MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

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FORWARD-LOOKING INFORMATION ADVISORY

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

In making the forward-looking statements in this MD&A, the REIT has applied material assumptions including, but not limited to, the assumption that: (1) commercial real estate markets continue to remain fluid, enabling the REIT to grow through acquisitions; (2) demand for vacant space at our British Columbia, Ontario and Québec properties will improve as a result of anticipated general and economic growth; (3) capital expenditures at Méga Centre and Place Val Est will be on budget, on time and will contribute to the improvement in occupancy rates; and (4) there is continued responsiveness to raising funds through equity and debt markets. Other assumptions are discussed throughout this MD&A; in particular under Part VI – 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 flow and distributions; the impact of newly adopted accounting principles on the REIT's accounting policies and on period-to-period comparisons of financial results; and other risks and factors described from time to time in the documents filed by the REIT. The REIT undertakes no obligations to publicly update or revise any forward-looking statements or information, whether as a result of new information, future events or otherwise, except as required by law. Additional information about these risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REIT's filings with securities regulators, including the REIT's Annual information Form, dated March 31, 2011, which is available on www.sedar.com.

These forward-looking statements are made as of March 15, 2012 and presents material information up to this date, unless otherwise noted.

PART I – OVERVIEW & FINANCIAL HIGHLIGHTS
BASIS OF PRESENTATION

Financial data included in this Management's Discussion and Analysis ("MD&A") for the year ended December 31, 2011, includes material information up to March 15, 2012. Financial data provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). All dollar references are in Canadian dollars.

The MD&A is intended to provide readers with an assessment of the performance of Partners REIT over the past year, as well as our financial position and future prospects. The MD&A should be read in conjunction with the consolidated financial statements and appended notes for the year ended December 31, 2011, which begin after page 39 of this report. In our discussion of operating performance, we refer to net operating income as gross revenues from income producing properties less operating expenses (which excludes interest expense, general and administrative expenses, amortization, income taxes, and fair value gains/(losses)). We define funds from operations as net income before fair value gains or losses, depreciation and amortization, gains or losses from the sale of property, and certain other non-cash items; and adjusted for any non-controlling interests in the foregoing. Net operating income is an important measure that we use to assess operating performance, and funds from operations is a widely used measure in analyzing real estate. We provide the components of net operating income on page 21, and a reconciliation of net income to funds from operations on page 23. Net operating income and funds from operations do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers.

CURRENT BUSINESS ENVIRONMENT AND OUTLOOK

During 2011, the REIT purchased $93.5 million (net of acquisition costs) of income producing properties in British Columbia, Alberta, Ontario, Manitoba and Québec. These investment activities were funded primarily from cash flows from operations, new and assumed mortgages, and a convertible debt issuance.

Partners REIT has significant acquisition capacity due to a recent equity raise and the acquisition of liquid assets (refer to PART IV – Recent Developments), and will continue to execute on its acquisition initiatives when strategic opportunities are identified. Further, management continues to explore opportunities to reconfigure its portfolio through redevelopment, remerchandising and dispositions of properties that no longer align with its strategy.

Over the next two years, the REIT has approximately $21.0 million of debt maturing which carries an average interest rate of 5.91%. Refinancing at current market rates would reduce the REIT's cost of debt and would impact the REIT's earnings potential. Interest expense savings from refinancing at current market rates are anticipated to continue through 2012 and into the following year.

Management believes that there continues to be an improvement in the real estate market and the equity/capital markets in general. We expect that our growth will come primarily from:

- Continued organic growth from within the portfolio through scheduled rental increases in existing leases, lease renewals, and new leases; and
- Acquisitions intended to strengthen our position in our existing markets and to expand our holdings into additional geographic areas.

Partners REIT intends to continue to seek accretive acquisition opportunities that fit within our investment criteria. Our focus continues to be the enhancement of our portfolio mix. This will enable us to improve our occupancy levels through the active management and leasing of the portfolio. It will also enable us to grow our cash flows over the long term. Management remains focused on enhancing returns to unitholders by seeking new investment opportunities while actively managing our existing asset base.

We recognize that it is essential to position the REIT to take advantage of the growth that accompanies a recovering economic environment through same property rental income growth, redevelopment, and acquisitions. Furthermore, Partners REIT will continue to monitor both the economy and real estate markets with a view to ensuring adequate access to new equity and debt that will enable the REIT to meet its existing operational requirements and maximize opportunities that may become available. Management also believes

that it is essential to keep pace with changes in the retail environment and ongoing challenges presented by the slower than anticipated global economic recovery.

The REIT's portfolio is performing as anticipated and management expects continued growth from contracted escalations in base rent and from accretive acquisitions. Management remains optimistic about the REIT's ability to continue to grow in the upcoming year.

OVERVIEW OF THE BUSINESS

Partners REIT is an unincorporated, open-ended real estate investment trust and was formed pursuant to a Declaration of Trust dated March 27, 2007 and as amended and restated on June 4, 2010 and November 3, 2010. The principal activity of Partners REIT is the investment in commercial retail properties. Partners REIT is a publicly traded Canadian commercial real estate investment trust whose units are listed on the TSX Venture Exchange ("the Exchange") under the trading symbol PAR.UN.

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.

The REIT's current business strategy is to focus on the acquisition and management of a portfolio of high quality retail and mixed-use retail community and neighbourhood centres, primarily in the mid-market value range of $10 to $50 million, from both primary and secondary markets throughout Canada. As at December 31, 2011, the REIT owned twenty-one retail and mixed-use retail properties located in Ontario, Québec, Manitoba, Alberta and British Columbia.

Partners REIT's current portfolio of properties consists of retail and mixed-use retail centres whereby the majority of rents are derived from national and regional retailers with multi-year leases. These centres typically provide growth opportunities through the lease-up of vacant space, the increase in rental rates through contractual escalations, and through management's active remerchandising and redevelopment of the properties. The REIT believes it has created a base of retail assets that provide reliable and stable cash flow, and continues to pursue opportunities that yield growth through lease renewals, redevelopment and/or development of assets.

Management has previously acquired assets in secondary markets to take advantage of opportunities to obtain well-tenanted centres with strong national and regional retailers at attractive capitalization rates. Partners REIT is focused on building a geographically diversified portfolio of quality real estate assets with stabilized income that are accretive on a per unit basis. As the portfolio becomes more accretive, over time, the REIT's goal is to provide a steady increase in cash distributions to its unitholders.

