



**MANAGEMENT'S DISCUSSION AND ANALYSIS  
SEPTEMBER 30, 2012**

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS**

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## FORWARD-LOOKING INFORMATION ADVISORY

This Management's Discussion and Analysis ("MD&A") to the unitholders may contain forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current beliefs and are based on assumptions and information currently available to management of Partners Real Estate Investment Trust ("Partners REIT" or the "REIT"). In some cases, forward-looking statements can be identified by terminology such as "may", "would", "could", "will", "expect", "anticipate", "believe", "intend", "plan", "forecast", "predict", "estimate", "outlook", "potential", "continue", "should", "likely", or the negative of these terms or other comparable terminology, and are not historical fact. Although management believes that the anticipated future results, performance or achievements expressed or implied by the forward-looking statements and information are based upon reasonable assumptions and expectations, the reader should not place undue reliance on forward-looking statements and information because they involve assumptions, known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of the REIT to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements and information.

In making the forward-looking statements in this MD&A, the REIT has applied material assumptions including, but not limited to, the assumption that: (1) commercial real estate markets continue to remain fluid, enabling the REIT to grow through acquisitions; (2) demand for vacant space at our British Columbia, Ontario and Québec properties will improve as a result of anticipated general and economic growth; (3) capital expenditures at Place Val Est will be on budget, on time and will contribute to the improvement in its occupancy rate; (4) there is continued responsiveness to raising funds through equity and debt markets; (5) the note receivable will be collected during 2012; and (6) the Proposed Amendment to the SIFT Rules under the Canadian Income Tax Act will be substantively enacted before the end of 2012. 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 flows and distributions; and other risks and factors described from time to time in the documents filed by the REIT. The REIT undertakes no obligation to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REIT's filings with securities regulators, including the REIT's Annual Information Form, which is available on [www.sedar.com](http://www.sedar.com).

These forward-looking statements are made as of November 8, 2012 and presents material information up to this date, unless otherwise noted.

## **PART I – OVERVIEW & FINANCIAL HIGHLIGHTS**

### **BASIS OF PRESENTATION**

Financial data included in this Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2012, includes material information up to November 8, 2012. Financial data provided has been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar references are in Canadian dollars.

The MD&A is intended to provide readers with an assessment of the performance of Partners REIT over the past nine months, as well as our financial position and future prospects. The MD&A should be read in conjunction with the condensed consolidated financial statements and appended notes for the three and nine months ended September 30, 2012, which begin after page 33 of this report. In our discussion of operating performance, we define net operating income ("NOI") as gross revenues from income producing properties less operating expenses (which excludes interest expense, general and administrative expenses, amortization, income taxes, and fair value gains/(losses)). We define funds from operations ("FFO") as net income before fair value gains or losses, depreciation and amortization, gains or losses from the sale of property, and certain other non-cash items; and adjusted for any non-controlling interests in the foregoing. Adjusted funds from operations ("AFFO") is defined as funds from operations net of actual leasing commissions, tenant improvements, capital expenditures that maintain the current rental operations, and straight-line rent. Net operating income is an important measure that we use to assess operating performance, and funds from operations is a widely used measure in analyzing real estate. Adjusted funds from operations is typically a measure used to assess an entity's ability to pay distributions. We provide the components of net operating income on page 16, and a reconciliation of net income to funds from operations and adjusted funds from operations on page 18. Net operating income, funds from operations, and adjusted funds from operations do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

### **CURRENT BUSINESS ENVIRONMENT AND OUTLOOK**

Partners REIT continues to execute on its acquisition initiatives when strategic opportunities are identified. Further, management continues to explore opportunities to reconfigure its portfolio through redevelopment, remerchandising and dispositions of properties that no longer align with its strategy.

Over the next two years, the REIT has approximately \$45.9 million of debt maturing which carries an average contractual interest rate of 5.14%. Refinancing at current market rates would reduce the REIT's cost of debt and would impact the REIT's earnings potential. Interest expense savings from refinancing at current market rates are anticipated to continue through 2012 and into the following year.

Management believes for the remainder of 2012 and for 2013, that there continues to be gradual 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 new 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 increase 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 the REIT to take advantage of the growth that accompanies a recovering economic environment through same property rental income growth, redevelopment, and acquisitions. Furthermore, 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 slower than anticipated global economic recovery.

The REIT's portfolio is performing as anticipated and management remains confident that there will be continued growth for the remainder of 2012 and for 2013 from contractual escalations in base rent, improved overall occupancy levels, and from accretive acquisitions.

## **OVERVIEW OF THE BUSINESS**

Partners REIT is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on May 11, 2012. The principal activity of Partners REIT is acquiring, developing, and operating commercial retail properties. The units of the REIT are listed on the Toronto Stock Exchange (the "TSX") as of April 3, 2012 and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

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 MD&A refer to Charter Real Estate Investment Trust prior to the name change.

Partners REIT's strategy for 2012 and beyond includes:

- the development of a retail asset base that is geographically diversified;
- the maintenance of strong relationships with third party property management;
- diligently working with existing and new tenants to stabilize or improve occupancy rates; and
- the acquisition of low cost capital to support our growing asset base.

The REIT's focus is on the acquisition and management of a portfolio of high quality 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. As at September 30, 2012, the REIT owned thirty retail and mixed-use retail properties located in Ontario, Québec, Manitoba, Alberta and British Columbia.

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.

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. As the portfolio becomes more accretive, over time, the REIT's goal is to provide a steady increase in cash distributions to its unitholders.

The REIT acquired the following nine properties during the nine months ended September 30, 2012:

	<b>Property Description</b>	<b>Property Type</b>	<b>Date Acquired</b>	<b>Square Footage</b>	<b>Acquisition Cost (\$ millions)</b>
1.	Plaza des Seigneurs, Terrebonne, Quebec	Shopping Centre	1-Feb-12	20,810	\$ 4.05
2.	Crossing Bridge Square, Stittsville, Ontario	Shopping Centre	14-Feb-12	45,913	11.20
3.	King George Square, Brantford, Ontario	Shopping Centre	14-Feb-12	67,054	16.40
4.	Manning Crossing, Edmonton, Alberta	Shopping Centre	14-Feb-12	64,525	20.90
5.	St. Clair Beach Towne Centre, Windsor, Ontario	Shopping Centre	14-Feb-12	40,088	11.60
6.	Thunder Centre, Thunder Bay, Ontario	Power Centre	14-Feb-12	168,059	38.20
7.	Quinte Crossroads, Belleville, Ontario	Power Centre	30-Mar-12	88,319	21.25
8.	Grand Bend Towne Centre, Grand Bend, Ontario	Shopping Centre	30-Apr-12	41,605	7.94
9.	Washington Park Shopping Centre Courtenay, BC	Shopping Centre	15-Jun-12	32,652	11.95
				569,025	\$ 143.49

The above acquisitions were funded by a new credit facility of \$14 million bearing interest at 3.6%; the acquisition of new and the assumption of existing mortgages totaling \$66.4 million, in aggregate, bearing effective interest rates between 3.58% and 4.43%; \$56.2 million in proceeds from the NorRock Transaction and a portion of the proceeds from the REIT's two public offerings (refer to Part III – Results of Operations under "Unitholders' Equity" for a description of the NorRock Transaction and the two public offerings). During the quarter ended September 30, 2012, proceeds from the REIT's public debenture offering were used to repay the credit facility and the REIT secured a new variable-rate, revolving credit facility in order to fund future acquisitions.

## FINANCIAL HIGHLIGHTS

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

Three months ended	As at and for the three months ended		As at and for the nine months ended	
	Sept. 30, 2012	Sept. 30, 2011	Sept. 30, 2012	Sept. 30, 2011
Revenues from income producing properties	\$ 11,195,642	\$ 6,157,707	\$ 31,575,199	\$ 16,695,709
Net income and comprehensive income	3,526,175	2,113,239	10,715,642	4,192,601
Net income per unit - basic & diluted	0.16	0.27	0.59	0.54
NOI <sup>(1)</sup>	7,576,746	4,137,945	20,714,126	10,802,497
NOI - same property <sup>(1)</sup>	3,935,186	3,820,901	8,892,514	8,772,970
FFO <sup>(1)</sup>	3,749,640	1,262,428	9,686,097	3,602,159
FFO per unit <sup>(1)</sup>	0.18	0.16	0.53	0.47
AFFO <sup>(1)</sup>	3,265,885	1,098,450	8,648,584	3,168,978
AFFO per unit <sup>(1)</sup>	0.15	0.14	0.48	0.41
Distributions <sup>(2)</sup>	3,433,006	1,243,624	8,867,778	3,722,820
Distributions per unit <sup>(2)</sup>	0.16	0.16	0.48	0.48
Cash distributions <sup>(3)</sup>	3,200,629	1,162,701	8,405,749	3,526,056
Cash distributions per unit <sup>(3)</sup>	0.15	0.15	0.46	0.46
Cash distribution payout ratio <sup>(4)</sup>	85% / 98%	92% / 106%	87% / 97%	98% / 111%

