

Condensed Consolidated Financial Statements of

PARTNERS REAL ESTATE INVESTMENT TRUST

For the three months ended March 31, 2019 and 2018

PARTNERS REAL ESTATE INVESTMENT TRUST

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For the three months ended March 31, 2019 and 2018

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PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Financial Position

unaudited (Cdn \$)

As at	March 31, 2019	December 31, 2018
ASSETS		
Non-current assets		
Income producing properties (Note 3)	\$ 98,650,000	\$ 98,650,000
	98,650,000	98,650,000
Current assets		
Other assets (Note 4)	1,299,368	858,377
Accounts receivable (Note 5)	612,200	2,894,888
Cash	1,986,180	3,068,578
	3,897,748	6,821,843
Assets held for sale (Note 6)	189,327,776	183,222,326
	\$ 291,875,524	\$ 288,694,169
LIABILITIES		
Non-current liabilities		
Mortgages payable (Note 7)	\$ 45,335,007	\$ 45,735,092
	45,335,007	45,735,092
Current liabilities		
Mortgages payable (Note 7)	19,415,517	19,494,289
Accounts payable and other liabilities	5,633,248	6,961,455
Distributions payable (Note 12)	697,813	697,667
	25,746,578	27,153,411
Liabilities associated with assets held for sale (Note 6)	120,359,321	116,142,244
	191,440,906	189,030,747
UNITHOLDERS' EQUITY		
	100,434,618	99,663,422
	\$ 291,875,524	\$ 288,694,169

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

PARTNERS REAL ESTATE INVESTMENT TRUST
Condensed Consolidated Statements of Comprehensive Income (Loss)

unaudited (Cdn \$)

	Three months ended March 31,	
	2019	2018
Revenues from income producing properties (Note 9)	\$ 9,212,406	\$ 12,975,362
Property operating expenses	(1,442,155)	(2,273,187)
Realty taxes	(2,264,355)	(3,006,117)
Property management fees	(222,362)	(214,791)
	5,283,534	7,481,267
Other expenses:		
Financing costs	\$ 1,736,912	\$ 2,935,523
General and administrative expenses	776,905	1,615,522
	2,513,817	4,551,045
Income before other gains/(losses)	2,769,717	2,930,222
Fair value gains (losses) (Note 10)	94,774	(5,214,108)
Comprehensive income (loss)	\$ 2,864,491	\$ (2,283,886)
INCOME (LOSS) PER UNIT (Note 11)		
Basic and diluted	\$ 0.06	\$ (0.05)

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 March 31,	
	2019	2018
Trust Units (Note 12)		
BALANCE, BEGINNING OF PERIOD	\$ 257,537,254	\$ 256,857,960
Issuance of units under the dividend reinvestment program, net of costs	-	229,222
BALANCE, END OF PERIOD	257,537,254	257,087,182
Contributed Surplus		
BALANCE, BEGINNING OF PERIOD	565,080	565,080
BALANCE, END OF PERIOD	565,080	565,080
Accumulated Other Comprehensive Loss		
BALANCE, BEGINNING OF PERIOD	(158,438,912)	(74,075,622)
Comprehensive income (loss)	2,864,491	(2,283,886)
Distributions to unitholders (Note 12)	(2,093,295)	(2,887,053)
BALANCE, END OF PERIOD	(157,667,716)	(79,246,561)
TOTAL UNITHOLDERS' EQUITY	\$ 100,434,618	\$ 178,405,701

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 March 31,	
	2019	2018
OPERATING ACTIVITIES		
Comprehensive income (loss)	\$ 2,864,491	\$ (2,283,886)
Adjusted for non-cash items:		
Fair value (gains) losses (Note 10)	(94,774)	5,214,108
Non-cash unit compensation expense	-	144,485
Straight-line rent	(14,514)	13,710
Tenant incentives and direct leasing costs amortization	181,225	243,335
Financing cost amortization	118,586	218,686
Market interest rate adjustment on mortgages	-	(36,518)
Interest accretion expense	-	2,406
Interest expense	1,618,326	2,750,949
Net change in working capital (Note 13)	(361,597)	(1,825,179)
Interest paid	(1,835,402)	(2,713,943)
Cash flow provided by operating activities	2,476,341	1,728,153
FINANCING ACTIVITIES		
Proceeds from mortgages	-	34,500,000
Financing costs of mortgages	-	(319,928)
Repayments of mortgages at maturity	-	(29,235,046)
Regular principal repayments on mortgages	(1,405,790)	(1,975,422)
Convertible debenture repayments (Note 8)	-	(7,590,000)
Credit facility draws	-	1,000,000
Costs to issue units (Note 12)	-	(2,280)
Distributions to unitholders	(2,073,585)	(2,640,883)
Cash flow used by financing activities	(3,479,375)	(6,263,559)
INVESTING ACTIVITIES		
Capital improvements, net of recoveries	(21,561)	(708,832)
Expenditures on tenant incentives and direct leasing costs	(57,803)	(28,805)
Cash flow used by investing activities	(79,364)	(737,637)
NET DECREASE IN CASH DURING THE PERIOD	(1,082,398)	(5,273,043)
CASH, BEGINNING OF PERIOD	3,068,578	6,664,907
CASH END OF PERIOD	\$ 1,986,180	\$ 1,391,864