For the year ended December 31, 2011, the REIT acquired ten properties. The following table summarizes the year's acquisitions:

Property Description	Property Type	Date Acquired	Square Footage		Acquisition Cost ($ millions)
1. Six Shoppers Drug Mart Properties - Manitoba (5), Quebec (1)	Free Standing	17-Mar-11	104,335	$	32.5
2. Centuria Urban Village, Kelowna, British Columbia	Condominium Shopping Centre	16-May-11	32,128		8.9
3. Place Desormeaux, Longueuil, Quebec	Regional Mall	31-Aug-11	249,710		32.2
4. Evergreen Shopping Centre, Sooke, British Columbia	Shopping Centre	1-Sep-11	81,650		15.8
5. 137th Avenue, Edmonton, Alberta	Free Standing	19-Dec-11	15,921		4.1
			483,744	$	93.5

The purchase of the six Shoppers Drug Mart properties was funded by the assumption of existing mortgages of $17.2 million and cash raised from the issuance of debentures in March 2011.

The purchase of Centuria Urban Village was funded by cash raised from the issuance of debentures and from the REIT's Acquisition Facility.

The purchase of Place Desormeaux was funded by a $23.0 million loan from OMERS Administration Corporation, secured by the property, with a three year term and bearing contractual interest at a rate of 4.05%. The balance of the purchase price was funded by a portion of the $13.5 million, three year revolving loan facility, secured against the REIT's portfolio of properties. The revolving loan facility bears a floating interest rate that is the greater of 9.00% or the TD Canada Trust Posted Bank Prime Rate of Interest plus 4.00%. This facility also included a funding fee whereby the lender received warrants to purchase 625,000 units of Partners REIT at $7.20 per unit.

Evergreen Shopping Centre was funded by a new $10.5 million five-year mortgage on the property with a contractual interest rate of 3.8%. The balance of the purchase price was effectively paid in cash from the REIT's $4.0 million secondary loan, bearing interest at 7.0%, and it's Acquisition Facility.

The purchase of 137th Avenue was funded by the assumption of a $1.64 million mortgage bearing interest at 4.23%, $380,000 cash, and 287,500 exchangeable limited partnership units, at $7.20 per unit, with a total value at the time of issuance of $2.07 million.

FINANCIAL HIGHLIGHTS

The following is a summary of key financial information and statistics for the periods indicated (see Part III – 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, 2011	Dec. 31, 2010	**Dec. 31, 2011**	Dec. 31, 2010
NOI (1)	**$ 4,736,360**	$ 2,658,906	**$ 15,538,859**	$ 9,984,739
NOI - same property (1)	**2,571,844**	2,604,836	**10,081,752**	9,930,467
FFO(1)	**1,416,637**	1,015,345	**5,018,796**	3,617,783
FFO per unit, basic and diluted(1)	**0.18**	0.15	**0.65**	0.67
Net income	**3,060,828**	2,581,014	**7,253,430**	4,703,835
Net income per unit, diluted	**0.39**	0.43	**0.87**	0.87
Distributions(2)	**1,244,844**	1,100,392	**4,967,664**	3,614,357
Distributions per unit(2)	**0.16**	0.16	**0.64**	0.64
Cash distributions(3)	**1,161,756**	951,553	**4,687,812**	3,177,516
Cash distributions per unit(3)	**0.15**	0.15	**0.60**	0.59
Total assets	**265,748,040**	166,405,845	**265,748,040**	166,405,845
Total debt(4)	**202,592,032**	107,148,141	**202,592,032**	107,148,141
Debt-to-gross book value(4)	**73.0%**	59.8%	**73.0%**	59.8%
Interest coverage ratio(5)	**1.93**	1.78	**1.70**	1.69
Debt service coverage ratio(5)	**1.35**	1.44	**1.26**	1.38
Weighted average interest rate(6)	**4.95%**	5.26%	**4.95%**	5.26%
Cash distribution payout ratio(7)	**82.0%**	93.7%	**93.4%**	87.8%
Portfolio occupancy	**98.0%**	95.7%	**98.0%**	95.7%

(1) Net operating income or "NOI" and funds from operations or "FFO" are non-IFRS financial measures widely used in the real estate industry. See "Part III – Performance Measurement" for further details and advisories.

(2) Represents distributions to unitholders on an accrual basis. Distributions are payable as at the end of the period in which they are declared by the Board of Trustees, and are paid on or around the 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) Represents distributions on a cash basis, and as such excludes the non-cash distributions of units issued under the Distribution Reinvestment and Optional Unit Purchase Plan.

(4) See calculation under "Debt-to-Gross Book Value" in "Part V – Results of Operations."

(5) Calculated on a rolling four quarter basis.

(6) Represents the weighted average effective interest rate for secured debt excluding the revolving credit facilities, which have floating rates of interest.

(7) Cash distributions as a percentage of funds from operations (FFO).

Net operating income ("NOI") for the three and twelve months ended December 31, 2011 increased considerably over the same period in 2010 by $2.1 million (78%) and $5.6 million (56%) respectively. This is predominantly due to the acquisition of ten properties across British Columbia, Alberta, Ontario, Manitoba and Québec during the year. The NOI, after removing the effects of the REIT's acquisitions (NOI – same property), during the three months and year ended December 31, 2011 remained relatively flat.

Funds from operations for the three months and year ended December 31, 2011 increased by 40% and 39%, respectively, compared to the same period in 2010 as a result of the REIT's acquisition of eleven properties since late December 2010. FFO per unit, basic and diluted, for the three months ended December 31, 2011 increased by $0.03 compared to the same prior year period. FFO per unit for the year ended December 31, 2011 decreased by $0.02 compared to the same period in 2010, as the increased weighted average number of units from the completion of the REIT's offering at the end of July 2010 and again upon the public unit offering in December 2010 more than offset the increase in FFO over the same prior year period.

Distributions per unit remained at $0.16 quarterly for the fourth quarter of 2011, consistent with distributions per unit throughout 2010 and 2011. Distributions are made on a monthly basis to unitholders of record on the last day of the month, payable on or around the 15th day of the following month. Increases noted in both distributions and cash distributions over the same prior year periods are due entirely to the increase in the weighted average outstanding during 2011 as a result of the REIT's offering in July 2010 and public unit offering in December 2010.