As at	Sept. 30, 2012	Dec. 31, 2011	Sept. 30, 2011
Total assets	\$ 442,496,388	\$ 265,748,040	\$ 256,486,723
Total debt <sup>(5)</sup>	280,307,968	202,592,032	197,559,240
Total equity	151,394,633	56,406,374	54,520,123
Weighted average units outstanding - basic	18,181,355	14,306,130	7,740,415
Debt-to-gross book value including debentures <sup>(5)</sup>	62.0%	73.0%	73.3%
Debt-to-gross book value excluding debentures <sup>(5)</sup>	48.3%	62.9%	62.9%
Interest coverage ratio <sup>(6)</sup>	2.08	1.70	1.65
Debt service coverage ratio <sup>(6)</sup>	1.44	1.26	1.26
Weighted average interest rate <sup>(7)</sup>	4.64%	4.95%	5.42%
Portfolio occupancy	96.4%	98.0%	98.2%

- (1) Net operating income or "NOI", funds from operations or "FFO", and adjusted funds from operations or "AFFO" are non-IFRS financial measures widely used in the real estate industry. See "Part II – Performance Measurement" for further details and advisories.
- (2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15<sup>th</sup> 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) Cash distributions as a percentage of funds from operations/adjusted funds from operations.
- (5) See calculation under "Debt-to-Gross Book Value" in "Part III – Results of Operations."
- (6) Calculated on a rolling four-quarter basis. See definition under "Mortgages and Other Financing" in "Part III – Results of Operations".
- (7) Represents the weighted average effective interest rate for secured debt excluding debentures and credit facilities.

Revenue from income producing properties, for the three and nine months ended September 30, 2012 increased over the same periods in 2011 by \$5.0 million (82%) and \$14.9 million (89%) respectively. The increases are predominantly due to the acquisition of ten properties across British Columbia, Alberta, Ontario, and Québec subsequent to September 30, 2011, and a full quarter of operations in the current quarter from the Place Desormeaux and Evergreen properties acquired midway through the same prior year period.

All property NOI for the three and nine months ended September 30, 2012 increased over the same periods in 2011 by \$3.4 million (83%) and \$9.9 million (92%) respectively. Same property NOI, which removes the effect of the REIT's acquisitions, during the three months and nine months ended September 30, 2012 had variances over the prior year periods below 3%.

FFO for the three and nine months ended September 30, 2012 increased over the same periods in 2011 by \$2.5 million (197%) and \$6.1 million (169%) respectively. AFFO for the three and nine months ended September 30, 2012 increased over the same periods in 2011 by \$2.2 million (197%) and \$5.4 million (173%), respectively. The increase in FFO and AFFO is due primarily to new property acquisitions.

Distributions per unit remained at \$0.16 quarterly for the third quarter of 2012, consistent with distributions during the third quarter of 2011. Distributions are made on a monthly basis to unitholders of record on the last trading day of the month, payable on or around the 15<sup>th</sup> day of the following month. Increases in distributions and cash distributions for the three and nine months ended September 30, 2012 over the same prior year period are due entirely to an increase in the REIT's units issued and outstanding as a result of two public offerings which closed on February 8, 2012 and June 13, 2012 (overallotments closed on March 8, 2012 and June 20, 2012) a private offering that closed on February 1, 2012 and payment under an existing Rights obligation June 28, 2012.

The REIT's total assets increased by \$177 million (67%) for the period ended September 30, 2012 when compared to December 31, 2011. The increase is due to the acquisition of nine properties during the first three quarters of 2012 for an aggregate cost of \$149 million (inclusive of acquisition costs), a fair value increase of the REIT's property portfolio of \$5 million, the acquisition of a note receivable with a fair value of \$8 million, and changes in the REIT's working capital of \$15 million.

The REIT's total debt increased by \$78 million (38%) for the period ended September 30, 2012 when compared to December 31, 2011. The increase is due to various financing activities since December 31, 2011, including \$58 million in new first mortgages on the REIT's acquisitions during 2012 (net of issuance costs), \$8 million in new second mortgages and a debenture issuance for \$35 million offset by total repayments of and \$19 million on the REIT's credit facilities and principal repayments on mortgages of \$4 million.

Occupancy declined slightly during the period ended September 30, 2012, compared to occupancy at December 31, 2011, primarily as a result of the acquisition of the Bentall portfolio of six properties during the period having an average occupancy of 86% at acquisition.

## REAL ESTATE PORTFOLIO

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

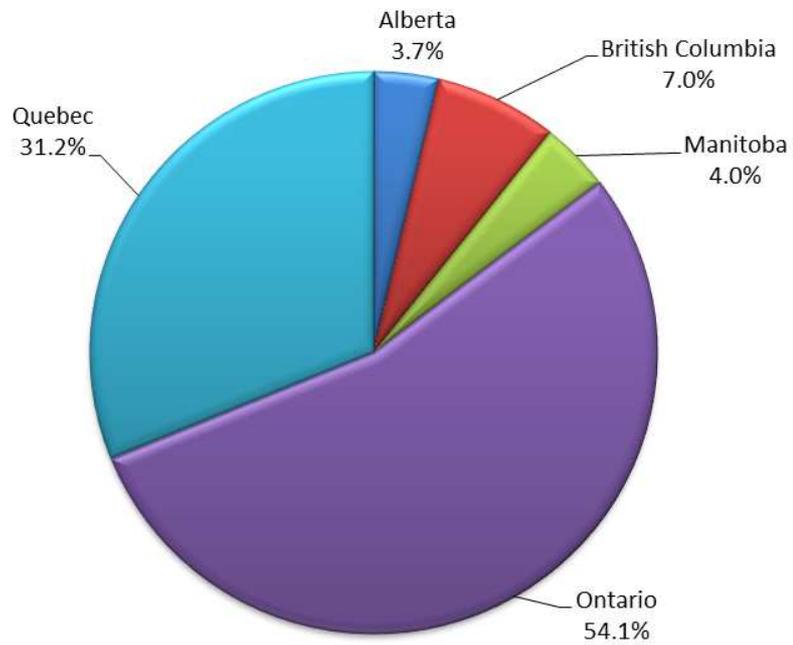
Property and location	Property type	Date built /redeveloped	Anchor tenants	Retail (sq.ft.) <sup>(1)</sup>	Occupancy <sup>(2) (3)</sup>	% of annualized base rental revenue <sup>(3)</sup>	Weighted average rent <sup>(4)</sup>
<b>British Columbia:</b>							
Evergreen Shopping Centre Sooke, British Columbia	Shopping Centre	1978/2010	Shoppers Drug Mart	87,382	87.1%	3.9%	\$15.54
Centuria Urban Village Kelowna, British Columbia	Condominium Shopping Centre	2007	Nesters Market	32,128	100.0%	2.6%	\$24.51
Washington Park Shopping Centre Courtenay, British Columbia	Retail Strip Centre	1992/1993	Toronto Dominion Bank Tim Hortons	32,652	100.0%	2.5%	\$23.56
<b>Alberta:</b>							
Manning Crossing Edmonton, Alberta	Retail Strip Centre	1993 - 1996	RBC Royal Bank	64,525	90.9%	4.5%	\$23.44
137th Ave. Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart	15,922	100.0%	0.9%	\$17.84
<b>Manitoba:</b>							
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart	21,005	100.0%	1.5%	\$21.01
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	1.2%	\$21.75
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	1.5%	\$26.50
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,670	100.0%	1.0%	\$19.02
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,800	100.0%	1.3%	\$25.77
<b>Ontario:</b>							
Grand Bend Towne Centre, Grand Bend, Ontario	Free Standing	2002	Shoppers Drug Mart	41,605	86.8%	1.9%	\$15.90
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick Best Buy	88,319	100.0%	5.0%	\$17.17
Thunder Centre Thunder Bay, Ontario	Enclosed Mall	2004 - 2007	Hudson's Bay Company	168,059	97.5%	8.7%	\$16.05
St. Clair Beach Towne Centre Tecumseh, Ontario	Retail Plaza	2004	Shoppers Drug Mart	40,088	89.6%	2.4%	\$19.81
King George Square Brantford, Ontario	Retail Plaza	1988	Shoppers Drug Mart	67,054	83.3%	3.1%	\$17.03
Crossing Bridge Square Stittsville, Ontario	Retail Plaza	1995	Farm Boy	45,913	90.6%	2.4%	\$17.11

Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	252,784	98.5%	12.7%	\$15.41
Place Val Est Sudbury, Ontario	Grocery- anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,512	88.8%	3.9%	\$12.02
Wellington Southdale London, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Empire Theatres	86,629	92.0%	5.2%	\$19.68
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	100.0%	2.6%	\$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	100.0%	2.5%	\$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	100.0%	2.0%	\$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.5%	\$3.54
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.1%	\$1.49
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.2%	\$2.47
<b>Québec:</b>							
Plaza des Seigneurs Terrebonne, Québec	Retail Strip Centre	1998	SAQ Banque Nationale Uniprix	20,810	100.0%	1.4%	\$20.07
Méga Centre Montréal, Québec	Community Power Centre	1973/1993, 1999, 2000, 2004	Wal-Mart Brault & Martineau	277,477	100.0%	8.7%	\$9.52
Place Desormeaux Longueuil, Québec	Regional Mall	1971/1998,2009, 2010	Wal-Mart Super C	248,885	98.4%	9.6%	\$11.82
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	114,650	96.1%	4.8%	\$13.06
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,035	100.0%	1.4%	\$23.99
<b>Total</b>				<b>2,178,826</b>	<b>96.4%</b>	<b>100%</b>	<b>\$14.38</b>

