



**MANAGEMENT'S DISCUSSION AND ANALYSIS
THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**

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; (2) demand for vacant space at the REIT's properties remains high enabling the REIT to generate additional rents and enhance recovery ratios; and (3) the REIT is able to refinance maturing debt at favourable interest rates. Other assumptions are discussed throughout this MD&A; in particular under Part V – Risks and Uncertainties.

Forward-looking statements include statements related to acquisitions, development and capital expenditure activities, future maintenance and leasing expenditures, financing, the availability of financing sources and income taxes.

Factors that could cause actual results, performance, or achievements to differ materially from those set forth in the forward-looking statements and information include, but are not limited to: general economic conditions, local real estate conditions, including the development of properties in close proximity to the REIT's properties, timely leasing of newly developed properties and releasing of occupied square footage upon expiration, dependence on tenants' financial condition, changes in operating costs, government regulations and taxation, the uncertainties of real estate development and acquisition activity, the ability to effectively integrate acquisitions interest rates, availability of equity and debt financing, the ability of the REIT to maintain stable cash flows and distributions 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.

These forward-looking statements are made as of November 13, 2014 and disclosure of this material information is current to that date, unless otherwise noted.

PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") for the three and nine months ended September 30, 2014, includes material information up to November 11, 2014. Financial data has been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. All dollar references are in Canadian dollars.

This MD&A is intended to provide readers with an assessment of the performance of Partners REIT for the three and nine months ended September 30, 2014, as well as our financial position and future prospects. The MD&A should be read in conjunction with the REIT's condensed consolidated financial statements for the three and nine months ended September 30, 2014 and 2013, the REIT's consolidated financial statements for the years ended December 31, 2013 and 2012 and the REIT's 2013 annual information form.

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 or losses). We define funds from operations ("FFO") as net income before fair value gains or losses, amortization of leasing commissions ("LCs"), tenant inducements ("TIs") and deferred financing costs on mortgages and credit facilities, 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 and capital expenditures that maintain the current rental operations, amortization of deferred financing costs and straight-line rent. NOI is an important measure that we use to assess operating performance, and FFO is a widely-used measure in analyzing real estate. AFFO is typically a measure used to assess an entity's ability to pay distributions. We provide the components of net operating income on page 19, and a reconciliation of net income to funds from operations and adjusted funds from operations on page 21. NOI, FFO, and AFFO do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

BUSINESS OVERVIEW, STRATEGIC DIRECTION AND OUTLOOK

Partners REIT is an unincorporated, open-ended real estate investment trust. The REIT was formed pursuant to a Declaration of Trust initially dated March 27, 2007, and last amended and restated on April 8, 2013. The REIT's units are listed on the Toronto Stock Exchange (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol. The REIT is also listed on the OTC exchange in the United States trading under the symbol PTSRF.

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 focus is on the management of a portfolio of high quality, geographically and economically diversified retail community and neighbourhood centres. These properties are primarily in the mid-market value range of \$10 to \$50 million, and are located in both primary and secondary markets throughout Canada.

As at September 30, 2014, Partners REIT's 36 properties were primarily 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 renewals, and management's active operation of the properties. The REIT believes it has created a base of retail assets that provides reliable and stable cash flow. The REIT continues to pursue opportunities that yield growth through lease renewals, redevelopment and/or development of assets.

Management believes that Partners REIT's focus on retail centres with necessity-based anchor tenants provides the REIT with relative stability during economic downturns, while the long-term nature of leases and resulting security of revenues, as well as the use of long-term, low-interest debt, provide the REIT with a stable environment on which to focus on enhancing revenues from the portfolio.

Partners REIT's management is focused on enhancing returns to unitholders by actively managing the REIT's existing portfolio and generating continued growth from, among other things, base rents (including contractual escalations, renewals and new leasing activity), increasing the occupancy of the portfolio and the improvement of operational processes and recovery ratios. Management is likewise committed to ensuring a stable and sustainable payout ratio and is committed to the reduction of its debt-to-gross book value with the aim of increasing the REIT's long-term strategic flexibility.

Holyrood Acquisition and Rescission

On April 22, 2014 the REIT acquired three retail centres from Holyrood Holdings Inc. ("Holyrood") for \$83.2 million, along with the issuance of a promissory note in the amount of \$6.9 million. The \$90.1 million investment was paid for from the combination of new mortgages of \$55.1 million and the issuance of equity. This transaction resulted in Holyrood holding approximately 18.7% of the REIT's outstanding units, on a fully diluted basis.

On May 4, 2014 the Trustees announced that had they known the extent of the relationship between Ron McCowan, the REIT's interim CEO and Laura Philp, owner of Holyrood properties that they would have taken the acquisition to Unitholder vote. The Trustees announced their intention to unwind the acquisition.

On June 6, 2014 the REIT and Holyrood entered into a Rescission Agreement, one in which the acquisition would be reversed and that to the greatest extent possible the parties would be put into the position they were in prior to the transaction.

On October 2, 2014 the REIT and Holyrood obtained an Order from the Ontario Superior Court of Justice that rescinded the April 22, 2014 Acquisition of the Holyrood Properties.

Strategic Review

On May 6, 2014 the REIT's Board of Trustees announced that it has hired National Bank Financial, to identify longer-term strategic alternatives that could include potential strategic investments or a sale of the REIT.

The REIT's higher than anticipated general and administrative costs, other transactions cost associated with internalization, the recent proxy battle, soft costs on the acquisition and rescission of the Holyrood properties and current necessary capital expenditures have all combined to strain the REIT's financial position. On August 14, 2014, in an effort to improve the REIT's liquidity and establish a more secure financial position, the REIT's Board of Trustees announced the following steps:

- A reduction of the REIT's monthly cash distributions to \$0.02083 per unit per month, or \$0.25 per unit on an annualized basis, effective as of the August 2014 distribution.
- The sale of a small portfolio of properties with the anticipation of generating net cash of approximately \$14 million (completed September 26, 2014 for net proceeds of approximately \$15 million).
- The REIT would continue to use its best efforts to unwind the Holyrood Acquisition (completed October 2, 2014).

The payout ratio is expected to stay below 100% in the fourth quarter due to the revised distribution level.

The REIT's Board of Trustees continues to work with the REIT's management and National Bank Financial in an effort to identify longer-term strategic alternatives, including potential strategic investments or a sale of the REIT.

Leasing

Lease expiries in 2014 and 2015 are 3.0% and 8.0%, respectively, as of September 30, 2014. Management believes that there is strong demand for the majority of space, and that the expiries provide the REIT with a near-term opportunity to enhance the revenues generated by those properties.

Financing

The REIT has \$70.4 million (28.9%) in mortgages maturing over the next two years (October 1, 2014 to September 30, 2016). Management expects that refinancing this portion of the REIT's debt should result in a reduction of the REIT's financing costs in a normalized operating environment.

During the third quarter, the REIT re-financed its Place Desormeaux property through a \$23.0 million new mortgage replacing the maturing mortgage of \$20.6 million. The excess funds net of costs of \$2.1 million, along with the related release of \$1.3 million in escrow provided the REIT with \$3.4 million in cash for operations. The new mortgage is a variable rate loan at prime plus 2% (effective interest rate of 5%), with a three year term.

On November 10, the REIT completed the refinancing of five properties. This refinancing is expected to provide the REIT with the capital necessary to fund property improvements and allow for better visibility regarding the REIT's future interest costs.

The refinancing consists of first mortgages that will amount to \$51.0 million. Of this amount, \$47.0 million will be used to repay both the \$35.0 million outstanding on the REIT's \$40.0 million credit facility and other existing mortgages. The balance of \$4.0 million will be invested in improving the quality of the REIT's existing property portfolio. The refinancing will also provide the REIT with access to a \$10.0 million line of credit that will be secured by second mortgages on a number of the refinanced properties. The REIT does not anticipate requiring use of this line of credit within the near future.

The first mortgages carry an average weighted interest rate of 3.74% and an average term to maturity of 6.9 years. The \$10.0 million line of credit will bear interest at a rate of prime plus 2.0% and has a term of two years.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

	As at and for the three months ended		As at and for the nine months ended	
	Sep 30, 2014	Sep 30, 2013	Sep 30, 2014	Sep 30, 2013
Revenues from income producing properties	\$ 14,507,888	\$ 14,533,172	\$ 44,885,569	\$ 41,792,858
Net income (loss)	(12,464,313)	2,879,866	(24,071,909)	13,380,102
Net income (loss) per unit - basic	(0.47)	0.11	(0.92)	0.52
NOI ⁽¹⁾	8,755,664	8,839,837	27,919,750	26,262,588
NOI - same property ⁽¹⁾	7,913,368	8,226,200	21,006,225	21,571,577
FFO ⁽¹⁾	2,458,189	2,901,042	8,448,127	10,146,410
FFO per unit ⁽¹⁾	0.09	0.11	0.32	0.39
AFFO ⁽¹⁾	2,619,091	2,912,645	8,544,241	9,923,969
AFFO per unit ⁽¹⁾	0.10	0.11	0.33	0.38
Distributions ⁽²⁾	2,198,779	4,155,066	8,755,414	12,418,347
Distributions per unit ⁽²⁾	0.08	0.16	0.33	0.48
Distribution payout ratio ⁽³⁾	89% / 84%	143% / 143%	104% / 102%	122% / 125%
Cash distributions ⁽⁴⁾	2,005,495	3,806,451	7,952,202	11,553,750
Cash distributions per unit ⁽⁴⁾	0.08	0.15	0.30	0.45
Cash distribution payout ratio ⁽⁵⁾	82% / 77%	131% / 131%	94% / 93%	114% / 116%
As at		Sep 30, 2014	Dec 31, 2013	Sep 30, 2013
Total assets	\$	558,778,156	\$ 595,628,037	\$ 605,640,966
Total debt ⁽⁶⁾		394,301,960	398,612,885	398,184,703
Total equity		153,507,424	184,878,657	197,005,711
Weighted average units outstanding - basic		26,165,753	25,731,319	25,662,288
Debt-to-gross book value including debentures ⁽⁶⁾		66.8%	66.7%	66.7%
Debt-to-gross book value excluding debentures ⁽⁶⁾		52.3%	52.4%	52.5%
Interest coverage ratio ⁽⁷⁾		2.09	2.10	1.99
Debt service coverage ratio ⁽⁷⁾		1.36	1.43	1.38
Weighted average interest rate ⁽⁸⁾		4.99%	4.34%	4.34%
Portfolio occupancy		96.0%	96.4%	96.1%

