Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three and nine months ended September 30, 2017 and 2016

PARTNERS REAL ESTATE INVESTMENT TRUST
Table of Contents
For the three and nine months ended September 30, 2017 and 2016

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

As at	September 30, 2017	December 31, 2016
ASSETS		
Non-current assets		
Income producing properties (Note 4)	**$ 463,169,002**	$ 500,989,997
	463,169,002	500,989,997
Current assets		
Other assets (Note 5)	**5,124,145**	3,013,980
Accounts receivable (Note 6)	**1,571,829**	1,562,192
Cash	**2,982,746**	9,134,036
	9,678,720	13,710,208
	$ 472,847,722	$ 514,700,205
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 7)	**$ 189,175,093**	$ 149,957,876
Convertible debentures (Note 8)	**-**	22,627,538
	189,175,093	172,585,414
Current liabilities		
Mortgages payable (Note 7)	**80,569,385**	146,453,085
Convertible debentures (Note 8)	**7,538,983**	34,136,882
Accounts payable and other liabilities	**10,586,357**	9,303,357
Distributions payable (Note 13)	**955,311**	713,087
	99,650,036	190,606,411
	288,825,129	363,191,825
UNITHOLDERS' EQUITY	**184,022,593**	151,508,380
	$ 472,847,722	$ 514,700,205

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Comprehensive Income
unaudited (Cdn $)

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Revenues from income producing properties (Note 10)	**$ 12,641,504**	$ 14,046,194	**$ 39,995,715**	$ 42,387,006
Property operating expenses	**(1,871,873)**	(2,086,181)	**(6,320,276)**	(6,580,255)
Realty taxes	**(2,806,860)**	(3,366,860)	**(8,821,251)**	(10,130,857)
Property management fees	**(208,276)**	(288,830)	**(678,692)**	(1,116,228)
	7,754,495	8,304,323	**24,175,496**	24,559,666
Other expenses:				
Financing costs	**$ 3,560,037**	$ 4,360,690	**$ 11,899,146**	$ 13,495,070
General and administrative expenses	**1,125,702**	1,155,461	**3,448,033**	3,286,773
	4,685,739	5,516,151	**15,347,179**	16,781,843
Income before fair value gains (losses)	**3,068,756**	2,788,172	**8,828,317**	7,777,823
Fair value gains (losses) (Note 11)	**(1,300,085)**	549,798	**(6,442,593)**	1,284,082
Gain on sale of investment property (Note 4)	**-**	-	**917,110**	-
Comprehensive income	**$ 1,768,671**	$ 3,337,970	**$ 3,302,834**	$ 9,061,905
INCOME PER UNIT (Note 12)				
Basic and diluted	**$ 0.04**	$ 0.10	**$ 0.09**	$ 0.27

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	**2017**	2016
Trust Units (Note 13)				
BALANCE, BEGINNING OF PERIOD	**$ 221,242,316**	$ 219,198,706	**$ 220,237,798**	$ 218,173,771
Issuance of units under rights offering, net of costs	**35,181,465**	-	**35,181,465**	-
Issuance of units under DRIP, net of costs	**204,883**	511,567	**1,208,401**	1,536,502
Issuance of units under OUPP, net of costs	**-**	-	**1,000**	-
BALANCE, END OF PERIOD	**256,628,664**	219,710,273	**256,628,664**	219,710,273
Contributed Surplus				
BALANCE, BEGINNING OF PERIOD	**565,080**	565,080	**565,080**	565,080
BALANCE, END OF PERIOD	**565,080**	565,080	**565,080**	565,080
Accumulated Other Comprehensive Loss				
BALANCE, BEGINNING OF PERIOD	**(72,056,470)**	(68,358,713)	**(69,294,498)**	(69,850,767)
Comprehensive income	**1,768,671**	3,337,970	**3,302,834**	9,061,905
Distributions to unitholders (Note 13)	**(2,883,352)**	(2,126,305)	**(7,179,487)**	(6,358,186)
BALANCE, END OF PERIOD	**(73,171,151)**	(67,147,048)	**(73,171,151)**	(67,147,048)
TOTAL UNITHOLDERS' EQUITY	**$ 184,022,593**	$ 153,128,305	**$ 184,022,593**	$ 153,128,305
DISTRIBUTIONS PER UNIT	**$ 0.06**	$ 0.06	**$ 0.19**	$ 0.19