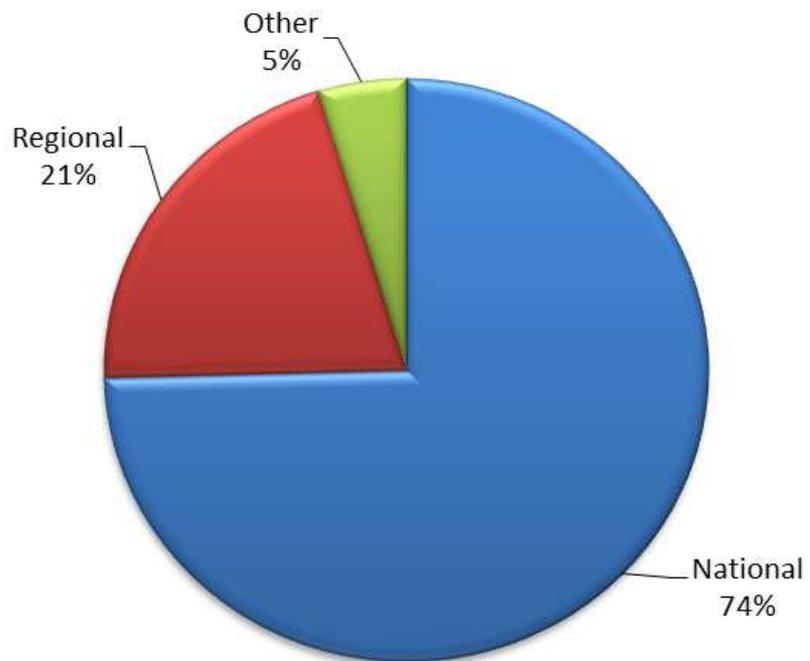
Notes:

- (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 8, 2012.
- (4) Represents the weighted average rent for the portfolio.

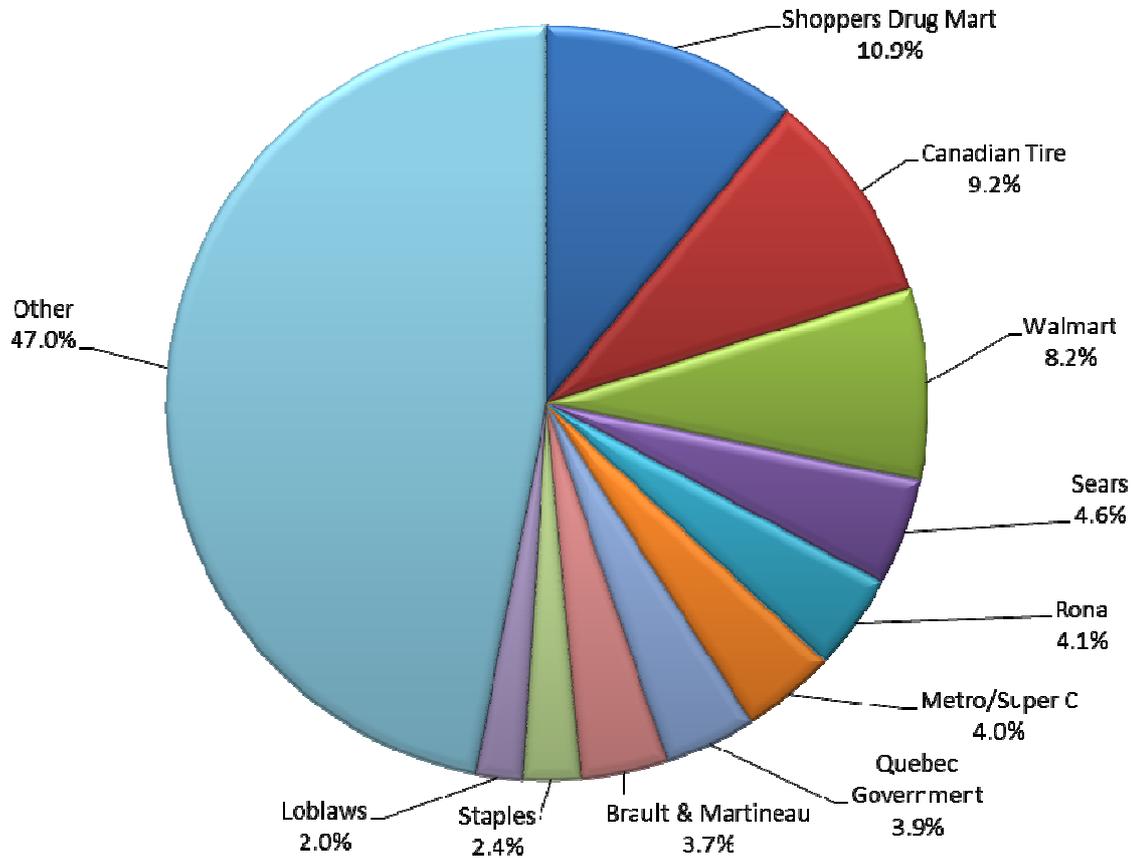
The geographic diversification of the portfolio by square footage is as follows:



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



The tenant mix of the REIT's portfolio as at September 30, 2012, including the REIT's ten largest tenants, is as follows:



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

### Leasing Activity and Occupancy

The weighted average term to maturity of existing leases is approximately six and a half years. The table below shows the lease expiration schedule of the properties as a percentage of leased square feet for 2012 and beyond:

	(sq.ft.)	(%)
2012	117,704	5.4%
2013	117,070	5.4%
2014	316,718	14.5%
2015	213,623	9.8%
2016	318,945	14.6%
Thereafter	1,016,644	46.7%
Vacant	78,122	3.6%
<b>Total</b>	<b>2,178,826</b>	<b>100%</b>

The weighted average contractual net rent per square foot expiring in Partners REIT's portfolio is outlined in the following table:

Year	Retail
2012	\$ 10.48
2013	18.06
2014	8.14
2015	12.15
2016	12.27
Thereafter	17.14
Average	\$ 14.38
Weighted average remaining lease term (years)	<b>6.41</b>

Lease expiries for 2012, new leasing and renewals completed by the date of this MD&A are as follows:

Three months ended	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012	Total 2012	Total 2011
Lease expiries <sup>(1)</sup>	93,297	66,892	20,709	44,390	<b>225,288</b>	64,850
Base rent per square foot <sup>(2)</sup>	\$ 10.85	\$ 12.13	\$ 13.60	\$ 10.93	\$ <b>11.50</b>	\$ 19.53
Lease renewals <sup>(1)</sup>	17,906	48,983	12,430	18,746	<b>98,065</b>	43,857
Base rent per square foot <sup>(2)</sup>	\$ 6.99	\$ 12.29	\$ 20.31	\$ 19.35	\$ <b>13.69</b>	\$ 22.85
New leasing <sup>(1)</sup>	6,906	1,195	97,472	-	<b>105,573</b>	33,201
Base rent per square foot <sup>(2)</sup>	\$ 6.01	\$ 15.50	\$ 8.79	\$ -	\$ <b>8.69</b>	\$ 18.87

(1) Excludes month to month tenants

(2) 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 endeavors 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.

Gross leasable area and occupancy of the REIT on a quarter by quarter basis over the last eight quarters is as follows:

Quarter Ended	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)
September 30, 2012	2,178,826	2,100,704	96.4%
June 30, 2012	2,175,809	2,046,798	94.1%
March 31, 2012	2,097,616	2,012,318	95.9%
December 31, 2011	1,602,888	1,571,497	98.0%
September 30, 2011	1,586,967	1,558,673	98.2%
June 30, 2011	1,255,395	1,233,479	98.3%
March 31, 2011	1,222,490	1,193,188	97.6%
December 31, 2010	1,154,619	1,104,970	95.7%
Average	1,659,326	1,602,703	96.8%

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. In the first nine months of 2012 the average occupancy of the properties has declined from 98.0% to 96.4%. This change is primarily due to two factors:

- We acquired a portfolio of six properties from Bentall which were 86% occupied at the time we acquired them. We continue to actively market the vacant units at these six properties and have agreed to several new leases that will commence later this year.
- At Place Val Est we are in the process of preparing a 9,559 sq.ft. space for Dollar Tree which had been demised into eight separate units, and in the process, we have relocated and terminated several small tenants.

In a multi-tenant retail portfolio it is to be expected that there will be some tenant turnover every year, and as a result there will be periodic dips in portfolio occupancy. Management believes that its intention to increase occupancy across the portfolio remains achievable, and that virtually all of the reductions in occupancy at individual properties in the REIT's portfolio are temporary in nature with active negotiations in process to fill the vacancies.

## **PART II – 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");
- Adjusted funds from operations ("AFFO");
- Debt service coverage ratio ("DSCR");
- Weighted average interest rate; and
- Occupancy levels.

