PARTNERS REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2014 AND 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

FORWARD-LOOKING INFORMATION ADVISORY

This Management's Discussion and Analysis ("MD&A") to the unitholders may contain forward-looking statements and information within the meaning of applicable securities legislation. These forward-looking statements reflect management's current beliefs and are based on assumptions and information currently available to management of Partners Real Estate Investment Trust ("Partners 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 mist recently filed Annual Information Form, which is available on www.sedar.com.

These forward-looking statements are made as of March 26, 2015 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 year ended December 31, 2014, includes material information up to March 26, 2015. 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 year ended December 31, 2014, as well as its financial position and future prospects. The MD&A should be read in conjunction with the REIT's audited consolidated financial statements for the years ended December 31, 2014 and 2013 and the notes contained therein and the REIT's most recently filed annual information form ("AIF").

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, corporate transaction costs 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"), other corporate transactions costs, 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 FFO net of actual leasing commissions, tenant improvements and capital expenditures that maintain the current rental operations, amortization of deferred financing costs (including mortgage penalties from early payout) 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 22, and a reconciliation of cash flow from operations to funds from operations and adjusted funds from operations on page 24. NOI, NOI – same property, 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

General Overview

Partners REIT is an unincorporated, open-ended real estate investment trust. The REIT was formed pursuant to a Declaration of Trust initially dated March 27, 2007, and last amended and restated on 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.

Business Overview

Partners REIT is focused on the acquisition and management of a geographically diversified portfolio of retail and mixed-use retail community and neighbourhood shopping centres. These properties are located in both primary and secondary markets throughout Canada, and are primarily mid-market assets with values up to approximately $50 million.

Management is of the view that necessity based retail centres represent attractive investments due to their stable cash flows. The majority of rents at these types of properties are derived from national and regional retailers with multi-year leases. Management's long term plans include pursuing opportunities to acquire assets that are accretive on a per unit basis at attractive capitalization rates. As the portfolio develops and becomes increasingly accretive, the REIT aims to steadily implement sustainable increases to its cash distributions.

Currently, the REIT's portfolio consists of 36 properties located in British Columbia, Alberta, Manitoba, Ontario and Québec and in total, these properties comprise approximately 2.5 million square feet of GLA. As of December 31, 2014 the REIT had 18 full-time employees.

Strategy of the REIT

Partners REIT's stated mission is to "reward its unitholders with sustainable, long-term returns by developing a retail real estate portfolio that features open-air or standalone properties located in stable primary and secondary markets which are anchored by necessity based retailers. The REIT derives value from this portfolio by prioritizing superior client service, focused leasing activities, and active asset management."

Management believes focusing primarily on necessity based retail shopping centres in these markets will provide opportunities for the REIT to obtain high quality, stable retail properties with growth potential. These centres are typically up to 250,000 square feet and anchored by discount retailers and/or supermarkets. The REIT intends to maximize the value of its centres by remerchandising, redeveloping, or renewing leases on these properties wherever possible. The REIT's goal is to own either "institutional-grade" properties or properties that offer the potential to become "institutional-grade" through redevelopment and lease renewals.

Accretive opportunities in less competitive markets: The REIT applies an acquisition strategy whereby it seeks to acquire high quality properties in less competitive markets. Management believes that focusing upon secondary real estate markets offers the REIT the opportunity to acquire well-tenanted retail properties with strong national and regional retailers at attractive capitalization rates. By combining assets in the secondary market and primary market, management believes that the REIT will generate higher returns with lower risk than if the REIT were to focus exclusively on one or the other real estate markets.

Targeting the mid-market: The REIT focuses on acquiring properties or portfolios of properties valued at up to $50 million, which allows it to minimize competition from large real estate investment trusts, corporations, pension funds, and institutions. The REIT also considers larger acquisitions that do not fall into the investment parameters of larger real estate investment trusts or institutions, but still provide accretive investment opportunities.

Stable rents via national and regional tenants: The REIT focuses on acquiring retail properties with national and regional retail tenants. These tenants are most likely to fulfill the lease terms to which they have committed, and thus offer a stable source of cash flows.

Institutional grade properties: The REIT focuses on acquiring properties that are of institutional grade. These properties tend to generate more interest from national and regional retailers, resulting in more stable cash flows. These properties also tend to be more highly sought after, and thus offer greater value should the REIT elect to dispose of a particular asset. Finally, focusing on assets that fit this definition allows the REIT to obtain property financing at reliable market rates.

Strategic Review

On May 6, 2014, the REIT's Board of Trustees announced that they had commenced a strategic review process and engaged National Bank Financial to identify longer-term strategic alternatives, including both potential strategic investments or a sale of the REIT.

The REIT's higher than anticipated general and administrative costs, other transaction costs associated with internalization, costs related to the a proxy battle, costs for the Holyrood Transaction (as defined below) and its rescission, and necessary capital expenditures 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 which generated net cash proceeds of $15.5 million.

- The REIT would continue to use its best efforts to rescind the Holyrood Transaction (completed October 2, 2014).

The REIT's Board of Trustees continue to work with the REIT's management and National Bank Financial in an effort to identify longer-term strategic alternatives.

Leasing

Lease expiries in 2015 and 2016 are 7.1% and 14.7%, respectively, as of December 31, 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. However it should be noted that while the REIT did not have Target as a tenant in any of its centres, that Target withdrawal from the Canadian market place has created significant retail vacancies in the Canadian market place and as a consequence this may result in some challenges in negotiating renewals or vacant lease up with major tenants who operate in the same market places.

Financing

The REIT has $64.6 million (26.8%) in mortgages maturing over the next two years (January 1, 2015 to December 31, 2016). Management expects that refinancing this portion of the REIT's debt should result in a reduction of the REIT's financing costs bases on the current and expected financing conditions.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

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

	As at and for the three months ended		As at and for the year ended	
	Dec 31, 2014	Dec 31, 2013	**Dec 31, 2014**	Dec 31, 2013
Revenues from income producing properties	**$ 14,935,452**	$ 14,774,322	**$ 59,821,021**	$ 56,567,180
Net income (loss)	**(3,011,691)**	(9,184,881)	**(27,083,600)**	4,195,221
Net income (loss) per unit - basic	**(0.11)**	(0.36)	**(1.03)**	0.16
NOI [(1)]	**8,039,612**	9,004,796	**35,959,362**	35,267,384
NOI - same property [(1)]	**8,072,182**	8,480,303	**27,582,458**	28,314,657
FFO[(1)(9)]	**1,091,535**	2,400,027	**9,539,662**	12,546,438
FFO per unit[(1)(9)]	**0.04**	0.09	**0.36**	0.48
AFFO[(1)]	**1,274,371**	3,034,378	**9,818,612**	12,958,348
AFFO per unit[(1)]	**0.05**	0.12	**0.37**	0.50
Distributions[(2)]	**1,658,029**	3,561,211	**10,413,443**	15,979,558
Distributions per unit[(2)]	**0.06**	0.14	**0.40**	0.62
Distribution payout ratio[(3)]	**152% / 130%**	148% / 117%	**109% / 106%**	127% / 123%
Cash distributions[(4)]	**1,453,401**	3,229,261	**9,943,968**	14,783,011
Cash distributions per unit[(4)]	**0.08**	0.12	**0.38**	0.57
Cash distribution payout ratio[(5)]	**133% / 114%**	135% / 106%	**104% / 101%**	118% / 114%

As at	**Dec 31, 2014**	Dec 31, 2013
Total assets	**$ 542,551,040**	$ 595,628,037
Total debt[(6)]	**381,967,023**	398,612,885
Total equity	**149,036,368**	184,878,657
Weighted average units outstanding - basic	**26,206,391**	25,731,319
Debt-to-gross book value including debentures[(6)]	**69.9%**	66.4%
Debt-to-gross book value excluding debentures[(6)]	**54.2%**	52.2%
Interest coverage ratio[(7)]	**1.84**	2.10
Debt service coverage ratio[(7)]	**1.24**	1.43
Weighted average interest rate[(8)]	**4.43%**	4.34%
Portfolio occupancy	**94.3%**	96.4%

(1) NOI, NOI – same property, 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. NOI – same property includes only those properties which have been owned by the REIT for a full current and prior year period.