- (1) NOI, FFO and AFFO are non-IFRS financial measures widely used in the real estate industry. See "Part II – Performance Measurement" for further details and advisories. Prior year balances have been reclassified to conform with current year presentation.
- (2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 15th day of the following month. Distributions per unit exclude the 5% bonus units given to participants in the Distribution Reinvestment and Optional Unit Purchase Plan.
- (3) Total distributions as a percentage of FFO/AFFO.
- (4) 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.
- (5) Cash distributions as a percentage of FFO/AFFO.
- (6) See calculation under "Debt-to-Gross Book Value" in "Part IV – Results of Operations".
- (7) Calculated on a rolling four-quarter basis. See definition under "Mortgages and Other Financing" in "Part IV – Results of Operations".
- (8) Represents the weighted average effective interest rate for secured debt excluding debentures and credit facilities.
- (9) Certain comparative figures have been reclassified to conform with the current year's presentation.

Revenue from income producing properties remained flat for the three months ended September 30, 2014 and increased by \$3.1 million (7%) for the nine months ended September 30, 2014, over the same periods in 2013. The increase is due to a full period of contributions in 2014 from six properties in British Columbia, Alberta and Québec acquired during the nine months ended September 30, 2013.

Net income for the three and nine months ended September 30, 2014 decreased by \$15.3 million and \$37.5 million, respectively, when compared to the same periods in 2013. This decline can be attributed to fair value losses on the income producing property portfolio compared to fair value gains recognized in the same prior year periods, increases in other transaction costs, increases in financing costs and increases to legal and payroll costs.

All property NOI for the three months ended September 30, 2014 decreased by \$0.1 million (1%), and for the 9 months ended September 30, 2014 increased \$1.7 million (6%), as compared to the same periods in 2013, due to a full period of contributions from properties acquired during 2013, partially offset by lower recoveries on the

REIT's portfolio. Same property NOI, which removes the effect of the REIT's acquisitions, decreased by 4% and 3%, respectively, for the three and nine months ended September 30, 2014. This decrease was primarily due to the application of lower recovery rates for quarter end accruals.

FFO for the three and nine months ended September 30, 2014 decreased by 15% and 17%, respectively, due to increased general and administrative expenses and financing costs. AFFO for the three and nine months ended September 30, 2014 decreased by 10% and 14%, respectively, compared to the same prior year periods in 2013 for the same reasons as the FFO decrease, partially offset by lower straight line rents recognized during 2014.

For the three months ended September 30, 2014, distributions per unit decreased to \$0.08 compared to \$0.16 per unit for the same prior year period. This reduction was the result of the REIT's trustees' decision to reduce the distribution in order to provide the REIT with additional financial flexibility.

The AFFO cash payout ratio for the three and nine months ended September 30, 2014 was 77% and 93%, respectively, compared 131% and 116%, respectively, in the same periods in 2013.

The REIT's total assets at September 30, 2014 decreased by \$36.8 million (6%) over the balance at December 31, 2013. This decrease was a result of the sale of three single tenant properties located in Ontario for gross proceeds of \$34.9 million and fair value losses recognized on the REIT's property portfolio partially offset by an increase in the REIT's working capital.

The REIT's total debt as at September 30, 2014, decreased by \$4.3 million, or 1%, when compared to the balance at December 31, 2013. This decrease was the result of a disposal of a total of \$19.2 million in mortgages as a part of the sale of three Ontario properties, \$20.7 million in loan maturities, as well as monthly principal repayments on the REIT's mortgages of \$6.0 million. These factors were partially offset by \$38.0 million in new mortgages and \$4.0 million in net draws on the REIT's Credit Facility.

Occupancy at September 30, 2014 decreased slightly to 96.0% as compared to 96.4% occupancy at December 31, 2013, and 96.1% at September 30, 2013.

REAL ESTATE PORTFOLIO

Portfolio Summary

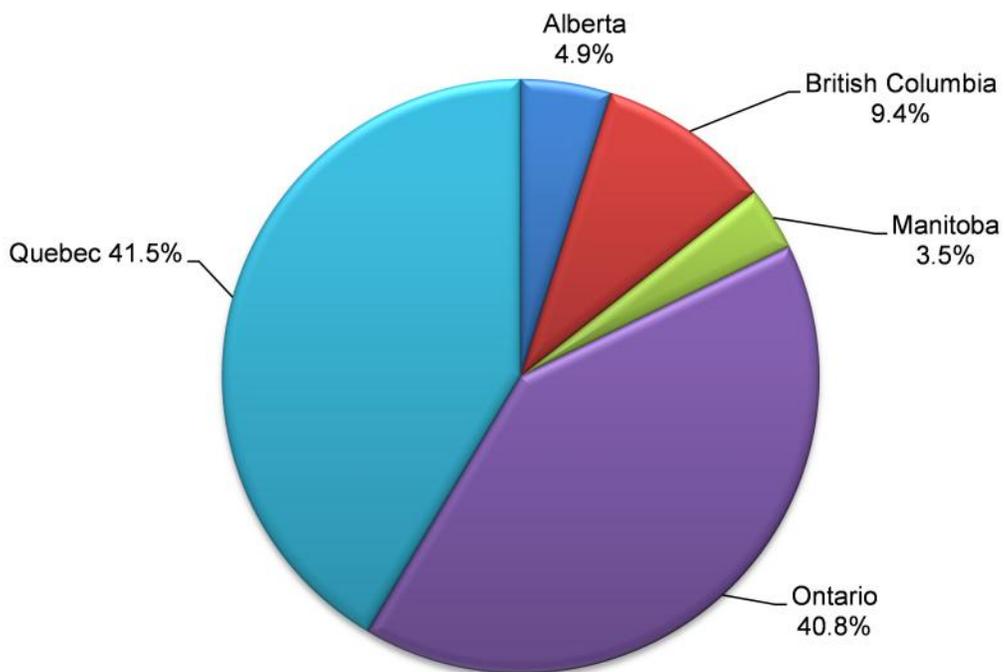
Property and location	Property type	Date built /redeveloped	Anchor and shadow anchor tenants	Retail (sq.ft.) ⁽¹⁾	Occupancy ⁽²⁾ ₍₃₎	% of annualized base rental revenue ⁽³⁾	Weighted average rent ⁽³⁾
British Columbia:							
Evergreen Shopping Centre Sooke, British Columbia	Shopping Centre	1978/2010	Western Foods, Shoppers Drug Mart	72,151	94.7%	2.9%	\$15.93
Centuria Urban Village Kelowna, British Columbia	Condominium Shopping Centre	2007	Nesters Market, Shoppers Drug Mart	32,625	100.0%	2.0%	\$22.51
Washington Park Shopping Centre Courtenay, British Columbia	Retail Strip Centre	1992/1993	Great Canadian Superstore, TD Bank	32,594	91.1%	2.0%	\$24.85
Mariner Square Shopping Centre Campbell River, British Columbia	Shopping Centre	2006/2007	Save-On Foods, London Drugs, Starbucks	100,257	100.0%	4.6%	\$17.26
Alberta:							
Cobblestone Shopping Centre Grand Prairie, Alberta	Shopping Centre	2006/2007	Shoppers Drug Mart	42,980	100.0%	3.0%	\$26.31
Manning Crossing Edmonton, Alberta	Retail Strip Centre	1993 - 1996	Safeway, RBC	64,528	95.5%	3.9%	\$23.77
137th Ave. Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart	15,922	100.0%	0.8%	\$17.84
Manitoba:							
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart, Medical Practitioners	21,005	100.0%	1.2%	\$21.01
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	1.0%	\$21.75
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	1.2%	\$26.50
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,685	100.0%	0.8%	\$19.00
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,780	100.0%	1.2%	\$27.40
Ontario:							
Timmins West Power Centre Timmins, Ontario	Open-Air Retail Centre	2007 - 2009	Mark's Work Warehouse	43,774	100.0%	2.0%	\$17.29
Grand Bend Towne Centre, Grand Bend, Ontario	Free Standing	2002	Shoppers Drug Mart	41,605	86.8%	1.6%	\$16.62
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick, Best Buy, BMO	85,200	100.0%	4.1%	\$18.04
Thunder Centre Thunder Bay, Ontario	Enclosed Mall	2004 - 2007	HBC, LCBO, Old Navy, Dollarama	168,087	98.5%	7.3%	\$16.65
St. Clair Beach Towne Centre Tecumseh, Ontario	Retail Plaza	2004	Shoppers Drug Mart	40,088	76.7%	1.8%	\$22.07
King George Square Brantford, Ontario	Retail Plaza	1988	Shoppers Drug Mart, Dollarama	66,983	94.9%	3.1%	\$18.07
Crossing Bridge Square Stittsville, Ontario	Retail Plaza	1995	Farm Boy, McDonalds	45,913	100.0%	2.2%	\$18.02
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	251,092	96.7%	8.1%	\$12.53

