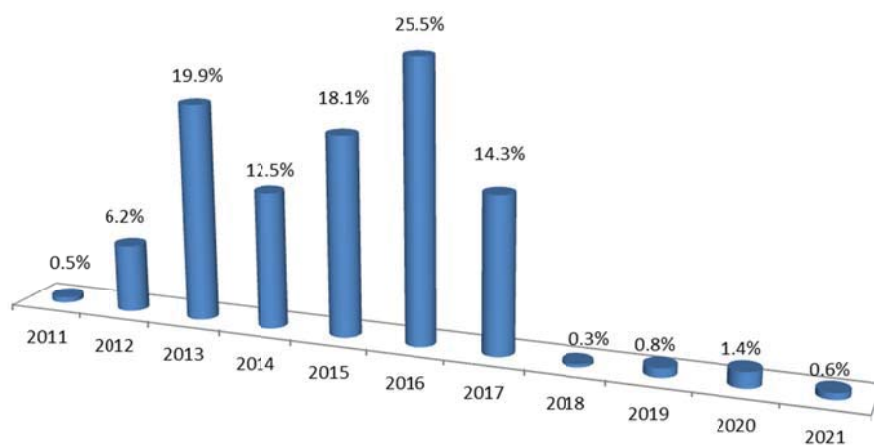
Real estate is a capital intensive industry. As a result, debt capital in particular, is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Given the importance of debt capital, the REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. The REIT is in compliance with all of its loan covenants as at the date of this MD&A.

The following table shows the REIT’s capital as at September 30, 2011 and December 31, 2010:

As at	September 30, 2011	December 31, 2010
Mortgages payable	\$ 165,220,332	\$ 107,086,727
Debentures	26,693,521	-
Unitholders’ equity	53,520,123	53,860,348
Total capital	\$ 245,350,976	\$ 160,947,075

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at September 30, 2011:



The primary contributor of the debt maturing in 2016 is the \$28.75 million debentures.

Subsequent to September 30, 2011, the REIT refinanced the only loan that was set to expire in 2012. The new loan matures in 2016.

Interest coverage and debt service coverage ratios are as follows:

For the quarter ended	September 30, 2011	September 30, 2010
Interest coverage ratio ⁽¹⁾	1.65	1.67
Debt service coverage ratio ⁽²⁾	1.26	1.36

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

(2) Debt service coverage ratio 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).

For the four quarters ended September 30, 2011 the REIT's interest coverage ratio decreased over the four quarters ended September 30, 2010 due to additional mortgages undertaken since September 30, 2010. The debt service coverage ratio for the four quarters ended September 30, 2011 compared to the four quarters ended September 30, 2010 decreased from 1.36 to 1.26 as a result of increased debt issued in December 2010 and that there was a greater proportion of debt raised than equity since September 30, 2010.

Mortgages Payable

The REIT's current average term to maturity on mortgages payable (excluding the debentures and bank credit facility discussed below in more detail) is approximately four years, and the weighted average contractual interest rate is 5.46%.

Future principal repayments on the secured debt (including mortgages payable and corporate secured debt but excluding the bank credit facility and debentures) are as follows for the remainder of 2011 to 2015 and thereafter:

Year	Principal installment payments	Principal maturing	Total	W.A. Contractual rate on debt maturing
2011	\$ 970,970	\$ -	\$ 970,970	
2012	3,999,643	8,014,133	12,013,776	5.39%
2013	3,900,522	34,527,933	38,428,455	7.12%
2014	3,491,096	20,609,472	24,100,568	4.05%
2015	2,851,664	32,267,407	35,119,071	5.08%
Thereafter	3,921,853	50,257,136	54,178,989	5.24%
Total	\$ 19,135,748	\$ 145,676,081	\$ 164,811,829	5.46%

The REIT's objective in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate the risk of short-term volatilities in the debt markets. The REIT has conventional first mortgages on all of its properties except for Centuria Urban Village.

During the nine months ended September 30, 2011 the following mortgages were obtained:

In September 2011, upon the acquisition of Evergreen Shopping Centre, the REIT acquired a first mortgage on the property for a total of \$10.5 million. The loan matures in October 2016, has a contractual interest rate of 3.80% per annum, and has an amortization period of 25 years.