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

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
OPERATING ACTIVITIES				
Comprehensive income	**$ 1,768,671**	$ 3,337,970	**$ 3,302,834**	$ 9,061,905
Adjusted for non-cash items:				
Gain on sale of investment property	**-**	-	**(917,110)**	-
Fair value (gains) losses (Note 11)	**1,300,085**	(549,798)	**6,442,593**	(1,284,082)
Non-cash unit compensation expense	**100,112**	-	**592,767**	-
Straight-line rent	**5,515**	(79,591)	**93,882**	(288,894)
Tenant incentives and direct leasing costs amortization	**230,352**	202,415	**745,709**	608,480
Financing cost amortization	**421,847**	385,700	**1,142,554**	1,135,136
Market interest rate adjustment on mortgages	**(126,216)**	(213,981)	**(531,806)**	(685,799)
Interest accretion expense	**41,191**	31,421	**104,033**	203,474
Interest expense	**3,223,215**	4,157,550	**11,184,365**	12,842,259
Net change in working capital (Note 14)	**278,054**	2,289,599	**(920,414)**	2,061,753
Interest paid	**(3,337,468)**	(5,117,152)	**(11,455,512)**	(13,710,903)
Cash flow provided by operating activities	**3,905,358**	4,444,133	**9,783,895**	9,943,329
FINANCING ACTIVITIES				
Proceeds from mortgages	**13,400,000**	11,850,000	**63,410,000**	25,500,000
Financing costs on mortgages	**(261,910)**	(98,622)	**(888,821)**	(271,878)
Repayments of mortgages at maturity	**(8,377,906)**	(9,111,906)	**(55,896,818)**	(18,936,089)
Repayments of mortgages with property sale	**-**	-	**(26,686,338)**	-
Regular principal repayments on mortgages	**(2,042,538)**	(2,290,325)	**(6,575,792)**	(6,914,768)
Debenture repayments	**(49,910,000)**	-	**(49,910,000)**	-
Credit facility draws	**-**	-	**-**	5,500,000
Credit facility repayments	**-**	(2,000,000)	**-**	(7,500,000)
Proceeds from rights offering	**35,397,245**	-	**35,397,245**	-
Costs to issue units (Note 13)	**(219,062)**	(4,421)	**(228,645)**	(13,678)
Distributions to unitholders	**(2,416,452)**	(1,607,227)	**(5,697,076)**	(4,801,949)
Units purchased under the OUPP	**-**	-	**1,000**	-
Cash flow used by financing activities	**(14,430,623)**	(3,262,501)	**(47,075,245)**	(7,438,362)
INVESTING ACTIVITIES				
Net proceeds from disposition of income producing properties	**-**	-	**38,919,696**	-
Capital improvements, net of recoveries	**(2,999,743)**	(1,361,229)	**(6,290,782)**	(1,435,418)
Expenditures on tenant incentives and direct leasing costs	**(245,392)**	(171,443)	**(1,488,854)**	(785,526)
Cash flow provided (used) by investing activities	**(3,245,135)**	(1,532,672)	**31,140,060**	(2,220,944)
NET INCREASE (DECREASE) IN CASH DURING THE PERIOD	**(13,770,400)**	(351,040)	**(6,151,290)**	284,023
CASH, BEGINNING OF PERIOD	**16,753,146**	3,305,084	**9,134,036**	2,670,021
CASH END OF PERIOD	**$ 2,982,746**	$ 2,954,044	**$ 2,982,746**	$ 2,954,044

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

1. ORGANIZATION OF THE TRUST

Partners Real Estate Investment Trust ("Partners REIT" or the "REIT") is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on March 23, 2015. The address of its registered office and principal place of business is 36 Toronto Street, Suite 1160, Toronto, Ontario, M5C 2C5. The principal business activity of Partners REIT is acquiring, developing and operating commercial retail properties. The units of the REIT were originally listed on the Toronto Stock Exchange on April 3, 2012 (the "TSX") and trade under the symbol "PAR.UN". Prior to April 3, 2012, the REIT's units were listed on the TSX Venture Exchange under the same symbol.

2. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Statement of compliance

These condensed consolidated financial statements have been prepared in compliance with International Accounting Standard 34, *Interim Financial Statements*. The accompanying condensed consolidated financial statements should be read in conjunction with the notes to the REIT's audited financial statements for the year ended December 31, 2016 which have been prepared in accordance with IFRS, since they do not contain all disclosures required by IFRS for annual financial statements. These condensed consolidated financial statements reflect all normal and recurring adjustments which are in the opinion of management, necessary for a fair presentation of the respective interim periods presented.

These condensed consolidated financial statements were approved and authorized for issue by the Board of Trustees on November 8, 2017.

(b) Basis of presentation

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

3. FUTURE ACCOUNTING POLICIES

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

Financial Instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued in July 2014. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. The standard is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The REIT does not believe this standard will have a material impact on its consolidated financial statements.

Revenue from Contracts with Customers

IFRS 15 – *Revenue from Contract with Customers* ("IFRS 15") was issued in May 2014 and establishes a new five-step model that applies to revenue arising from contracts with customers. The principles in IFRS 15 provide a more structured approach to measuring and recording revenue allowing greater comparability of revenues across industries. The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT does not believe this standard will have a material impact on its consolidated financial statements.

Leases

IFRS 16 – *Leases* ("IFRS 16") is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. This new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. For lessors, IFRS 16 carries forward the lessor accounting requirements in IAS 17, with enhanced disclosure requirements that will provide information to the users of financial statements about a lessor's risk exposure, particularly to residual value risk. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, although earlier application is permitted for entities that apply IFRS 15. This standard supersedes IAS 17 - *Leases*, IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases - Incentives*, and SIC-27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The REIT is currently assessing the impact of IFRS 16 and intends to adopt the new standard on the required effective date.