The REIT's total assets increased by $99 million (60%) for the year ended December 31, 2011 compared to December 31, 2010. The increase is due to the ten income producing properties acquired by the REIT in 2011 that had an acquisition cost of $96 million, with the remaining increase coming from the change in fair value of the REIT's other eleven properties and working capital, offset by a decrease in cash.

The REIT's total debt increased by $95 million as at December 31, 2011 compared to December 31, 2010. The increase is due to the following financing activities since December 31, 2010: $54 million in new or assumed first mortgages on the REIT's 2011 acquisitions, net of issuance costs; the issuance of $27 million in corporate unsecured debentures, net of issuance costs; $17 million in a revolving loan facility and a secondary loan used to fund acquisitions, net of issuance costs; $6 million in draws on the REIT's acquisition facility; a net increase of $2 million in refinanced mortgages; and a market interest rate adjustment of $1 million. These increases in debt were offset by the repayment of corporate secured debt of $9 million and principal repayments of $3 million.

REAL ESTATE PORTFOLIO

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

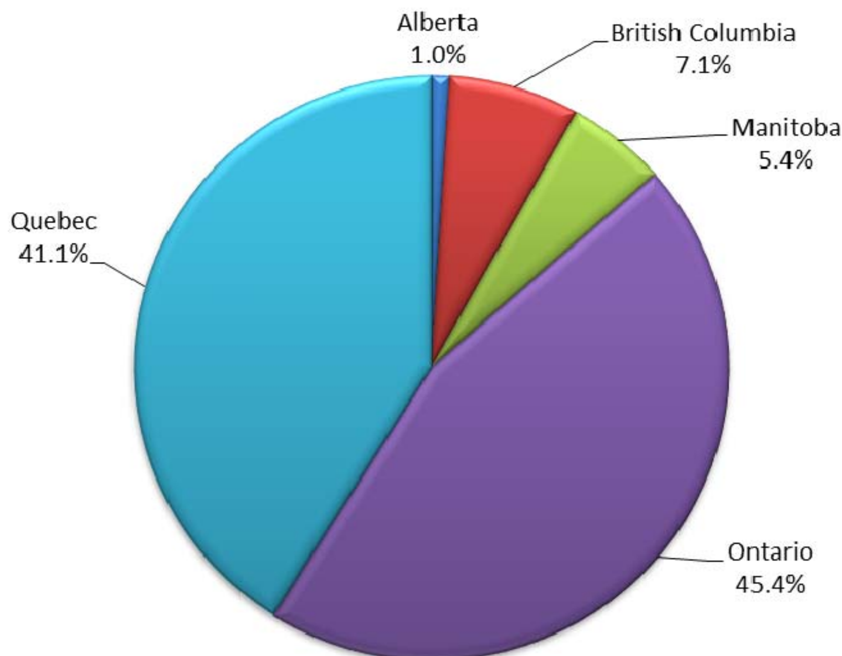
Property and location	Property type	Date built /redeveloped	Anchor tenants	Retail (sq.ft.)[1]	Occupancy[2] [3]	% of annualized base rental revenue[3]	Weighted average rent[3]
British Columbia:							
Evergreen Shopping Centre Sooke, British Columbia	Shopping Centre	1978/2010	Shoppers Drug Mart	81,650	89.7%	5.5%	$15.99
Centuria Urban Village Kelowna, British Columbia	Condominium Shopping Centre	2007	Nesters Market	32,128	100%	3.0%	$20.85
Alberta:							
137 Ave. Edmonton, Alberta	Free Standing	2003	Shoppers Drug Mart	15,921	100.0%	1.7%	$21.57
Manitoba:							
Shoppers Drug Mart Property Steinbach, Manitoba	Free Standing	2006	Shoppers Drug Mart	21,005	100.0%	2.0%	$20.92
Shoppers Drug Mart Property Brandon, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,986	100.0%	2.3%	$21.75
Shoppers Drug Mart Property Winnipeg (Sherbrook), Manitoba	Free Standing	2005	Shoppers Drug Mart	16,839	100.0%	2.0%	$26.50
Shoppers Drug Mart Property Selkirk, Manitoba	Free Standing	2005	Shoppers Drug Mart	16,670	100.0%	1.5%	$19.02
Shoppers Drug Mart Property Winnipeg (Pembina), Manitoba	Free Standing	2003	Shoppers Drug Mart	15,800	100.0%	2.5%	$25.77
Ontario:							
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	250,779	98.3%	16.2%	$13.28
Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,512	92.7%	6.2%	$12.53
Wellington Southdale London, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Empire Theatres	86,629	95.8%	8.2%	$19.90
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	100.0%	3.8%	$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	100.0%	3.6%	$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	100.0%	2.9%	$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	100.0%	0.7%	$3.54
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	100.0%	0.2%	$1.49
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	100.0%	0.2%	$2.47

Property and location	Property type	Date built /redeveloped	Anchor tenants	Retail (sq.ft.)[1]	Occupancy[2] [3]	% of annualized base rental revenue[3]	Weighted average rent[3]
Québec:							
Méga Centre Montréal, Québec	Community Power Centre	1973/1993, 1999, 2000, 2004	Brault & Martineau Staples Future Shop	277,477	100.0%[4]	13.7%	$9.91
Place Desormeaux Longueuil, Québec	Regional Mall	1971/1998,2009 2010	Shoppers Drug Mart Zellers	249,710	98.9%	14.1%	$11.58
Châteauguay Montréal, Québec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	114,650	96.5%	7.2%	$13.14
Shoppers Drug Mart Property Gatineau, Québec	Free Standing	2007	Shoppers Drug Mart	17,035	100.0%	2.5%	$23.99
Total				**1,602,888**	**98.0%** [5]	**100%**	**$12.85** [5]