We have provided the analysis of net operating income, funds from operations, and adjusted funds from operations under Part III – 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, general and 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 REIT's property portfolio.

### **Funds from Operations**

Funds from operations ("FFO") is a non-IFRS financial measure of operating performance widely used by the real estate industry. Partners REIT calculates FFO on a modified basis from 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, since it eliminates the assertion that the value of real estate decreases over time and it adjusts for items included in net income (as determined under IFRS) that may not necessarily be the best determinants of operating performance.

## **Adjusted Funds from Operations**

Adjusted funds from operations (“AFFO”) is defined as funds from operations net of actual leasing commissions, tenant improvements, capital expenditures that maintain the current rental operations, and straight-line rent. Management considers leasing activities and capital expenditures to be fundamental to the operating activities of the REIT in order to maintain the current level of rental operations, and is not a discretionary investment. Management has excluded from the calculation of AFFO those capital expenditures and leasing costs that relate to the generation of a new rental stream, such as commissions relating to leasing space to a new tenant or the development of a new retail pad for property expansion purposes.

Management also considers AFFO to be an effective measure of the cash generated from operations and is a measure of the REIT’s ability to pay distributions.

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

## **Debt Service Coverage Ratio**

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. As at September 30, 2012, the rolling four-quarter DSCR was 1.44 to 1 up from 1.37 to 1 at June 30, 2012 and 1.26 to 1 at December 31, 2011.

## **Weighted Average Interest Rate**

Our weighted average interest rate includes secured debt and excludes debentures and credit facilities. This calculation is a useful measure to compare movements in interest rates period over period; and to compare the average rate to the current market rates at that point in time. As at September 30, 2012, the REIT’s weighted average effective interest rate was 4.64%, down from 4.95% at December 31, 2011 and 5.42% at September 30, 2011.

## **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. Refer to PART I – Overview & Financial Highlights under “Leasing Activity and Occupancy” for the REIT’s occupancy performance.

## **KEY PERFORMANCE DRIVERS**

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

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

Leases representing approximately 225,300 square feet of leasable space have expired or will expire in 2012. As at the date of this MD&A, the REIT has lease renewals and new leases of approximately 203,600 square feet.

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 enhance the REIT's portfolio.

During the first quarter ended March 31, 2012, Partners REIT closed a public offering (including the over-allotment) for \$22.7 million in aggregate; the REIT acquired seven properties located in Alberta, Ontario, and Québec; and acquired a new credit facility, secured by two of its properties, in the amount \$14 million at a rate of interest of 3.6%. During the second quarter ended June 30, 2012, the REIT purchased two properties, secured by new and assumed mortgages at rates of interest that are approximately 45 basis points lower than our weighted average interest rate; and the REIT closed on another public offering (including the over-allotment) for \$23.0 million in aggregate. During the third quarter ended September 30, 2012, the REIT issued \$34.5 million of 6% convertible unsecured debentures, which, in part, was used to replace \$20.7 million of debt bearing interest at an average rate of 4.92% per annum. The REIT also secured a \$20 million credit facility from a consortium of Canadian Chartered Banks with an accordion feature, making it expandable to \$50 million. The facility bears interest at the bank's prime rate (3.0% as at September 30, 2012) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 225 basis points per annum. Subsequent to September 30, 2012, the REIT announced an agreement to acquire two retail centres for approximately \$21.9 million in aggregate. Management considers all of these activities as indicators of positive performance.

## PART III – 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, 2012 and 2011 and for the nine months ended September 30, 2012 and 2011:

Three months ended	Sept 30, 2012	Sept 30, 2011	Change
Revenues from income producing properties	\$ 11,195,642	\$ 6,157,707	82%
Property operating expenses	(1,504,909)	(887,817)	70%
Realty taxes	(2,203,324)	(1,058,972)	108%
Property management fees	(220,245)	(108,923)	102%
	<b>7,267,164</b>	<b>4,101,995</b>	<b>77%</b>
Other expenses:			
Financing costs	<b>3,568,119</b>	2,675,790	33%
General and administrative expenses	<b>698,016</b>	391,758	78%
Other transaction costs	<b>5,568</b>	34,810	-84%
	<b>4,271,703</b>	<b>3,102,358</b>	<b>38%</b>
Income before fair value gains	<b>2,995,461</b>	999,637	200%
Fair value gains	<b>530,714</b>	1,113,602	-52%
Net income and comprehensive income	\$ <b>3,526,175</b>	\$ 2,113,239	67%
Earnings per unit, basic and diluted	\$ <b>0.16</b>	\$ 0.27	

Nine months Ended	Sept 30, 2012	Sept 30, 2011	Change
Revenues from income producing properties	\$ 31,575,199	\$ 16,695,709	89%
Property operating expenses	(4,453,846)	(2,434,500)	83%
Realty taxes	(6,251,700)	(3,189,594)	96%
Property management fees	(605,295)	(399,305)	52%
	<b>20,264,358</b>	10,672,310	90%
Other expenses:			
Financing costs	10,203,304	6,521,120	56%
General and administrative expenses	1,980,292	1,212,105	63%
Other transaction costs	48,444	313,978	-85%
	<b>12,232,040</b>	8,047,203	52%
Income before fair value gains	<b>8,032,318</b>	2,625,107	206%
Fair value gains	<b>2,683,324</b>	1,567,494	71%
Net income and comprehensive income	\$ 10,715,642	\$ 4,192,601	156%
Earnings per unit, basic and diluted	\$ 0.59	\$ 0.54	

### Net Income and Comprehensive Income

The REIT reported increases in income before fair value gains of 200% and 206% respectively for the three and nine months ended September 30, 2012 compared to the same periods in 2011. After the inclusion of fair value gains net income and comprehensive income has increased 67% and 156% respectively for the three and nine months ended September 30, 2012.

### Financing Costs

The REIT's financing costs are incurred on debt instruments, bearing fixed and variable rates of interest, and consists primarily of interest expense recognized in accordance with the effective interest rate method, which includes not only the REIT's contractual interest expenses, but also incorporates the financing costs and market interest rate adjustments on its debt obligations. Financing costs also include distributions to non-controlling interests, interest income on notes receivable, and other incidental interest income and expenses incurred during the normal course of business.

Financing costs for the three and nine months ended September 30, 2012 increased by 33% and 56% respectively over the same periods in 2011. The increase is due to interest on new and assumed secured debt obligations entered into subsequent to September 30, 2011, interest on the REIT's unsecured convertible debentures, and an increase in interest expense on credit facilities. The increase in financing costs was partially offset by interest income related to notes receivable recorded in financing costs.

### General and Administrative Expenses

General and administrative expenses for the three and nine months ended September 30, 2012 increased by 78% and 63% respectively from the same prior year periods. This increase was largely due to an increase in security holder reporting costs, fees paid to marketing consultants, control testing work costs, legal fees related to general trust matters and an increase in unit-based compensation with regard to unit option costs.

### Other Transaction Costs

Other transaction costs consist of non-recurring corporate expenditures related to 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 and nine months ended September 30, 2012, other transaction costs decreased by 84% and 85% respectively compared to the prior year periods. The decrease is due to IFRS transition costs incurred in the comparative 2011 period and higher due diligence costs related to acquisitions the REIT did not continue to pursue.

## OPERATING RESULTS

### Net Operating Income – Same Properties and All Properties

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 II, the amortization of tenant incentives and direct leasing costs must be removed from revenues.

#### Same Property NOI

“Same Property NOI” compares net operating income from only those properties that contributed to operations for the entire reporting period in both the current and comparative period.

Three months ended	Sept 30, 2012	Sept 30, 2011	Variance favourable/ unfavourable)
Revenues from income producing properties	\$ 5,593,804	\$ 5,666,873	\$ (73,069)
Property operating expenses	(880,089)	(805,499)	(74,590)
Realty taxes	(978,534)	(980,614)	2,080
Property management fees	(109,520)	(95,806)	(13,714)
	<b>3,625,661</b>	<b>3,784,954</b>	<b>(159,293)</b>
Amortization of tenant costs	<b>309,525</b>	<b>35,947</b>	<b>273,578</b>
Net operating income	\$ <b>3,935,186</b>	\$ 3,820,901	\$ 114,285

NOI from same properties for the three months ended September 30, 2012 increased by 3% over the same prior year period. The increase in NOI was primarily due to increased straight line rent revenue at Méga Centre as a result of the new Wal-Mart lease.

Nine months Ended	Sept 30, 2012	Sept 30, 2011	Variance favourable/ unfavourable)
Revenues from income producing properties	\$ 14,119,957	\$ 14,206,816	\$ (86,859)
Property operating expenses	(2,435,506)	(2,264,166)	(171,340)
Realty taxes	(2,979,398)	(2,960,974)	(18,424)
Property management fees	(259,457)	(338,893)	79,436
	<b>8,445,596</b>	<b>8,642,783</b>	<b>(197,187)</b>
Amortization of tenant costs	<b>446,918</b>	<b>130,187</b>	<b>316,731</b>
Net operating income	\$ <b>8,892,514</b>	\$ 8,772,970	\$ 119,544

NOI from same properties for the nine months ended September 30, 2012 increased by 1% over the same prior year period. The increase in NOI was primarily due to higher percent rents from tenants located at Cornwall Square and increased straight-line rent at Mega Centre partially offset by lower base rents and recoveries at Méga Centre while preparing a space at the centre for Wal-Mart.