In August 2011, upon the acquisition of Place Desormeaux, the REIT acquired a first mortgage on the property for a total of \$23.0 million. The loan matures in October 2014, has a contractual interest rate of 4.05% per annum, and has an amortization period of 20 years.

In September 2011, the REIT obtained a revolving loan facility for \$13.5 million secured against the Partners REIT portfolio of properties with a floating interest rate equal to the greater of 9.00% or the TD Canada Trust Posted Bank Prime Rate of Interest plus 4.00%. The revolving loan facility also included a funding fee, whereby the lender received 2,500,000 unit purchase warrants to purchase 2,500,000 Partners REIT units. Each whole warrant entitles the lender to receive one Partners REIT unit at \$1.80 per Partners REIT unit for a term of three years from the interest adjustment date (September 1, 2011) of the loan.

In July 2011, the REIT obtained a second mortgage in the amount of \$4 million secured by five Shoppers Drug Mart properties located in Manitoba. It is an interest only loan maturing April 30, 2013 and bears interest at a floating rate of Royal Bank prime plus 4.00%.

On the acquisition of the SDM properties, the REIT assumed the first mortgages on each of the six properties for a total of \$17.2 million. The mortgages are secured by the properties and have a weighted average interest rate, adjusted to market, of 4.9% per annum. The mortgages mature between 2015 and 2021. The REIT capitalized approximately \$172,000 in financing costs associated with assuming the mortgages, and recorded an interest differential of \$1.5 million as the assumed mortgages were accompanied by contractual interest rates greater than those available to the REIT at the time of acquisition.

Debentures

On March 8, 2011 the REIT closed its public offering of \$25 million in aggregate principal amount of 8.0% extendible convertible unsecured subordinated debentures, and on March 15, 2011 closed the overallotment option of the public offering for an additional \$3.75 million of similar debt, for a total issuance of \$28.75 million aggregate principal amount. The debentures bear interest at an annual rate of 8% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011. The debentures mature on March 31, 2016.

The debentures are convertible into units of the REIT at the option of the holder at any time on the earlier of the maturity date, or the date fixed for redemption of the debentures at a conversion price of \$2.20 per unit.

The cost to issue the debentures was \$2.1 million, and is netted against the debentures on the statement of financial position and will be amortized over the term of the debentures.

Corporate Secured Debt

At September 30, 2011 the REIT did not have any corporate secured debt outstanding (December 31, 2010 - \$8.6 million; January 1, 2010 - \$10.0 million). The original \$10.0 million comprised of two facilities (the "Facilities").

During the three months ended March 31, 2011, the first facility was repaid, without penalty, from proceeds of new debt, maturing in 2016. It consisted of an \$8.6 million five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The second facility was repaid, without penalty, during the year ended December 31, 2010. It consisted of a \$1.4 million five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The Facilities required that the REIT maintain an overall debt-to-gross book value ratio of no more than 75% and were secured by: (a) a first charge on the REIT's three Rona properties located near Exeter, Seaforth and Zurich, Ontario; (b) second charges on the Méga Centre property, the Châteauguay property and the Canadian Tire properties; and (c) a general security agreement relating to the above properties.

Bank Credit Facility

The REIT has a revolving operating and acquisition facility (the "Acquisition Facility") with a Canadian chartered bank. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests (including a loan-to-value ratio). The amount available to be drawn upon is calculated based on the value of a property that has been specified under the agreement. As at September 30, 2011, the REIT specified the Centuria Urban Village property as security for this facility, providing a maximum facility amount of \$5.8 million. During 2010, the Acquisition Facility was secured by the REIT's Cornwall Square shopping centre, providing a maximum amount of up to \$26.0 million. At September 30, 2011 there was \$5.7 million outstanding under the Acquisition Facility (December 31, 2010 – nil).

On May 16, 2011, the Acquisition Facility was renewed and the interest rate was revised to the Bank's prime rate plus 2.25% per annum or the Banker's Acceptance stamping fee plus 3.25% per annum. Prior to May 16, 2011, amounts drawn under the Acquisition Facility incurred interest at a rate equal to the Bank's prime rate plus 3.50% per annum or the Banker's Acceptance stamping fee plus 4.50% per annum.

The Acquisition Facility contains financial covenants with respect to maintaining a debt-to-gross book value ratio of no more than 75% as well as other tests customary for this type of facility.

Financing Costs

Financing costs represent commitment fees and other fees paid in connection with securing mortgages and corporate secured debt.