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

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

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 last amended and restated on December 10, 2018. The address of its registered office and principal place of business is 249 Saunders Road, Unit 3, Barrie, Ontario, L4N 9A3. The principal business activity of Partners REIT is 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, 2018 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 May 8, 2019.

(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.

(c) *Adoption of new accounting policies effective January 1, 2019*

IFRS 16 – *Leases* (“IFRS 16”) is a new standard that sets out the principles for the recognition, measurement and disclosure of leases. Under IFRS 16, the REIT assesses whether a contract is or contains a lease based on the definition of a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The REIT recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use assets is initially measured at the amount of the lease liability plus any initial direct costs incurred by the lessee. Adjustments may also be required for lease incentives, payments at or prior to commencement and restoration obligations.

The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease, or, if that rate cannot be readily determined, the REIT's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. It is re-measured when there are changes in the following: i) the lease term; ii) the REIT's assessment of whether it will exercise a purchase option; iii) a change in an index or a change in the rate used to determine the payments; and iv) amounts expected to be payable under residual value guarantees.

IFRS 16 was applied using the modified retrospective approach effective January 1, 2019, under which the cumulative effect of initial application would be recognized as at January 1, 2019. The information presented for 2018 has not been restated and remains as previously reported under IAS 17. On initial application, the REIT elected to record the right-of-use assets based on the corresponding lease liability. Right-of-use assets and lease obligations of \$5.1 million were recorded as at January 1, 2019, with no impact on unitholders' equity.

The REIT has applied the following recognition exemptions and practical expedients:

- Applied the recognition exemption not to recognize short-term less than 12 months of lease term or leases of low-value assets;
- Applied IFRS 16 only to contracts that were previously identified as leases; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

3. INCOME PRODUCING PROPERTIES

As at	March 31, 2019	December 31, 2018
Balance, beginning of period	\$ 280,415,000	\$ 462,928,003
Property disposition at carrying value	-	(141,911,499)
Capital improvements (net of recoveries)	21,561	3,524,860
Expenditures on tenant incentives and direct leasing costs	57,803	537,348
Amortization of tenant incentives and direct leasing costs	(181,225)	(974,824)
Recognition of straight-line rent	14,514	(66,207)
Unrealized fair value gains (losses)	87,347	(43,622,681)
Initial recognition of right of use assets	5,100,000	-
	285,515,000	280,415,000
Properties held for sale (Note 6)	(186,865,000)	(181,765,000)
Balance, end of period	\$ 98,650,000	\$ 98,650,000

Income producing properties, which are classified as investment properties under IFRS, are measured at fair value by management. Management obtains support for the carrying value through consideration of market indicators and 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 three months ended March 31, 2019 the fair value of the REIT's income producing property portfolio was determined internally by the REIT using the Direct Capitalization methodology.

During the three months ended March 31, 2019, no external appraisals were obtained. During 2018, external appraisals were obtained for fifteen of the REIT's properties with an aggregate fair value of \$165.6 million, representing 59.0% of the fair value of the income producing property portfolio. The value 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	March 31, 2019	December 31, 2018
Capitalization rates		
Maximum	12.64%	12.64%
Minimum	6.23%	6.23%
Weighted Average	7.31%	7.31%

At March 31, 2019, a 0.25% increase in capitalization rates for income producing properties would decrease fair value by \$9.5 million (December 31, 2018 - \$9.5 million) and a 0.25% decrease in capitalization rates would increase fair value by \$10.1 million (December 31, 2018 - \$10.1 million).