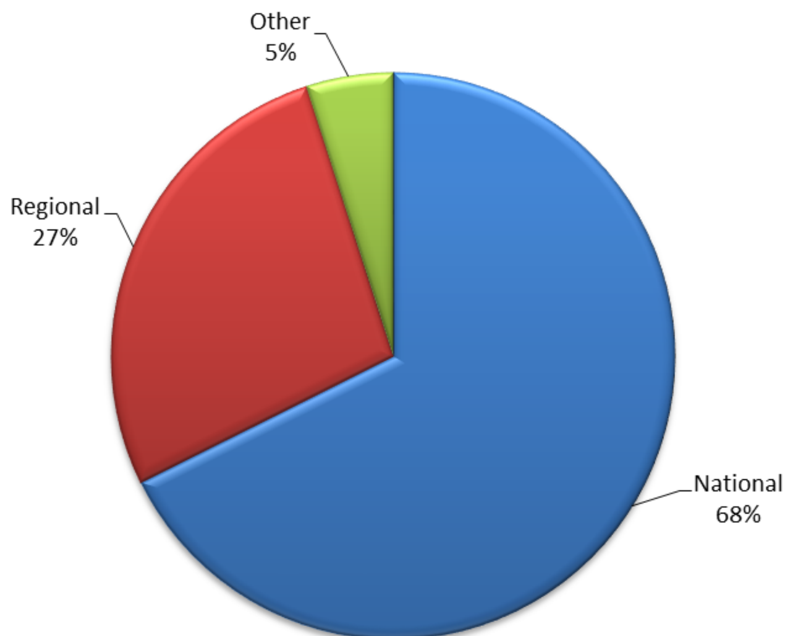
Notes:

(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 March 15, 2012.
(4) Includes 71,118 square feet leased to short-term or month-to-month tenants.
(5) Represents weighted average rent for the portfolio.

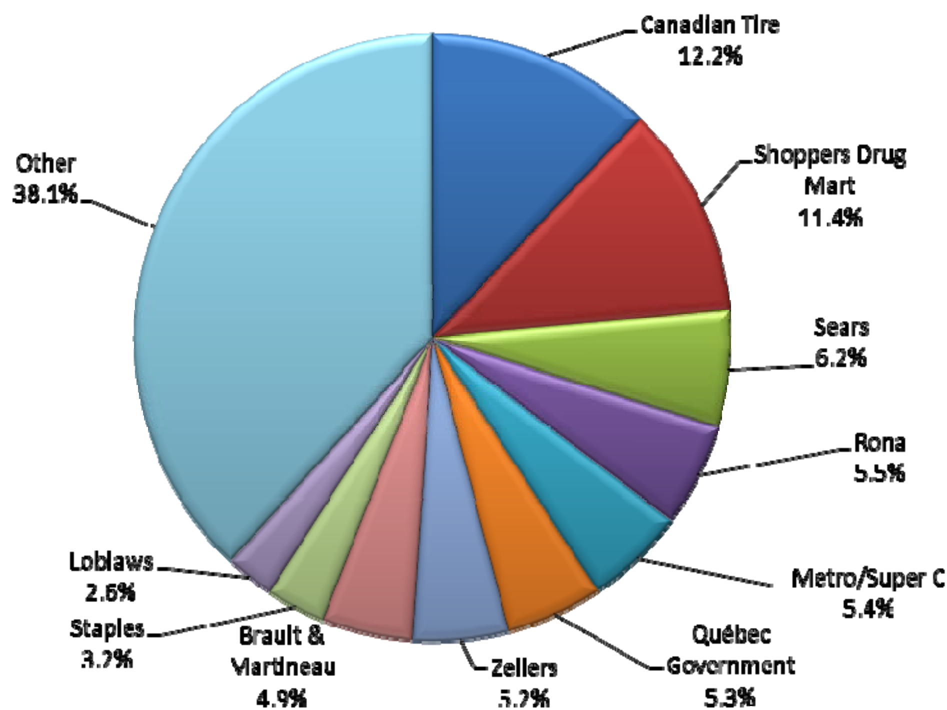
The geographic diversification of the portfolio by square footage is as follows:



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



The tenant mix of the REIT's portfolio as at December 31, 2011 is as follows:



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

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 leased square feet for 2012 and beyond:

	(sq.ft.)	(%)
2012	194,014	12.1%
2013	109,726	6.8%
2014	264,144	16.5%
2015	151,863	9.5%
2016	229,299	14.3%
Thereafter	621,904	38.8%
Vacant	31,938	2.0%
Total	1,602,888	100%

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

Year	Retail
2012	$ 11.54
2013	15.80
2014	9.34
2015	9.62
Thereafter	15.20
Total average	$ 13.27
Weighted average remaining lease term (years)	6

Leasing Activity and Occupancy

Lease expires for 2011, new leasing and renewals completed by the date of this MD&A are as follows:

Three months ended:	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011	**Total 2011**	Total 2010
Lease expiries	36,791	3,329	6,979	17,751	**64,850**	88,958
Base rent per square foot[1]	$ 20.18	$ 18.87	$ 24.69	$ 16.27	**$ 19.53**	$ 14.18
Lease renewals	21,923	4,407	10,266	7,261	**43,857**	57,411
Base rent per square foot[1]	$ 21.52	$ 17.76	$ 28.59	$ 21.82	**$ 22.85**	$ 14.91
New Leasing	-	21,354	5,978	5,869	**33,201**	47,637
Base rent per square foot[1]	$ -	$ 16.04	$ 28.36	$ 19.49	**$ 18.87**	$ 9.93

(1) weighted average

In the regular course of operations, the REIT occasionally encounters tenants who vacate their space before the lease is scheduled to expire due to financial difficulties or corporate restructuring. The REIT monitors tenants closely to avoid these situations, but when an unexpected vacancy occurs and a suitable long-term tenant is not readily available, the REIT endeavors to occupy the space with short-term tenants in order to minimize lost revenues. When short-term tenants are signed to short-term leases or, in some cases, month-to-month leases, the REIT does not include them as an expiry, renewal or new lease in the above chart.

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

	2011			2010		
Quarter Ended	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)	Gross Leasable Area (sq. ft.)	Occupied (sq.ft.)	Occupancy (%)
March 31	1,222,490	1,193,188	97.6%	1,031,922	949,368	92.0%
June 30	1,255,395	1,233,479	98.3%	1,031,922	981,358	95.1%
September 30	1,586,967	1,558,673	98.2%	1,031,922	982,390	95.2%
December 31	1,602,888	1,571,497	98.0%	1,154,619	1,104,970	95.7%
Total average	1,416,935	1,389,209	98.0%	1,062,596	1,004,522	94.5%

Management remains committed to actively pursuing new leases and lease renewals with the objective of increasing occupancy and weighted average rental income per square foot of gross leasable area. One of the REIT's goals is to generate organic growth through redevelopment and lease renewal activities at its existing centres. As at the date of this MD&A, the REIT had lease renewals of 43,857 square feet, and new signed leases of 33,201 square feet. The REIT expects the portfolio's occupancy rate to improve in 2012 from property acquisitions and new/renewed leases.

The following provides an update on the progress made as at the date of the MD&A.