The unamortized balance of financing costs as at September 30, 2011 was \$1.6 million, which is \$0.8 million higher than the December 31, 2010 year-end balance of \$0.8 million. The increase in the unamortized financing costs as at September 30, 2011 is due to the incurrence of various fees paid to assume mortgages, acquire new mortgages, and refinance existing mortgages. The REIT incurred, year-to-date September 30, 2011, \$1.2 million in mortgage fees, brokerage fees, legal fees, processing fees and commitment fees. All of these costs are associated with the acquisition of the SDM properties, Evergreen Shopping Centre, Place Desormeaux, and the refinancing of Châteauguay and the second mortgage on five SDM properties. Offsetting the increase in financing costs for the nine months ending September 30, 2011 is the accelerated and normal amortization of deferred financing costs of approximately \$480,000. The unamortized portion of the financing costs is netted against the secured debt on the statements of financial position.

The unamortized balance of financing costs that relate to the bank credit facility for the quarter ended September 30, 2011 is \$55,000 (December 31, 2010 - \$69,000) and these costs are netted against the related facility.

Debt-to-Gross Book Value

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; however, the REIT's bank credit facility and corporate secured debt impose a restriction on the REIT's debt-to-gross book value ratio, being a maximum of 75%. At September 30, 2011 the REIT has a debt-to-gross book value ratio of 73.3% (December 31, 2010 – 55.0%; January 1, 2010 – 56.1%), calculated as follows:

As at	September 30, 2011	December 31, 2010	January 1, 2010
Debt			
Secured debt	\$ 164,614,829	\$ 98,548,141	\$ 62,253,090
Debentures, excluding fair value of convertible feature	27,950,000	-	-
Bank credit facility	5,700,000	-	20,500,000
	\$ 198,264,829	\$ 98,548,141	\$ 82,753,090
Gross Book Value of Assets			
Original cost of income producing properties ⁽²⁾	\$ 260,992,425	\$ 167,837,271	\$ 145,094,494
Book value of all other assets	6,136,897	10,429,926	1,678,782
Deferred financing fees	3,523,433	847,695	721,255
	\$ 270,652,755	\$ 179,114,892	\$ 147,494,531
Debt-to-Gross Book Value	73.3%	55.0%	56.1%

⁽¹⁾ debt capital refers to secured debt, debenture and bank credit facility excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.

⁽²⁾ Original cost of income producing properties represents the historical costs incurred to acquire the REIT's properties.

Subsequent to the completion of the of the acquisition agreement with NorRock, the gross book value of the assets is anticipated to increase from \$270,652,755 to \$323,370,323 (the original cost of income producing properties plus book value of all other assets as at September 30, 2011). Thus, the debt-to-gross book value ratio is anticipated to decrease from 73.3% to 61.3%.

Unitholders' Equity

In the three months ended September 30, 2011 unitholders' equity is consistent with unitholders' equity as at December 31, 2010.

The REIT currently makes monthly cash distributions of \$0.01333 per unit, representing an annualized distribution of \$0.16 per unit. The REIT's trustees have discretion in declaring distributions and review the distributions on a regular basis.

For further discussion about the REIT's distribution, see "Liquidity Requirements" below. The REIT issues equity when it is available and appropriate to replenish cash for acquisitions or other uses. The REIT has access to a bank credit facility to fund the equity portion of acquisitions as well as to fund general working capital requirements between capital raises, when required.

LIQUIDITY REQUIREMENTS

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT's bank credit facility. Debt repayment obligations 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 – although between capital raises, the REIT may use its bank credit facility to fund the equity portion of property acquisitions.

The REIT's FFO for the three months ended September 30, 2011 was sufficient to cover cash distributions due to the increase in NOI as a result of the acquisition of the SDM properties, Centuria Urban Village, Place Desormeaux, and Evergreen Shopping Centre. With the deployment of cash on hand and the full impact of the purchase of the SDM properties and Centuria Urban Village, management expects FFO to continue to be sufficient to cover cash distributions on a going forward basis. For the three and nine months ended September 30, 2011, the REIT's payout ratio is 98% and 103% of FFO respectively and the cash payout ratio is 92% and 97% of FFO. In comparison to the prior year, for the three and nine months ended September 30, 2010, the REIT's payout ratio is 118% and 103% of FFO respectively and the cash payout ratio is 99% and 91% of FFO.