## All Properties NOI

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

Three months ended	Sept 30, 2012	Sept 30, 2011	Variance favourable/ (unfavourable)
Revenues from income producing properties	\$ 11,195,642	\$ 6,157,707	\$ 5,037,935
Property operating expenses	(1,504,909)	(887,817)	(617,092)
Realty taxes	(2,203,324)	(1,058,972)	(1,144,352)
Property management fees	(220,245)	(108,923)	(111,322)
	<b>7,267,164</b>	<b>4,101,995</b>	<b>3,165,169</b>
Amortization of tenant costs	<b>309,582</b>	<b>35,950</b>	<b>273,632</b>
Net operating income	\$ <b>7,576,746</b>	\$ <b>4,137,945</b>	\$ <b>3,438,801</b>

The increase in all properties NOI of \$3.4 million for the three months ended September 30, 2012 over the same prior year period is primarily due to the realization of a full quarter of operations from Place Desormeaux and Evergreen Shopping Centre, which were purchased during the quarter ended September 30, 2011 and the acquisitions of ten properties subsequent to that date. Revenues recognized on the sale of notes receivable during the second quarter further increased NOI for the period.

Increases in property operating expenses, realty taxes and property management fees for all properties during the three months ended September 30, 2012, compared to the same prior year period, are almost entirely a result of the REIT's property acquisitions subsequent to September 30, 2011.

Nine months Ended	Sept 30, 2012	Sept 30, 2011	Variance favourable/ (unfavourable)
Revenues from income producing properties	\$ 31,575,199	\$ 16,695,709	\$ 14,879,490
Property operating expenses	(4,453,846)	(2,434,500)	(2,019,346)
Realty taxes	(6,251,700)	(3,189,594)	(3,062,106)
Property management fees	(605,295)	(399,305)	(205,990)
	<b>20,264,358</b>	<b>10,672,310</b>	<b>9,592,048</b>
Amortization of tenant costs	<b>449,768</b>	<b>130,187</b>	<b>319,581</b>
Net operating income	\$ <b>20,714,126</b>	\$ <b>10,802,497</b>	\$ <b>9,911,629</b>

The increase in all properties NOI of \$9.9 million for the nine months ended September 30, 2012 over the same prior year period is primarily due to the realization of a full nine months of operations from the six Shoppers Drug Mart properties, Centuria Urban Village, Place Desormeaux and Evergreen Shopping Centre which were purchased during the period ended September 30, 2011 and the acquisitions of ten properties subsequent to that date. Revenues recognized on the sale of notes receivable during the period ended September 30, 2012 further increased NOI.

Increases in property operating expenses, realty taxes and property management fees for all properties during the nine months ended September 30, 2012, compared to the same prior year period, are almost entirely a result of the REIT's property acquisitions subsequent to September 30, 2011.

## Funds from Operations (“FFO”) and Adjusted Funds from Operations (“AFFO”)

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

Three months ended	Sept 30, 2012	Sept 30, 2011	Change
Net income for the period	\$ 3,526,175	\$ 2,113,239	\$ 1,412,936
<i>Adjustments:</i>			
Amortization of costs	744,611	216,981	527,630
Unit option compensation expense	4,000	11,000	(7,000)
Other transaction costs	5,568	34,810	(29,242)
Fair value gains	(530,714)	(1,113,602)	582,888
FFO	3,749,640	1,262,428	2,487,212
<i>Less:</i>			
Straight-line rent	453,411	163,978	289,433
Capex to maintain current operations	30,344	-	30,344
AFFO	\$ 3,265,885	\$ 1,098,450	\$ 2,167,435
Weighted average units	21,388,605	7,740,415	13,648,190
FFO per unit	\$ 0.18	\$ 0.16	\$ 0.02
AFFO per unit	\$ 0.15	\$ 0.14	\$ 0.01

FFO increased by \$2.5 million (197%) during the three months ended September 30, 2012 compared to the same period in 2011 due mainly to an increase in NOI of \$3.4 million which was offset by a \$0.9 million increase in financing costs and a \$0.3 million increase in general and administrative expenses.

For the discussion of the REIT’s financing costs and general and administrative expenses, please refer to sections titled “Financing Costs”, and “General and Administrative Expenses” earlier in Part IV – Results of Operations.

The REIT’s FFO increase of 197% during the quarter ended September 30, 2012 over the same period in 2011 was partially offset by a 176% increase in the weighted average number units for the same comparable period. The resulting, FFO per unit for the quarter advanced to \$0.18 per unit from \$0.16 per unit in the same prior year period.

Since FFO does not consider straight line rent (non-cash) or capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO is not defined by IFRS. AFFO, for the three months ended September 30, 2012 was \$3.3 million (three months ended September 30, 2011 - \$1.1 million) representing an increase of \$2.2 million in AFFO compared to the same quarter last year. The REIT does not expect to incur consequential costs to maintain its current operations as only twenty of its properties were purchased more than one year ago of which twelve are single tenant properties wherein the tenant has full responsibility for all capital expenditures. As part of the purchase of the remaining ten properties, such capital costs were taken into consideration in arriving at net acquisition costs, thus when incurred will increase the value of the properties.

The cash payout ratios for the three months ended September 30, 2012 were 85% and 98% for FFO and AFFO respectively (three months ended September 30, 2011 – 92% and 106%, respectively). Partners REIT targets a cash payout ratio of approximately 90% to 95% of AFFO.

Nine months Ended	Sept 30, 2012	Sept 30, 2011	Change
Net income for the period	\$ 10,715,642	\$ 4,192,601	\$ 6,523,041
Amortization of costs	1,522,335	619,074	903,261
Unit option compensation expense	83,000	44,000	39,000
Other transaction costs	48,444	313,978	(265,534)
Fair value gains	(2,683,324)	(1,567,494)	(1,115,830)
FFO	\$ 9,686,097	\$ 3,602,159	\$ 6,083,938
<i>Less:</i>			
Straight-line rent	906,660	433,181	473,479
Capex to maintain current operations	130,853	-	130,853
AFFO	\$ 8,648,584	\$ 3,168,978	\$ 5,479,606
Weighted average units	18,181,355	7,740,415	10,440,940
FFO per unit	\$ 0.53	\$ 0.47	\$ 0.06
AFFO per unit	\$ 0.48	\$ 0.41	\$ 0.07

FFO increased by \$6.1 million (169%) during the nine months ended September 30, 2012 compared to the same period in 2011 due mainly to an increase in NOI of \$9.9 million which was offset by a \$3.7 million increase in financing costs and a \$0.8 million increase in general and administrative expenses.

The REIT's FFO increase of 169% during the nine months ended September 30, 2012 over the same period in 2011 was partially offset by a 135% increase in the weighted average number units for the same comparable period. The resulting FFO per unit for the quarter advanced to \$0.53 per unit from \$0.47 per unit in the same prior year period.

AFFO for the nine months ended September 30, 2012 was \$8.6 million (nine months ended September 30, 2011 - \$3.2 million) representing an increase of \$5.5 million in AFFO compared to the same period last year.

The cash payout ratios for the nine months ended September 30, 2012 were 87% and 97% for FFO and AFFO respectively (nine months ended September 30, 2011 – 98% and 111%, respectively).

## FINANCIAL POSITION ANALYSIS

### Statement of Financial Position – Total Assets

As at	Sept 30, 2012	Dec 31, 2011
Income producing properties	\$ 414,322,008	\$ 258,510,224
Note receivable	7,909,000	-
Other assets	4,411,514	4,526,314
Accounts receivable	1,367,730	868,733
Cash	14,486,136	1,842,769
Total assets	\$ 442,496,388	\$ 265,748,040

### Income producing properties

The REIT elected to use the fair value model under IFRS, and as a result, income producing properties are carried at their fair value at the reporting date. Gains or losses arising from changes in the fair value of income producing properties during the reporting period are included in profit and loss in the period in which they arise.

For December 31, 2011 and subsequent year-end periods, external valuations from our third-party appraiser will be based on a cross section of properties from different geographical locations and markets across the REIT's portfolio, as determined by management. At December 31, 2011, external appraisals were obtained for four of the REIT's properties for an aggregate fair value of \$44,796,000, representing 17.3% of the fair value of the income producing property portfolio as of that date. The value of the remainder of the REIT's portfolio was determined internally by management using the same assumptions and valuation techniques used by the third party appraiser.

For September 30, 2012, external appraisals were obtained for five of the REIT's properties with an aggregate fair value of \$46.2 million; representing 11.1% of the fair value of the income producing property portfolio as of that date. The value of the remainder of the REIT's income producing property portfolio was determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

The increase of \$155.8 million in income producing properties at September 30, 2012 over December 31, 2011 is due to the acquisition of nine properties for \$149.2 million (inclusive of acquisition costs), fair value gains of \$4.5 million recognized upon the valuation of the income producing properties and other capitalized costs of \$2.1 million.