Investment Properties

IAS 40 – Investment Property ("IAS 40") was amended during December 2016 to clarify certain existing requirements. The amendment requires that an asset be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. These amendments are effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The REIT is currently assessing the impact on its consolidated financial statements and intends to adopt the amended standard on the required effective date.

4. INCOME PRODUCING PROPERTIES

As at		**September 30, 2017**		December 31, 2016
Balance, beginning of year	**$**	**500,989,997**	$	511,817,617
Property disposition at carrying value		**(38,002,586)**		(11,444,852)
Capital improvements (net of recoveries)		**6,290,782**		3,282,109
Expenditures on tenant incentives and direct leasing costs		**1,488,854**		931,266
Amortization of tenant incentives and direct leasing costs		**(745,709)**		(851,061)
Recognition of straight-line rent		**(93,882)**		257,652
Unrealized fair value losses		**(6,758,454)**		(3,002,734)
Balance, end of period	**$**	**463,169,002**	$	500,989,997

Income producing properties, which are classified as investment properties under IFRS, are appraised at fair value by management. Management obtains support for the appraised value by obtaining on a sample basis appraisals from qualified external valuation professionals (“Appraisers”) in accordance with IAS 40 – *Investment Properties.* The Appraisers are independent valuation firms, not related to the REIT, that employ valuation professionals who are members of the Appraisal Institute of Canada and the Ordre des évaluateurs agréés du Québec, and who have appropriate qualifications and experience in the valuation of properties in the relevant locations. For the period ended September 30, 2017 the fair value of the REIT’s income producing property portfolio was determined either internally by the REIT using the Direct Capitalization methodology or by obtaining external appraisals.

During the nine months ended September 30, 2017, external appraisals were obtained for eight of the REIT’s properties with an aggregate fair value of $164.1 million, representing 35.4% of the fair value of the income producing property portfolio. During the year ended December 31, 2016, external appraisals were obtained for thirteen of the REIT’s properties with an aggregate fair value of $173.9 million, representing 34.7% of the fair value of the income producing property portfolio as of that date. Properties acquired within the year are valued at the purchase price plus closing costs unless there is evidence of a significant change in the fair value of the property. The value of the remainder of the REIT’s income producing property portfolio is determined internally by the REIT by applying significant new information obtained to adjust previous externally prepared appraisals.

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

As at	**September 30, 2017**	December 31, 2016
Capitalization rates		
Maximum	**9.25%**	8.75%
Minimum	**5.75%**	5.75%
Weighted Average	**6.64%**	6.64%

At September 30, 2017, a 0.25% increase in capitalization rates for income producing properties would decrease fair value by $17.4 million (December 31, 2016 - $19.0 million) and a 0.25% decrease in capitalization rates would increase fair value by $18.7 million (December 31, 2016 - $20.4 million).

The aggregate cost of tenant incentives and direct leasing costs included in income producing properties are recognized as a reduction of rental income over the lease term, on a straight-line basis. As at September 30, 2017, income producing properties included $4.9 million (December 31, 2016 - $5.2 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term in accordance with IAS 17 – *Leases*.

Disposition of Income Producing Properties

On June 30, 2017 the REIT completed a sale of a retail power centre in Thunder Bay, Ontario. The selling price of the property totaled $39.75 million, excluding transaction costs. A portion of the proceeds from the disposition were used to repay two mortgages secured by the property, totaling $26.7 million and bearing a weighted average interest rate of 5.07%. The property had a carrying value of $38.0 million at the time of sale, resulting in a gain on disposition of $0.9 million after closing costs of approximately $0.8 million.

On December 22, 2016 the REIT completed a sale of a retail strip centre located in Courtenay, British Columbia. The selling price of the property totaled $12.8 million, excluding transaction costs. A portion of the proceeds from the disposition were used to repay a $6.6 million mortgage, bearing interest at 3.84%, which was secured by the property. The property had a total carrying value of $11.4 million at the time of sale, resulting in a gain on disposition of $1.0 million after closing costs of $0.4 million.

5. OTHER ASSETS

The major components of other assets are as follows:

As at		**September 30, 2017**		December 31, 2016
Prepaid realty taxes and insurance	**$**	**2,628,290**	$	1,508,945
Restricted cash - amounts held in escrow		**1,741,284**		648,500
Prepaid expenses and other		**702,959**		745,990
Deferred financing costs on undrawn credit facility		**51,612**		110,545
	$	**5,124,145**	$	3,013,980

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

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

6. ACCOUNTS RECEIVABLE

As at		**September 30, 2017**		December 31, 2016
Rents receivable	**$**	**675,192**	$	936,996
Unbilled recoveries		**505,287**		539,180
Other receivables		**758,657**		585,535
		1,939,136		2,061,711
Allowance for doubtful accounts		**(367,307)**		(499,519)
	$	**1,571,829**	$	1,562,192

The REIT records an allowance for doubtful accounts on tenant rent receivables on a tenant-by-tenant basis, using specific, known facts and circumstances that exist at the time of the analysis. See Note 19 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