Place Val Est Sudbury, Ontario	Grocery- anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,577	90.4%	3.3%	\$12.47
Wellington Southdale London, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Landmark Theatres, Dollarama	86,241	100.0%	4.6%	\$20.06
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.4%	\$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%	0.1%	\$2.47
Québec:							
Marcel Laurin Saint Laurent, Québec	Power Centre	2011	Metro Brunet Pharmacy	120,171	97.1%	5.7%	\$18.26
Repentigny Shopping Centre Repentigny, Québec	Retail Strip Centre	1988/2009	Familiprix Dollarama	49,371	78.4%	1.7%	\$16.15
Sorel Shopping Centre, Montréal, Québec	Shopping Centre	2009 - 2011	SAQ Tim Hortons	31,776	63.1%	1.2%	\$23.13
Saint Remi Shopping Centre Montréal, Québec	Shopping Centre	2010 - 2012	IGA Uniprix SAQ	61,704	91.9%	2.6%	\$17.34
Centre Village Shopping Centre Montréal, Québec	Shopping Centre	1977, 1991, 2001, 2010, 2012	Loblaws SAQ	95,585	96.4%	3.6%	\$14.84
Elgar Place Montréal, Québec	Shopping Centre	1969, 1989	Couche Tard	10,120	100.0%	0.4%	\$15.60
Plaza des Seigneurs Terrebonne, Québec	Retail Strip Centre	1998	SAQ Banque Nationale Uniprix	20,833	100.0%	1.2%	\$22.16
Méga Centre Montréal, Québec	Community Power Centre	1973/1993, 1999, 2000, 2004	Walmart Brault & Martineau	272,408	99.1%	7.8%	\$10.89
Place Desormeaux Longueuil, Québec	Regional Mall	1971/1998,2009, 2010	Walmart Super C	249,517	95.3%	7.6%	\$11.98
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	115,295	98.4%	3.8%	\$12.61
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,028	100.0%	1.1%	\$24.00
Total				2,518,522	96.0%	100%	\$15.53

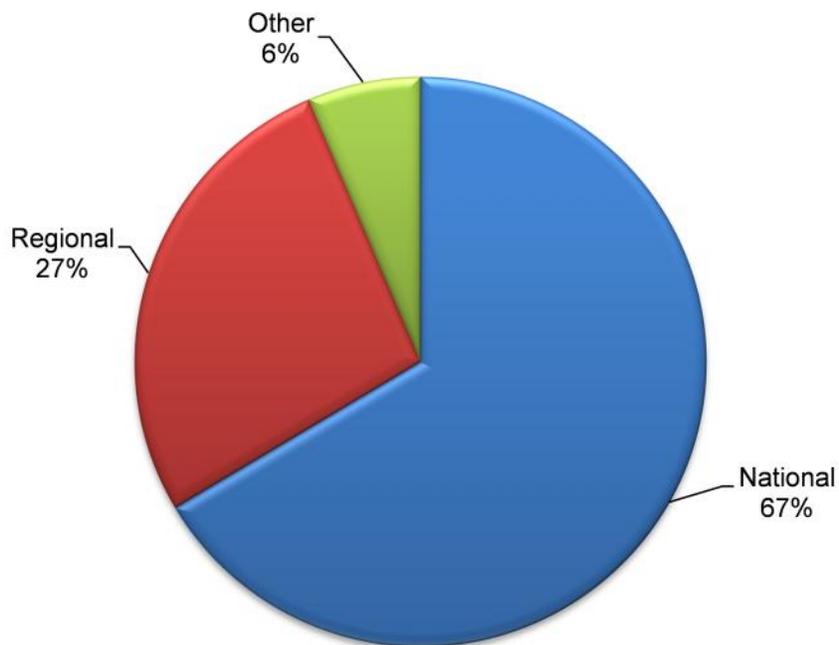
Notes:

- (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 September 30, 2014.
- (4) Represents the weighted average rent for the portfolio.

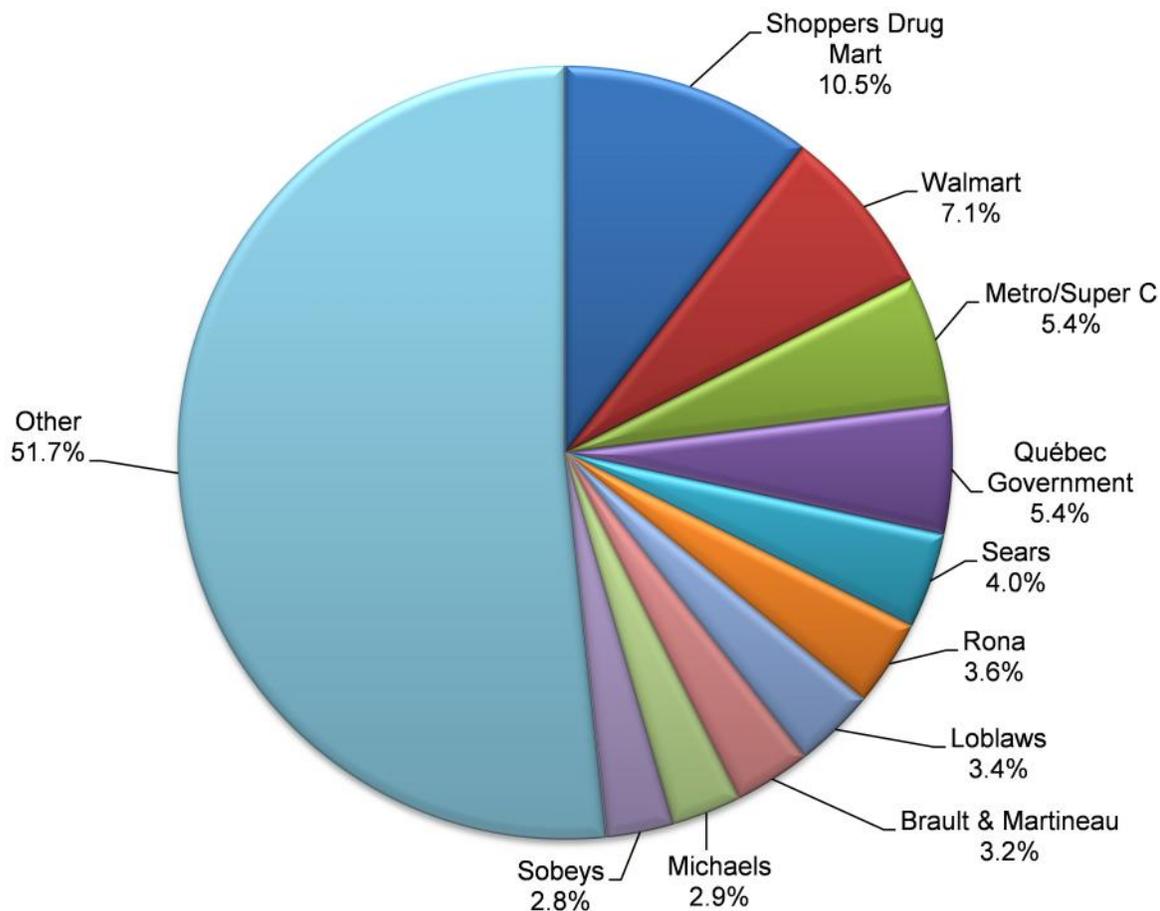
The geographic diversification of the portfolio by square footage is as follows:



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



The tenant mix of the REIT's portfolio as at September 30, 2014, 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 total GLA for 2014 and beyond:

	(sq.ft.)	(%)
2014	74,367	3.0%
2015	200,671	8.0%
2016	349,881	13.9%
2017	216,586	8.6%
2018	179,693	7.1%
Thereafter	1,397,697	55.5%
Vacant	99,628	4.0%
Total	2,518,523	100.0%

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

Year	Retail
2014	14.30
2015	15.93
2016	12.85
2017	18.14
2018	18.04
Thereafter	15.48
Average	\$ 15.53
Weighted average remaining lease term (years)	6.41

Lease expiries for 2014, new leasing and renewals completed by the date of this MD&A are as follows:

Three months ended	31-Mar-14	30-Jun-14	30-Sep-14	31-Dec-14	Total 2014	Total 2013
Lease expiries ⁽¹⁾	68,651	62,832	155,705	189,306	476,494	176,232
Base rent per square foot ⁽³⁾	\$ 11.37	\$ 18.90	\$ 7.16	\$ 7.99	\$ 9.64	\$ 15.83
Lease renewals - completed ⁽¹⁾	48,631	43,108	125,070	128,666	345,475	77,328
Base rent per square foot ⁽³⁾	\$ 10.85	\$ 17.73	\$ 8.56	\$ 5.54	\$ 8.79	\$ 19.35
Leases - in progress ⁽²⁾	11,774	9,227	5,217	60,640	86,858	68,044
Base rent per square foot ⁽³⁾	\$ 12.72	6.93	\$ 18.48	\$ 13.22	\$ 12.80	\$ 11.68
New leasing ⁽¹⁾	10,067	48,079	13,606	-	71,752	12,320
Base rent per square foot ⁽³⁾	\$ 15.96	\$ 14.99	\$ 18.87	\$ -	\$ 15.86	\$ 15.68
Uncommitted vacancies ⁽¹⁾	8,246	10,497	25,418	-	44,161	18,540
Base rent per square foot ⁽³⁾	\$ 19.90	\$ 18.84	\$ 11.24	\$ -	\$ 14.66	\$ 14.88

(1) Excludes month-to-month tenants

(2) Includes tenants on overhold or month-to-month leases

(3) Weighted average

Of the leases that were set to expire or were vacant during the year ended December 31, 2014, 417,227 square feet have been renewed or replaced with new leases with a further 86,858 square feet currently in the process of being renewed or committed to lease. The balance of 44,161 square feet, comprising seventeen tenancies, will require new prospects.

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, 2014	2,518,523	2,418,895	96.0%
June 30, 2014	2,711,464	2,623,747	96.8%
March 31, 2014	2,716,951	2,619,958	96.4%
December 31, 2013	2,716,328	2,619,855	96.4%
September 30, 2013	2,718,913	2,612,860	96.1%
June 30, 2013	2,712,868	2,603,432	96.0%
March 31, 2013	2,427,320	2,330,506	96.0%
December 31, 2012	2,341,176	2,264,428	96.7%
Average	2,607,943	2,511,710	96.3%

PART II – PERFORMANCE MEASUREMENT

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

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

We have provided the analysis of NOI, FFO, and AFFO under Part IV – Results of Operations.