There was no income producing property dispositions during the periods ended September 30, 2012 or December 31, 2011.

#### Note receivable

On February 1, 2012, the REIT acquired eight mortgages and loans receivable as a part of the acquisition of the NorRock assets (refer to Unitholders' Equity below under "Private Offering"). On March 29, 2012 the REIT sold three of the mortgage assets with a combined carrying value of approximately \$3.7 million for proceeds of \$3.2 million. On June 29, 2012, the REIT sold one of the mortgage assets with a carrying value of \$1.5 million for proceeds of \$1.5 million. On June 30, 2012, the REIT sold the remaining four mortgage assets to a related party, League Assets Corp ("LAC") for \$7.9 million. In exchange for purchasing the mortgage assets, the REIT accepted a full recourse note receivable from LAC, bearing interest from September 15, 2012 at 12% and having a maturity date that has been extended to May 31, 2013. Should the note be repaid prior to February 28, 2013, the interest rate shall be reduced to 9% retroactively.

#### Other assets

Other assets are comprised of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow, deposits on acquisitions and other prepaid expenses. Although the balances as at September 30, 2012 and December 31, 2011 are quite similar, the composition of the balances is significantly different.

The net decrease in other assets of \$0.1 million as at September 30, 2012 over December 31, 2011 is due an increase in prepaid property taxes as a consequence of the REIT acquiring nine additional properties, an increase in amounts held in escrow for contingency holdbacks on the Thunder Centre, St. Clair Beach Towne Centre, and Quinte Crossroads, offset by a decrease in deferred acquisition costs and deposits on acquisitions which relate to the closing of nine properties during 2012.

#### Accounts receivable

Accounts receivable increased by \$0.5 million from December 31, 2011 to September 30, 2012. The higher receivable balance at September 30, 2012 is primarily due to an increase in tenant receivables, CAM recoveries and property tax recoveries receivable from tenants located at the nine properties acquired during the period ended September 30, 2012.

#### Cash

Cash is considered restricted when it is held in escrow and is only available for use for specific purposes. Restricted cash totaled \$1.9 million at September 30, 2012 (December 31, 2011 – \$1.4 million) and its permitted use is to fund certain future capital expenditures in the REIT's income producing property portfolio.

## Capital

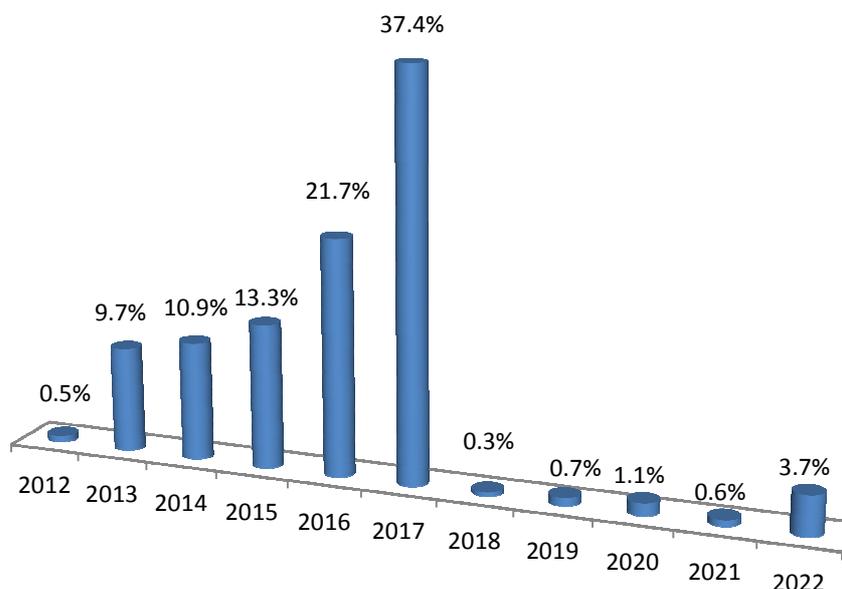
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry. As a result, debt capital, in particular, is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance of debt capital, the REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. The 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, 2012 and December 31, 2011:

As at	Sept 30, 2012	Dec 31, 2011
Mortgages payable	\$ 220,117,357	\$ 156,518,686
Debentures	61,145,969	26,889,496
Credit facilities	257,868	18,545,886
Unitholders' equity	151,394,633	56,406,374
<b>Total capital</b>	<b>\$ 432,915,827</b>	<b>\$ 258,360,442</b>

## Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at September 30, 2012:



The primary contributors of the debt maturing in 2016 and 2017 are thirteen first mortgages totalling \$97.0 million and two convertible debentures totalling \$28.8 and \$34.5 million respectively.

Over the next two years, the REIT has approximately \$45.9 million of debt maturing which carries an average contractual interest rate of 5.14%. Refinancing at current market rates would reduce the REIT's cost of debt and would impact the REIT's earnings potential. Interest expense savings from refinancing at current market rates are anticipated to continue through 2012 and into the following year.

Interest coverage and debt service coverage ratios are as follows:

For the rolling four quarters ended	Sept 30, 2012	Sept 30, 2011
Interest coverage ratio <sup>(1)</sup>	2.08	1.65
Debt service coverage ratio <sup>(2)</sup>	1.44	1.26

(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 rolling four quarters ended September 30, 2012 the REIT's interest coverage ratio increased over the rolling four quarters ended September 30, 2011 due to acquisitions in the period being financed by equity raises and mortgages paying interest at favourable rates. The debt service coverage ratio for the four rolling quarters ended September 30, 2012 increased in comparison to the four rolling quarters ended September 30, 2011 due to the significant portion of equity raised to fund the REIT's acquisitions over the past twelve months.

### Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable (excluding the convertible debentures and credit facilities discussed below in more detail) is approximately three and a half years, and the weighted average effective interest rate is 4.64%.

Future principal repayments on the mortgages payable are as follows for 2012 to 2016 and thereafter:

Year	Principal installment payments	Principal maturing	Total	W.A. contractual rate on debt maturing
2012	\$ 1,519,864	\$ -	\$ 1,519,864	
2013	6,192,678	21,027,933	27,220,611	5.91%
2014	5,829,092	24,870,435	30,699,527	4.49%
2015	5,176,095	32,267,407	37,443,502	5.08%
2016	4,043,954	28,376,019	32,419,973	4.33%
Thereafter	5,473,929	83,287,563	88,761,492	4.79%
<b>Total</b>	<b>\$ 28,235,612</b>	<b>\$ 189,829,357</b>	<b>\$ 218,064,969</b>	<b>4.85%</b>

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.

For the period ended September 30, 2012 the following mortgages were obtained:

In June 2012, upon the acquisition of Washington Park Shopping Centre, the REIT acquired a mortgage for \$7.5 million on the property. The mortgage has a contractual rate of interest at 175 basis points over the five-year Government of Canada Bond rate, which is currently equal to 3.84% per annum, with a five-year term to maturity and a 25-year amortization period.

In April 2012, upon the acquisition of Grand Bend Towne Centre, the REIT assumed a first mortgage on the property in the amount of \$3.2 million and increased the existing mortgage by \$0.8 million for a total first mortgage of \$4.0 million. The loan matures in July 2017, has a contractual interest rate of 5.12% per annum, and an amortization period of 20 years.

In March 2012, upon the acquisition of Quinte Crossroads, the REIT acquired a first mortgage on the property for a total of \$14.2 million. The loan matures in April 2022, has a contractual interest rate of 4.06% per annum, and has an amortization period of 25 years.

In February 2012, upon the acquisition of Thunder Centre, the REIT assumed a first mortgage on the property in the amount of \$14.8 million and increased the existing mortgage by \$4.7 million for a total first mortgage of \$19.5 million. The loan matures in July 2017, has a contractual interest rate of 4.78% per annum, and has an amortization period of 20 years.

In February 2012, upon the acquisition of St. Clair Beach Towne Centre, the REIT assumed a first mortgage on the property in the amount of \$4.4 million and increased the existing mortgage by \$1.85 million for a total first mortgage of \$6.25 million. The loan matures in July 2017, has a contractual interest rate of 4.60% per annum, and has an amortization period of 20 years.

In February 2012, upon the acquisition of Manning Crossing, the REIT assumed an existing first mortgage on the property for a total of approximately \$4.65 million. The loan matures in August 2014 and has a contractual interest rate of 6.59% per annum. The REIT also acquired a second mortgage on the property for a total of \$8.0 million. The loan matures February 2017, has a contractual interest rate of 4.02% per annum, and has an amortization period of 25 years.

In February 2012, upon the acquisition of Plaza des Seigneurs, the REIT acquired a first mortgage on the property for a total of \$2.25 million. The loan matures in February 2017, has a contractual interest rate of 3.5% per annum, and has an amortization period of 20 years.

#### **Debentures**

On March 8, 2011, the REIT closed its public offering of \$25.0 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 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. 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 \$8.80 per unit. As at September 30, 2012, none of the debenture holders redeemed their debentures for units of the REIT.