7. MORTGAGES PAYABLE

As at		**September 30, 2017**		December 31, 2016
Mortgage principal	**$**	**271,307,859**	$	297,056,805
Unamortized above market interest rate adjustments		**417,987**		949,793
Unamortized commitment and other fees		**(1,981,368)**		(1,595,637)
	$	**269,744,478**	$	296,410,961
Non-current	**$**	**189,175,093**	$	149,957,876
Current		**80,569,385**		146,453,085
	$	**269,744,478**	$	296,410,961

Scheduled repayments of mortgage principal are as follows:

		Principal instalments		Principal maturing		Total
2017 (remaining three months)	$	2,003,172	$	34,328,955	$	36,332,127
2018		6,243,423		39,981,881		46,225,304
2019		6,136,630		18,590,780		24,727,410
2020		5,215,941		31,586,838		36,802,779
2021		4,389,166		33,715,355		38,104,521
Thereafter		11,352,204		77,763,514		89,115,718
Contractual obligations	$	35,340,536	$	235,967,323	$	271,307,859

Mortgages payable are secured by the properties to which they relate with some having recourse to the REIT. The mortgages bear interest at effective rates ranging between 2.43% and 7.08% per annum (December 31, 2016 – 2.43% and 7.08%) and contractual rates ranging between 2.40% and 6.70% (December 31, 2016 – 2.40% and 6.70%). The REIT's weighted average effective interest rate is 4.17% per annum (December 31, 2016 – 4.41%). The total carrying value of the properties pledged as security is $458.2 million (December 31, 2016 - $496.0 million).

Included in the mortgages payable at September 30, 2017 are $86.1 million in mortgages over 8 properties with an institutional lender (December 31, 2016 - $112.4 million over 10 properties), over which a significant Unitholder of the REIT (with over 20% of the outstanding units on November 8, 2017), has significant influence.

Interest rate swaps are in place to fix the interest rates for three mortgages payable for a notional amount of $17.5 million between 3.34% and 3.72% until 2020. As at September 30, 2017, the fair value of the interest rate swap is a liability of less than $0.1 million (December 31, 2016 - $0.4 million) and is included in accounts payable and accrued liabilities on the statement of financial position. For the nine months ended September 30, 2017, a fair value gain on the interest rate swaps of $0.3 million was recorded in fair value losses on the condensed consolidated statements of comprehensive income (2016 – fair value gain of $0.3 million).

In March 2017, the REIT completed a $2.6 million financing secured on a multi-tenant property in Terrebonne, Quebec. The mortgage has a term of five years with an interest rate of 3.113% per annum and an amortization period of 25 years. This financing replaced a maturing mortgage with a principal balance of $1.8 million and a contractual interest rate of 3.50% per annum.

In March 2017, the REIT completed a $4.4 million financing secured on a single tenant property in Gatineau, Quebec. The mortgage has a term of five years with an interest rate of 3.113% per annum and an amortization period of 22 years. This financing replaced a maturing mortgage with a principal balance of $3.1 million and a contractual interest rate of 5.93%.

In April 2017, the REIT completed a $3.0 million financing secured by a free-standing building in Edmonton, Alberta. The mortgage has a five-year term, a 25-year amortization period and an interest rate of 3.91%. The mortgage replaced a $2.1 million mortgage, which carried an interest rate of 4.23%.

In May 2017, the REIT completed a $13.0 million financing secured by an enclosed mall in Cornwall, Ontario. The mortgage has a three-year term, a 25-year amortization period and an interest rate of prime plus 2.25%, with an interest rate floor of 4.95%. The mortgage replaced a $16.8 million mortgage, which carried an interest rate of prime plus 2.30%.

In May 2017, the REIT completed a $27.0 million financing secured by a power centre located in Montreal, Quebec. The mortgage has a ten-year term, a 23-year amortization period and an interest rate of 3.564%. The mortgage replaced a $23.7 million mortgage, which carried an interest rate of 5.327%.

In August 2017, the REIT completed a $7.8 million financing secured by a retail strip centre located in Tecumseh, Ontario. The mortgage has a ten-year term, a 25-year amortization period and an interest rate of 3.867%. The mortgage replaced a $5.1 million mortgage, which carried an interest rate of 4.604%.

In August 2017, the REIT completed a $5.6 million financing secured by a retail strip centre located in Grand Bend, Ontario. The mortgage has a ten-year term, a 25-year amortization period and an interest rate of 3.898%. The mortgage replaced a $3.3 million mortgage, which carried an interest rate of 5.118%.

In September 2017, the REIT extended, for an additional three months, a $21.7 million mortgage secured by an enclosed mall located in Longueuil, Quebec. The mortgage, which will now expire in January 2018, has a three year and three month term, a 25-year amortization period and carries a variable rate of interest of prime plus 2.00%, with a floor rate of 5.00%.