(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 increased for the three months and year ended December 31, 2014 by $0.2 million (1%) and $3.3 million (6%), respectively, when compared to the same periods in 2013. The increase in the quarter's results was primarily as a consequence of recognizing an additional $0.4 million in realty tax recoveries to revenues, an amount that was equally offset by an increase to realty tax expenses thereby generating no incremental NOI, but affecting the quarters gross revenue amounts. This adjustment related to certain single tenants who paid realty taxes directly on behalf of the REIT and prior to the fourth quarter 2014, the realty tax recovery revenue and the corresponding expenses were both excluded from the financials. During 2013, realty taxes paid on behalf of the REIT were also $0.4 million and both the revenue and expenses were not recorded during 2013. The current years increase to revenue was primarily due to a full period of contributions in 2014 from six properties acquired during the year ended December 31, 2013. This factor was partially offset by the sale of three properties in Ontario during September 2014.

The net loss for the three months ended December 31, 2014 decreased by $6.2 million when compared to the same period in 2013. Of this decrease, $5.3m can be attributed to lower fair value losses quarter over quarter. For the year ended December 31, 2014, net income decreased by $31.3 million when compared to the year ended December 31, 2013. This decrease is primarily the result of two non-property operational matters, an increase in fair value losses of $23.7 million and an increase to other corporate transaction costs of $5.5 million.

During 2014 management obtained 23 external appraisals, representing 66% of the REIT's portfolio value. These appraisals combined with significant management review of the stabilized NOI, capitalization rates and present value of lease up costs has resulted in the material adjustment to the values of the REIT's income producing properties. For the year ended December 31, 2014, the REIT recognized $28.3 million in fair value losses across its property portfolio. These fair value losses consist of $17.8 million related to six properties acquired during 2013 (which were previously valued at the purchase price plus closing costs), $8.1 million at one of the REIT's properties in Ontario (which requires extensive capital upgrades and recently lost an anchor tenant) and $2.4 million across the remaining properties (resulting from new appraisals received and from management adjusting capitalization rates based on comparable market transactions). Management believes that after recognizing $28.3 million in fair value losses during fiscal 2014, combined with the $10.7 million in fair value losses recognized by current management in the fourth quarter of 2013, that barring a general market change to capitalization rates or a material adverse change to tenancies, that there should be less volatility to the future values of the REIT's income producing properties. Furthermore, when also considering the 13 external appraisals done during 2013's fourth quarter, over the last five quarters the REIT has obtained appraisals covering 28 of 36 properties and covering 78% of the value at December 31, 2014 of the REIT's income producing properties.

All property NOI for the three months ended December 31, 2014 decreased by $1.0 million (11%) when compared to the same period in the prior year. This decrease was primarily as a result of $0.6 million in lost income from the sale of three properties in Ontario and the recognition of a $0.2 million bad debt provision. For the year ended December 31, 2014, all property NOI increased by $0.7 million (2%) when compared to the same period in 2013. This increase was primarily due to a full period of contributions from properties acquired during 2013, and was partially offset by both the sale of three properties in Ontario and increased property operating costs from the $0.7 million in bad debt provision.

Same property NOI, which removes the effect of the REIT's acquisitions and dispositions, decreased by $0.4 million (5%) and $0.7 million (3%) respectively, for the three months and year ended December 31, 2014. These decreases were mainly due to the aforementioned bad debt provisions.

FFO decreased by $1.3 million (55%) for the three months ended December 31, 2014, when compared to the same period in the prior year. This decrease was primarily due to $0.5 million in mortgage penalty costs that were incurred from the early repayment of a second mortgage that was undergoing a refinancing, the $0.6 million loss of income from the sale of three Ontario properties in September 2014, as well as $0.3 million from increased general and administrative expenses. For the year ended December 31, 2014, FFO decreased by $3.0 million (23%) from 2013's annual amount. This decrease was primarily due to $0.7 million in receivable provision, $1.0 million increase to general and administrative expenses along with an increase to financing costs as a result of higher average loan balance outstanding during the year. FFO for the three months ended December 31, 2013 has been reduced by $0.6 million compared to the prior year's reported amount. The adjustment relates to an interest accretion expense catch-up entry for the first nine months of 2013 which was recorded in the fourth quarter of 2013, but had been omitted in error in last year's quarterly presentation of FFO (the year to date amount for 2013 was properly presented in the prior year's filing).

AFFO for the three months and year ended December 31, 2014 decreased by $1.8 million (58%) and $3.1million (24%), respectively, when compared to the same periods in 2013. These factors were driven by the most of the same factors as the FFO decline (ie – increase to bad debt, general and administrative costs and finance costs), and was further compounded by an increase to maintenance related spending on the REIT's property portfolio. For the three months ended December 31, 2014 the REIT had $0.9 million in sustaining capital expenditures, a $0.9 million increase over 2013's fourth quarter's allocation. This is also $0.5 million ($0.018/unit) above the quarterly estimate for 2015's sustaining capital expenditures (annual estimate for 2015 is $1.5 million). During 2014 the REIT recognized that $2.0 million of the $4.8 million in capital expenditures related to non-revenue enhancing capital (ie - sustaining capital), whereas for 2013 the REIT recognized only $0.2 million of $7.7 million of capital spending as sustaining capital. This $1.8 million increase in 2014's sustaining capital, results in an incremental deduction to 2014's AFFO (a $0.07/unit effect), as compared to the year ending December 31, 2013.

Distributions for the three and twelve months ended December 31, 2014 were $1.7 million ($0.06 per unit) and $10.4 million ($0.40 per unit), a decrease when compared to $3.6 million ($0.14 per unit) and $16.0 million ($0.62 per unit) for the same prior year periods. This $1.9 million reduction to the fourth quarter's amount and $5.6 million reduction to the annual amount was the direct result of the REIT's August 2014 distribution announcement to reduce the annual distribution from $0.50/unit to $0.25/unit (effective for the August distribution paid in September 2014).

The AFFO payout ratio for the three months and year ended December 31, 2014 was 130% (2013 – 117%) and 106% (2013 – 123%). The AFFO 'cash' payout ratio for the three months and year ended December 31, 2014 was 114% (2013 – 106%) and 101% (2013 – 114%) respectively. Based on the 26.4 million units outstanding as at December 31, 2014, the current annual distribution of $0.25 per unit totals $6.6 million of distributions which is 67% of 2014's AFFO.

The REIT's total assets at December 31, 2014 decreased $53.1 million (9%), when compared to the balance at December 31, 2013. This decrease was a result of the sale of the three Ontario properties (reduction of $34.0m) and $28.3 million in fair value losses recognized on the REIT's property portfolio. These factors were partially offset by an increase in the REIT's working capital position.

The REIT's total debt as at December 31, 2014, decreased by $16.6 million (4%), when compared to the balance at December 31, 2013. This decrease was the result of a disposal of a total of $19.3 million in mortgages as a part of the sale of three Ontario properties, $32.4 million in loan maturities, $8.6 in monthly principal repayments on the REIT's mortgages, and the $31.0m repayment of the REIT's credit facility. These factors were partially offset by both $74.3 million in new mortgages and $2.2 million of regular amortization of deferred financing costs.

Partners' debt-to-gross book value as at December 31, 2014, was 66.9%, or 54.2% when excluding the impact of debentures. These metrics stood at 66.4% and 52.2%, respectively, as at December 31, 2013.

Partners' interest coverage ratio as at December 31, 2014 was 1.84, a decrease from 2.10 as at December 31, 2013. The REIT's debt service coverage ratio as at December 31, 2014 was 1.24, a decrease from 1.43 as at December 31, 2013. These declines can be attributed to new mortgages, a convertible debenture offering (during 2013), and draws on the REIT's credit facility. These factors were partially offset by net income contributions from newly acquired properties.

Occupancy at December 31, 2014 decreased to 94.3% as compared to 96.4% occupancy at December 31, 2013. This decrease was primarily the result of a single vacancy in excess of 40,000 sq. ft., the anchor tenant at the Cornwall Mall. The REIT is in discussions with a replacement tenant for this space.

Net asset value is a measure of the Partners' total assets less the REIT's liabilities, and is represented on the balance sheet as Unitholders' Equity. As at December 31, 2014, the REIT's net asset value was $5.65 per unit, a decrease of $1.46 per unit when compared to its level at December 31, 2013. This decrease is mainly as a result of $28.3 million ($1.07 unit) in property fair value write-downs and $8.8 million ($0.33/unit) in other transactions costs.