At the Méga Centre property in Québec, we are in the process of revisiting our leasing strategy and in order to maximize revenues during this process we have entered into some short-term or month-to-month leases. We believe that Méga Centre's location, transportation access, visibility and the surrounding community's demographics are positive in terms of being able to redevelop, renew leases, and stabilize the centre. As of March 15, 2012, the REIT has 71,118 square feet of retail space leased to short-term or month-to-month tenants. Through discussions with the tenants and the property manager, the REIT expects these tenants to remain at the property through the first quarter of 2012.

At the Place Desormeaux property in Longueuil, Québec, we have entered into an agreement with Wal-Mart for the transfer and assignment of the lease and space currently occupied by Zellers. It is expected that Wal-Mart will occupy the 81,000 square foot space in the fourth quarter of 2012.

PART II – INTERNATIONAL FINANCIAL REPORTING STANDARDS

Partners REIT has presented its financial results for the year ended December 31, 2011 and the comparative prior period information in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The REIT adopted IFRS in accordance with IFRS 1 – *First Time Adoption of International Financial Reporting Standards* ("IFRS 1"), which are discussed in Note 3 of the audited consolidated financial statements.

IFRS is based upon a conceptual framework similar to that previously utilized under Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement, and disclosure. Although the adoption of IFRS did not have an impact on our reported net cash flows, it does have a material impact on our consolidated statements of financial position (previously referred to as "consolidated balance sheets") and consolidated statements of comprehensive income. Comparative information as at January 1, 2010 (the "Transition Date") and December 31, 2010 has been adjusted from previously reported financial results in order to present comparative financial information in accordance with IFRS.

The consolidated financial statements have been prepared in accordance with IFRS that were effective as at December 31, 2011.

First-Time Adoption of IFRS

The adoption of IFRS required the application of IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS standards effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions.

(a) Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the REIT has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below.

i. Business combinations

IFRS 1 states that a first-time adopter may elect not to apply IFRS 3 – *Business Combinations* retrospectively to past business combinations that occurred before the date of transition to IFRS. Accordingly, the REIT has made this election in order to only apply IFRS 3 to business combinations prospectively (i.e., to those business combinations that took place subsequent to the Transition Date).

ii. Financial instruments

Under IFRS 1, an entity is required to identify, recognize, classify and measure, as appropriate, all financial assets and financial liabilities qualifying at the Transition Date for recognition in accordance with IFRS. IFRS 1 allows the entity to treat any adjustment to the carrying amount of a financial asset or financial liability as a result of adopting IFRS as a transition adjustment to be recognized in the opening balance of retained earnings at the Transition Date. The REIT has applied this exemption to deferred unit-based compensation. Previously, under Canadian GAAP this was categorized as equity; under IFRS this is categorized as a liability. An adjustment to record this financial liability at fair value through profit or loss ("FVTPL") was recorded as an adjustment to opening retained earnings.

(b) Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1 the REIT has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied are described below.

i. Estimates

Hindsight was not used to create or revise estimates and accordingly the estimates previously made by the REIT under Canadian GAAP are consistent with the application under IFRS.

Upon adoption of IFRS, all previously recognized financial assets and financial liabilities have been designated consistent with the designations under Canadian GAAP, with the exception of the deferred unit-based compensation which has been designated as FVTPL under IFRS. As a result of this designation, the deferred unit-based compensation plan is recorded at fair value. This financial liability was previously designated as equity under Canadian GAAP.

KEY CHANGE IN ACCOUNTING POLICIES

Investment Property

The REIT considers its income producing properties to be investment properties under IAS 40 – *Investment Property* ("IAS 40"). Income producing properties include land and buildings held primarily to earn rental income or for capital appreciation or both, rather than for use in the production or supply of goods or services or for sale in the ordinary course of business. Similar to Canadian GAAP, income producing properties are initially recorded at cost under IAS 40. However, subsequent to the initial recognition, IFRS requires that an entity choose either the cost or fair value model to account for income producing properties. The REIT has elected to

use the fair value model upon initial transition to IFRS and in subsequent reporting periods. This adjustment to retained earnings represents the cumulative unrealized gain in respect of the fair value of the REIT's income producing properties under IFRS on January 1, 2010, and December 31, 2010. This fair value adjustment is net of the derecognition of related intangible assets and liabilities which are inherently reflected in the fair value of income producing properties, and the reclassification of straight-line rent receivable and direct leasing costs.

Fair values are determined based on valuations performed by third party appraisers or available market evidence. Gains or losses resulting from changes in fair value are recorded in profit or loss.

Unlike Canadian GAAP, there is no requirement under IFRS to segregate intangible assets and liabilities from investment properties in the consolidated statements of financial position. The determination of the fair value of an income producing property takes into consideration leasing commission costs, customer relationships, lease origination fees, in-place leases, straight-line rent receivables, and above or below market leases related to the property. Accordingly, amounts previously reported on the balance sheet in accordance with Canadian GAAP as deferred costs, intangible assets, accounts receivable, and intangible liabilities have been reclassed to income producing properties under IFRS.

Valuation Process of Commercial Retail Properties

At the Transition Date, the REIT's portfolio of income producing properties was appraised at fair value by qualified external valuation professionals (the "Appraisers") in accordance with IAS 40. The Appraisers is an independent valuation firm not related to the REIT, who 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 recent experience in the valuation of properties in the relevant locations.

At December 31, 2010, the properties (except Wellington Southdale, which was appraised, just prior to its acquisition, on November 1, 2010) were also appraised at fair value by the Appraisers. Subsequent to December 31, 2010, external valuations were obtained from the Appraisers based on a cross section of properties based on different geographical locations and markets across the REIT's portfolio, as determined by the REIT's management.

The external valuation of the income producing properties utilized the "Direct Capitalization" method. This method applies the capitalization rate to stabilized net operating income. The resulting stabilized value is then adjusted for factors including lost revenues and recoveries on vacant units; anticipated inducement and leasing commission costs of vacant units; and the present value of capital expenditures. The fair value or income producing properties is most sensitive to change in capitalization rates. Capitalization rates vary due to property type, market conditions, and building specific conditions, including the property's occupancy rate, capital expenditure requirements, and anticipated net operating income.