8. CONVERTIBLE DEBENTURES

As at		**September 30, 2017**		December 31, 2016
6.0% convertible debentures		**-**		34,427,608
5.5% convertible debentures		**7,585,188**		22,963,547
Debentures, excluding convertible feature		**7,585,188**		57,391,155
Fair value of convertible features at issuance		**150,000**		660,000
Accumulated fair value gain on convertible feature		**(150,000)**		(660,000)
Convertible feature		**-**		-
Issue costs		**(1,203,195)**		(2,886,983)
Accumulated amortization of issue costs		**1,156,990**		2,260,248
Issue costs, net		**(46,205)**		(626,735)
	$	**7,538,983**	$	56,764,420
Non-current	**$**	**-**	$	22,627,538
Current		**7,538,983**		34,136,882
	$	**7,538,983**	$	56,764,420

In September, 2012, the REIT issued $34,500,000 of 6.0% unsecured subordinated convertible debentures (the Series II Debentures") due September 30, 2017. The Series II Debentures are convertible into REIT units at $10.35 per unit at the holder's option at any time on or after September 30, 2015. On or after September 30, 2015 and prior to September 30, 2016, the Series II Debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after September 30, 2016, the Series II Debentures may be redeemed, in whole or in part, by the REIT at a price equal to the principal plus accrued and unpaid interest. The fair value of the convertible feature of the Series II Debentures as at June 30, 2017 is nil (December 31, 2016 - nil). On July 31, 2017 the REIT repaid 50% of the $34.5 million Series II Debentures plus accrued interest, and on August 18, 2017 the REIT repaid the remaining 50% of the Series II Debentures.

In March, 2013, the REIT issued $23,000,000 of 5.5% unsecured subordinated convertible debentures (the "Series III Debentures") due March 31, 2018. The Series III Debentures are convertible into REIT units at $10.25 per unit at the holder's option at any time on or after March 31, 2016. On or after March 31, 2016 and prior to March 31, 2017, the Series III Debentures may be redeemed by the REIT, in whole or in part, at a price equal to their principal amount plus accrued and unpaid interest, provided that the volume weighted average trading price of the REIT's units during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2017, the Series III Debentures may be redeemed, in whole or in part, by the REIT at a price equal to the principal plus accrued and unpaid interest. The fair value of the convertible feature of the Series III Debentures as at June 30, 2017 is nil (December 31, 2016 - nil). On August 18, 2017, the REIT repaid 67% of the $23.0 million Series III Debentures leaving a remaining balance of $7.6 million outstanding.

9. CREDIT FACILITIES

As at September 30, 2017, the REIT's credit facility (the "Credit Facility") was undrawn (December 31, 2016 - undrawn).

The Credit Facility has a credit limit of $10.0 million, with interest at prime plus 3.5% for borrowings up to $5.0 million and prime plus 5.5% for borrowings in excess of $5.0 million. The Credit Facility bears a standby fee of 0.25% of the undrawn balance, quarterly in arrears. The Credit Facility was renewed in October 2016 and matures June 1, 2018.

The Credit Facility is with an institutional lender over which a significant Unitholder of the REIT (with over 20% of the outstanding units on November 8, 2017), has significant influence.

10. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three and nine months ended September 30, 2017 were $12.6 million and $40.0 million, respectively (three and nine months ended September 30, 2016 - $14.0 million and $42.4 million, respectively). The REIT leases commercial retail properties under operating leases generally with lease terms of between one and fifteen years, and in many cases with options to extend for successive five year periods. Included in revenues from income producing properties are recoveries from tenants for the three and nine months ended September 30, 2017 of $4.2 million and $13.3 million, respectively (three and nine months ended September 30, 2016 - $4.7 million and $14.7 million, respectively), which represents the recovery of common area maintenance costs, realty taxes, insurance, and other permissible recoverable costs. Deducted from revenues are the amortization of tenant incentives and direct leasing costs which for the three and nine months ended September 30, 2017 totaled $0.2 million and $0.7 million, respectively (three and nine months ended September 30, 2016 - $0.2 million and $0.6 million, respectively).

As at September 30, 2017, the REIT is entitled under its non-cancellable tenant operating leases to the following minimum future receipts:

		Within 12 months		2 to 5 years		Beyond 5 years
Operating lease revenue	$	33,810,833	$	101,687,503	$	56,980,716

11. FAIR VALUE GAINS (LOSSES)

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

	Three months ended September 30,				Nine months ended September 30,			
		2017		2016		**2017**		2016
Unrealized gain (loss) on income producing properties	**$**	**(1,463,268)**	$	486,658	**$**	**(6,758,454)**	$	1,209,558
Financial liabilities designated as FVTPL:								
Fair value gain on interest rate swaps		**163,183**		63,140		**315,861**		74,524
Total fair value gains (losses)	**$**	**(1,300,085)**	$	549,798	**$**	**(6,442,593)**	$	1,284,082

12. INCOME PER UNIT

The table below presents the net income per unit and weighted average units outstanding calculations. Only dilutive elements have been included in the calculation of diluted per unit amounts.