On September 5, 2012, the REIT closed its public offering of \$30 million, with an additional \$4.5 million in overallotment options, for a total issuance of \$34.5 million in aggregate principal amount of 6.0% convertible unsecured subordinated debentures. The debentures bear interest at an annual rate of 6.0% payable semi-annually, in arrears, on March 31 and September 30 in each year, commencing on March 31, 2013. The debentures mature on September 30, 2017. The cost to issue the debentures was \$1.7 million, and is netted against the debentures on the statement of financial position and will be amortized over the term of the debentures. 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 \$10.35 per unit. As at September 30, 2012, none of the debenture holders redeemed their debentures for units of the REIT.

In connection with the September 2012 Debenture Offering, the REIT received net proceeds of approximately \$32.7 million following the issuance of \$34,500,000 aggregate principal amount of 6.0% convertible unsecured subordinated debentures, which proceeds were used by the REIT to partially repay the outstanding credit facilities. The REIT's use of proceeds varied from the intended use of proceeds previously disclosed in the following ways:

Use of proceeds	Approximate Intended Amount (\$ million) <sup>(1)</sup>	Actual Amount (\$ million)
Pay out Credit Facility	14.0	15.0
Pay out Acquisition Facility	5.7	5.7
Acquisitions and general Trust purposes	13.0	12.0
Total	32.7	32.7

(1) As disclosed in the short form prospectus of the REIT dated August 28, 2012

### Credit Facilities

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, 2012, the REIT specified the Centuria Urban Village property as security for this facility, providing a maximum facility amount of \$5.8 million. At September 30, 2012 there was no amount drawn on the Acquisition Facility (December 31, 2011 – \$5.7 million).

The Acquisition Facility was renewed on May 16, 2011 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 customary for this type of facility (debt service coverage ratio, minimum unitholder equity amount). As at September 30, 2012, the REIT complied with all of the covenants of the Acquisition Facility.

During the period ended September 30, 2012 the REIT repaid \$13.0 million of a previous revolving loan facility, leaving a balance as at September 30, 2012 of \$0.5 million. All of the underlying warrants were exercised subsequent to September 30, 2012, resulting in net proceeds to the REIT of \$4.5 million and the issuance of 625,000 units at \$8.05 per unit, for a total issuance of \$5.0 million.

In February 2012, the REIT obtained a one year \$14.0 million credit facility secured against the King George Square and Crossing Bridge Square properties. The credit facility bears interest at a rate equal to the Canadian Imperial Bank of Commerce ("CIBC") prime rate plus 1.50% for the initial six months and the CIBC prime rate plus 2.00% for the remainder of the term. During the quarter ended September 30, 2012, this facility was repaid and replaced by the "Credit Facility", as described below.

During the quarter ended September 30, 2012, the REIT secured a revolving credit facility (the "Credit Facility") from a consortium of Canadian chartered banks of up to a formula-based maximum not to exceed \$20 million (expandable to \$50 million), bearing interest at the bank's prime rate (3.0% as at September 30, 2012) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 2.25% per annum. This facility is currently secured by the King George Square and Crossing Bridge Square properties. As at September 30, 2012, the formula-based amount available under this facility was \$15.0 million with no draws made. The facility is renewable annually.

## Financing Costs

Financing costs represent commitment fees, funding fees and other fees paid in connection with securing mortgages and the revolving loan facility.

The unamortized balance of financing costs related to mortgages, debentures and credit facilities at September 30, 2012 was \$5.0 million, which is \$1.4 million higher than the December 31, 2011 year-end balance. The increase in the unamortized financing costs as at September 30, 2012 is due to the fees paid to acquire capital, with a large portion of the increase due to fees associated with the debenture issuance that closed September 5, 2012. Financing costs consist of mortgage fees, brokerage fees, legal fees, processing fees and commitment fees. Offsetting the increase in financing costs for the period ended September 30, 2012 is recognition of deferred financing costs through interest expense, in accordance with the effective interest method. The unamortized portion of the financing costs is netted against the REIT's mortgages payable, debentures and credit facilities on the statements of financial position.

## Debt-to-Gross Book Value

The REIT actively manages both its debt capital<sup>(1)</sup> and its equity capital with the objective of ensuring that the REIT can continue to grow and operate its business.

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 Acquisition Facility has a restriction on the REIT's debt-to-gross book value ratio, being a maximum of 75%. At September 30, 2012 the REIT has a debt-to-gross book value ratio of 62.0% (December 31, 2011 – 73.0%), calculated as follows:

As at	Sept 30, 2012	Dec 31, 2011
Debt		
Mortgage principal	218,064,968	155,639,032
Debentures, excluding fair value of convertible feature at issuance	61,940,000	27,950,000
Credit facilities, excluding fair value of warrants at funding date	303,000	19,003,000
	<u>280,307,968</u>	<u>202,592,032</u>
Gross Book Value of Assets		
Original cost of income producing properties (2)	419,018,830	266,725,072
Book value of all other assets	28,174,380	7,237,816
Deferred financing fees	4,968,501	3,566,944
	<u>452,161,711</u>	<u>277,529,832</u>
Debt-to-Gross Book Value	62.0%	73.0%
Debt-to-Gross Book Value Excluding Debentures	48.3%	62.9%

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

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

## Unitholders' Equity

For the period ended September 30, 2012 unitholders' equity increased \$94 million over unitholders' equity for the period ended December 31, 2011 due primarily to the issuance of units under a private offering, two public offerings and rights certificates.

### Public Offerings

On January 24, 2012, Partners REIT filed a prospectus with Canadian securities regulators to offer 2,688,250 units at \$7.44 per unit by way of a public offering. The offering also granted an over-allotment option of up to an additional 403,238 units at \$7.44 per unit on the same terms and conditions as the offering. As at the closing date of February 8, 2012, Partners REIT issued a total 3,049,062 units under the offering for total raised capital of \$22,685,021 and incurred issue costs of \$1,553,772. The net proceeds of approximately \$21.1 million were used by the Trust to partially fund the Quinte Crossroads acquisition and to partially fund the acquisitions of Plaza des Seigneurs, Crossing Bridge Square, King George Square, Manning Crossing, St. Clair Beach Towne Centre and the Thunder Centre (collectively, the "Acquisitions"). The REIT's use of proceeds varied from the intended use of proceeds previously disclosed in the following ways:

Use of proceeds	Approximate Intended Amount (\$ million) <sup>(1)</sup>	Actual Amount (\$ million)
Pay out revolving loan facility	13.5	NIL
Pay out Acquisition Facility	7.6	NIL
Acquisitions	NIL	21.1
Total	21.1	21.1

(1) As disclosed in the short form prospectus of the REIT dated February 1, 2012

The above variances had no impact on the REIT's ability to achieve its business objectives and milestones.

On May 30, 2012, Partners REIT filed a prospectus with Canadian securities regulators to offer 2,705,000 units at \$7.40 per unit by way of a public offering. The offering also granted an over-allotment option of up to an additional 405,750 units at \$7.40 per unit on the same terms and conditions as the offering. As at the closing date of June 13, 2012, Partners REIT issued a total of 3,110,750 units under the offering for total raised capital of \$23,019,550 and incurred issue costs of \$1,315,785. The net proceeds of \$21.7 million were used by the REIT to pay out a loan facility entered into in connection with certain property purchases, and to partially fund the acquisition of the Washington Park Shopping Centre. The REIT's use of proceeds varied from the intended use of proceeds previously disclosed in the following ways:

Use of proceeds	Approximate Intended Amount (\$ million) <sup>(1)</sup>	Actual Amount (\$ million)
Pay out revolving loan facility	13.5	12.0
Pay out Acquisition Facility and general trust purposes	3.6	5.1
Acquisition of Washington Park	4.5	4.5
Total	21.6	21.7

(1) As disclosed in the short form prospectus of the REIT dated June 6, 2012

The above variances had no impact on the REIT's ability to achieve its business objectives and milestones.

### Private Offering

On October 17, 2011 the REIT entered into an acquisition agreement with NorRock whereby the REIT would acquire substantially all of the assets of NorRock. The transaction was approved by the REIT on December 15, 2011 and closed on February 1, 2012. The assets acquired by the REIT consisted of cash, cash equivalents, mortgages and other assets from NorRock in exchange for the issuance of REIT units, certain rights to acquire REIT units and cash (the "NorRock Transaction").

The REIT issued units for consideration in the amount of \$41,742,531 (which amount includes a credit to NorRock of \$1,425,000 on account of expenses) for the cash and cash equivalents held by NorRock. In addition, the REIT issued units for consideration in the amount of \$9,422,980 and issued 3,074,160 Rights for the non-cash assets of NorRock.

The consideration was settled as follows:

- 7,393,833 units were issued to holders of NorRock preferred shares and Class A shares;
- \$344,050 was paid to those holders of NorRock preferred shares that elected to receive partial consideration in cash;
- \$217,717 was paid on account of the stub period dividend payment for the NorRock preferred shares to holders of such shares;
- \$88,500 was paid to holders of NorRock stock appreciation rights; and
- 3,074,160 Rights were issued to holders of NorRock Class A shares and holders of NorRock stock appreciation rights.