Payout ratio and cash payout ratio are non-IFRS measures. Payout ratio is the total distributions expressed as a percentage of FFO. Cash payout ratio is the total distributions paid out in cash during the period (this excludes DRIP distributions, as unitholders enrolled in the DRIP receive units, not cash distributions) expressed as a percentage of FFO. Readers are cautioned that these measures may not be comparable to financial measures with similar captions reported by other issuers.

RELATED PARTY TRANSACTIONS

Pursuant to the REIT's management agreement with IGW Public's subsidiary, League Global Asset Management Corp ("LAPP"), LAPP provides the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and an acquisition fee equal to 0.50% of the "property cost" of each property acquired by the REIT. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, and plus the add back of accumulated amortization of deferred costs.

The initial term of the management agreement is for a three year period, expiring on June 3, 2013. Upon expiry of the initial term, the management agreement will renew automatically for successive three year terms, unless terminated in accordance with its terms. The management agreement may be terminated if the independent trustees make the decision to employ individuals directly by the REIT rather than by LAPP, where the independent trustees determine the cost of doing so would be less on an annual basis than the fees paid to LAPP under the management agreement. The management agreement provides each party with termination rights, the exercise of which may, in certain situations, require the REIT to pay a termination fee equal to two times the annual management fee paid in respect of the last full calendar year prior to the date of termination.

In accordance with the management agreement, LAPP is providing the services of certain executives, consultants and other employees to the REIT. As the REIT grows, LAPP will provide additional executives to the REIT in order to fulfill its obligations under the management agreement as recommended by the trustees and agreed to by the trustees and LAPP. All costs associated with the executives and personnel shall be borne by LAPP. In accordance with the terms of the management agreement, LAPP is required to consult with the independent trustees with regard to compensation decisions for executives who devote substantially all of their time to the business of the REIT. In the event that any executive providing services to the REIT ceases to do so for any reason, LAPP will replace such individual with another employee with similar qualifications and experience.

Under the terms of the current management agreement, the REIT paid the following fees to the Manager for the quarter ended September 30, 2011: \$251,668 in asset management fees and \$240,250 in acquisition fees. Amounts owing to the Manager as at September 30, 2011 are \$504,509. These amounts have been classified in accounts payable and other liabilities, and consist of outstanding asset management fees, acquisition fees and net reimbursements payable. Subsequent to September 30, 2011, all amounts owing to the manager and related parties have been paid in full.

PART VI – RISKS AND UNCERTAINTIES

Income producing properties are inherently subject to certain risks and uncertainties due to their relative illiquidity and long term nature of the investment. Partners REIT's financial results, are therefore, dependent on the performance of our properties and by various external factors that impact our sector and geographic markets in which we operate. Some of the external factors that we are exposed to include fluctuations in interest and inflation rates; access to debt; fulfilling legal and regulatory requirements; and expansion or contraction in the economy as a whole.

Partners REIT's current business strategy is to focus on acquiring and managing a portfolio of retail and mixed-use retail community and neighbourhood centres, in both primary and secondary markets throughout Canada; and that generate stable cash flows over the long term. The quality of our current portfolio, we believe, provides the leverage we need to grow our business in new markets and acquire high performing properties. We believe this strategy will enable our operations to achieve highly sustainable cash flows.

The following is an examination of the key factors that influence our operations. A more detailed description of our risk factors is contained in the REIT's Annual Information Form.

INDUSTRY RISK

The REIT operates in the Canadian commercial and retail markets and is dependent on access to financing. Fluctuations in real estate market values and general industry and economic circumstances affect the amount that can be borrowed and the terms and conditions under which funds are available. This may limit the REIT's ability to execute its operating and growth plans. Partners REIT manages this risk by maintaining sufficient resources to meet its obligations without undue risk to the REIT.

INTEREST RATE AND FINANCING RISK

The REIT attempts to stagger the maturities of its debt portfolio evenly over a ten year time horizon in order to effectively manage both interest rate and liquidity risks.

We have an on-going 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. Our strategy of staggering the maturities of our debt portfolio attempts to limit our exposure to excessive amounts of debt maturing in any one year.