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(4)
British Columbia:							
Centuria Urban Village Kelowna, British Columbia	Mixed Use Commercial/ Residential	2007	Nesters Market, Shoppers Drug Mart	32,625	100.0%	2.0%	$22.59
Evergreen Shopping Centre Sooke, British Columbia	Retail Strip Centre	1978/2010	Western Foods, Shoppers Drug Mart, BC Liquor	72,105	94.8%	3.0%	$15.99
Mariner Square Shopping Centre Campbell River, British Columbia	Retail Strip Centre	2006/2007	Save-On Foods, Starbucks, London Drugs, BC Liquor	100,257	100.0%	4.7%	$17.26
Washington Park Shopping Centre Courtenay, British Columbia	Retail Strip Centre	1992/1993	Great Canadian Superstore, TD Bank	32,603	91.1%	2.0%	$24.88
Alberta:							
137th Ave. Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart, Partsource	15,922	100.0%	0.8%	$17.84
Cobblestone Shopping Centre Grand Prairie, Alberta	Retail Strip Centre	2006/2007	Shoppers Drug Mart, TD Bank, Starbucks	42,980	100.0%	3.1%	$26.31
Manning Crossing Edmonton, Alberta	Retail Strip Centre	1993 - 1996	Safeway, RBC	64,528	94.3%	3.9%	$23.86
Manitoba:							
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	1.0%	$21.75
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,685	100.0%	0.9%	$19.00
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 Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,780	100.0%	1.2%	$27.40
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	1.2%	$26.50
Ontario:							
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears, Shoppers Drug Mart	251,092	80.4%	7.0%	$12.84
Crossing Bridge Square Stittsville, Ontario	Retail Strip Centre	1995	Farm Boy, McDonalds, IDA	45,913	95.2%	2.1%	$18.01
Grand Bend Towne Centre, Grand Bend, Ontario	Retail Strip Centre	2002	Sobey's, Shoppers Drug Mart	41,605	86.8%	1.6%	$16.62
King George Square Brantford, Ontario	Retail Strip Centre	1988	Shoppers Drug Mart, Dollarama	66,983	94.9%	3.1%	$17.96
Place Val Est Sudbury, Ontario	Retail Strip Centre	1983/1987, 1990, 1998	Metro, LCBO, RBC, Pharmasave	110,577	90.4%	3.4%	$12.47
Quinte Crossroads, Belleville, Ontario	Power Centre	2005 - 2007	The Brick, Home Depot Best Buy, BMO	85,200	100.0%	4.2%	$18.04
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.4%	$3.54
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.1%	$2.47
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.1%	$1.49

Property and location	Property type	Date built /redeveloped	Anchor and shadow anchor tenants	Retail (sq.ft.)[(1)]	Occupancy[(2)(3)]	% of annualized base rental revenue[(3)]	Weighted average rent[(4)]
St. Clair Beach Towne Centre Tecumseh, Ontario	Retail Strip Centre	2004	Shoppers Drug Mart	40,088	76.7%	1.9%	$23.09
Thunder Centre Thunder Bay, Ontario	Power Centre	2004 - 2007	HBC, LCBO, Home Depot, Old Navy, Dollarama	168,087	98.5%	7.6%	$16.90
Timmins West Power Centre Timmins, Ontario	Retail Strip Centre	2007 - 2009	Michaels, Mark's	43,774	100.0%	2.0%	$17.29
Wellington Southdale London, Ontario	Retail Strip Centre	1986, 2000, 2004, 2006	Landmark Theatres, Dollarama	86,241	97.5%	4.5%	$19.93
Québec:							
Centre Village Shopping Centre Montréal, Québec	Enclosed Mall	1977, 1991, 2001, 2010, 2012	Loblaws, SAQ	96,257	96.4%	3.7%	$14.76
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart, Staples, Quebec Government	115,209	100.0%	3.9%	$12.66
Elgar Place Montréal, Québec	Retail Strip Centre	1969, 1989	Couche Tard	10,120	100.0%	0.4%	$15.60
Marcel Laurin Saint Laurent, Québec	Retail Strip Centre	2011	Metro, Brunet Pharmacy	120,171	97.1%	5.6%	$17.66
Méga Centre Montréal, Québec	Power Centre	1973/1993, 1999, 2000, 2004, 2014	Walmart, Michaels, Brault & Martineau	277,048	97.7%	7.7%	$10.50
Place Desormeaux Longueuil, Québec	Enclosed Mall	1971/1998,2009, 2010	Walmart, Super C, Quebec Government	249,518	95.7%	7.7%	$11.94
Plaza des Seigneurs Terrebonne, Québec	Retail Strip Centre	1998	Uniprix, SAQ, Banque Nationale	20,833	100.0%	1.2%	$20.64
Repentigny Shopping Centre Repentigny, Québec	Mixed Use Strip Centre	1988/2009	Familiprix, Dollarama, Quebec Government	49,371	78.4%	1.7%	$15.93
Saint Remi Shopping Centre Montréal, Québec	Retail Strip Centre	2009 - 2011	Sobey's, SAQ, IGA Uniprix, Tim Hortons	61,704	91.9%	2.7%	$17.34
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,028	100.0%	1.1%	$24.00
Sorel Shopping Centre, Montréal, Québec	Retail Strip Centre	2010 - 2012	Uniprix, SAQ	31,038	74.9%	1.4%	$22.42
Total				**2,522,974**	**94.3%**	**100%**	**$15.53**

Notes:

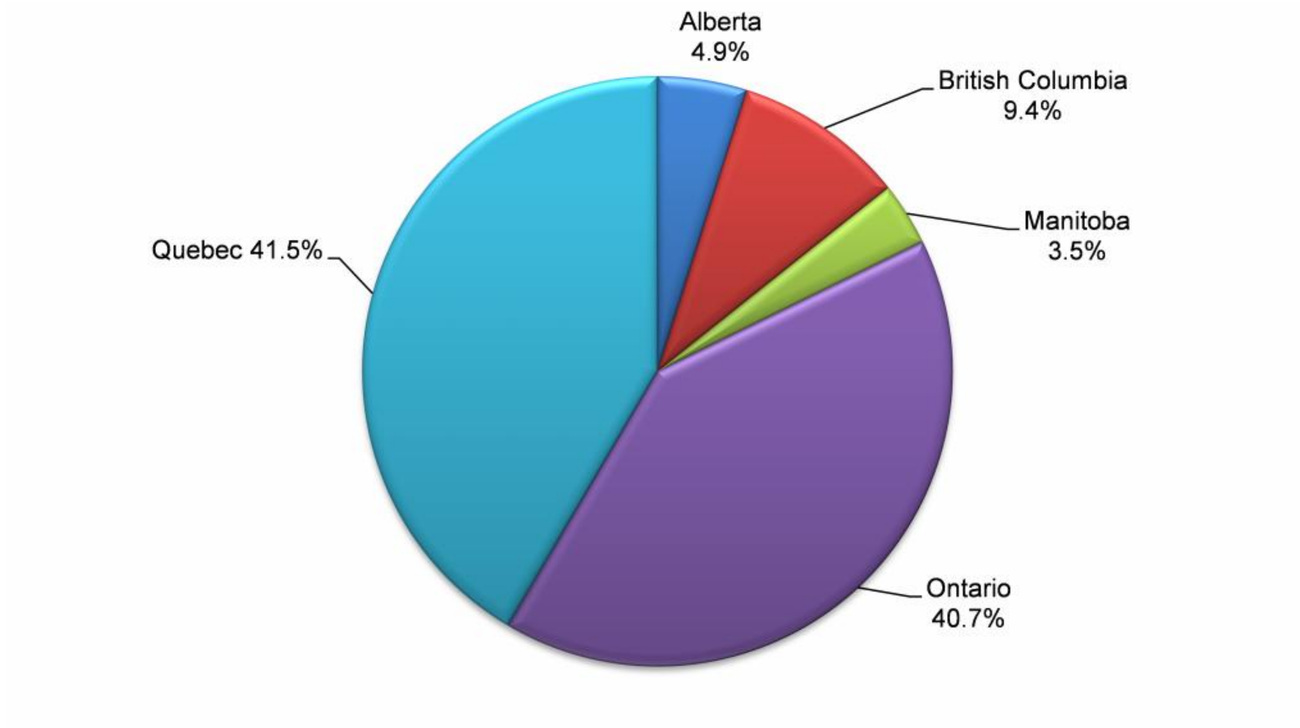
(1) Includes office space in mixed-use retail properties.

(2) Excluding storage space.