	Three months ended September 30,				Nine months ended September 30,			
		2017		2016		**2017**		2016
Numerator								
Comprehensive income - basic and diluted	**$**	**1,768,671**	$	3,337,970	**$**	**3,302,834**	$	9,061,905
Denominator								
Weighted average units outstanding - basic(1)		**43,486,983**		33,761,829		**37,292,890**		33,617,574
Weighted average deferred units outstanding		**168,309**		-		**99,583**		-
Weighted average units outstanding - diluted		**43,655,292**		33,761,829		**37,392,473**		33,617,574
Income per unit - basic and diluted	**$**	**0.04**	$	0.10	**$**	**0.09**	$	0.27

(1) On July 19, 2017 the REIT closed a rights offering that resulted in the issuance of 11,418,466 units

13. UNITHOLDERS' EQUITY

(a) Distributions

For the nine months ended September 30, 2017 the REIT made monthly distributions to unitholders, and holders of deferred units, in an amount of $0.02083 per unit, representing an annualized distribution of $0.25 per unit. The amount of the REIT's cash distributions is determined by, or in accordance with, the guidelines established from time to time by the Trustees. The Trustees have discretion in declaring distributions. Pursuant to the REIT's Declaration of Trust, it is the intention of the Trustees to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes under Part I of the Income Tax Act. As at September 30, 2017, distributions accrued but not yet paid totaled $1.0 million (December 31, 2016 - $0.7 million).

(b) Distribution reinvestment plan

The REIT has a Distribution Reinvestment Plan ("DRIP") to enable Canadian resident unitholders to acquire additional units of the REIT through the reinvestment of regular monthly distributions on all or any part of their units.

The REIT has an Optional Unit Purchase Plan ("OUPP") to enable Canadian resident unitholders to acquire additional units of the REIT through optional cash payments subject to a minimum of $1,000 per month and a maximum of $12,000 per calendar year.

Units issued in connection with the DRIP and OUPP are issued directly from the treasury of the REIT at a price based on the volume-weighted average of the closing price for the 20 trading days immediately preceding the relevant distribution date. Participants receive "bonus units" in an amount equal in value to 3% (5% for distributions prior to the March 2016 DRIP payable in April 2016) of each cash distribution.

At September 30, 2017, the REIT had 743,990 units remaining in its reserve for issuance of units under the DRIP and OUPP (December 31, 2016 – 1,097,855 units remaining in reserve).

(c) Rights offering

During May 2017, the REIT announced its intention to raise gross proceeds of $35.4 million by issuing rights entitling unitholders to subscribe for one additional REIT unit for each three REIT units held as of the record date of June 7, 2017 and with payment of a subscription price of $3.10 per REIT unit. The Rights Offering closed on July 19, 2017 and the maximum amount available of $35.4 million, excluding issuance costs of $0.2 million, was raised and the REIT issued 11,418,466 units.

(d) Outstanding Units

As at	**September 30, 2017**			December 31, 2016		
	Units		**Dollars**	Units		Dollars
Units outstanding, beginning of year	**33,983,594**	**$**	**220,237,798**	33,387,646	$	218,173,771
Units issued:						
Rights offering	**11,418,466**		**35,397,245**	-		-
Distribution reinvestment plan	**353,586**		**1,221,266**	595,948		2,080,988
Optional unit purchase plan	**279**		**1,000**	-		-
Unit issue costs	**-**		**(228,645)**	-		(16,961)
	45,755,925	**$**	**256,628,664**	33,983,594	$	220,237,798

14. SUPPLEMENTAL CASH FLOW INFORMATION

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

	Three months ended September 30,				**Nine months ended September 30,**			
		2017		2016		**2017**		2016
Net change in working capital								
Net change in accounts receivable	**$**	**286,531**	$	1,080,097	**$**	**(9,637)**	$	1,719,732
Net change in other assets		**873,749**		872,488		**(2,169,098)**		(1,325,877)
Net change in accounts payable and other liabilities		**(882,226)**		337,014		**1,258,321**		1,667,898
	$	**278,054**	$	2,289,599	**$**	**(920,414)**	$	2,061,753

15. UNIT-BASED COMPENSATION PLANS

(a) Incentive unit option plan

The REIT's incentive unit option plan provides that the maximum number of units which may be reserved and set aside for issue under the incentive unit option plan shall not exceed 10% of the issued and outstanding units at the time that the options were granted (on a non-diluted basis).

As at September 30, 2017 there are no options outstanding under the incentive unit option plan.

(b) Deferred unit plan ("DUP")

Under the DUP, Trustees have the option to have their fees ("Trustees Fees") and Officers have the option to have annual bonus payments ("Officer Bonus") paid in deferred units of the REIT. The number of units will be equivalent to the cash value of the Trustees Fees or Officer Bonus elected by the Trustee or Officer, as applicable to be paid in units. The maximum number of units reserved for issuance under the DUP is 1% of the issued and outstanding units and the maximum number of units reserved under the DUP and all unit-based compensation plans of the REIT shall not exceed 10% of the REIT's issued and outstanding units at any given time.

The issue price of the units under the DUP is volume-weighted average price of the units for the last five trading days preceding the date of issuance. Additional units earned through the DRIP on outstanding deferred units are issued based on the volume-weighted average price of the units for the last 20 trading days preceding the DRIP issuance date.

The DUP became effective May 17, 2015 and was amended and restated effective November 1, 2016.