Net Operating Income

Net operating income ("NOI") is defined as gross revenues from income producing properties less operating costs from income producing properties. Operating expenses do not include costs associated with financing, general and administration, amortization, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. Amortization of tenant costs, which are included in revenues, are removed in the calculation of NOI. NOI is a non-IFRS financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results from operations 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 based on 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, amortization of deferred financing 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. The calculation of AFFO excludes 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 the REIT 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, 2014, the rolling four-quarter DSCR was 1.36 to 1, down from 1.43 to 1 at December 31, 2013.

DSCR is not an IFRS measure and 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.

Weighted Average Interest Rate

The REIT’s 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, 2014, the REIT’s weighted average effective interest rate was 4.99%, an increase from 4.34% at December 31, 2013. The weighted average effective interest rate in the third quarter reflects the impact of a \$15 million second mortgage loan which carried an effective interest rate of 14% and was repaid in full subsequent to the end of the third quarter.

Occupancy Levels

Occupancy levels are presented in different manners depending on their context. They could be presented as an average portfolio occupancy rate when analyzing the overall operating performance, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the period over period performance of each property. Management considers these as useful measures in assessing the overall performance of its portfolio and essential tools to determine which properties require further investigation if performance lags. Refer to Part I – Overview & Financial Highlights under “Leasing Activity and Occupancy” 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 476,000 square feet of leasable space have or will expire in 2014. As at the date of this MD&A, the REIT has secured or is in the process of finalizing lease renewals and new leases in respect of approximately 432,000 square feet of leasable space. Additionally the REIT has secured new leases of approximately 72,000 square feet of leasable space.

PART III – RECENT DEVELOPMENTS & SUBSEQUENT EVENTS

Changes to Senior Management

On February 11, 2014 the REIT announced the appointments of Ron McCowan as interim Chief Executive Officer and Derrick West as Chief Financial Officer. In conjunction with these appointments, the REIT also announced the departure of Patrick Miniutti, the REIT's former Chief Executive Officer.

On February 14, 2014, the REIT announced the appointment of Jane Domenico as Chief Operating Officer.

On May 4, 2014 the REIT announced that Mr. McCowan had tendered his resignation as interim Chief Executive Officer. In addition, on May 4, 2014 the Board of Trustees announced that it had appointed Ms. Jane Domenico, the REIT's current Chief Operating Officer, as acting Chief Executive Officer while the Board continues its previously announced search for a permanent Chief Executive Officer.

Changes to the REIT's Board of Trustees

On February 14, 2014, REIT announced that Marc Charlebois had been appointed to the Board of Trustees.

Patrick Miniutti tendered his resignation as a trustee of the REIT effective March 24, 2014.

On April 3, 2014 the REIT announced the appointments of Mr. Lindsay Weiss and Mr. Kevin VanAmburg to the Board of Trustees. In conjunction with these appointments, the REIT also announced the departure of Mr. Allen Weinberg, a former Trustee. On May 2, 2014, the REIT announced that Mr. Lindsay Weiss had resigned from the Board of Trustees on April 30, 2014.

On June 10, 2014 the REIT announced the appointments of Stephen Dulmage and Dexter John to the Board of Trustees.

July 15, 2014, at the REIT's Annual General Meeting, the REIT's unitholders elected Jane Domenico, Stephen Dulmage, Joseph Feldman, and Dexter D.S. John to the Board of Trustees. As Marc Charlebois did not receive the requisite majority of votes at the REIT's Annual and Special Meeting of Unitholders, Mr. Charlebois tendered his resignation to the Board of Trustees. In accordance with the Majority Voting Policy, the resignation was referred to the Board's Governance and Compensation Committee ("GCC") for consideration and to make a recommendation to the Board of Trustees as to whether to accept Mr. Charlebois' resignation. The GCC, carefully considered all relevant factors, and made a recommendation to the Board of Trustees to reject the resignation.

Mr. Kevin VanAmburg did not stand for re-election at the Annual General Meeting.

Changes to Asset Management

On December 13, 2013, the REIT's Board of Trustees consented to a proposal from McCowan & Associates ("McCowan") pursuant to which a subsidiary of McCowan agreed to spend \$1.5 million to acquire the rights, duties, and obligations of the former asset manager ("LAPP") by way of assignment of the REIT's former management agreement. The proposal also called for McCowan to develop a plan to internalize the REIT's management by no later than February 15, 2014. McCowan agreed to effectively amend the former management agreement to provide for termination of its subsidiary as manager of the REIT on February 15, 2014, upon reimbursement of the \$1.5 million paid for the assumption of the management agreement, together with accrued and unpaid amounts of fees owing thereunder. This negotiated termination fee was approximately \$1.9 million less than the termination fee that would otherwise have been payable by the REIT to LAPP on voluntary internalization in 2014. On December 27, 2013, McCowan and LAPP completed the Court-approved assignment of the former management agreement from LAPP to McCowan's subsidiary. Effective February 15, 2014, the REIT terminated its management agreement with McCowan and completed the internalization of its asset management.

Changes to Property Management

It was announced on March 31, 2014 that property management in Ontario was to be fully internalized on April 30, 2014. The internalization was completed as planned. However, the internalization was in part facilitated by the Employee Sharing Agreement, between the REIT and McCowan.

On May 5, 2014 the REIT and McCowan amended the terms of the Employee Services Agreement to reflect the fact that the majority of the employees that were previously subject to such agreement were providing services separately to either McCowan or the REIT and are therefore employees of the applicable entity. Subsequent to the end of the second quarter, the REIT and McCowan mutually agreed to the termination of the Employee Services Agreement, effective August 31, 2014.

As a consequence, the REIT had insufficient leasing and operations staff to effectively carry out all required aspects of fully internalized property management. As such, the property management internalization is being modified where appropriate. Effective August 1, 2014, the REIT engaged Epic Realty Partners to manage its Alberta property portfolio. During September, the REIT engaged Epic Realty to manage the Manitoba and Ontario properties.

On October 2, 2014, the REIT announced that it had retained Paul Harrs Real Estate Brokerage to handle the leasing from Ontario to British Columbia. Paul is an accomplished leasing and operations executive with over 25 years of experience.

As at October 20, 2014, all properties except the four BC properties were being managed by third party managers. Except the 11 properties in Quebec, the leasing, accounting and finance functions remain directly with REIT employees. In Quebec there are two property managers that provide property management, leasing and some accounting services.

Holyrood Acquisition and Subsequent Rescission

In April 2014, Partners purchased three retail centres in Ontario from Holyrood Holdings ("Holyrood") for a purchase price of approximately \$83.2 million. This purchase price was satisfied by the issuance of 4,813,517 convertible units of a subsidiary of the REIT and the assumption of three new first mortgage debts. Concurrently, the REIT issued 1,188,188 units at \$5.80 per unit to Holyrood and this issuance of \$6.9 million was paid in full by Holyrood's issuance of a promissory note. A second promissory note of \$524,000 was also issued by Holyrood to the REIT, representing a mark to market interest rate adjustment on the 3 mortgages obtained with the Acquisition. This transaction resulted in Holyrood holding approximately 18.7% of the REIT's outstanding units, on a fully diluted basis.

At the time this acquisition was announced, Partners' Trustees considered the transaction to be in the REIT's best interests. The Trustees believed the acquisition would enhance the REIT's scale, create operational synergies, and increase net operating income.

In May 2014, shortly after the closing of the transaction, the REIT's Trustees were presented with information that persuaded them, after investigation and retention of independent counsel advice, that Ron McCowan, the REIT's interim Chief Executive Officer at the time (and holder of 15% of the REIT's outstanding units) had a sufficiently close business relationship with Laura Philp, Holyrood's owner, that they could be considered as acting together under applicable regulation. The REIT's Trustees would not have approved the Holyrood transaction had they known that Mr. McCowan and Ms. Philp may not have been acting at arm's length.

As a result of this development, the REIT's Trustees initiated a process to reverse the Holyrood Transaction. In June 2014, the REIT entered into a Rescission Agreement with Holyrood to unwind the Holyrood Transaction. The effect of the Agreement would be that the parties would apply to Court for an order rescinding the Holyrood Transaction and returning the parties (to the greatest extent possible) to the position they would have been in prior to its occurrence. The three properties would be returned to Holyrood, and the units issued to Holyrood would be returned to the REIT and its subsidiary for cancellation.

On October 2, 2014 the REIT and Holyrood obtained an Order from the Ontario Superior Court of Justice that rescinded the April 22, 2014 Acquisition of the Holyrood Properties. The rescission transaction was completed pursuant to the terms of the Rescission Agreement originally dated June 6, 2014. As a result, the three retail centres have been returned to Holyrood and the securities issued to Holyrood have been returned to the REIT

and subsequently cancelled. The REIT's financial statement for the second quarter and first six months of 2014 have been refiled to exclude the impact of the Holyrood transaction.

As a condition of closing the Holyrood Rescission, the REIT has provided a \$35.0 million loan guarantee to the lender of a loan to Holyrood Holdings Ltd. Should the lender make a demand on the REIT as a guarantor, the REIT may at its sole discretion purchase the lender's interest in the loan thus granting the REIT a first charge over Hamilton City Centre. If there is a demand on the REIT as a guarantor it is not expected that a loss would be incurred as there is adequate security to cover the \$35.0 million guarantee. The REIT currently has a registered second mortgage on the property.

To the end of the third quarter the total soft costs and break fees associated with Holyrood Holdings Inc. was \$4.3 million (see financial statements – Note 11).

Orange Capital Proxy Dispute and Tender Offer

On May 1 and May 5, 2014, Orange Capital, a US hedge fund, issued press releases outlining a number of concerns regarding the REIT, including, among other things, the April 2014 transaction pursuant to which the REIT purchased three Ontario properties from Holyrood Holdings Limited and the 10% second mortgage facility entered into by the REIT with Firm Capital. These releases followed an opportunistic financing proposal by orange which was rejected by the Board.