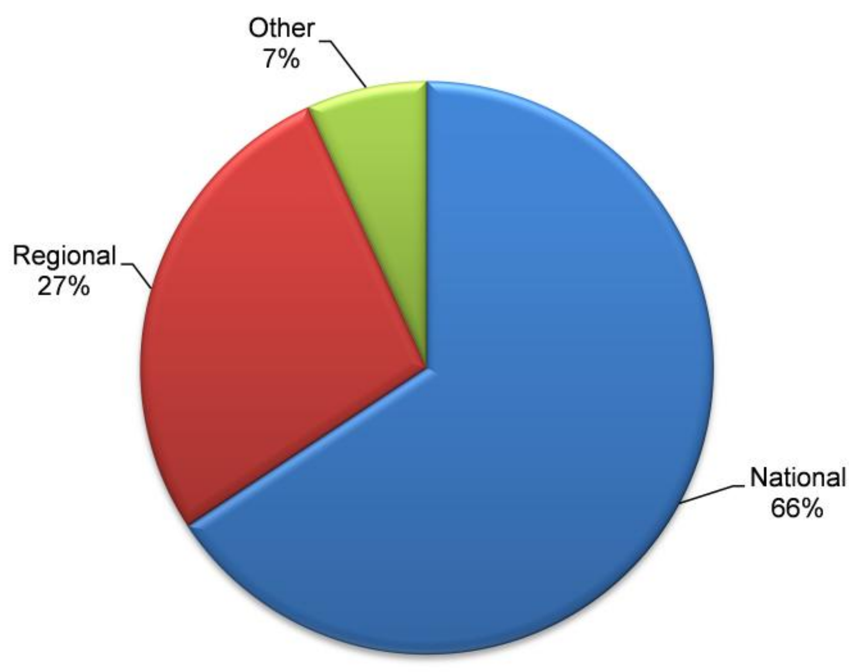
(3) Includes square footage of all material executed leases, regardless of occupancy date, and excludes square footage of all documented material lease terminations updated through December 31, 2014.

(4) Represents the weighted average rent for the portfolio.

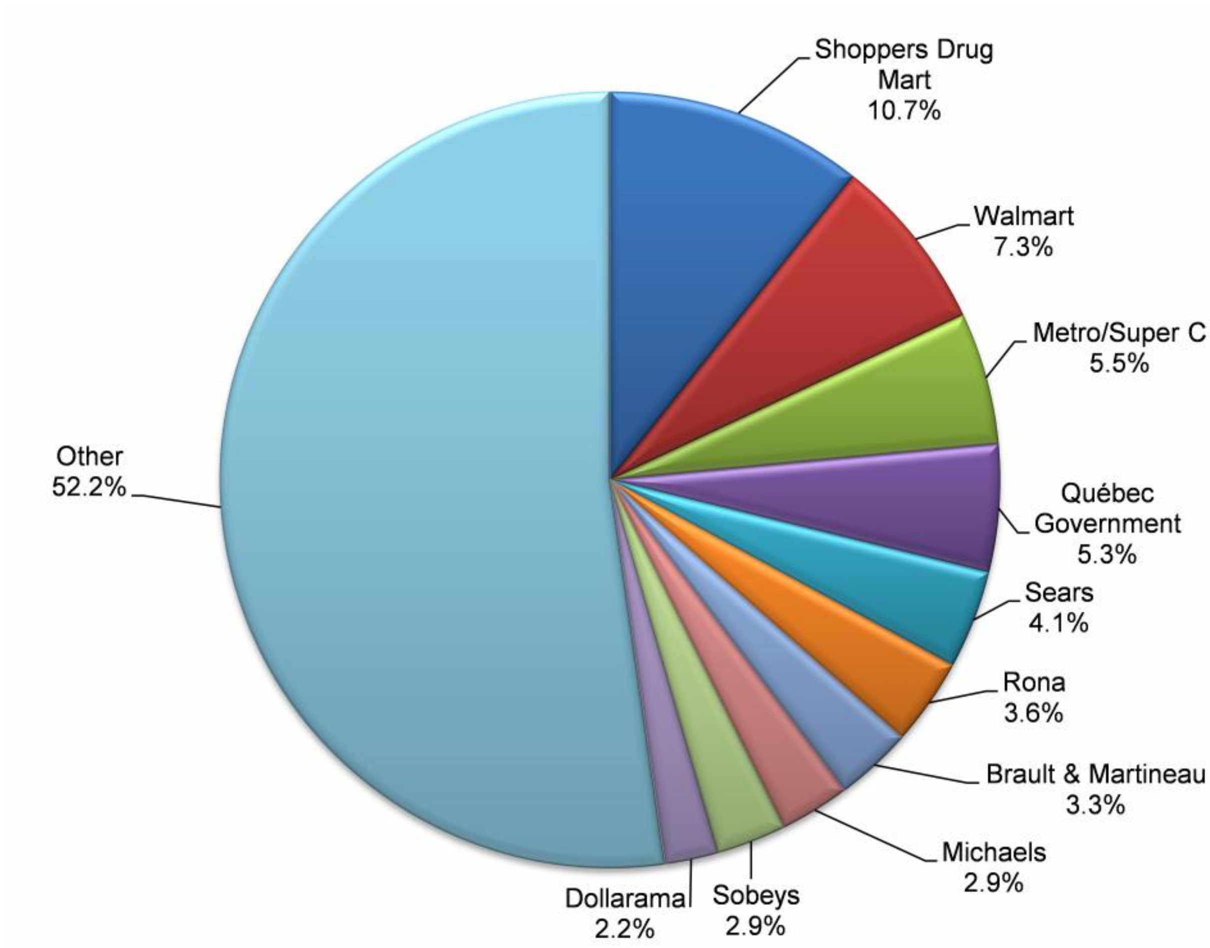
The geographic diversification of the portfolio by square footage is as follows:



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 December 31, 2014, including the REIT's ten largest tenants by GLA, 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 years. The table below shows the lease expiration schedule of the properties as a percentage of total GLA for 2015 and beyond:

	(sq.ft.)	(%)
2015	178,936	7.1%
2016	372,116	14.7%
2017	216,586	8.6%
2018	183,548	7.3%
2019	343,960	13.6%
Thereafter	1,084,860	43.0%
Vacant	142,967	5.7%
Total	2,522,974	100.0%

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

		Retail
2015		14.71
2016		12.91
2017		18.23
2018		18.11
2019		13.06
Thereafter		16.36
Average	$	15.53
Weighted average remaining lease term (years)		**6.12**

Lease expiries for 2014, new leasing and renewals completed by December 31, 2014 are as follows:

Three months ended		31-Mar-14		30-Jun-14		30-Sep-14		31-Dec-14		**Total 2014**		Total 2013
Lease expiries		63,745		62,832		155,705		189,306		**471,588**		176,232
Base rent per square foot[1]	$	10.46	$	18.90	$	7.16	$	7.99	**$**	**9.50**	$	15.83
Lease renewals - completed		60,405		50,021		130,287		139,363		**380,076**		135,198
Base rent per square foot[1]	$	10.85	$	16.56	$	8.96	$	5.96	**$**	**9.07**	$	15.47
Uncommitted vacancies		3,340		12,811		25,418		49,943		**91,512**		41,034
Base rent per square foot[1]	$	15.00	$	15.43	$	11.24	$	11.21	**$**	**11.95**	$	17.98
New leasing		10,067		48,079		13,606		7,699		**79,451**		6,539
Base rent per square foot[1]	$	15.96	$	14.99	$	18.87	$	16.18	**$**	**15.89**	$	12.02

(1) Weighted average

During the year ended December 31, 2014, the REIT renewed or entered into new leases for 459,527 square feet in respect of space that was vacant at the beginning of the year or expired during the year. The balance of leased space which expired during the year of 91,512 square feet, comprising twenty-two units, will require new tenant prospects.

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

Quarter Ended	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)
December 31, 2014	2,522,974	2,380,007	94.3%
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%
Average	2,630,668	2,526,157	96.0%

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). The REIT has reconciled FFO to cash provided by operations in an equivalent manner to the RealPac definition on page 24.

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 a non-IFRS financial measure 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.

Beginning in the first quarter of 2015, the REIT will report its maintenance related capital expenditures based on a $0.60 per square foot reserve (2014 actual of $2.0 million was $0.78 per square foot). During the fourth quarter of 2015 the REIT will adjust the total maintenance related capital expenditure balance to actual. Based on prior periods actuals and the capital budget, management believes that $0.60 per square foot will closely approximate actual maintenance related capital expenditures for 2015.

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 December 31, 2014, the rolling four-quarter DSCR was 1.24 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 is a non-IFRS financial measure and 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 December 31, 2014, the REIT's weighted average effective interest rate was 4.43%, an increase from 4.34% at December 31, 2013.

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.

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 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 an employee sharing agreement (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 December 31, 2014, all properties were being managed by third party managers. Except for 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 property 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.

For the year ended December 31, 2014, the total soft costs and break fees associated with Holyrood Holdings Inc. was $4.2 million (see financial statements – Note 12).