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

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 March 31, 2019, income producing properties included \$4.0 million (December 31, 2018 - \$4.0 million) of net straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term.

4. OTHER ASSETS

The major components of other assets are as follows:

As at	March 31, 2019	December 31, 2018
Prepaid realty taxes and insurance	\$ 1,367,087	\$ 304,399
Restricted cash as required under loan and sales agreements	401,609	418,193
Prepaid expenses and other	1,206,796	1,081,658
	2,975,492	1,804,250
Other assets associated with properties available for sale (Note 6)	(1,676,124)	(945,873)
Balance, end of year	\$ 1,299,368	\$ 858,377

Cash is considered restricted when it is held in escrow as required under loan and sales agreements and is only available for use for specific purposes. The permitted use of restricted cash is 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.

5. ACCOUNTS RECEIVABLE

As at	March 31, 2019	December 31, 2018
Rents receivable	\$ 583,869	\$ 341,354
Unbilled recoveries	674,615	573,383
Other receivables	369,738	2,709,760
	1,628,222	3,624,497
Allowance for doubtful accounts	(229,370)	(218,156)
	1,398,852	3,406,341
Accounts receivable associated with properties available for sale (Note 6)	(786,652)	(511,453)
Balance, end of year	\$ 612,200	\$ 2,894,888

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 18 for the REIT's exposure to credit risk regarding its receivables, and precautions taken to mitigate these risks.

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

6. ASSETS HELD FOR SALE

The REIT has classified eleven income producing properties as held for sale since management has committed to a plan of sale. The properties comprise the following:

Property Name	City and Province	Building Type
Selkirk – SDM	Selkirk, Manitoba	Free standing centre
Gatineau - SDM	Gatineau, Quebec	Free standing centre
Centre Commercial Chateauguay	Montreal, Quebec	Mixed-use Strip Centre
Centre le Village	Nun's Island, Quebec	Enclosed Mall
Plaza de L'Unite	Nun's Island, Quebec	Retail Strip Centre
Marcel-Laurin Shopping Centre	St. Laurent, Quebec	Retail Strip Centre
Mega Centre	Montreal, Quebec	Power Centre
Place Desormeaux	Longueuil, Quebec	Enclosed Mall
Saint-Remi Shopping Centre	St. Remi, Quebec	Retail Strip Centre
Repentigny Shopping Centre	Repentigny, Quebec	Mixed-use Strip Centre
Sorel Shopping Centre	Sorel, Quebec	Retail Strip Centre
Plaza des Seigneurs	Terrebonne, Quebec	Retail Strip Centre

The value of the properties is measured at fair market value as required under IAS 40 – *Investment Property*, which states that when an entity has previously measured an investment property at fair value, it is required to continue measuring the property at fair value until disposal.

The components of the assets and associated liabilities held for sale are as follows:

As at	March 31, 2019	December 31, 2018
Assets		
Income producing properties	\$ 186,865,000	\$ 181,765,000
Other assets	1,676,124	945,873
Accounts receivable	786,652	511,453
Assets held for sale	189,327,776	183,222,326
Liabilities		
Mortgages payable	\$ 112,573,761	\$ 113,382,108
Accounts payable and other liabilities	7,785,560	2,760,136
Liabilities associated with assets held for sale	\$ 120,359,321	\$ 116,142,244

Included in the income producing properties balance above is \$5.1 million in right of use assets for two properties that each have land leases with a remaining term of approximately 44 years. The \$5.1 million right of use assets are offset by an equal lease liability included in accounts payable and other liabilities above.

On May 8, 2019 the REIT completed the sale of its eleven Quebec properties, generating approximately \$64 million in net cash proceeds. The Board of Trustees announced a declaration of a special distribution in the amount of \$1.28 per unit (approximately \$59 million) payable on May 22, 2019 to unitholders of record on May 16, 2019.