On May 28, 2014, Orange Capital press released its intent to propose its own slate of trustees at the annual unitholder meeting and to make an offer to buy 10% of the REIT at \$5.00

On June 27th, Orange Capital withdrew its nominees for consideration for election to the Board of Trustees.

Subsequent to the end of the second quarter, on July 2, 2014, Orange Capital announced that its tender offer to buy 10% of the REIT's units had expired. The 10% minimum tender condition of the Premium Tender had not been satisfied. Orange Capital did not take up any units of Partners REIT and all tendered units were to be returned to the tendering unitholders in accordance with the terms of the Premium Tender.

For the nine months ended September 30, 2014, the REIT incurred approximately \$1.0 million in costs associated with the proxy dispute.

Strategic Review and Extension of Unitholder Rights Plan

On May 6, 2014 the Board of Trustees of the REIT announced that it has commenced a process to review strategic alternatives to maximize value for unitholders and that the Trustees were in the process of interviewing potential financial advisors and expect to engage one shortly. The Board also announced that it had extended the REIT's Unitholder Rights Plan, which would otherwise have expired in May 2014, until the REIT's Annual General Meeting. In addition to the Trustees elections outlined above (see 'Changes to the REIT's Board of Trustees' on Page 14 for further details), at the REIT's Annual General Meeting, held on July 15, 2014, the REIT's unitholders also voted to ratify the adoption of a unitholder rights plan.

On May 13, 2014 the REIT announced that it had commenced a process to review strategic alternatives to maximize value for unitholders, with National Bank Financial selected as act as the financial advisor.

On August 14, 2014 the REIT reduced the monthly distribution from \$0.04166 per unit to \$0.02083 per unit and also announced the sale of a small portfolio of properties in Ontario in exchange for expected net cash consideration of approximately \$14 million (closed in September for net cash consideration of \$15.3 million).

New Financings

On May 12, Partners announced that it had closed a \$15 million financing with Firm Capital Corporation ("Firm Capital"). The loan has a term of one year, with interest payable at the greater of 10% per annum or prime rate of interest, plus 6% per annum. The loan is repayable without penalty on short notice. The REIT intends to use the proceeds of the loan for general corporate purposes. As security, the REIT provided a second mortgage on certain properties of the REIT located in Manitoba and Quebec.

On September 2, 2014 the REIT closed a \$23.0 million property financing to replace a \$20.8 million maturing mortgage and after fees the new mortgage provided a cash injection of \$2.1 million. In conjunction with the

financing, \$1.3 million in restricted cash was released from escrow and as a result the REIT obtained \$3.4 million in cash for operations. The new mortgage pays interest at prime plus 2%, matures in three years and has a 25 year amortization period. After six months the REIT can repay this loan without penalty or bonus.

On November 10, the REIT completed the refinancing of five properties. This refinancing is expected to provide Partners with the capital necessary to fund property improvements and allow for better visibility regarding the REIT's future interest costs.

The refinancing consists of first mortgages that will amount to \$51 million. Of this amount, \$47 million will be used to repay both the \$35 million outstanding on the REIT's \$40.0 million credit facility and other existing mortgages. The balance of \$4 million will be invested in improving the quality of the REIT's existing property portfolio. The refinancing will also provide the REIT with access to a \$10 million line of credit that will be secured by second mortgages on a number of the refinanced properties. The REIT does not anticipate requiring use of this line of credit within the near future.

The refinanced first mortgages carry a weighted average interest rate of 3.73% and an average term to maturity of 6.9 years. The \$10 million line of credit bears interest at a rate of prime plus 2.0% with a term of two years.

All of the loans completed by November 10 have been originated by First National LP, a wholly owned subsidiary of First National Financial (TSX: FN, FN.PR.A). First National LP will collect the applicable fees, which amount to \$238,875, and will also collect fees for servicing certain of the new mortgages. Upon closing, First National LP, which has originated mortgages previously for the REIT, will have provided mortgage financing for the REIT's properties in the total amount of \$116 million. Moray Tawse, a significant unitholder of the REIT, has an interest in First National Financial LP.

The REIT has also fully repaid its \$15 million loan outstanding with Firm Capital Corporation. This loan, which was first announced on April 30, 2014 in a press release entitled "Partners Real Estate Investment Trust Accepts Financing Commitment," carried a 10.0% interest rate at the time of its repayment. The repayment utilized proceeds from the REIT's sale of three properties to CT REIT, a transaction fully detailed in a press release disseminated on September 26, 2014 and entitled "Partners Announces Completion of Sale of Three Ontario Properties for \$34.9 Million."

Head Office

In July 2014, Partners moved its head offices to 249 Saunders Road, Unit #3, Barrie, Ontario.

Annual General Meeting Results

In addition to the Trustees elections outlined above (see 'Changes to the REIT's Board of Trustees' on Page 14 for further details), at the REIT's Annual General Meeting, held on July 15, 2014, the REIT's unitholders also voted to ratify the adoption of a unitholder rights plan.

Reduction of Distribution

Effective as of the August distribution, Partners reduced its monthly distribution to \$0.02083 per unit per month, or \$0.25 per unit per annum. This represents a 50% cut from the previous annualized distribution rate of \$0.50 per unit. This reduction will result in annual cash savings of approximately \$6.1 million, based on the unit count at the end of the second quarter.

This distribution cut should reduce the REIT's cash payout ratio which was 105% for the six months ended June 30, 2014.

Sale of Properties

On September 26, 2014 the REIT sold a small portfolio of properties (three Canadian Tire properties) to CT REIT for \$34.9 million. The purchaser assumed three related mortgages for \$19.2 million and after costs the REIT received net cash consideration of \$15.5 million. The capitalization rate for this transaction was 6.53% and is considered to be at market. Net proceeds from this transaction provided immediate liquidity for the funding of near term capital expenditures, general and administrative expenses, other transaction costs, and facilitating the repayment of high rate debt.

PART IV – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is selected financial information from the condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2014:

Three months ended	Sep 30, 2014	Sep 30, 2013	Change
Revenues from income producing properties	\$ 14,507,888	\$ 14,533,172	0%
Property operating expenses	(2,398,756)	(2,385,634)	1%
Realty taxes	(3,172,164)	(3,160,677)	0%
Property management fees	(338,916)	(262,619)	29%
	8,598,052	8,724,242	-1%
Other expenses:			
Financing costs	5,694,498	4,680,561	22%
General and administrative expenses	604,851	1,039,303	-42%
Other transaction costs	935,055	115,530	709%
	7,234,404	5,835,394	24%
Income before fair value gains	1,363,648	2,888,848	-53%
Fair value gains (losses)	(14,538,979)	(8,982)	161768%
Gains on sale of investment properties	711,018	-	0%
Net income and comprehensive income	\$ (12,464,313)	\$ 2,879,866	-533%
Earnings per unit, basic	\$ (0.47)	\$ 0.11	-521%
<hr/>			
Nine months ended	Sep 30, 2014	Sep 30, 2013	Change
Revenues from income producing properties	\$ 44,885,569	\$ 41,792,858	7%
Property operating expenses	(6,921,099)	(6,324,477)	9%
Realty taxes	(9,678,104)	(8,796,687)	10%
Property management fees	(880,094)	(747,068)	18%
	27,406,272	25,924,626	6%
Other expenses:			
Financing costs	16,129,960	12,905,602	25%
General and administrative expenses	3,361,979	2,637,261	27%
Other transaction costs	8,620,592	1,903,164	353%
	28,112,531	17,446,027	61%
Income before fair value gains	(706,259)	8,478,599	-108%
Fair value gains (losses)	(24,076,668)	4,901,503	-591%
Gains on sale of investment properties	711,018	-	0%
Net income and comprehensive income	\$ (24,071,909)	\$ 13,380,102	-280%
Earnings per unit, basic	\$ (0.92)	\$ 0.52	-276%

Net Income and Comprehensive Income

Net income for the three and nine months ended September 30, 2014 decreased by \$15.3 million and \$37.5 million, respectively, when compared to the same periods in 2013. This decline can be attributed to fair value losses on the income producing property portfolio compared to fair value gains recognized in the same prior year periods, increases in other transaction costs, increases in financing costs and increases to legal and payroll costs.

Financing Costs

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

Financing costs for the three and nine months ended September 30, 2014 increased by 22% and 25%, respectively, over the same periods in 2013. The increase is due to interest on new and assumed secured debt obligations on six properties acquired during the nine months ended September 30, 2014, interest on the REIT's new \$15.0 million second mortgage, interest on the REIT's unsecured convertible debentures issued during March 2013, interest made on increased draws on the REIT's credit facility and non-cash accretion expense recognized on all three of the REIT's debenture issuances.

General and Administrative Expenses

General and administrative expenses for the three and nine months ended September 30, 2014 decreased by 42% and increased by 27%, respectively, from the same periods in 2013. The decrease in general and administrative expenses for the three ended September 30, 2014 was a result lower legal costs and the reclassification of non normalized costs to other transaction costs. The increase in general and administrative expense for the nine months ended September 30, 2014 was a result of a increases in legal costs related to general trust matters and a number of one-time costs related to the internalization of management including office set up and IT related costs.

Other Transaction Costs

Other transaction costs for the three and nine months ended September 30, 2014 increased by approximately \$0.8 million and \$6.7 million, respectively, from the same periods in 2013. The increase in other transaction costs for the three and nine months ended September 30, 2014 was a result of internalization costs, soft costs in the acquisition and rescission and break fees from the Holyrood Transaction, the Orange Capital proxy dispute and the strategic review process.