The final value of the Rights was \$2,223,244 (the “Deferred Payment”; December 31, 2011 – nil) payable to holders of NorRock Realty Finance Corporation (TSXV:RF.H) (“NorRock”) Class A shares and holders of NorRock stock appreciation rights. In accordance with the terms of the Rights, the Deferred Payment was made on September 28, 2012. Each right holder received REIT units corresponding to that holder’s pro rata share of the Deferred Payment. The number of REIT units issued was 259,993, calculated based on the five day volume weighted average trading price of the REIT units determined at the time of issue of \$8.55.

#### Distributions

The REIT currently makes monthly cash distributions of \$0.05333 per unit, representing an annualized distribution of \$0.64 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 an Acquisition Facility to fund the equity portion of acquisitions as well as to fund general working capital requirements between capital raises, when required.

#### Outstanding units

As of the date of this MD&A, the REIT has 22,291,749 issued and outstanding. The total of aggregate principal amount of debentures due March 31, 2017 is \$28.75 million. The total number of units issuable under these debentures is 3,267,045 units. The total aggregate principal amount of debentures due September 30, 2017 is \$34.5 million. The total number of units issuable under these debentures is 3,333,333 units.

### **LIQUIDITY REQUIREMENTS**

The REIT’s main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. 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 Acquisition 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. However, between capital raises, the REIT may use its Credit Facility to fund the equity portion of property acquisitions.

## 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: (i) 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and (ii) 0.25% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, if the "adjusted book value" of the REIT's assets is greater than \$1 billion, and an acquisition fee equal to: (i) 0.50% of the "property cost" of such real property if prior to such acquisition the "adjusted book value" of the REIT's assets is less than or equal to \$1 billion; and (ii) 0.40% of the "property cost" of such real property if prior to such acquisition the "adjusted book value" of the REIT's assets is greater than \$1 billion. "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 March 15, 2015. Upon expiry of the initial term, the management agreement renews 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; or if otherwise determined that it is in the best interests of the REIT to have the management of the REIT performed on a full time basis by individuals employed directly by the REIT. 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, 2012: \$364,646 in asset management fees, nil in acquisition fees, and \$84,084 in property management and accounting fees. There were no amounts owing to the Manager or other related parties at September 30, 2012.

On June 30, 2012, the REIT exercised its option to sell mortgage assets to League Assets Corporation ("LAC") for \$7.9 million. LAC is related to the REIT by virtue of certain directors and key management personnel of the REIT having a controlling ownership interest in LAC. In exchange for purchasing the mortgage assets, the REIT accepted a note receivable from LAC, bearing interest from September 15, 2012 at 12% and having a maturity date that has been extended to May 31, 2013. Should the note be repaid prior to February 28, 2013, the interest rate shall be reduced to 9% retroactively.

## QUARTERLY PERFORMANCE

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

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Total revenues	\$ 11,195,642	\$ 11,301,599	\$ 9,077,958	\$ 7,468,818	\$ 6,157,707	\$ 5,578,270	\$ 4,959,732	\$ 4,540,281
Operating expenses	3,928,478	4,025,768	3,356,595	2,830,492	2,055,712	1,963,959	2,003,727	1,976,152
Other expenses	4,271,703	4,345,003	3,615,335	4,041,629	3,102,358	2,744,638	2,200,207	1,748,169
Fair value gains	530,714	652,130	1,500,480	2,464,132	1,113,602	141,752	312,140	1,765,054
Net income	3,526,175	3,582,958	3,606,508	3,060,829	2,113,239	1,011,425	1,067,938	2,581,014
Net income per unit - basic	0.16	0.19	0.25	0.39	0.27	0.13	0.14	0.43
FFO	3,749,640	3,425,343	2,511,115	1,416,637	1,262,428	1,196,381	1,107,832	752,462
FFO per unit - basic	0.18	0.18	0.18	0.18	0.16	0.15	0.14	0.12

## PART IV – RISKS & UNCERTAINTIES

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

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

The following is an examination of the key factors that influence Partners REIT's operations. A more detailed description of all 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 the ability to access 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.

The REIT has 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. The REIT's strategy of staggering the maturities of its debt portfolio attempts to limit the exposure to excessive amounts of debt maturing in any one year.

There is interest rate risk associated with the REIT's Acquisition Facility and Credit Facility since the interest rates are impacted by changes in the bank rate. There is also interest rate risk associated with the REIT's fixed interest rate and term mortgages and unsecured debentures due to the expected requirement to refinance such debts in the year of maturity. The following table outlines the impact to the REIT's annual net income if interest rates at September 30, 2012 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
Credit facilities	\$ -	\$ -
Mortgages payable	459,000	0.021
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, 2012, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

Finally, management is of the opinion that all debt can be extended, renewed, or refinanced as it becomes 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, 2012 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.

## **LIQUIDITY RISK**

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they become due, will not have 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 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 capital raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its 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. Management is not aware of any material non-compliance with environmental laws or regulations at any of the REIT's properties, or of any pending or threatened actions, investigations or claims against Partners REIT relating to environmental matters.

Management will continue to make capital and operating expenditures that are necessary to ensure that the REIT is compliant with environmental laws and regulations. At this time, management does not believe these costs will have a material adverse impact on the REIT's business or financial results. Management understands that environmental laws and regulations are subject to change and the REIT's financial liabilities can be adversely impacted if the laws and regulations become more rigorous.

## **TAXATION**

On June 22, 2007, new legislation relating to, among other things, the federal income taxation of a specified investment flow-through trust or partnership (a "SIFT") was enacted (the "SIFT Rules"). A SIFT includes a publicly listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, following a transition period for qualifying SIFTs, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exemption"). The REIT has reviewed the REIT Exemption, including the Proposed Amendment, and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it will meet the prescribed conditions of the SIFT Rules, assuming the Proposed Amendment is enacted, throughout the year ended December 31, 2012. On October 24, 2012, the government of Canada tabled in the House of Commons a detailed Notice of Ways and Means Motion to implement outstanding technical tax amendments, including the previously proposed amendments related to real estate investment trusts, originally announced on December 16, 2010. In the event the Proposed Amendment is not substantively enacted as proposed, the REIT will not meet the prescribed conditions for 2012 due to the acquisition of certain non-qualifying assets as part of the NorRock transaction. However, management believes the REIT will meet the prescribed conditions for 2013 and beyond because the non-qualifying assets will be contractually disposed of prior to the end of 2012. Management believes that the Proposed Amendment will be enacted before the end of 2012, and as such, the requirement to record a liability for current taxes will be determined by the REIT at the end of the current fiscal period, since the REIT does not expect to have taxable income before any deduction for distributions.

## **PART V – CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The REIT's critical accounting policies are those that management has determined to be the most important in portraying the REIT's financial condition and results, and which require the most substantive estimates and judgment.

The preparation of financial statements requires certain estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The REIT's significant accounting policies are described in Note 2 to the annual audited consolidated financial statements for the year ended December 31, 2011. Management believes that the following policies are those most subject to estimation and judgment.

### **Income Producing Properties**

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

Commercial retail properties, developments and redevelopments are measured initially at cost. 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 to income producing properties. Costs that are directly attributable to income producing properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and other costs directly attributable to the development.

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

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

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

### **Revenue Recognition**

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

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

## 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
Note Receivable	Available for sale	FVTPL
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
Credit facilities	Other financial liabilities	Amortized cost
Deferred rights obligation	Other financial liabilities	Amortized cost
Accounts payable and other liabilities - Deferred unit-based compensation	FVTPL	Fair value
Accounts payable and other liabilities – trade and other payables	Other financial liabilities	Amortized cost
Exchangeable LP units	FVTPL	Fair value

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

The 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 revolving loan facility. 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 warrant holder behaviours, such as risk aversion.

### Incentive Unit-Based Compensation

The 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.

## **Exchangeable LP Units**

The fair value of the exchangeable LP units was determined by using the closing price as at September 30, 2012 of the Partners REIT units, since all of the 287,500 exchangeable LP units of 137<sup>th</sup> Avenue LP are exchangeable on a one-for-one basis, at the option of the holder, into Partners REIT units. The closing price of the Partners REIT units on Friday, September 28, 2012 was \$8.60 per unit. The fair value of the exchangeable LP units as at September 30, 2012 was \$2,472,500 (December 31, 2011 – \$2,070,000). The REIT recorded a fair value loss for the quarter of \$350,750 (September 30, 2011 – nil).

## **Basis of Consolidation**

Subsidiaries are all entities over which the REIT has the power to govern the financial and operating policies generally accompanying an ownership of more than half of the voting rights. The existence and effect of any potential voting rights that are currently exercisable or convertible are considered when assessing whether the REIT controls another subsidiary. Subsidiaries are fully consolidated from the date on which control is obtained by the REIT. They are deconsolidated from the date that control ceases.

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 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 judgments 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, 2012 were appropriately designed. On April 3, 2012 the REIT graduated to the TSX. As a consequence, management is required to certify the design and evaluation of the REIT's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR").

During the quarter ended September 30, 2012, management completed its assessment of the design of disclosure controls and procedures and internal controls over financial reporting and as a result, made a material change in controls over user access to key financial reporting information to remediate an internal control deficiency. The existence of the identified weakness had no impact on the REIT's 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.