There is interest rate risk associated with the REIT's bank credit facility since the interest rate is impacted by changes in the bank rate. There is also interest rate risk associated with the REIT's fixed interest rate and term mortgages and unsecured debentures due to the expected requirement to refinance such debts in the year of maturity. The following table outlines the impact to the REIT's annual net income if interest rates at September 30, 2011 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 on Interest Expense per Unit per Annum
Bank credit facility	\$ 56,000	\$ 0.001
Mortgages payable	129,800	0.004
Debentures	-	-

Partners REIT's strategy to mitigate interest rate price risk for its fixed rate mortgages is to enter into interest rate swap arrangements when deemed necessary. As at September 30, 2011, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

Finally, we are of the opinion that all debt can be extended, renewed, or refinanced as they become due.

CREDIT RISK

Credit risk arises primarily from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, and by ensuring its tenant mix is diversified by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2011 relates to the carrying value of the accounts receivable balance without taking into consideration any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from tenants.

The REIT establishes an allowance for doubtful accounts that represents the estimated loss in respect of rents receivable. The amount that comprises the allowance is determined on a tenant by tenant basis based on the specific factors related to the tenant.

For cash and cash equivalents, accounts receivable and other short term assets, Partners REIT's credit risk is limited to the carrying value on the statements of financial position. To reduce credit risk, cash and cash equivalents are only held at major financial institutions.

The REIT is not a lender of financing and is not exposed to credit risk associated with this function.

LIQUIDITY RISK

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they become due, not having sufficient debt and equity capital available to fund future growth, and/or refinance debts as they mature. Liquidity risk also arises when the REIT is not able to obtain financing or refinancing on favourable terms.

The REIT's approach to managing its obligations is to maintain sufficient resources to meet its obligations when due without undue risk or recourse to the REIT.

The REIT's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance and improvements, leasing costs, distributions, and property acquisition funding requirements.

These liquidity needs are funded from cash flows from operations or the bank credit facility, with the exception of debt repayment obligations at maturity and property acquisitions. Debt repayment obligations are generally funded from refinancing the related debt; and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its bank credit facility to fund the equity portion of property acquisitions.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and the perceived desirability of such investments. Such illiquidity may limit Partners REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Partners REIT was required to liquidate a real property investment, the proceeds to Partners REIT might be significantly less than the aggregate carrying value of such property.

ENVIRONMENTAL RISKS

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 Partners REIT's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against us. We are not aware of any material non-compliance with environmental laws or regulations at any of our properties, or of any pending or threatened actions, investigations or claims against Partners REIT relating to environmental matters.

We will continue to make capital and operating expenditures that are necessary to ensure that we are compliant with environmental laws and regulations. At this time, we do not believe that these costs will have a materially adverse impact on our business or financial results. We understand that environmental laws and regulations are subject to change and our financial liabilities can be adversely impacted if the laws and regulations become more rigorous.

TAXATION

Partners REIT is a mutual fund trust by definition under the Income Tax Act (the "Tax Act"). The distributions made during 2011 are expected to be tax deferred and, therefore, would not be included in the income of a unitholder for tax purposes. Instead, the distributions would reduce the adjusted cost base of the unitholder's units. Also, as currently structured, management believes that the REIT qualifies as a "real estate investment trust" under the SIFT rules of the Tax Act. Under the SIFT rules, certain distributions to investors from certain publicly listed or traded trusts and partnerships, other than real estate investment trusts, will be subject to tax at a rate that is equivalent to the general tax rate applicable to Canadian corporations and will be taxed in the hands of the unitholders as though they were a dividend from a taxable Canadian corporation. The result is that trusts and partnerships that are subject to the SIFT rules will be taxed in a similar manner to corporations and their investors will be taxed in a manner similar to investors in a corporation. The SIFT rules became applicable in the 2007 taxation year. The SIFT rules do not apply to certain trusts that qualify as real estate investment trusts. Should it be found that the REIT fails to qualify as a real estate investment trust or that the REIT undertakes subsequent activities that cause it to fail to qualify as a real estate investment trust, the REIT will become subject to the SIFT rules in that taxation year.

PART VII – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

The REIT adopted IFRS as the basis of financial reporting effective for the first quarter of 2011 with the restatement of comparative periods, using a transition date of January 1, 2010. The impact of adopting IFRS on our financial position and results of operations are discussed in Part II of this MD&A. Furthermore, the significant accounting policies applicable to the REIT under IFRS are provided for in Note 2 to the condensed consolidated financial statements included in this report. Note 3 of the condensed consolidated financial statements include reconciliations of our equity, net income and comprehensive income as reported under Canadian GAAP and IFRS.