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	Sep 30, 2014	Sep 30, 2013	Variance
Revenues from income producing properties	\$ 13,535,735	\$ 13,746,853	\$ (211,118)
Property operating expenses	(2,352,417)	(2,244,662)	(107,755)
Realty taxes	(3,103,344)	(3,134,512)	31,168
Property management fees	(327,088)	(257,074)	(70,014)
	7,752,886	8,110,605	(357,719)
Amortization of tenant costs	160,482	115,595	44,887
Net operating income	\$ 7,913,368	\$ 8,226,200	\$ (312,832)

NOI from same properties for the three months ended September 30, 2014 decreased by 3.8% over the same prior year period. The decrease in NOI is primarily due to the application of lower recovery rates for period end accruals as compared to the period ended September 30, 2013.

Nine months ended	Sep 30, 2014	Sep 30, 2013	Variance
Revenues from income producing properties	\$ 35,241,483	\$ 35,785,363	\$ (543,880)
Property operating expenses	(5,938,498)	(5,853,861)	(84,637)
Realty taxes	(8,104,487)	(8,023,005)	(81,482)
Property management fees	(705,752)	(674,883)	(30,869)
	20,492,746	21,233,614	(740,868)
Amortization of tenant costs	513,479	337,963	175,516
Net operating income	\$ 21,006,225	\$ 21,571,577	\$ (565,352)

NOI from same properties for the nine months ended September 30, 2014 decreased by 2.6% over the same prior year period. The decrease in NOI is primarily due to the application of lower recovery rates for period end accruals as compared to the period ended September 30, 2013.

All Properties NOI

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

Three months ended	Sep 30, 2014	Sep 30, 2013	Variance
Revenues from income producing properties	\$ 14,507,888	\$ 14,533,172	\$ (25,284)
Property operating expenses	(2,398,753)	(2,385,634)	(13,119)
Realty taxes	(3,172,164)	(3,160,677)	(11,487)
Property management fees	(338,916)	(262,619)	(76,297)
	8,598,055	8,724,242	(126,187)
Amortization of tenant costs	157,609	115,595	42,014
Net operating income	\$ 8,755,664	\$ 8,839,837	\$ (84,173)

The decrease in all property NOI of \$0.1 million for the three months ended September 30, 2014 is due to the application of lower recovery rates for period end accruals, offset by a full period of operations from one property acquired during the same prior year period.

Increases in property operating expenses, realty taxes and property management fees for all properties during the three months ended September 30, 2014, compared to the same prior year period, are primarily a result of the REIT's property acquisitions in the previous year.

Nine months ended	Sep 30, 2014	Sep 30, 2013	Variance
Revenues from income producing properties	\$ 44,885,569	\$ 41,792,858	\$ 3,092,711
Property operating expenses	(6,921,099)	(6,324,477)	(596,622)
Realty taxes	(9,678,104)	(8,796,687)	(881,417)
Property management fees	(880,094)	(747,068)	(133,026)
	27,406,272	25,924,626	1,481,646
Amortization of tenant costs	513,478	337,962	175,516
Net operating income	\$ 27,919,750	\$ 26,262,588	\$ 1,657,162

The increase in all properties NOI of \$1.7 million for the nine months ended September 30, 2014 is due to the acquisitions of six properties during 2013, offset by the application of lower recovery rates for period end accruals.

Increases in property operating expenses, realty taxes and property management fees for all properties during the nine months ended September 30, 2014, compared to the same prior year period, are primarily a result of the REIT's property acquisitions in the previous year.

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	Sep 30, 2014	Sep 30, 2013 ⁽¹⁾	Change
Net income for the period	\$ (12,464,313)	\$ 2,879,866	\$ (15,344,179)
Amortization of TIs and LCs	159,486	115,595	43,891
Unit option compensation expense	-	10,000	(10,000)
Other transaction costs	935,055	115,530	819,525
Interest on exchangeable LP units	-	32,392	(32,392)
Fair value losses (gains)	13,827,961	(252,341)	14,080,302
FFO	2,458,189	2,901,042	(442,853)
Interest accretion and deferred financing amortization	854,607	522,097	332,510
Straight-line rent	(187,938)	(484,662)	296,724
Sustaining capex	(505,767)	(25,832)	(479,935)
AFFO	\$ 2,619,091	\$ 2,912,645	\$ (293,554)
Weighted average units outstanding - basic	26,288,272	25,855,628	432,644
Weighted average exchangeable LP units	-	202,500	(202,500)
Total weighted average units	26,288,272	26,058,128	230,144
FFO per unit	\$ 0.09	\$ 0.11	\$ 0.02
AFFO per unit	\$ 0.10	\$ 0.11	\$ 0.01

FFO decreased by 15% during the three months ended September 30, 2014 compared to the same period in 2013 due to increases in financing costs and a decrease in all property NOI, partially offset by a decrease in general and administrative costs. The resulting FFO per unit for the quarter was \$0.09 per unit.

Since FFO does not consider straight-line rent (non-cash), amortization of deferred financing costs and capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the three months ended September 30, 2014 was \$2.6 million, a 10% decrease from the same prior year period.

⁽¹⁾ Prior year balances have been reclassified to conform with the presentation of current year amounts. The amortization of debenture issuance costs have been reclassified to financing costs from fair value gains/losses. This reclassification affects the REIT’s current and prior year FFO calculation but does not impact AFFO. The impact on FFO of this reclassification for the three months ended September 30, 2014 is a reduction of \$242,997 (three months ended September 30, 2013 - \$261,323).

Nine months ended	Sep 30, 2014	Sep 30, 2013 ⁽¹⁾	Change
Net income for the period	\$ (24,071,909)	\$ 13,380,102	\$ (37,452,011)
Amortization of TIs and LCs	515,355	337,962	177,393
Unit option compensation expense	-	30,000	(30,000)
Other transaction costs	8,620,592	1,903,164	6,717,428
Interest on exchangeable LP units	18,439	115,305	(96,866)
Fair value gains	23,365,650	(5,620,123)	28,985,773
FFO	8,448,127	10,146,410	(1,698,283)
Interest accretion and deferred financing amortization	1,894,533	1,490,223	404,310
Straight-line rent	(685,119)	(1,634,933)	949,814
Sustaining capex	(1,113,300)	(77,731)	(1,035,569)
AFFO	\$ 8,544,241	\$ 9,923,969	\$ (1,379,728)
Weighted average units outstanding - basic	26,165,753	25,662,288	503,465
Weighted average exchangeable LP units	65,055	242,976	(177,921)
Total weighted average units	26,230,808	25,905,264	325,544
FFO per unit	\$ 0.32	\$ 0.39	\$ 0.07
AFFO per unit	\$ 0.33	\$ 0.38	\$ 0.06

FFO decreased by 17% during the nine months ended September 30, 2014 compared to the same period in 2013 due to increases in general and administrative and financing costs, partially offset by an increase in all property NOI. This decrease was compounded by a 2% increase in the weighted average number units for the same comparable period. The resulting FFO per unit for the period was \$0.32 per unit.

Since FFO does not consider straight-line rent (non-cash), amortization of deferred financing costs and capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the nine months ended September 30, 2014 was \$8.5 million, a 14% decrease from the same prior year period.

⁽¹⁾ Prior year balances have been reclassified to conform with the presentation of current year amounts. The amortization of debenture issuance costs have been reclassified to financing costs from fair value gains/losses. This reclassification affects the REIT's current and prior year FFO calculation but does not impact AFFO. The impact on FFO of this reclassification for the nine months ended September 30, 2014 is a reduction of \$751,133 (nine months ended September 30, 2013 - \$718,620).

Statement of Cash Flows

Three months ended	Sep 30, 2014	Sep 30, 2013	Change
Cash flow used in operating activities	(1,548,684)	262,396	(1,811,080)
Cash flow provided by financing activities	(91,953)	16,016,039	(16,107,992)
Cash flow used in investing activities	13,909,468	(18,999,345)	32,908,813
NET INCREASE (DECREASE) IN CASH	12,268,831	(2,720,910)	14,989,741
CASH (BANK INDEBTEDNESS), OPENING	1,746,350	2,857,858	(1,111,508)
CASH, ENDING	\$ 14,015,181	\$ 136,948	\$ 13,878,233

Operating Activities

During the three months ended September 30, 2014 cash flows from operating activities decreased by \$1.8 million compared to the same prior year period. This decrease was primarily the result of increased other transaction costs compounded by a larger cash deficit from changes in working capital compared the three months ended September 30, 2013.

Financing Activities

During the three months ended September 30, 2014 cash flows from financing activities decreased by \$16.1 million compared to the same prior year period. This decrease is primarily the result of significant financing activity which occurred in conjunction with acquisitions during the three months ended September 30, 2013.

Investing Activities

During the three months ended September 30, 2014 cash flows from investing activities increased by \$32.9 million compared to the same prior year period. The increase is a result of property dispositions during the current period compared to property acquisitions during the prior year period.

Nine months ended	Sep 30, 2014	Sep 30, 2013	Change
Cash flow used in operating activities	(4,476,334)	148,763	(4,625,097)
Cash flow provided by financing activities	5,906,483	115,084,824	(109,178,341)
Cash flow used in investing activities	12,719,900	(116,950,269)	129,670,169
NET INCREASE IN CASH	14,150,049	(1,716,682)	15,866,731
CASH (BANK INDEBTEDNESS), OPENING	(134,868)	1,853,630	(1,988,498)
CASH, ENDING	\$ 14,015,181	\$ 136,948	\$ 13,878,233

Operating Activities

During the nine months ended September 30, 2014 cash flows from operating activities decreased by \$4.6 million compared to the same prior year period. This decrease was primarily the result of increased other transaction costs and general and administrative compared to the nine months ended September 30, 2014.

Financing Activities

During the nine months ended September 30, 2014 cash flows from financing activities decreased by \$109.2 million compared to the same prior year period. This decrease is primarily the result of significant financing activity occurring in conjunction with acquisitions during nine months ended September 30, 2014.

Investing Activities

During the nine months ended September 30, 2014 cash flows from investing activities increased by \$129.7 million compared to the same prior year period. The increase is a result of property dispositions during the current period compared to property acquisitions during the prior year period.