The following table outlines the range and weighted average of the capitalization rates used to determine stabilized net operating income for the REIT's properties:

As at	**December 31, 2011**	December 31, 2010	January 1, 2010
Capitalization rates			
Maximum	**8.50%**	8.50%	9.00%
Minimum	**6.75%**	7.25%	7.50%
Weighted Average	**7.55%**	7.86%	8.17%

At December 31, 2011, a 0.50% increase in capitalization rates for income producing properties would decrease fair value by $15.9 million (December 31, 2010 - $9.5 million; January 1, 2010 - $7.7 million) and a 0.50% decrease in capitalization rates would increase fair value by $18.1 million (December 31, 2010 - $10.8 million; January 1, 2010 - $8.8 million).

Internal Control over Financial Reporting and Disclosure

The conversion to IFRS from Canadian GAAP impacts the way financial results are compiled and presented. In preparation for this conversion, a new general ledger accounting system was developed and implemented. This

enabled the REIT to maintain its historical cost information and track its fair value adjustments under IFRS. Additionally, the impact of the conversion on the REIT's financial reporting systems, processes and controls was evaluated. As part of this process, all significant changes in accounting policies, changes in measurement and disclosure requirements were documented. All necessary updates and adjustments to its financial reporting systems, processes and controls were implemented in order to effect a successful conversion to IFRS from Canadian GAAP.

PART III – PERFORMANCE MEASUREMENT

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

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

We have provided the analysis of net operating income and funds from operations under Part V – Results of Operations.

Net Operating Income

Net operating income, or NOI, is defined as gross revenues from income producing properties less operating costs from income producing properties. Operating expenses do not include costs associated with financing, general and administration, amortization, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. NOI is a non-IFRS financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results from operations which is useful in analyzing the performance of the 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 in accordance with the recommendations of the Real Property Association of Canada ("RealPac"). The definition is meant to standardize the calculation and disclosure of FFO across real estate entities in Canada, and is modeled on the definition adopted by the National Association of Real Estate Investment Trusts ("NAREIT") in the United States. NAREIT's definition of FFO is net income (calculated in accordance with IFRS) excluding gains or losses from the sale of property and fair value increases or decreases in property values; plus depreciation and amortization; adjusted for items that are not indicative of operating performance; and after adjustments for unconsolidated partnerships and joint ventures (which is also calculated to reflect FFO on the same basis).

Management considers FFO, a meaningful measure of operating performance for financial analysts, investors and unitholders, since it eliminates the assertion that the value of real estate decreases over time and it adjusts for items included in net income (as determined under IFRS) that may not necessarily be the best determinants of operating performance.

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

Debt Service Coverage Ratio

DSCR is a measure used to determine if a property will be able to sustain its debt based on its current cash flow. DSCR is calculated by dividing the REIT's EBITDA by the total annual interest and principal payments made on its debt portfolio. The DSCR is a tool that financial institutions use to evaluate the risk associated with the ability to recover both interest and principal payments and is a common financial covenant contained within lending agreements. The REIT's Acquisition Facility minimum DSCR requirement is 1.25 to 1 on a rolling four-quarter

basis. As at December 31, 2011, the rolling four-quarter DSCR was 1.26 to 1. For the quarter ended December 31, 2011, the DSCR was 1.35 to 1.

Weighted Average Interest Rate

Our weighted average interest rate includes secured debt and excludes the revolving credit facilities, which have floating rates of interest. This calculation is a useful measure because it allows us 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, 2011, the REIT's weighted average effective interest rate was 4.95%.

Occupancy Levels

Occupancy levels are presented in different manners depending on its context. It could be presented as an average portfolio occupancy rate when analyzing the overall operating performance, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the period over period performance of each property. Management considers this a useful measure in assessing the overall performance of its portfolio and is an essential tool to determine which properties require further investigation if performance lags. Refer to PART I – Overview and Financial Highlights under "Leasing Activity and Occupancy" for the REIT's occupancy performance.

KEY PERFORMANCE DRIVERS

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

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

For the year ended December 31, 2011, the portfolio had lease expiries of 64,850 square feet, and new or renewed leases of 77,058 square feet have been entered into during the year. In addition, the weighted average rent including any material new and renewed leases completed by March 15, 2012 is $12.85 per square foot. This is an increase of $1.65 per square foot over the prior year, December 31, 2010. Management considers these indicators of positive performance.

Our key external performance drivers include:

- The ability to access equity capital at a competitive/reasonable cost;
- The ability to access debt with terms and conditions that is cost effective; and
- The ability to acquire new properties that enhance the REIT's portfolio.

During the first quarter ended March 31, 2011, Partners REIT issued $28.75 million of 8% extendable convertible unsecured subordinated debentures, which, in part, was used to replace $8.6 million of debt scheduled to mature in 2013, bearing interest at 8.75% per annum. The REIT purchased the SDM properties in March, 2011. During the second quarter ended June 30, 2011 the REIT purchased Centuria Urban Village in May, 2011. During the third quarter ended September 30, 2011, the REIT purchased Evergreen Mall and Place Desormeaux. During the fourth quarter ended December 31, 2011, the REIT purchased its 137th Avenue property in Edmonton, Alberta. The REIT also refinanced its first mortgage for its Châteauguay, Québec property at an interest rate of 3.4% per annum; this is 200 basis points lower than the original mortgage. The REIT also renewed its Acquisition Facility equal to the bank's prime rate plus 2.25% per annum or the BA rate plus 3.25%. These rates are both 125 basis points lower than the previous Acquisition Facility. Management considers all of these achievements as indicators of positive performance.

PART IV – RECENT DEVELOPMENTS

Partners REIT's overarching strategy for 2012 and beyond includes:

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

Purchase of NorRock Realty Finance Corporation Assets (NorRock)

On February 1, 2012, the REIT closed on the acquisition of substantially all of the assets of NorRock, consisting of cash, cash equivalents, mortgages and other assets of NorRock, in exchange for the issuance of Partners REIT units, certain rights to acquire Partners REIT units, and cash.

Partners REIT paid $41,742,531 (which amount includes a credit to NorRock of $1,425,000 on account of expenses and a payment of $1,200,000 in respect of certain cash equivalents) (the "Cash at Closing Payment") for the cash and cash equivalents held by NorRock. In addition, it has paid $9,422,980 (the "Assets at Closing Payment") for the non-cash assets of NorRock. Since October 17, 2011, NorRock had sold assets with a value of $3,177,020, which amount has been deducted from the Assets at Closing Payment and added to the Cash at Closing Payment.