FUTURE ACCOUNTING POLICY CHANGES

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

Financial instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by IASB in October 2010 and will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Consolidated Financial Statements

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10") builds on existing principals and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The REIT is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

Joint Arrangements

IFRS 11 – *Joint Arrangements* ("IFRS 11") establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 11 on its consolidated financial statements.

Disclosure of Interests in Other Entities

IFRS 12 – *Disclosure of Interests in Other Entities* (“IFRS 12”) provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurement

IFRS 13 – *Fair Value Measurement* (“IFRS 13”) defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 13 on its consolidated financial statements.

Employee Benefits

IAS 19 – *Employee Benefits* (“IAS 19”) eliminates the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Retrospective application is required with certain exceptions. IAS 19 is effective for annual periods beginning on or after January 1, 2013. IAS 19 does not have any impact on the REIT’s consolidated financial statements.

Separate Financial Statements

IAS 27 – *Separate Financial Statements* (“IAS 27”) provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements. It will not have any impact on the REIT’s consolidated financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013.

Investments in Associates and Joint Ventures

IAS 28 – *Investments in Associates and Joint Ventures* (“IAS 28”) is a revision of the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IAS 28 on its consolidated financial statements.

Presentation of Financial Statements

IAS 1 – *Presentation of Financial Statements* (“IAS 1”) provides guidance on the presentation of items contained in other comprehensive income (“OCI”) and their classification within OCI. Retrospective application is required. IAS 1 is effective for annual periods beginning on or after July 1, 2012. The REIT is currently evaluating the impact to the consolidated financial statements as a result of adopting this standard.

Financial Instruments: Disclosures, Amendment Regarding Disclosures on Transfer of Financial Assets

IFRS 7 – *Financial Instruments: Disclosures* (“IFRS 7”) requires that the REIT provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The REIT will start the application of IFRS 7 in the financial statements effective from January 1, 2012. The REIT does not expect any impact to the consolidated financial statements as a result of adopting this standard.

Deferred Tax: Recovery of Underlying Assets

IAS 12 – *Income Taxes* (“IAS 12”) provides amendments that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40 – *Investment Property*. The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying amount of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The REIT does not expect any impact on its consolidated financial statements as a result of the amendment to IAS 12.

From time to time, the International Accounting Standards Board (“IASB”) issues new accounting standards and

CRITICAL ACCOUNTING POLICIES

Our critical accounting policies are those we believe are the most important in portraying our financial condition and results, and which require the most substantive judgment and estimates on the part of management.

The preparation of financial statements requires certain estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The REIT’s significant accounting policies are described in Note 2 to the condensed consolidated financial statements for the nine months ended September 30, 2011. Management believes that the following policies are those most subject to estimation and judgement.

Income Producing Properties

Income producing properties fall within the definition of investment properties under IAS 40 and consist of commercial retail properties held to earn rental income and properties that are being constructed, developed, or redeveloped for future use as income producing properties. Management must assess whether the acquisition of property through the purchase of a corporate vehicle, or directly should be accounted for as an asset purchase or a business combination. Where the acquisition contains significant assets, liabilities or activities in addition to property and related mortgage debt, particularly where there is an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs or other economic benefits, the transaction is accounted for as a business combination. More specifically, consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided. Where there are no such items, the transaction is treated as an asset acquisition.

Commercial retail properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized as investment property. Costs that are directly attributable to investment properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and borrowing costs directly attributable to the development.

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

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

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

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

Revenue Recognition

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

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

Financial Instruments

We classify our financial instruments into categories based on the purpose for which the instrument was acquired or issued, its underlying characteristics, and our designation of the instrument. The category into which we classify the financial instruments determines its measurement basis subsequent to initial recognition.

The following summarizes the REIT's classification and measurement of its financial assets:

Financial Asset	Classification	Measurement
Other assets	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost

The following summarizes the REIT's classification and measurement of its financial liabilities:

Financial liability	Classification	Measurement
Mortgages payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
Embedded derivatives	FVTPL	Fair value
Deferred unit-based compensation	FVTPL	Fair value
Bank credit facility	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

In determining the fair value of financial instruments, management must make estimates and assumptions with respect to current market interest rates, credit spreads and terms to maturity.