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

7. MORTGAGES PAYABLE

As at	March 31, 2019	December 31, 2018
Mortgage principal	\$ 178,603,542	\$ 180,009,332
Unamortized commitment and other fees	(1,279,257)	(1,397,843)
	177,324,285	178,611,489
Mortgages associated with assets held for sale (Note 6)	(112,573,761)	(113,382,108)
	\$ 64,750,524	\$ 65,229,381
Non-current	\$ 45,335,007	\$ 45,735,092
Current	19,415,517	19,494,289
	64,750,524	65,229,381

Scheduled repayments of mortgage principal are as follows:

	Principal instalments	Principal maturing	Total
2019 (9 months remaining)	4,276,105	17,442,723	21,718,828
2020	4,727,484	22,797,138	27,524,622
2021	3,533,067	52,890,984	56,424,051
2022	2,403,752	16,016,156	18,419,908
2023	1,804,932	20,125,412	21,930,344
Thereafter	5,203,219	27,382,570	32,585,789
Contractual obligations	\$ 21,948,559	\$ 156,654,983	\$ 178,603,542

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 3.14% and 5.53% per annum (December 31, 2018 – 3.14% and 5.53%) and contractual rates ranging between 2.83% and 4.60% (December 31, 2018 – 2.83% and 4.60%). The total carrying value of the properties pledged as security is \$277.0 million (December 31, 2017 - \$277.0 million).

Included in the mortgages payable at March 31, 2019 are \$17.9 million in mortgages over two properties with an institutional lender (December 31, 2018 - \$18.0 million over 2 properties), over which a significant Unitholder of the REIT (with over 20% of the outstanding units on March 31, 2019), has significant influence.

Interest rate swaps are in place to fix the interest rates for three mortgages payable for a notional amount of \$32.9 million between 3.70% and 4.60% until 2021. As at March 31, 2019, the fair value of the interest rate swap is a liability of \$0.3 million (December 31, 2018 - \$0.2 million liability) and is included in accounts payable and accrued liabilities on the statement of financial position. For the three months ended March 31, 2019, a fair value loss on the interest rate swaps of \$0.1 million was recorded on the statements of comprehensive income (2018 – fair value loss of \$0.2 million).

8. CONVERTIBLE 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. 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. On January 17, 2018, the REIT repaid the final \$7.6 million of outstanding Series III Debentures plus accrued interest up to that date.

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

9. REVENUES FROM INCOME PRODUCING PROPERTIES

Revenues recognized from income producing properties for the three months ended March 31, 2019 were \$9.2 million (three months ended March 31, 2018 - \$13.0 million). 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 months ended March 31, 2019 of \$3.3 million (three months ended March 31, 2018 - \$4.4 million), 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 months ended March 31, 2019 totaled \$0.2 million (three months ended March 31, 2018 - \$0.2 million).

As at March 31, 2019, 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	\$ 23,951,613	\$ 70,204,889	\$ 35,935,172

10. FAIR VALUE GAINS (LOSSES)

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

	Three months ended March 31,	
	2019	2018
Unrealized gain (loss) on income producing properties	\$ 87,347	\$ (4,991,591)
Financial liabilities designated as FVTPL:		
Fair value loss on interest rate swaps	(137,613)	(222,517)
Fair value gain on deferred units	145,040	-
Total fair value gains (losses)	\$ 94,774	\$ (5,214,108)

11. INCOME PER UNIT

The table below presents the net income per unit and weighted average units outstanding calculations.

	Three months ended March 31,	
	2019	2018
Numerator		
Comprehensive income (loss) - basic and diluted	\$ 2,864,491	\$ (2,283,886)
Denominator		
Weighted average units outstanding - basic	46,079,673	45,871,307
Weighted average deferred units outstanding	436,494	206,693
Weighted average units outstanding - diluted	46,516,167	46,078,000
Income (loss) per unit - basic and diluted	\$ 0.06	\$ (0.05)

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

12. UNITHOLDERS' EQUITY

(a) Distributions

For the three months ended March 31, 2019 the REIT made monthly cash distributions to unitholders in an amount of \$0.015 per unit, representing an annualized distribution of \$0.18 per unit.

The amount of the REIT's cash distributions is determined 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 March 31, 2019, distributions accrued but not yet paid totaled \$0.7 million (December 31, 2018 – \$0.7 million) and is included in accounts payable and other liabilities.

(b) Distribution reinvestment and optional unit purchase plan

Prior to the November 2018 distribution payable in December 2018, the REIT had a Distribution Reinvestment and Optional Unit Purchase Plan (the "Plan") to enable Canadian resident unitholders to acquire additional units of the REIT. Effective for the November 2018 distribution, payable in December 2018, the Plan was terminated.