Partners REIT made the Cash at Closing Payment and Assets at Closing Payment by transferring (or directing the transfer) to NorRock the following units and cash (excluding the stub period dividend payments and payments to stock appreciation rights holders which were funded by NorRock) to NorRock:

- for each NorRock preferred share, 13.72824 Partners REIT units, together with cash equal to any stub period dividend payment, or, if the holder has so elected, 12.71676 Partners REIT units and $1.75 in cash together with cash equal to any stub period dividend payment;
- for each NorRock Class A share, 3.29445 Partners REIT units, a number calculated by determining the amount of the Cash at Closing Payment and Assets at Closing Payment, less an amount equal to the number of issued and outstanding NorRock preferred shares multiplied by $23.75, and dividing the result by the number of outstanding NorRock Class A shares (the amount per share being the "NorRock Class A Share Consideration") and then dividing by $1.73; and
- for each of the 150,000 NorRock stock appreciation rights outstanding, $0.59 paid in cash per stock appreciation right, a number calculated by subtracting $5.11 from the NorRock Class A Share Consideration.

In connection with the closing:

- 29,575,333 Units (7,393,833 post-consolidation units) were issued (representing approximately 95% of the currently issued and outstanding Units) to holders of NorRock preferred shares and Class A shares;
- $344,050 was paid to those holders of NorRock preferred shares that elected to receive partial consideration in cash;
- $217,717 was paid on account of the stub period dividend payment for the NorRock preferred shares to holders of such shares;
- $88,500 was paid to holders of NorRock stock appreciation rights; and
- 3,074,160 Rights (as defined below) will be issued to holders of NorRock Class A shares and holders of NorRock stock appreciation rights.

In addition to the Partners REIT units issued and cash paid at closing as described above, at Closing Partners REIT issued 3,074,160 non-transferable rights ("Rights") to NorRock, with an initial estimated value of $4,400,000. Under the plan of arrangement, NorRock is obligated to distribute these Rights to the holders of its Class A shares and stock appreciation rights. The Rights will entitle the holder to receive Partners REIT units (or, in Partners REIT's discretion, a cash payment in lieu of all or a portion of such units) corresponding to that holder's pro rata share of the Deferred Payment. Holders of the Rights may receive additional payments after closing in accordance with the terms of the Rights, which will be paid on a pro rata basis based upon the number

of issued and outstanding Rights. The aggregate of such payments (the "Deferred Payment"), if any, will be equal to the (A) Liquidated Value plus the Retained Value less (B) the Assets at Closing Payment less (C) 20% of the amount (if any) that the Liquidated Value exceeds the Assets at Closing Payment. The number of Partners REIT units to be issued, if any, will be calculated based on the five day volume weighted average trading price of the Partners REIT units determined at the time of issue.

Other material developments of the REIT in 2012 are:

Closing of Public Offering

On February 8, 2012 the REIT closed on its public offering of 10,753,000 units (2,688,250 post-consolidation units) at a price of $1.86 per unit ($7.44 per post-consolidation unit), representing gross proceeds of approximately $20 million, on a bought deal basis, to a syndicate of underwriters. The REIT granted the underwriters an over-allotment option, exercisable in whole or in part at any time up to 30 days following the closing of the offering, to purchase up to an additional 403,237 post-consolidation units at the same offering price. On March 5, 2012, the underwriters exercised 360,812 over-allotment options to purchased 360,812 over-allotment units at a purchase price of $7.44 per unit for gross proceeds of $2,684,441 (to be paid on March 8, 2012).

The net proceeds to the REIT from the public offering, net of underwriters' fees is approximately $19.1 million. The net proceeds are expected to be used by the REIT to pay out a loan facility entered into in connection with certain property purchases and to pay down a portion of the REIT's Acquisition Facility advanced in respect of a property purchase completed in 2011.

Acquisitions of Properties

In February 2012, the REIT announced the completion of the following six acquisitions:

	Property Description	Property Type	Date Acquired	Square Footage		Acquisition Cost ($ millions)
1.	Plaza des Seigneurs, Terrebonne, Quebec	Shopping Centre	1-Feb-12	20,833	$	4.05
2.	Crossing Bridge Square, Stittsville, Ontario	Shopping Centre	14-Feb-12	45,800		11.20
3.	King George Square, Brantford, Ontario	Shopping Centre	14-Feb-12	67,100		16.70
4.	Manning Crossing, Edmonton, Alberta	Shopping Centre	14-Feb-12	64,500		21.00
5.	St. Clair Beach Towne Centre, Windsor, Ontario	Shopping Centre	14-Feb-12	40,100		11.80
6.	Thunder Centre, Thunder Bay, Ontario	Power Centre	14-Feb-12	168,000		38.20
				406,333	$	102.95

The above acquisitions were funded by new credit facilities of $14 million bearing interest at 3.6%, the assumption of existing mortgages, which were increased in the aggregate to $40.75 million, of which 8 million is currently not funded, bearing effective interest rates between 3.5% and 3.6%, and $56.2 million in proceeds from the NorRock Realty Finance Corporation and the public offering transactions (refer to above).

	Property Description	Property Type	Closing Date	Square Footage		Acquisition Cost ($ millions)
1.	Grand Bend Towne Centre, Grand Bend, Ontario	Shopping Centre	15-Apr-12	42,200	$	9.30
2.	Quinte Crossroads, Belleville, Ontario	Power Centre	31-Mar-12	88,319		21.25
				130,519	$	30.55

One for Four Consolidation of Units

On February 10, 2012, the REIT received approval from the Exchange to consolidate its issued and outstanding units on the basis of one post-consolidation unit for every four pre-consolidation units. The exercise price and number of units of the REIT's issuable upon the exercise of outstanding options, warrants and convertible debentures will be proportionately adjusted with the implementation of the unit consolidation. The post-consolidation of the units began trading on the Exchange on February 14, 2012.

In connection with, and immediately following, the consolidation of Partners REIT units, each Partners REIT unitholder that receives fractional Partners REIT units on the consolidation will irrevocably deposit all such fractional Partners REIT units with their agent, Computershare Investor Services Inc. ("Computershare"). Computershare, as soon as practicable, will aggregate all such fractional Partners REIT units into marketable blocks of units and, as agent for the relevant holders of such fractional Partners REIT units, sell such Partners REIT units on the Exchange for cash proceeds. Computershare will then remit the net sale proceeds from the sale of all such fractional Partners REIT units pro-rata to the relevant holders.