The following presents information on the number of deferred units outstanding as at September 30, 2017:

	September 30, 2017			December 31, 2016		
	Deferred Units		**Dollars**	Deferred Units		Dollars
Deferred units outstanding, beginning of year	**-**	**$**	**-**	-	$	-
Deferred units issued:						
Officer Bonus	**81,744**		**253,406**	-		-
Trustee Fees	**103,763**		**321,666**	-		-
DRIP on deferred units	**5,708**		**17,695**	-		-
	191,215	**$**	**592,767**	-	$	-

As at September 30, 2017, the liability related to the DUP was $0.6 million (December 31, 2016 – nil) and is included in accounts payable and other liabilities. The related expense in comprehensive income amounts to $0.3 million for the nine month period ended September 30, 2017, with $0.3 million accrued during the year ended December 31, 2016.

16. INCOME TAXES

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

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

17. CAPITAL MANAGEMENT

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

The real estate industry is capital intensive by nature. As a result, debt capital is a very important aspect in managing the business. In addition, financial leverage is used to enhance returns from real estate. Part of the REIT's objectives in securing mortgages for its properties is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. The debt-to-gross book value ratio has become a common industry metric reviewed by analysts, unitholders and others within the industry.

At September 30, 2017, the REIT's debt-to-gross book value ratio is 58.7% (2016 – 68.6%), calculated as follows:

As at		**September 30, 2017**		December 31, 2016
Debt[1]				
Mortgage principal	**$**	**271,307,859**	$	297,056,805
Debenture principal		**7,590,000**		57,500,000
	$	**278,897,859**	$	354,556,805
Gross Book Value of Assets				
Book value of income producing properties	**$**	**463,169,002**	$	500,989,997
Book value of all other assets		**9,627,108**		13,599,663
Unamortized deferred financing fees		**2,079,185**		2,332,917
	$	**474,875,295**	$	516,922,577
Debt-to-Gross Book Value		**58.7%**		68.6%
Debt-to-Gross Book Value Excluding Debentures		**57.1%**		57.5%

(2) Debt capital refers to the principal portion of mortgages, debentures and the credit facility. This excludes deferred financing costs, the value of the debentures' convertible feature, and unamortized above market interest rate adjustments.

18. FAIR VALUES

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

(a) Income producing properties

The significant assumptions used to determine the fair value of investment properties are disclosed in Note 4.

(b) Current assets and liabilities

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

(c) Mortgages payable

The fair value of secured debt is based on discounted future cash flows, using interest rates ranging between 3.72% and 4.30% that reflect current market conditions for instruments of similar term and risk.

(d) Interest rate swaps

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

(e) Deferred units

The fair value of deferred units is calculated using the five-day volume weighted average price of the REIT's units as of the date of reporting. Since the five-day volume weighted average price of the REIT's units is an observable input, these financial instruments are considered Level 2

Assets and liabilities measured at fair value in the statements of financial position are classified based on a three-level hierarchy that reflects the significance of the inputs used when determining the fair value as follows:

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

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

	September 30, 2017			December 31, 2016		
	Level 1	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties	**$ -**	**$ -**	**$ 463,169,002**	$ -	$ -	$ 500,989,997
Liabilities measured at fair value:						
Interest rate swaps	**$ -**	**$ 45,646**	**$ -**	$ -	$ 361,507	$ -
Deferred units	**-**	**592,767**	**-**	-	-	-
Liabilities for which fair values are disclosed:						
Mortgages payable	**$ -**	**$ -**	**$ 268,881,016**	$ -	$ -	$ 300,930,777

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the nine months ended September 30, 2017 there were no transfers between the hierarchy levels.

19. RISK MANAGEMENT

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

(a) Interest rate risk

The REIT is exposed to interest rate risk when funds are drawn under mortgages with floating interest rates. An increase in interest rates would increase the interest cost of these mortgages having an adverse effect on the REIT's comprehensive income and earnings per unit. Based on the outstanding $34.6 million balance of variable rate debt at September 30, 2017, a 1% increase or decrease in the prime rate would have an impact of $0.3 million on the REIT's annual interest expense (December 31, 2016 – $0.4 million).

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

(b) Credit risk

Credit risk arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, by ensuring that its tenant mix is diversified and by limiting its exposure to any one tenant. The maximum credit risk exposure at September 30, 2017 relates to the carrying value of the accounts receivable balance without taking into account any collateral held or other credit enhancements. Collateral held on certain leases are letters of credit or security deposits from the tenants.

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

As at	**September 30, 2017**	December 31, 2016
Tenant rents receivable		
Less than 30 days past billing date	**79,621**	108,962
30-60 days past billing date	**83,709**	65,099
61-90 days past billing date	**135,105**	14,462
Greater than 90 days past billing date	**376,757**	748,473
	675,192	936,996
Allowance for doubtful accounts - tenant	**(242,307)**	(374,519)
Other receivables	**758,657**	585,535
Allowance for doubtful accounts - other	**(125,000)**	(125,000)
Unbilled recoveries	**505,287**	539,180
	1,571,829	1,562,192

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

	September 30, 2017	December 31, 2016
Opening allowance for doubtful accounts	**$ 499,519**	$ 578,965
Change to allowance for doubtful accounts	**(83,057)**	11,791
Receivables written-off	**(49,155)**	(91,237)
Ending allowance for doubtful accounts	**$ 367,307**	$ 499,519

(c) Liquidity risk

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations are generally funded from cash flows from operations or from drawing on existing cash ($3.0 million at September 30, 2017) or the Credit Facility ($10.0 million available at September 30, 2017). Property debt repayment obligations are generally funded from obtaining debt refinancing on maturing mortgages.