FINANCIAL POSITION ANALYSIS
Statement of Financial Position – Total Assets

As at	Sep 30, 2014	Dec 31, 2013
Income producing properties	\$ 532,917,851	\$ 588,391,005
Other assets	4,497,024	4,514,391
Accounts receivable	7,348,100	2,722,641
Cash	14,015,181	-
Total assets	\$ 558,778,156	\$ 595,628,037

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.

As at December 31, 2010, all of the REIT's properties were appraised by third-party appraisers. For December 31, 2011 and subsequent year-end periods, external valuations from a third-party appraiser were obtained for a cross-section of properties from different geographical locations and markets across the REIT's portfolio, as determined by management.

The decrease of \$55.5 million in income producing properties at September 30, 2014 over December 31, 2013 is due primarily the sale of three properties in Ontario for gross proceeds of \$34.9 million and fair value losses recognized on the REIT's property portfolio.

During the nine months ended September 30, 2014, external appraisals were obtained for thirteen of the REIT's properties with an aggregate fair value of \$160.2 million, representing 30.1% of the fair value of the income producing property portfolio. At December 31, 2013, external appraisals were obtained for thirteen of the REIT's properties with an aggregate fair value of \$185.7 million, representing 31.6% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs. The value of the remainder of the REIT's income producing property portfolio is determined internally by the REIT using the same assumptions and valuation techniques used by the Appraisers.

Other assets

Other assets are composed of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow and other prepaid expenses. During the nine months ended September 30, 2014, the balance of other assets has decreased slightly due to the release of funds held in escrow upon the refinancing of a mortgage partially offset by higher prepaid property taxes.

Accounts receivable

Accounts receivable increased by \$4.6 million during the nine months ended September 30, 2014. The higher receivable balance at September 30, 2014 is primarily due construction costs which are to be repaid to the REIT for work on the Walmart at Mega Centre, unpaid base rents and unbilled recoveries receivable.

Net Asset Value

As at	Sep 30, 2014	Dec 31, 2013	Change
Units outstanding, end of period	26,306,651	25,988,800	317,851
Unitholders' equity	\$ 153,507,424	\$ 184,878,657	\$ (31,371,233)
Net asset value per unit	\$ 5.84	\$ 7.11	\$ (1.27)

Net asset value is a measure of the REIT's total assets less its liabilities and is represented on the balance sheet as Unitholders' Equity. As at September 30, 2014, the net asset value of the REIT was \$5.84 per unit which decreased \$1.27 per unit from December 31, 2013.

Capital

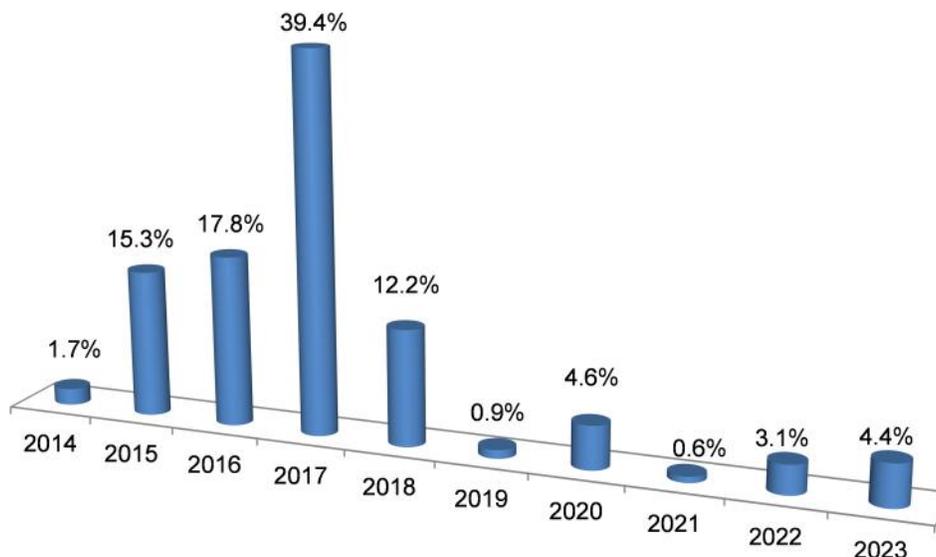
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance of debt capital, the REIT monitors its debt regularly for compliance with debt covenants contained in its loan agreements. The REIT is not in compliance with one of its covenants on its Credit Facility. The REIT has a binding letter of intent with First National Financial LP for new mortgages to replace this Credit Facility.

The following table shows the REIT's capital as at September 30, 2014 and December 31, 2013:

As at	Sep 30, 2014	Dec 31, 2013
Mortgages payable	\$ 274,804,579	\$ 284,150,560
Debentures	83,211,428	82,352,601
Credit facilities	34,913,503	30,795,803
Unitholders' equity	153,507,424	184,878,657
Total capital	\$ 546,436,934	\$ 582,177,621

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at September 30, 2014:



The primary contributors of the debt maturing from 2015 to 2018 are twenty-four mortgages totalling \$196.7 million and three series of convertible debentures totalling \$28.8, \$34.5 and \$23.0 million, respectively.

Over the next two years, the REIT has approximately \$70.4 million in mortgages maturing which carry an average contractual interest rate of 6.14%. Refinancing at current market rates would result in a reduction to the REIT's financing costs.

Interest coverage and debt service coverage ratios are as follows:

For the rolling four quarters ended	Sep 30, 2014	Sep 30, 2013
Interest coverage ratio ⁽¹⁾	2.09	1.99
Debt service coverage ratio ⁽²⁾	1.36	1.38

(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).

The interest coverage and debt service coverage ratios for the rolling four quarters ended September 30, 2014 decreased in comparison to the same prior year period due to new mortgages, a convertible debenture offering and draws on the REIT's credit facility. The impact of these was partially offset by net income contributions from newly acquired properties.

Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable is approximately three and a half years, and the weighted average contractual interest rate is 5.03%. Future principal repayments on the mortgages payable are as follows for 2014 to 2018 and thereafter:

Year	Principal installment payments	Principal maturing	Total	W.A. contractual rate on debt maturing
2014	1,971,968	4,218,627	6,190,595	6.59%
2015	7,847,206	47,267,408	55,114,614	6.64%
2016	6,842,098	28,373,931	35,216,029	4.33%
2017	4,717,399	102,604,223	107,321,622	4.96%
2018	2,336,746	18,439,813	20,776,559	4.71%
Thereafter	6,397,377	42,659,847	49,057,224	4.10%
Total	\$ 30,112,794	\$ 243,563,849	\$ 273,676,643	5.03%

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.

Convertible Debentures

The REIT has three outstanding issuances of extendible convertible unsecured debentures as follows:

Issuance Date	Expiry Date	Principal Amount	Contractual Interest rate	Fixed Conversion Price
March 8, 2011	March 31, 2016	\$ 28,750,000	8.00%	\$ 8.80
September 5, 2012	September 30, 2017	34,500,000	6.00%	10.35
March 12, 2013	March 31, 2018	23,000,000	5.50%	10.25
		\$ 86,250,000	6.53%	\$ 9.81

The debentures' interest payments become due semi-annually (March 31st and September 30th) in arrears. 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.

As at September 30, 2014, none of the debenture holders had converted their debentures to units of the REIT.

Credit Facilities

The REIT's revolving credit facility (the "Credit Facility") has a formula-based current maximum credit limit of \$40.0 million, expandable up to \$60 million with the securitization of additional unencumbered properties, and bears interest at the bank's prime rate (3.0% as at September 30, 2014) plus 1.0% per annum or the Banker's Acceptance stamping fee plus 2.25% per annum. As at September 30, 2014, the facility was secured by the King George Square, Crossing Bridge Square, Centre le Village Shopping Centre, Elgar Place and Centuria Urban Village properties with a formula-based amount as follows:

	Sep 30, 2014	Dec 31, 2013
Revolving credit facility	\$ 40,000,000	\$ 38,700,000
Line of credit outstanding	(35,000,000)	(31,000,000)
Remaining unused credit facility	\$ 5,000,000	\$ 7,700,000

The carrying value of properties pledged as security is \$62.9 million (December 31, 2013 - \$62.6 million).

Financing Costs

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

The unamortized balance of financing costs related to mortgages credit facilities and debentures at September 30, 2014 was \$4.1 million, which is \$0.8 million lower than the December 31, 2013 year-end balance. The decrease in the unamortized financing costs as at September 30, 2014 is due to recognition of deferred financing costs through interest expense in accordance with the effective interest method, offset by financing fees incurred on new debt. The unamortized portion of the financing costs is netted against the REIT's mortgages payable, credit facility and debentures on the statements of financial position.

Debt-to-Gross Book Value

The REIT actively manages both its debt capital⁽¹⁾ 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 Credit Facility and certain mortgages have restrictions on the REIT's debt-to-gross book value ratio, being a maximum of 75%. Management believes that the REIT's financial and strategic flexibility would be improved by a reduction in its debt-to-gross book value ratio. At September 30, 2014 the REIT has a debt-to-gross book value ratio of 66.8% (December 31, 2013 – 66.7%), calculated as follows:

As at	Sep 30, 2014	Dec 31, 2013
Debt		
Mortgage principal	273,676,643	282,225,144
Debentures, excluding fair value of convertible feature at issuance	85,625,317	85,387,741
Credit facilities	35,000,000	31,000,000
	394,301,960	398,612,885
Gross Book Value of Assets		
Original cost of income producing properties ⁽²⁾	560,614,443	585,677,396
Book value of all other assets	25,860,305	7,237,032
Deferred financing fees	4,119,246	4,854,218
	590,593,994	597,768,646
Debt-to-Gross Book Value	66.8%	66.7%
Debt-to-Gross Book Value Excluding Debentures	52.3%	52.4%

(1) 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.

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

Unitholders' Equity

For the nine months ended September 30, 2014, unitholders' equity decreased \$31.4 million over unitholders' equity for the year ended December 31, 2013 due to the net loss recognized, compounded by distributions paid to unitholders.