Embedded Derivatives – Convertible Feature on Debentures

Fair value of the convertible feature of the debenture was determined by applying a convertible bond pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and credit spread.

Embedded Derivatives – Partners REIT Unit Purchase Warrants

The Partners REIT unit purchase warrants were issued as a funding fee on the issuance of a corporate revolving loan. The fair value of the unit purchase warrants was determined by applying a binomial option pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield, as well as assumptions regarding option holder behaviours, such as risk aversion.

Deferred Unit-Based Compensation

Fair value of the options issued under the unit option plan was determined by applying a binomial option pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield, as well as assumptions regarding option holder behaviours, such as exit rates and risk aversion.

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the REIT and entities controlled by the REIT (its subsidiaries). Control exists where the REIT has the power, directly or indirectly, to govern the financial and operation policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Use of Estimates

The REIT makes estimates and assumptions that affect carried amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Our estimates are based on previous experience, results, and various other assumptions that are believed to be reasonable under the circumstances. The result of our ongoing evaluation of these estimates forms the basis for making judgements about the carrying values of the REIT's assets and liabilities, and the reported amounts of revenues and expenses that are not readily apparent from other sources. Consequently, actual results could differ from these estimates.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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. Management believes that the REIT's disclosure controls and procedures and internal controls over financial reporting as at September 30, 2011 were appropriately designed. However, management is not required to certify the design and evaluation of the REIT's disclosure controls and procedures or internal controls over financial reporting and have not completed such an evaluation. As well, inherent limitations on the ability of management to design and implement on a cost-effective basis, disclosure controls and procedures or internal controls over financial reporting for the REIT, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

There has not been any change in internal controls over financial reporting in the period that has materially affected, or is reasonably likely to materially affect the REIT's internal controls over financial reporting. For many of its properties the REIT has engaged the services of third-party property managers whose internal controls form part of the REIT's system of internal controls. The REIT has documented and continues to review those internal controls, reports and other documentation provided by the property managers as part of its internal control activities.

PART VIII – OUTLOOK

Management believes that there continues to be an improvement in the real estate market and the equity/capital markets in general. We expect that our growth will come primarily from:

- Continued organic growth from within the portfolio through scheduled rental increases in existing leases, lease renewals, and new leases; and
- Acquisitions intended to strengthen our position in our existing markets and to expand our holdings into additional geographic areas.

Partners REIT intends to continue to seek accretive acquisition opportunities that fit within our investment criteria. Our focus continues to be the enhancement of our portfolio mix. This will enable us to improve our occupancy levels through the active management and leasing of the portfolio. It will also enable us to grow our cash flows over the long term. Management remains focused on enhancing returns to unitholders by seeking new investment opportunities while actively managing our existing asset base.

We recognize that it is essential to position ourselves to take advantage of the growth that accompanies a recovering economic environment through same property rental income growth, redevelopment, and

acquisitions. Management believes that demand for retail space in Canada is on the rise. Leasing interest in Place Val Est has increased with the improvement of the Sudbury economy and the addition of the Rossy store will be a positive influence in the REIT's leasing efforts of the remaining space. Management believes that Méga Centre's location, transportation access, visibility and the surrounding community's demographics will enable us to improve its absorption in occupancy and stabilize our net operating income from the property. The addition of the Wellington Southdale property, with a 95.8% occupancy rate as of September 30, 2011 and the additions of the SDM properties and Centuria Urban Village, both with a 100% occupancy rate as of September 30, 2011, will provide stable cash flows. Evergreen Shopping Centre and Place Desormeaux have occupancy rates of 92.5% and 98.7%, respectively. The REIT is active in leasing up the vacant space at Evergreen Shopping Centre, and the REIT recently entered into an agreement with Wal-Mart for the transfer and assignment of the lease and space currently occupied by Zellers. This ensures that 81,000 square feet of space remains occupied until at least 2016, with nine consecutive five-year renewal options. Having Wal-Mart as a strong-anchor tenant at Place Desormeaux will provide strong cash-flow to the property.

Finally, Partners REIT will continue to monitor both the economy and real estate markets with a view to ensuring adequate access to new equity and debt that will enable the REIT to meet its existing operational requirements and maximize opportunities that may become available. Management also believes that it is essential to keep pace with changes in the retail environment and ongoing challenges presented by the global recession and European debt management problems.