Within the next 12 months the REIT has $6.5 million in regularly scheduled principal repayments and $74.3 million in maturing mortgages on seven properties for a total mortgage commitment of $80.8 million. The REIT also has $7.6 million in Series III 5.5% unsecured convertible debentures (Series III Debentures) maturing on March 31, 2018. On June 30, 2017 the REIT disposed of a property and raised net monies of $12.2 million, on July 19, 2017 the REIT closed a Rights Offering that raised net proceeds of approximately $35.2 million and resulted in the issuance of 11,418,466 REIT units. These net proceeds plus excess funds from the refinancing of expiring mortgages were used to repay the $34.5 million Series II Debentures and $15.4 million (67%) of the Series II Debentures plus accrued interest. There is currently a significant spread between the REIT's unit price and the conversion price for the Series III Debentures, and this reduces the likelihood that the remaining Series III Debentures will be converted to equity in advance of their maturity. The REIT will need to obtain sufficient monies from the re-financing of maturing mortgages or raise funds from a debt / equity issue(s) or net cash from property disposition(s), or a combination thereof, so that there is sufficient cash to repay the $7.6 million balance on the Series III Debentures.

The REIT attempts to mitigate its liquidity risk by:

- staggering the maturities of its maturing mortgages;
- 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;
- planning capital spending around the availability of cash from operations or debt/equity funding;
- reviewing the current liquidity position and forecasted cash flows in advance of the quarterly approval of monthly distributions; and,
- obtaining sufficient funds from debt / equity issue(s) and/or property disposition(s) to fund the repayment of maturing convertible debentures.

Except for the modest impact to cash for the bi-annual interest payments on the remaining convertible debentures (interest payments are due March 31st and September 30th) and the timing of realty tax payments, most operating revenues and expenses are consistent on a month to month basis thereby assisting the management and forecasting of cash flows and liquidity. As at September 30, 2017, the REIT had $3.0 million in cash and $10.0 million of capacity available under its Credit Facility, thereby providing $13.0 million in liquidity.

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 on-going operating cash flows. Obtaining replacement capital through new debt financing, new equity raises, the sale of property(s), or any combination of these options will be essential to ensuring the REIT's continued financial flexibility.

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

	2017	2018	2019	2020	2021	Thereafter
Mortgages payable						
Interest	$ 2,772,317	$ 7,361,387	$ 6,787,876	$ 5,431,151	$ 4,202,146	$ 7,450,394
Principal payments	2,003,172	6,243,423	6,136,630	5,215,941	4,389,166	11,352,204
Balances due on maturity	34,328,955	39,981,881	18,590,780	31,586,838	33,715,355	77,763,514
Debentures						
Interest	-	208,725	-	-	-	-
Balances due on maturity	-	7,590,000	-	-	-	-
Credit Facility						
Interest	-	-	-	-	-	-
Balances due on maturity	-	-	-	-	-	-
Accounts and distributions payable and other liabilities	11,496,022	-	-	-	-	-
Total	$ 50,600,466	$ 61,385,416	$ 31,515,286	$ 42,233,930	$ 42,306,667	$ 96,566,112

(d) Concentration risk

The REIT has one major tenant with 16 locations in the REIT's portfolio providing $6.6 million in annualized base rents, or 19.2% of the REIT's total annualized base rental revenue.

20. CONTINGENCIES AND COMMITMENTS

(a) Contingent liability

As a condition of closing the Holyrood Rescission in October 2014, the REIT provided a $35.0 million loan guarantee to the lender of a loan to Holyrood Holdings Ltd. The lender has a first mortgage against the Hamilton City Center shopping center to secure the loan and the REIT has a second mortgage. The REIT has been advised that the loan was not repaid at the original maturity date of June 30, 2015 and that the terms of the loan have been revised on several occasions by the lender and Holyrood Holdings, but without the consent of the REIT. The REIT has advised the lender that it considers itself to no longer be bound by the guarantee. The lender has written to the REIT on several occasions insisting that the guarantee continues in effect. The REIT will not make any payment under the guarantee unless ordered by a Court to do so. Holyrood Holdings has advised the REIT that it is in active discussions with the lender regarding repayment of the loan, which is being sought by the lender, and that Holyrood Holdings expects to complete either a refinancing of the loan, or a sale of the Hamilton City Center for a purchase price in excess of $35 million.

(b) Lease commitments – The REIT as lessee

The REIT as lessee is committed under operating leases to renewal periods or notice periods ranging from one year to five years for its three office locations in Barrie, Ontario, Toronto, Ontario and Victoria, British Columbia. In aggregate the leases represent a future commitment to the REIT of approximately $0.8 million.

(c) Certified class action lawsuit

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 certain parties, including a former Officer and former Trustees of the REIT. The class action was certified on November 8, 2016. The 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. The Holyrood transaction was rescinded by the REIT and Holyrood in October 2014. The REIT has certain indemnity obligations to its former Officer and former Trustees 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 and the REIT has insurance in place, the REIT does not believe it will be material to its business and affairs.