Uncertified Class Action Lawsuit

On December 4, 2014, the REIT announced that it had been notified that a statement of claim dated November 28, 2014 has been issued in the Ontario Superior Court seeking certification of a class action on behalf of persons who held units of the REIT on April 1, 2014 against several parties, including a former officer and both current and former trustees of the REIT. Partners REIT itself has not been named as a defendant in the legal proceedings which allege that the conduct of the defendants in connection with the acquisition by the REIT of three properties from Holyrood in April 2014 caused harm to the plaintiffs. As noted above, the Holyrood Transaction was rescinded by the REIT and Holyrood in October 2014.

Partners has certain indemnity obligations to its trustees and officers (current and former) with respect to this claim, subject to exceptions including where it is determined that there has been a failure to act honestly and in good faith. The REIT has insurance which it expects to be applicable in these circumstances. Given that the REIT has not been named in the litigation, the REIT does not believe it will be material to its business and affairs.

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 Holyrood Transaction and the 10% second mortgage facility entered into by the REIT with Firm Capital Corporation ("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 per unit.

On June 27th, 2014 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 returned to the tendering unitholders in accordance with the terms of the Premium Tender.

For the year ended December 31, 2014, the REIT incurred approximately $0.9 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 $0.04167 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, 2014 Partners closed a $15 million financing with Firm Capital. The loan had 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 REIT used 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. The loan was repayable without penalty on short notice and was repaid in September 2014 from the proceeds generated by the sale of three properties.

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 additional cash 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, 2014 the REIT completed the refinancing of five properties. This refinancing was executed 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 consisted of first mortgages amounting to $51 million. Of this amount, $47 million was used to repay both the $35 million outstanding on the REIT's $40 million credit facility and other existing mortgages. The balance of $4 million was be used to fund capital spending, to improve the quality of the REIT's existing property portfolio. The refinancing also provided the REIT with access to a $10 million line of credit secured by second mortgages on a number of the refinanced properties. 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% (minimum of 5%) with a term of two years.

All of the loans completed on November 10 were originated by First National LP, a wholly owned subsidiary of First National Financial (TSX: FN, FN.PR.A). First National LP collected the applicable fees, which amounted to $238,875, and will also collect fees for servicing certain of the new mortgages. Including this transaction, First National LP, which has originated mortgages previously for the REIT, has 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.

On February 17, 2015, the REIT announced the refinancing of three free-standing properties located in Manitoba, all anchored by a Shoppers Drug Mart. This refinancing increased the amount of capital available for funding improvements across the REIT's property portfolio, in addition to addressing a maturing mortgage at one of the properties. The refinancing consisted of first mortgages that amounted to an aggregate of $5.6 million, and provided the REIT with $4.1 million in additional liquidity to fund previously identified capital investments. These first mortgages carry an average weighted interest rate of 2.88% and an average term to maturity of 5.5 years. Further details can be obtained from the press release disseminated on February 17, 2015 entitled "Partners REIT Announces Refinancing of Three Properties."

Head Office

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

Annual General Meeting Results

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.

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 a high interest rate loan.

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 months and year ended December 31, 2014:

Three months ended		Dec 31, 2014		Dec 31, 2013	Change
Revenues from income producing properties	$	**14,935,452**	$	14,774,322	1%
Property operating expenses		**(3,181,427)**		(2,471,285)	29%
Realty taxes		**(3,647,192)**		(3,154,191)	16%
Property management fees		**(172,225)**		(308,160)	(44%)
		7,934,608		8,840,686	(10%)
Other expenses:					
Financing costs		**5,770,812**		6,508,335	(11%)
General and administrative expenses		**1,175,388**		848,859	38%
Other transaction costs		**182,099**		1,442,540	(87%)
		7,128,299		8,799,734	(19%)
Income before fair value gains		**806,309**		40,952	1,869%
Fair value gains (losses)		**(3,900,519)**		(9,225,833)	(58%)
Gains on sale of invesment properties		**82,519**		-	0%
Net income and comprehensive income	$	**(3,011,691)**	$	(9,184,881)	(67%)
Earnings per unit, basic	$	**(0.11)**	$	(0.36)	(68%)

Year ended		Dec 31, 2014		Dec 31, 2013	Change
Revenues from income producing properties	$	**59,821,021**	$	56,567,180	6%
Property operating expenses		**(10,102,526)**		(8,795,762)	15%
Realty taxes		**(13,325,296)**		(11,950,878)	12%
Property management fees		**(1,052,319)**		(1,055,228)	0%
		35,340,880		34,765,312	2%
Other expenses:					
Financing costs		**21,900,772**		19,413,937	13%
General and administrative expenses		**4,537,367**		3,486,120	30%
Other transaction costs		**8,802,691**		3,345,704	163%
		35,240,830		26,245,761	34%
Income before fair value gains		**100,050**		8,519,551	(99%)
Fair value gains (losses)		**(27,977,187)**		(4,324,330)	547%
Gains on sale of invesment properties		**793,537**		-	0%
Net income and comprehensive income	$	**(27,083,600)**	$	4,195,221	(746%)
Earnings per unit, basic	$	**(1.03)**	$	0.16	(734%)

Net Income and Comprehensive Income

The net loss for the three months ended December 31, 2014 decreased by $6.2 million when compared to the same period in 2013. This decrease can be attributed to a year over year $5.3 million decrease to the fourth quarter's fair value losses.

Net income for the year ended December 31, 2014 net income decreased by $31.3 million when compared to the prior year. This was primarily the result of $28.3 million in fair value losses recognized on the income producing property portfolio and $8.8 million of corporate transaction costs, both of which were primarily incurred during the first three quarters of 2014.

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.

For the three months ended December 31, 2014, financing costs decreased by $0.7 million (11%) compared to the same period in 2013. The decrease is primarily the result of a prior year reclassification of $0.9 million in amortization of deferred financing costs, related to prior quarters, which caused an increase to the reported finance costs in the fourth quarter of 2013. Excluding this one-time reclassification, financing costs would have increased by $0.2 million (4%) compared to the same prior year period.

For the year ended December 31, 2014 financing costs increased by $2.5 million (13%). The increase is due to interest on new and assumed secured debt obligations on six properties acquired during the year ended December 31, 2013, interest on the REIT's now repaid $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 before its repayment and non-cash accretion expense recognized on all three of the REIT's debenture issuances.

General and Administrative Expenses

General and administrative expenses increased by $0.3 million (38%) for the three months ended December 31, 2014, when compared to the same period in 2013. The increase in general and administrative expense for the year ended December 31, 2014 was as a result of a general increase to office overhead costs, including personnel costs.

On a year to date basis, general and administrative expenses increased by $1.0 million (30%) from 2013's $3.5 million to 2014's $4.5 million. The increase in general and administrative expense was a result of $0.6 million in increased legal costs relating to general trust matters, a general increase to office overhead costs as compared to 2013 (whereby some costs were the responsibility of the Manager), along with a number of one-time costs related to moving the head office on two occasions during 2014.

The REIT underwent significant changes during 2014 and these changes resulted in an increase to general and administrative expenses. Management expects 2015 costs to approximate $3.7 million, which is comparable to the 2013 actual amount of $3.5 million.

Other Transaction Costs

Other transaction costs for the three months and year ended December 31, 2014 decreased by $1.3 million (87%) as compared to the same period in 2013. The quarterly decrease is as a consequence of a significant reduction in the REIT's other transactions costs during Q4 2014, as compared to Q4 2013 when there were significant proxy and executive severance costs.

For the year ended December 31, 2014, other transaction costs increased by $5.5 million (163%) as a result of internalization costs, costs of the Holyrood Transaction and its rescission, the proxy challenge, the strategic review process and some board transition and other associated costs.

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 are 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		**Dec 31, 2014**		Dec 31, 2013		Variance
Revenues from income producing properties	**$**	**14,967,768**	$	14,327,036	$	640,732
Property operating expenses		**(3,181,172)**		(2,548,490)		(632,682)
Realty taxes		**(3,647,194)**		(3,154,191)		(493,003)
Property management fees		**(172,225)**		(308,162)		135,937
		7,967,177		8,316,193		(349,016)
Amortization of tenant costs		**105,005**		164,110		(59,105)
Net operating income	**$**	**8,072,182**	$	8,480,303	$	(408,121)

NOI from same properties for the three months ended December 31, 2014 decreased by $0.4 million (5%) over the same prior year period. The decrease in NOI compared to the same prior year period is primarily due to a 40,000 sq. ft. vacancy at one the REIT's properties in Ontario, $0.2 million in bad debt provisions.