(c) Outstanding Units

As at	March 31, 2019		December 31, 2018	
	Units	Dollars	Units	Dollars
Units outstanding, beginning of year	46,079,673	\$ 257,537,254	45,831,979	\$ 256,857,960
Units issued:				
Distribution reinvestment plan	-	-	247,694	746,262
Unit issue costs	-	-	-	(66,968)
	46,079,673	\$ 257,537,254	46,079,673	\$ 257,537,254

13. 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 March 31,	
	2019	2018
Net change in working capital		
Net change in accounts receivable	\$ 2,007,488	\$ (333,488)
Net change in other assets	(1,171,242)	(91,071)
Net change in accounts payable and other liabilities	(1,197,843)	(1,400,620)
	\$ (361,597)	\$ (1,825,179)

14. UNIT-BASED COMPENSATION PLANS

(a) 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.

PARTNERS REAL ESTATE INVESTMENT TRUST

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The issue price of the units under the DUP is the volume-weighted average price of the units for the last five trading days preceding the date of issuance. Additional units earned from distributions are issued based on the volume-weighted average price of the units for the last 20 trading days preceding the distribution payment date.

On December 10, 2018 the Board of Trustees cancelled the further issuance of deferred units being earned on Trustees Fees or Officer Bonus.

The following table presents information on outstanding deferred units for the three months ended March 31, 2019 and the year ended December 31, 2018:

	March 31, 2019		December 31, 2018	
	Deferred Units	Dollars	Deferred Units	Dollars
Opening Balance	431,706	\$ 919,534	204,508	\$ 613,524
Deferred units issued:				
Officer Bonus	-	-	66,225	200,000
Trustee Fees	-	-	163,435	474,540
Distributions on deferred units	9,437	19,563	26,658	77,775
Deferred units redeemed	-	-	(29,120)	(86,739)
Special distribution on deferred units	-	-	-	(351,084)
Fair value (gain) / loss on deferred units	-	(145,040)	-	(8,482)
	441,143	\$ 794,057	431,706	\$ 919,534

As at March 31, 2019, the liability related to the DUP was \$0.8 million (December 31, 2018 – \$0.9 million) and is included in accounts payable and other liabilities. The related expense in comprehensive income is nil for the three months ended March 31, 2019 (three months ended March 31, 2018 - \$0.1 million).

15. 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.

16. 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 purchased real estate. Part of the REIT's objectives in securing mortgages for its properties and managing its long-term debt is to stagger the maturities in order to mitigate short-term volatilities in the debt markets. As well, given the importance of debt capital to real estate entities, 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.

The debt-to-gross book value ratio is measured as the REIT's total debt, including mortgages payable, corporate secured debt and debentures, divided by the gross book value of its assets. At March 31, 2019 the REIT's debt-to-gross book value ratio is 60.9% (December 31, 2018 – 62.1%), calculated as follows:

PARTNERS REAL ESTATE INVESTMENT TRUST

Notes to the Condensed Consolidated Financial Statements

Three months ended March 30, 2019 and 2018

As at	March 31, 2019	December 31, 2018
Debt⁽¹⁾		
Mortgage principal	\$ 178,603,542	\$ 180,009,332
	\$ 178,603,542	\$ 180,009,332
Gross Book Value of Assets		
Book value of income producing properties (including those held for sale)	\$ 285,515,000	\$ 280,415,000
Book value of all other assets	6,360,524	8,279,169
Unamortized deferred financing fees	1,279,257	1,397,843
	\$ 293,154,781	\$ 290,092,012
Debt-to-Gross Book Value	60.9%	62.1%

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

17. 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 3.

(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 at March 31, 2019 is based on discounted future cash flows, using interest rates ranging between 3.72% and 3.82% that reflect current market conditions for instruments of similar term and risk (December 31, 2018 – rates ranging between 4.06% and 4.16%).

(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 determined based on quoted prices of the REIT's units, these financial instruments are considered Level 1.

Assets and liabilities measured at fair value in the statements of financial position, or where fair value disclosures are required, are classified based on a three-level hierarchy as follows:

- Level 1 - determined by reference to quoted prices in active markets for identical assets and liabilities;

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- 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:

	March 31, 2019			December 31, 2018		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets measured at fair value:						
Income producing properties (incl. AFS)	\$ -	\$ -	\$ 285,515,000	\$ -	\$ -	\$ 280,415,000
Liabilities measured at fair value:						
Interest rate swaps	\$ -	\$ 339,645	\$ -	\$ -	\$ 202,032	\$ -
Deferred units	794,057	-	-	919,534	-	-
Liabilities for which fair values are disclosed:						
Mortgages payable	\$ -	\$ -	\$ 178,219,476	\$ -	\$ -	\$ 177,693,931

The fair value of assets and liabilities is performed on a quarterly basis using the valuation approaches noted above. During the three months ended March 31, 2019 there were no transfers between the hierarchy levels.