Distributions

The REIT has made monthly cash distributions of \$0.04167 per unit for the eight months ended August 31, 2014, representing an annualized distribution of \$0.50 per unit. The REIT's trustees have discretion in declaring distributions and review the distributions on a regular basis. On August 14, 2014, the Trustees announced a reduction in the distribution to \$0.25 per unit on an annualized basis, from \$0.50 on an annualized basis. The Trustees believe that this lower distribution more accurately reflects the REIT's current and foreseeable liquidity requirements and will allow for greater strategic and financial flexibility going forwards. For further discussion about the REIT's distribution, see "Liquidity Requirements" below.

Outstanding units

As of the date of this MD&A, the REIT has 26,306,651 issued and outstanding units. The total aggregate principal amount of three series of convertible debentures due between 2016 and 2018 is \$86.3 million. A total of 8,844,281 units are issuable upon conversion of these debentures.

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 Credit Facility. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from capital raises as well as obtaining debt financing on the related property. However, between capital raises, the REIT may use its Credit Facility to fund the equity portion of property acquisitions.

RELATED PARTY TRANSACTIONS

Effective December 25, 2013, McCowan and Associates (“McCowan”) purchased the REIT’s management contract for \$1.5 million from the REIT’s former asset manager, LAPP. Under the management contract, McCowan was responsible to arrange for the provision of all necessary management services to the REIT by competent employees, including, as needed, by seconding employees of the former asset manager. On February 15, 2014, upon approval of the internalization plan by the Trustees, McCowan terminated the management agreement and received reimbursement by the REIT of the \$1.5 million purchase price plus management fees outstanding. Upon internalization of management, Ron McCowan (shareholder of McCowan) became interim CEO of the REIT.

Pursuant to the management agreement between the REIT and McCowan, McCowan provided the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the “adjusted book value” of the REIT’s assets, paid quarterly in arrears. “Adjusted book value” equals the original property cost of the income producing properties, plus the book value of all other assets, plus the add-back of accumulated amortization of deferred costs. In accordance with the terms of the management agreement, McCowan was also reimbursed for costs incurred which were in excess of the management fees earned.

On February 14, 2014 the REIT entered into an employee services agreement with McCowan which permitted certain employees of the REIT to provide specified property, facility management, administrative and support services on an as-needed basis to McCowan. The initial term of the agreement was for one year with an option for renewal for a further one year term. The agreement required McCowan to reimburse the REIT a formula based amount using the square footage of McCowan owned properties that were receiving the services of REIT employees. The REIT understands that McCowan shares a portion of its costs for some of these employees under a separate arrangement, whereby from time to time some of these employees provide services on properties owned or controlled by Ms. Laura Philp.

During July, 2014 the REIT and McCowan mutually agreed to the termination of the employee services agreement allowing the REIT to retain only employees whose duties relate only to REIT properties.

Amounts owed from the REIT to related parties at September 30, 2014 are \$52,800 (December 31, 2013 - \$15,919). This amount has been classified in accounts payable and other liabilities, and consists of accrued directors’ fees and employee reimbursements.

Amounts owed to the REIT from related parties at September 30, 2014 are nil (December 31, 2013 – \$40,038).

QUARTERLY PERFORMANCE

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

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Total revenues	\$ 14,507,888	\$ 15,209,785	\$ 15,167,896	\$ 14,774,322	\$ 14,533,172	\$ 14,078,122	\$ 13,181,564	\$ 11,470,356
Operating expenses	5,909,836	5,773,513	5,773,513	5,933,636	5,808,930	4,923,247	5,136,055	4,283,766
Other expenses	7,234,404	8,785,106	8,785,106	8,799,734	5,835,394	7,196,242	4,414,391	4,079,241
Fair value gains (losses)	(14,538,979)	(1,921,463)	(1,921,463)	(9,225,833)	(8,982)	443,938	4,466,547	14,000,987
Net income	(13,175,331)	(1,270,297)	(1,312,186)	(9,184,881)	2,879,866	2,402,571	8,097,665	17,108,336
Net income per unit - basic	(0.47)	(0.39)	(0.05)	(0.36)	0.11	0.09	0.32	0.86
FFO	2,458,189	2,477,042	3,512,896	2,979,975	3,162,365	3,906,056	3,796,609	3,700,909
FFO per unit - basic	0.09	0.09	0.13	0.12	0.12	0.15	0.15	0.17

PART V – RISKS & UNCERTAINTIES

Income producing properties are inherently subject to certain risks and uncertainties due to their relative illiquidity and long term nature of the investment. Partners REIT's financial results, 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 ongoing obligation to access debt markets to refinance maturing debt as it becomes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions that are acceptable to Partners REIT or on any terms at all. 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 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, 2014 would have been 100 basis points higher or lower, calculated on all debts maturing over the next 24 months, with all other variables held constant.

	Approximate Change in Annual Interest Expense	Approximate Change in Interest Expense per Unit per Annum
Mortgages Payable	\$ 704,247	\$ 0.026
Credit Facilities	350,000	0.013
Debentures	287,500	0.010

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, 2014, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

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, 2014 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 arises from the possibility of not having sufficient debt and equity capital available to fund future growth, refinance debts as they mature or meet the REIT's payment obligations as they arise. Furthermore, liquidity risk also arises from the REIT not being able to obtain financing or refinancing on favourable terms.

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 Credit Facility. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its Credit Facility to fund the equity portion of property acquisitions.

The REIT's financial condition and results of operations would be adversely affected if it were unable to obtain financing/refinancing, cost-effective financing/refinancing, or if it were unable to meet its other liquidity requirements from ongoing operating cash flows. The REIT attempts to mitigate its liquidity risk by:

- staggering the maturities of its debt; and,
- not entering into property acquisitions unless it has secured or knows that it can secure the appropriate capital (debt and equity) to fund the particular acquisitions; and,
- planning capital spending around the availability of cash from operations or debt/equity funding; and
- reviewing current liquidity position and forecasted cash flow in advance of approving the monthly distributions.

The REIT did not generate positive cash flows from operating activities, during the three and nine months ended September 30, 2014. The REIT has incurred other transactions costs of \$1.0 million and \$8.6 million for the periods, respectively. These transaction costs relate to an internalization process, actions to acquire and rescind the Holyrood transaction, a proxy dispute, and the strategic review. These transaction costs reduce cash otherwise available from operations and reduce funds available for the ongoing working capital requirements, the capital and leasing expenditures on existing properties and for distributions to unitholders. In addition, there are bi-annual interest payments of \$2.8 million on the outstanding convertible debentures that result in periodic cash outflows (interest payments are due March 31st and September 30th).

As at September 30, 2014, the REIT has \$14.0 million in cash and \$5.0 million of capacity available under its \$40.0 million revolving credit facility, thereby providing \$19.0 million in liquidity. Subsequent to the end of the quarter, the REIT repaid without penalty a \$15.0 million second mortgage, thereby reducing its liquidity position. This reduction will offset from the \$9 million improvement to liquidity as a consequence of the refinancings completed November 10, 2014 (\$61 million in new financings that will repay \$12 million in mortgages and retire the \$40 million Credit Facility). In order to ensure that the REIT continues to have sufficient cash flows to meet its obligations, during the three months ended September 30, 2014 the REIT disposed of three properties, re-

financed a maturing mortgage and reduced the monthly distribution commencing with the August distribution due for payment on September 15, 2014. These measures have both provided a cash injection and reduced ongoing cash outflows, thereby improving the REIT's liquidity position and cash flows. Despite these measures, management will need to complete other re-financings of maturing mortgages while also reducing other transaction costs or the REIT may be required to obtain further financings or the sale of other properties.

ENVIRONMENTAL RISK

Partners REIT is subject to various federal, provincial and municipal laws and regulations relating to environmental matters, which deal primarily with the costs of removal and remediation of hazardous substances. Environmental risk is relevant to the REIT's ability to sell or finance affected assets and could potentially result in liabilities for 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 the 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.

PART VI – CRITICAL ACCOUNTING POLICIES & ESTIMATES

The REIT's critical accounting policies are those that management has determined to be the most important in portraying the REIT's financial condition and results, and which require 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 condensed consolidated financial statements for the period ended September 30, 2014.

CHANGES IN ACCOUNTING POLICIES

The REIT has applied, for the first time, new accounting policies due to the adoption of new standards and amendments to existing standards. The nature and impact of the new standards and amendments are described below:

(a) *IFRIC 21. Levies*

IFRIC 21 provides an interpretation of the requirements in IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* for the recognition of liabilities for obligations to pay levies that are within the scope of IFRIC 21. The standard has no impact on the REIT's consolidated financial statements.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

CONTROL ASSESSMENT

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and the Chief Financial Officer (CFO), on a timely basis so that appropriate decisions can be made regarding public disclosure. Management maintains appropriate information systems, procedures and controls to ensure the information that is publicly disclosed is complete, reliable and timely. This includes establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The REIT's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's internal controls over financial reporting as at September 30, 2014 using the Committee of Sponsoring Organizations ("COSO") Internal Control – Integrated Framework (as published in 1992).

CHANGES IN INTERNAL CONTROLS

It was decided in January 2014 and announced publically on March 31, 2014 that property management in Ontario was to be fully internalized on April 30, 2014. The internalization was completed as planned. However, the internalization was in part facilitated by the Employee Sharing Agreement, between the REIT and McCowan. As a consequence of the May 5, 2014 amendment of the employee service agreement and subsequent mutual termination of the employee service agreement effective August 31, 2014, the REIT had insufficient operational resources to effectively carry out all required aspects of fully internalized property management. Subsequently the REIT hired Epic Realty to provide property management services for its Alberta, Manitoba and Ontario provinces. The asset management agreement continues to remain internalized within the REIT.

LIMITATIONS OF INTERNAL CONTROLS

All internal control systems, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Given the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under potential future conditions, regardless of how remote.