Year ended		**Dec 31, 2014**		Dec 31, 2013		Variance
Revenues from income producing properties	**$**	**47,560,849**	$	47,427,506	$	133,343
Property operating expenses		**(8,546,227)**		(7,991,366)		(554,861)
Realty taxes		**(11,203,890)**		(10,700,659)		(503,231)
Property management fees		**(834,368)**		(922,896)		88,528
		26,976,364		27,812,585		(836,221)
Amortization of tenant costs		**606,094**		502,072		104,022
Net operating income	**$**	**27,582,458**	$	28,314,657	$	(732,199)

NOI from same properties for the year ended December 31, 2014 decreased by $0.7 million (3%) over the same prior year period. The decrease in NOI is primarily due to a $0.7 million provision for bad debts.

All Properties NOI

The REIT’s complete property portfolio is included in the “All Properties NOI” data below.

Three months ended		**Dec 31, 2014**		Dec 31, 2013		Variance
Revenues from income producing properties	**$**	**14,935,452**	$	14,774,322	$	161,130
Property operating expenses		**(3,181,427)**		(2,471,285)		(710,142)
Realty taxes		**(3,647,192)**		(3,154,191)		(493,001)
Property management fees		**(172,224)**		(308,160)		135,936
		7,934,609		8,840,686		(906,077)
Amortization of tenant costs		**105,003**		164,110		(59,107)
Net operating income	**$**	**8,039,612**	$	9,004,796	$	(965,184)

The decrease in all property NOI of $1.0 million (11%) for the three months ended December 31, 2014 is due to the loss of $0.6 million in NOI from the sale of three properties in Ontario, the new 40,000 sq. ft. vacancy at one the REIT’s properties in Ontario, a $0.2 million increase to the provision for bad debts.

Increases in property operating expenses and realty taxes during the three months ended December 31, 2014, compared to the same prior year period, are primarily a result of the REIT’s property acquisitions in the previous year.

An additional $0.4 million in realty taxes and an offsetting amount of recovery revenues are included in the December 31, 2014’s quarterly amounts a result of management’s recognition of the revenue and expense from certain single tenants who pay realty taxes directly on behalf of the REIT. During 2013 realty taxes paid on behalf of the REIT of $0.4 million were excluded from both revenues and expenses.

Year ended		**Dec 31, 2014**		Dec 31, 2013		Variance
Revenues from income producing properties	**$**	**59,821,021**	$	56,567,180	$	3,253,841
Property operating expenses		**(10,102,526)**		(8,795,762)		(1,306,764)
Realty taxes		**(13,325,296)**		(11,950,878)		(1,374,418)
Property management fees		**(1,052,319)**		(1,055,228)		2,909
		35,340,880		34,765,312		575,568
Amortization of tenant costs		**618,482**		502,072		116,410
Net operating income	**$**	**35,959,362**	$	35,267,384	$	691,978

The increase in all properties NOI of $0.7 million (2%) for the year ended December 31, 2014 is due to the acquisitions of six properties during 2013, offset by the sale of three properties during the third quarter of 2014 and $0.7 million from the bad debt provision.

Increases in property operating expenses and realty taxes and property management fees for all properties during the year ended December 31, 2014, compared to the same prior year period, are primarily a result of the REIT’s property acquisitions in the previous year.

As with the quarterly results, an additional $0.4 million in realty taxes and an offsetting amount of recovery revenues are included in the December 31, 2014’s annual amounts a result of management’s recognition of the revenue and expense from certain single tenants who pay realty taxes directly on behalf of the REIT. During 2013 realty taxes paid on behalf of the REIT of $0.4 million were excluded from both revenues and expenses.

Funds from Operations ("FFO") and Adjusted Funds from Operations ("AFFO")

A reconciliation of IFRS cash flow provided by operating activities to FFO and AFFO is as follows:

Three months ended		Dec 31, 2014		Dec 31, 2013 [1]		Change
Cash flow provided by operating activities	**$**	**5,637,982**	$	7,136,908	$	(1,498,926)
Straight line rent		**102,765**		333,076		(230,311)
Non-cash financing and mortgage prepayment costs		**(1,261,617)**		(1,041,641)		(219,976)
Interest differential		**228,589**		236,343		(7,754)
Change in working capital		**(3,798,283)**		(5,705,605)		1,907,322
Other transaction costs		**182,099**		1,442,540		(1,260,441)
Interest on exchangeable LP units		**-**		23,806		(23,806)
Alternate compensation plan		**-**		(25,400)		25,400
FFO		**1,091,535**		2,400,027		(1,308,492)
Straight-line rent		**(102,765)**		(333,076)		230,311
Deferred financing amortization, interest accretion		**685,868**		1,041,641		(355,773)
Prepayment penalties on mortgages		**482,528**		-		482,528
Sustaining capex		**(882,795)**		(74,214)		(808,581)
AFFO	**$**	**1,274,371**	$	3,034,378	$	(1,760,007)
Weighted average units outstanding - basic		**26,326,980**		25,936,162		390,818
Weighted average exchangeable LP units		**-**		181,739		(181,739)
Total weighted average units		**26,326,980**		26,117,901		209,079
FFO per unit	**$**	**0.04**	$	0.09	$	(0.05)
AFFO per unit	**$**	**0.05**	$	0.12	$	(0.07)

FFO decreased by $1.3 million (55%) during the three months ended December 31, 2014 compared to the same period in 2013 due to the sale of three properties in Ontario, a $0.5 mortgage prepayment penalty recognized in financing costs and increases in G&A costs during the period. The resulting FFO per unit for the quarter was $0.04 per unit.

Since FFO does not consider straight-line rent (non-cash), amortization of deferred financing costs and sustaining capital costs, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the three months ended December 31, 2014 was $1.3 million, a $1.8 million (58%) decrease from the same prior year period. The decrease over this time relates to similar factors as with FFO decrease, along with a $0.8 million increase to sustaining capital costs.

[1] Prior year balances have been reclassified to conform with the presentation adopted for the current year.

Year ended		**Dec 31, 2014**		Dec 31, 2013		Change
Cash flow provided by operating activities	**$**	**1,161,648**	$	7,257,371	$	(6,095,723)
Straight line rent		**787,884**		1,968,009		(1,180,125)
Non-cash financing and mortgage prepayment costs		**(3,156,150)**		(2,531,864)		(624,286)
Interest differential		**992,787**		943,679		49,108
Change in working capital		**932,363**		1,489,328		(556,965)
Other transaction costs		**8,802,691**		3,345,704		5,456,987
Interest on exchangeable LP units		**18,439**		139,111		(120,672)
Alternate compensation plan		**-**		(64,900)		64,900
FFO		**9,539,662**		12,546,438		(3,006,776)
Straight-line rent		**(787,884)**		(1,968,009)		1,180,125
Deferred financing amortization, interest accretion		**2,580,401**		2,531,864		48,537
Prepayment penalties on mortgages		**482,528**		-		482,528
Sustaining capex		**(1,996,094)**		(151,945)		(1,844,149)
AFFO	**$**	**9,818,613**	$	12,958,348	$	(3,139,735)
Weighted average units outstanding - basic		**26,206,391**		25,731,319		475,072
Weighted average exchangeable LP units		**48,658**		227,541		(178,884)
Total weighted average units		**26,255,049**		25,958,860		296,188
FFO per unit	**$**	**0.36**	$	0.48	$	(0.12)
AFFO per unit	**$**	**0.37**	$	0.50	$	(0.13)

FFO decreased by $3.0 million (24%) during the year ended December 31, 2014 compared to the same period in 2013. This decrease to FFO was largely due to decreased property NOI, a $1.0m increase in general and administrative expenses and higher financing costs that occurred as a result of higher average debt outstanding during most of the year (as compared to 2013). This decrease to FFO was compounded by a 296,188 increase in the weighted average number units for the same comparable period. The resulting FFO per unit for the period was $0.36 per unit, a $0.12 per unit decline from 2013's $0.48 per unit.

Since FFO does not consider straight-line rent (non-cash), amortization of deferred financing costs, interest accretion, prepayment penalties on mortgages and capital transactions, AFFO is presented herein as an alternative measure of determining available cash flow. AFFO for the year ended December 31, 2014 was $9.8 million, a $3.1 million (24%) decrease from the same prior year period, primarily driven by the decrease in FFO and the $1.8 million increase to sustaining capital expenditures (an allocation from total capital spending).

For the year ended December 31, 2014 the REIT's distributions paid in cash of $9.9 million exceeded cash flow from operations by $8.8 million. The distributions paid in excess of cash flows were funded from a combination of financing activities (new funding in excess of maturing mortgages) and investing activities (sale of properties). In assessing its distribution policy, the REIT considers whether certain costs are expected to recur and the impact of items that may not be included in cash from operations, where the timing of cash flows may differ from the timing of payment of distributions. The future sustainability of the distributions will be dependent on the REIT being able to generate increased cash flow from operating activities. Management expects distributions will be sustainable from an increase to cash flows from operating activities that are as a result of reducing other transactions costs (2014 - $8.8 million). Management and the REIT's Trustees review the REIT's distribution plans on a quarterly basis with the objective of establishing distributions that are sustainable for a reasonably foreseeable period.