18. 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. At March 31, 2019 the REIT has no variable rate debt outstanding, and thus a 1% increase in the prime rate would have no impact on the REIT's annual interest expense (December 31, 2018 – no variable rate debt).

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 March 31, 2019 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.

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As at	March 31, 2019	December 31, 2018
Tenant rents receivable		
Less than 30 days past billing date	186,946	30,535
30-60 days past billing date	112,980	17,279
61-90 days past billing date	16,667	2,280
Greater than 90 days past billing date	267,276	291,260
	583,869	341,354
Allowance for doubtful accounts - tenant	(104,370)	(93,156)
Other receivables	369,738	2,709,760
Allowance for doubtful accounts - other	(125,000)	(125,000)
Unbilled recoveries	674,615	573,383
	1,398,852	3,406,341
Accounts receivable associated with properties available for sale (Note 6)	(786,652)	(511,453)
	612,200	2,894,888

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

	March 31, 2019	December 31, 2018
Opening allowance for doubtful accounts	\$ 218,156	\$ 277,869
Change to allowance for doubtful accounts	20,631	43,451
Receivables written-off	(9,417)	(103,164)
Ending allowance for doubtful accounts	\$ 229,370	\$ 218,156

(c) Liquidity risk

The REIT's main liquidity requirements arise from on-going working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures and distributions to unitholders, as such distributions may be approved by the Board of Trustees from time to time. All of these liquidity requirements, except for debt repayment obligations, are generally funded from cash flows from operations or from drawing on existing cash (\$2.0 million at March 31, 2019). Property debt repayment obligations are generally funded from obtaining debt re-financing on maturing mortgages.

During 2018 the REIT disposed of 11 properties and after disposition costs and repaying related mortgages generated net cash proceeds of approximately \$45 million. On October 24, 2018 the REIT announced that it would make a \$40 million special distribution to Unitholders and this was paid during November. After the dispositions, to reflect the smaller size of the REIT, the monthly distribution was reduced from the annualized rate of \$0.25 per unit to \$0.18 per unit.

From the beginning of 2017 through March 31, 2019, the REIT re-financed a total of \$121 million of maturing mortgages with new financings totalling \$142 million generating net monies of \$21 million. Based on these re-financings, the REIT expects that it will continue to be able to refinance property mortgages as they mature. Within the next 12 months the REIT has \$5.7 million in regularly scheduled principal repayments and five maturing mortgages totaling \$30.6 million.

The REIT manages its liquidity risk by:

- staggering the maturities of its maturing mortgages;
- planning capital spending around the availability of cash from operations or debt/equity funding; and
- reviewing the current liquidity position and forecasted cash flows in advance of the approval of the monthly distributions.

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The REIT expects to generate sufficient cash from operations, financing(s) and disposition(s) activities that will provide sufficient funds for the REIT to meet its operational requirements, debt obligations and capital spending plans.

The REIT's financial condition and ability to meet its financial obligations would be adversely affected if it were unable to obtain additional financing either upon refinancing of its maturing obligations or from other financing sources, 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:

	2019	2020	2021	2022	2023	Thereafter
Mortgages payable						
Interest	\$ 4,781,967	\$ 5,277,428	\$ 3,373,951	\$ 2,225,826	\$ 1,553,634	\$ 2,063,757
Principal payments	4,276,105	4,727,484	3,533,067	2,403,752	1,804,932	5,203,219
Balances due on maturity	17,442,723	22,797,138	52,890,984	16,016,156	20,125,412	27,382,570
Accounts and distributions payable and other liabilities	13,776,976	-	-	-	-	-
Total	\$ 40,277,771	\$ 32,802,050	\$ 59,798,002	\$ 20,645,734	\$ 23,483,978	\$ 34,649,546

(d) *Concentration risk*

The REIT has one major tenant with seven locations in the REIT's portfolio providing \$3.1 million in annualized base rents, or 12.9% of the REIT's total annualized base rental revenue.

19. CONTINGENCIES AND COMMITMENTS

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 two and a half 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 \$0.5 million, or less than \$0.1 million when excluding offices with sub-leases. During 2018 sub-leases were obtained for the Toronto and Victoria offices which will cover the costs of these offices until their lease expiry dates. The REIT has not recognized these leases as right-of-use assets as they are not considered material.