Statement of Cash Flows

Three months ended		Dec 31, 2014		Dec 31, 2013		Change
Cash flow used in operating activities		**5,637,982**		7,108,608		(1,470,626)
Cash flow provided by financing activities		**(15,559,348)**		(2,375,243)		(13,184,105)
Cash flow used in investing activities		**(1,941,544)**		(5,005,181)		3,063,637
NET INCREASE (DECREASE) IN CASH		**(11,862,910)**		(271,816)		(11,591,094)
CASH (BANK INDEBTEDNESS), OPENING		**14,015,181**		136,948		13,878,233
CASH, ENDING	**$**	**2,152,271**	$	(134,868)	$	2,287,139

Operating Activities

During the three months ended December 31, 2014 cash flows from operating activities decreased by $1.5 million compared to the same prior year period. This decrease was primarily the result of a smaller cash contribution from changes in working capital partially offset by lower other transaction costs compared the three months ended December 31, 2013.

Financing Activities

During the three months ended December 31, 2014 cash flows from financing activities decreased by $13.2 million compared to the same prior year period. This decrease is primarily the result of repaying the $15 million high yield 2nd mortgage during the fourth quarter.

Investing Activities

During the three months ended December 31, 2014 cash outflows on investing activities decreased by $3.1 million compared to the same prior year period. The decrease in cash outflows on investing activities is as a result of lower spending on capital projects during the three months ended December 31, 2014, as compared to 2013's comparable period.

Year ended		Dec 31, 2014		Dec 31, 2013		Change
Cash flow used in operating activities		**1,161,648**		7,257,371		(6,095,723)
Cash flow provided by financing activities		**(9,652,865)**		88,736,611		(98,389,476)
Cash flow used in investing activities		**10,778,356**		(97,982,480)		108,760,836
NET INCREASE IN CASH		**2,287,139**		(1,988,498)		4,275,637
CASH (BANK INDEBTEDNESS), OPENING		**(134,868)**		1,853,630		(1,988,498)
CASH, ENDING	**$**	**2,152,271**	$	(134,868)	$	2,287,139

Operating Activities

During the year ended December 31, 2014 cash flows from operating activities decreased by $6.1 million compared to the same prior year period. This decrease to operating cash flows was as a result of $5.5 million increase to other transaction costs and $1.0 million increase to general and administrative expenses during the year ended December 31, 2014.

Financing Activities

During the year ended December 31, 2014 cash flows from financing activities decreased by $98 million compared to the same prior year period. This decrease is primarily the result of significant debt ($23 million in CDs) and equity ($26 million in units issued) activities occurring in 2013, both were done in conjunction with the six acquisitions that occurred during the prior year.

Investing Activities

During the year ended December 31, 2014 cash outflows on investing activities decreased by $109 million compared to the prior year. The decrease is a result of $34 million in property dispositions during 2014 as compared to $96 million in property acquisitions from 2013's comparable period.

FINANCIAL POSITION ANALYSIS
Statement of Financial Position – Total Assets

As at		**Dec 31, 2014**		Dec 31, 2013
Income producing properties	**$**	**531,041,031**	$	588,391,005
Other assets		**3,650,743**		4,514,391
Accounts receivable		**5,706,995**		2,722,641
Cash		**2,152,271**		-
Total assets	**$**	**542,551,040**	$	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 are included in profit and loss in the period in which they arise.

The decrease of $57.3 million in income producing properties at December 31, 2014 over December 31, 2013 is due primarily the sale of three properties in Ontario, having a value of $34.0 million and $28.3 million in fair value losses recognized on the REIT's property portfolio.

During 2014 management obtained 23 external appraisals, representing 66% of the REIT's portfolio value. These appraisals combined with significant management review of the stabilized NOI, capitalization rates and present value of lease up costs has resulted in the material adjustment to the values of the REIT's income producing properties. For the year ended December 31, 2014, the REIT recognized $28.3 million in fair value losses across its property portfolio. These fair value losses consists of $17.8 million related to six properties acquired during 2013 (which were previously valued at the purchase price plus closing costs), $8.1 million at one of the REIT's properties in Ontario (which requires extensive capital upgrades and recently lost an anchor tenant) and $2.4 million across the remaining properties (resulting from new appraisals received and from management adjusting capitalization rates based on comparable market transactions). Management is confident that after recognizing $28.3 million in fair value losses during fiscal 2014, combined with the $10.7 million in fair value losses recognized by current management for the fourth quarter of 2013, that barring a general market change to capitalization rates or a material adverse change to tenancies, that there should be less volatility to the future values of the REIT's income producing properties. Furthermore, when also considering the 13 external appraisals done during the fourth quarter of 2013, over the last five quarters the REIT has appraised 28 of 36 properties covering 78% of the value at December 31, 2014's of the REIT's income producing properties.

It is the REIT's accounting policy that properties acquired within the year are valued at the purchase price plus closing costs and one third of the portfolio is externally appraised each fiscal year on a rotating basis.

Other assets

Other assets are composed of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow and other prepaid expenses. During the year ended December 31, 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 $3.0 million during the year ended December 31, 2014. The higher receivable balance at December 31, 2014 is primarily due refundable construction costs due to a large tenancy in Quebec, accrued insurance proceeds, some unpaid base rents and unbilled recoveries receivable.

Net Asset Value

As at		**Dec 31, 2014**		Dec 31, 2013		Change
Units outstanding, end of period		**26,356,069**		25,988,800		367,269
Unitholders' equity	**$**	**149,036,368**	$	184,878,657	$	(35,842,289)
Net asset value per unit	**$**	**5.65**	$	7.11	$	(1.46)

Net asset value is a measure of the REIT's total assets less its liabilities and is represented on the balance sheet as Unitholders' Equity. As at December 31, 2014, the net asset value of the REIT was $5.65 per unit which decreased $1.46 per unit from December 31, 2013. This decrease is mainly as a result of $28.3 million ($1.07 unit) in property fair value write-downs and $8.8 million ($0.33/unit) in other transactions costs.

Capital

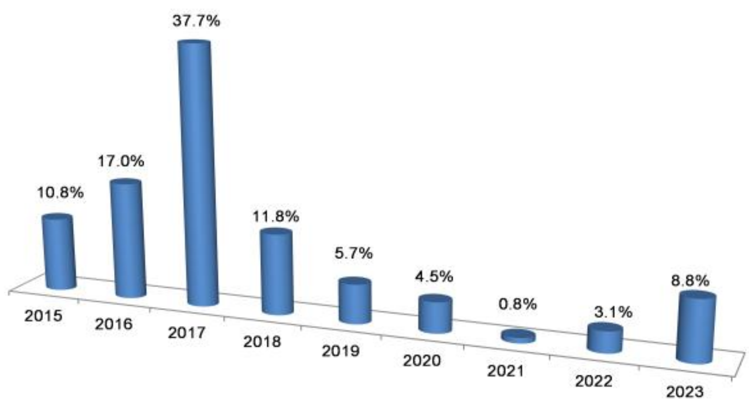
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry and as a result, debt capital, in particular, is a very important aspect of managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance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

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

As at		**Dec 31, 2014**		Dec 31, 2013
Mortgages payable	**$**	**296,747,285**	$	284,150,560
Debentures		**83,533,616**		82,352,601
Credit facilities		**-**		30,795,803
Unitholders' equity		**149,036,368**		184,878,657
Total capital	**$**	**529,317,269**	$	582,177,621

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at December 31, 2014:



The primary contributors of the debt maturing from 2015 to 2018 are twenty-two mortgages totalling $186.6 million and three series of convertible debentures for $28.8, $34.5 and $23.0 million, respectively.

Over the next two years, the REIT has approximately $64.6 million in mortgages maturing which carry an average contractual interest rate of 4.67%. 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	**Dec 31, 2014**	Dec 31, 2013
Interest coverage ratio(1)	**1.84**	2.10
Debt service coverage ratio(2)	**1.24**	1.43

(1) Interest coverage ratio, a non-IFRS measure, 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, a non-IFRS measure, is calculated on a rolling four-quarter basis as EBITDA divided by debt service, where debt service is principal repayments plus interest expense (before amortization of financing fees included in interest expense).

The interest coverage and debt service coverage ratios for the rolling four quarters ended December 31, 2014 decreased in comparison to the same prior year period due to new mortgages, a convertible debenture offering and the sale of three Ontario properties. The impact of these was partially offset by net income contributions from six properties acquired during 2013.

Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable is approximately four years, and the weighted average contractual interest rate is 4.56%. 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
2015	8,711,486	36,223,689	44,935,175	4.93%
2016	7,715,600	28,373,931	36,089,531	4.33%
2017	5,853,580	103,586,598	109,440,178	4.90%
2018	3,339,111	18,439,813	21,778,924	4.71%
2019	3,140,732	18,590,780	21,731,512	3.61%
Thereafter	7,697,747	54,589,447	62,287,194	4.10%
Total	$ 36,458,256	$ 259,804,258	$ 296,262,514	4.56%

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.

As at December 31, 2014 the REIT was in technical violation of financial covenants on three mortgages secured by properties in Ontario and Quebec. Under the terms of these loans the annual covenant calculations are due for filing in conjunction with filing of the REIT's annual report and the lender considers whether or not there is a default within 30 days following receipt of the covenant calculation. The loan is not in default until the lender provides written notice thereof. The REITs mortgages do not contain cross-default provisions that would be triggered by the breach of a financial covenant. The REIT has obtained a covenant default waiver on one of the mortgages for a property in Quebec. For the other two properties, no covenant waiver has been obtained and the REIT has classified these two mortgages as current on the statements of financial position.

As at December 31, 2014 the REIT was also in technical violation of a covenant on its undrawn $10.0 million second mortgage line of credit. The REIT has requested and received from the lender an amendment to the covenant which extends until December 31, 2015 and brings the REIT in compliance as at December 31, 2014.

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 are payable 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 December 31, 2014, none of the debenture holders had converted their debentures to units of the REIT.

Credit Facilities

During the year the REIT fully repaid its revolving credit facility with the proceeds from first mortgages secured against the same properties previously secured to the credit facility. As part of the new financings a $10.0 million second mortgage line of credit has been obtained (unused at December 31, 2014).

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 and debentures at December 31, 2014 was $4.2 million, which is $0.7 million lower than the December 31, 2013 year-end balance. The decrease in the unamortized financing costs as at December 31, 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 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. Management believes that the REIT's financial and strategic flexibility would be improved by a reduction in its debt-to-gross book value ratio. Over time and as the opportunity arises, management intends to reduce the debt to gross book value to more approximate peer averages. At December 31, 2014 the REIT has a debt-to-gross book value ratio of 69.9% (December 31, 2013 – 66.4%), calculated as follows:

As at	**Dec 31, 2014**	Dec 31, 2013
Debt		
Mortgage principal	**296,262,514**	282,225,144
Debentures, excluding fair value of convertible feature at issuance	**85,704,509**	85,387,741
Credit facilities	**-**	31,000,000
	381,967,023	398,612,885
Gross Book Value of Assets		
Book value of income producing properties	**531,041,031**	588,391,005
Book value of all other assets	**11,510,009**	7,237,032
Unamortized deferred financing fees	**4,204,330**	4,854,218
	546,755,370	600,482,255
Debt-to-Gross Book Value	**69.9%**	66.4%
Debt-to-Gross Book Value Excluding Debentures	**54.2%**	52.2%

(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.

Unitholders' Equity

For the year ended December 31, 2014, unitholders' equity decreased $34.7 million over unitholders' equity for the year ended December 31, 2013 is primarily due to $28.3 million in fair value loss adjustments and the $10.4 million in distributions paid to unitholders.

Distributions

The REIT 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 filing date of this MD&A, the REIT has 26,443,002 (December 31, 2014 - 26,356,069) 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. The conversion prices for each series of convertible debenture is significantly higher than the current trading price of REIT units, as such it is not expected that any conversions will take place in the near future.

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 for mortgages and convertible debentures are generally funded from refinancing the related debt and property acquisitions are generally funded from capital raises as well as obtaining debt financing on the related property. However, between capital raises, the REIT may use an undrawn $10.0 million second mortgage to fund the equity portion of property acquisitions. For more on Liquidity Requirements – see part V – RISKS & UNCERTAINTIES – Liquidity Risk (page 35).

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.

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 December 31, 2014 are $17,325 (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 December 31, 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.

	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Total revenues	$ 14,935,452	$ 14,507,888	$ 15,209,785	$ 15,167,896	$ 14,774,322	$ 14,533,172	$ 14,078,122	$ 13,181,564
Operating expenses	7,000,844	5,909,836	5,795,948	5,773,513	5,933,636	5,808,930	4,923,247	5,136,055
Other expenses	7,128,299	7,234,404	12,093,021	8,785,106	8,799,734	5,835,394	7,196,242	4,414,391
Fair value gains (losses)	(3,900,519)	(14,538,979)	(7,616,226)	(1,921,463)	(9,225,833)	(8,982)	443,938	4,466,547
Net income	(3,094,210)	(13,175,331)	(10,295,410)	(1,312,186)	(9,184,881)	2,879,866	2,402,571	8,097,665
Net income per unit - basic	(0.11)	(0.47)	(0.39)	(0.05)	(0.36)	0.11	0.09	0.32
FFO	1,091,535	2,458,189	2,477,042	3,512,896	2,400,027	3,162,365	3,906,056	3,796,609
FFO per unit - basic	0.04	0.09	0.09	0.13	0.09	0.12	0.15	0.15

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. Further description of our risk factors is contained in the REIT's most recently filed Annual Information Form.

INDUSTRY RISK

The REIT operates in the Canadian commercial 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 December 31, 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	$	606,414	$	0.023
Debentures		287,500		0.011

Partners REIT's strategy to mitigate interest rate price risk for its variable rate mortgages is to enter into interest rate swap arrangements when deemed necessary. As at December 31, 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 and by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 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 $10.0 million second mortgage line of credit facility (unutilized as at December 31, 2014). 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.

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.

Except for the periodic impact to cash for the $2.8 million in bi-annual interest payments on the three series of convertible debentures (interest payments are due March 31st and September 30th), most revenues and expenses are consistent on a month to month basis thereby assisting the management and forecasting of cash flows.

During the year ended December 31, 2014, the REIT incurred $8.8 million in other transactions costs. These costs relate to an internalization process, actions to acquire and rescind the Holyrood transaction, a proxy challenge, the strategic review process and some board transition and other associated costs. These transaction costs reduced the year ended December 31, 2014's cash from operating activities to a nominal amount which therefore reduced funds available for the ongoing working capital requirements, the capital and leasing expenditures on properties, the principal portion of long term mortgages and for distributions to unitholders. In order to ensure that the REIT continues to have sufficient cash flows to meet its obligations, during the year ended December 31, 2014 the REIT disposed of three properties, re-financed several maturing mortgages and reduced the monthly distribution commencing with the August distribution due for payment on September 15, 2014. These measures provided both a cash injection and reduced ongoing cash outflows, thereby improving the REIT's liquidity position and cash flows.

As at December 31, 2014, the REIT had $2.2 million in cash and $10.0 million of capacity available under a second mortgage line of credit facility, thereby providing $12.2 million in liquidity. Furthermore, subsequent to December 31, 2014 the REIT refinanced three properties that netted $3.9 million in cash. Despite these measures, management will need to complete other re-financings of maturing mortgages while also reducing other transactions 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.

LEGAL AND REGULATORY RISKS

Uncertified Class Action Update

The REIT has been notified that a Statement of Claim dated November 28, 2014 has been issued in the Ontario Superior Court seeking certification of a class action on behalf of persons who held units of the REIT on April 1, 2014 against several parties, including a former officer and both current and former trustees of the REIT. Partners REIT itself has not been named as a defendant in the legal proceedings which allege that the conduct of the defendants in connection with the acquisition by the REIT of three properties from Holyrood Holdings Ltd. ("Holyrood") in April 2014 caused harm to the plaintiffs. The Holyrood transaction was rescinded by the REIT and Holyrood in October 2014. Partners has certain indemnify obligations to its trustees and officers (current and former) with respect to this claim, subject to exceptions including where it is determined that there has been a failure to act honestly and in good faith. The REIT has insurance which it expects to be applicable in these circumstances. Given that the REIT has not been named in the litigation, the REIT does not believe it will be material to its business and affairs.

PART VI – CRITICAL ACCOUNTING POLICIES & ESTIMATES

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

The preparation of financial statements requires certain estimates and judgments that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The REIT's significant accounting policies are described in Note 2 to the consolidated financial statements for the year ended December 31, 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:

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, the design and operating effectiveness of the Trust's internal controls over financial reporting as at December 31, 2014 using the Committee of Sponsoring Organizations ("COSO") Internal Control – Integrated Framework (as published in 2013).

During 2014 and continuing into 2015 the REIT has been conducting an ongoing review of its corporate governance, compliance and disclosure policies.

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 BC, 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.