Conditional Approval of Graduation to the TSX

The REIT announced on March 1, 2012 that it received conditional approval to list its securities on the Toronto Stock Exchange (TSX) at which point such securities will no longer be listed on the TSX Venture Exchange. The approval is conditional upon Partners REIT fulfilling the conditions of the approval. Partners REIT expects that it will receive final listing approval shortly.

PART V – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is selected financial information from the consolidated statements of comprehensive income for the three months ended December 31, 2011 and 2010 and for the year ended December 31, 2011 and 2010.

Three months ended		December 31, 2011		December 31, 2010	Change
Revenues from income producing properties	$	**7,468,818**	$	4,540,281	65%
Property operating expenses		**(1,344,812)**		(999,941)	34%
Realty taxes		**(1,339,569)**		(860,974)	56%
Property management fees		**(146,111)**		(115,238)	27%
		4,638,326		2,564,128	81%
Other expenses:					
Financing costs		**3,056,133**		1,406,784	117%
General and administrative expenses		**568,901**		341,384	67%
Other transaction costs		**416,596**		171,558	143%
		4,041,630		1,919,726	111%
Income before fair value gains		**596,696**		644,402	-7%
Fair value gains		**2,464,132**		1,936,612	27%
Net income and comprehensive income	$	**3,060,828**	$	2,581,014	19%
Earnings per unit, basic and diluted	$	**0.39**	$	0.43	

Year ended		December 31, 2011		December 31, 2010	Change
Revenues from income producing properties	$	**24,164,527**	$	16,675,123	45%
Property operating expenses		**(3,779,313)**		(3,080,956)	23%
Realty taxes		**(4,529,163)**		(3,408,063)	33%
Property management fees		**(545,415)**		(416,364)	31%
		15,310,636		9,769,740	57%
Other expenses:					
Financing costs		**9,577,253**		5,562,803	72%
General and administrative expenses		**1,781,006**		1,115,376	60%
Other transaction costs		**730,573**		1,037,114	-30%
		12,088,832		7,715,293	57%
Income before fair value gains		**3,221,804**		2,054,447	57%
Fair value gains		**4,031,626**		2,649,388	52%
Net income and comprehensive income	$	**7,253,430**	$	4,703,835	54%
Earnings per unit, basic	$	**0.94**	$	0.87	
Earnings per unit, diluted	$	**0.87**	$	0.87	

Net Income and Comprehensive Income

The REIT reported a decrease in income before fair value gains of 7% during the fourth quarter of 2011 compared to the same quarter in 2010. The decrease was more than offset by a 27% increase in fair value gains in income producing properties during the last quarter of 2011, resulting in an overall increase in net income and comprehensive income of 19%.

Income before fair value gains increased by 57% for the year ended December 31, 2011, compared to the same prior year period. Fair value gains increased by 52%, principally from the REIT's income producing properties; which contributed to an overall increase in income and comprehensive income of 54% for the twelve months ended December 31, 2011 compared to the same prior year period.

See "Net Operating Income" below for the discussion on NOI for all properties and same properties for the quarter and year ended December 31, 2011 compared to the same periods in 2010.

Financing Costs

Financing costs are comprised primarily of interest expense and amortization of deferred financing costs on debt secured by the income producing properties. Financing costs also include amortization of interest rate differentials recognized on assumed mortgages upon property acquisitions, distributions to non-controlling interests, and other incidental interest income and expenses incurred during the normal course of business.

Financing costs for the three months ended December 31, 2011 increased $1.6 million (117%) over the same period in 2010. The change is due to an increase in interest expense of $1.1 million on new and assumed secured debt obligations in 2011, and interest accrued on the REIT's unsecured convertible debentures of $0.7 million (which were issued in March 2011). The increase in financing costs was partially offset by a reduction in financing costs from the corporate secured debt obligations that the REIT held as at December 31, 2010, but were subsequently paid down, in full, during Q1 2011.

Financing costs for the year ended December 30, 2011 increased $4 million (72%) over the same period in 2010. The increase in interest in 2011 is a result of the REIT's acquisition activity in the latter part of 2010 and during 2011; whereby the REIT assumed or obtained new mortgages and issued unsecured convertible debentures to facilitate the purchase of property or replace high cost debt. The result is a 2011 year to date increase of approximately $1.8 million in interest on new and assumed secured debt, net of secured debt repaid; and $2.2 million in interest related to the unsecured convertible debentures issued in March 2011.

General and Administrative Expenses

General and administrative expenses for the three months ended December 31, 2011 increased approximately $228,000 (67%) from the same period in the prior year. This increase was principally due to an increase in travel related expenditures and additional management fees on properties acquired since December 31, 2010, of $72,000 and $74,000 respectively.

General and administrative expenses for the twelve months ended December 31, 2011 increased by approximately $666,000 (60%) from the same period in the prior year. This increase is due to $254,000 in additional management fees on properties acquired in 2011; $104,000 increase in travel costs; $131,000 increase in accounting and audit fees; $110,000 increase in consulting costs, legal and professional fees; and $57,000 of unit-based compensation with regard to unit options issued in February 2011.

Other Transaction Costs

Other transaction costs consist of non-recurring corporate expenditures related to property acquisitions no longer pursued, costs incurred upon early extinguishment of debt, costs incurred to transition to IFRS reporting, and corporate transaction costs. Corporate transaction costs represent a portion of the legal, consulting and trustee fees and other costs associated with a strategic review process completed in the year ended December 31, 2010.

During October 2011, the REIT refinanced its first mortgage on the Châteauguay property that had an outstanding principal balance of approximately $8 million, a contractual interest rate of 5.39%, and was due to mature in December 2012. As a result of the early extinguishment of the mortgage, the REIT refinanced the property by securing an $11 million first mortgage on the property at a contractual interest rate of 3.42%, with a maturity date of November 2016. The cost to the REIT to extinguish the original mortgage was $349,000, and was recorded as other transaction costs, during the three months and year ended December 31, 2011.

During the three months ended December 31, 2011, the REIT's other transaction costs increased by $245,000 over the same prior year period. The increase was a result of $349,000 in costs paid on the early extinguishment of debt, described above, and IFRS transition costs of $68,000; offset by $172,000 in abandoned project costs that were incurred during the three months ended December 31, 2010 from acquisitions that were no longer pursued. No such costs were incurred in the three months ended December 31, 2011.

Other transaction costs for the year ended December 30, 2011 decreased by $307,000 in comparison to December 31, 2010. The decrease is due to the one-time corporate transactions costs of $866,000 from the strategic review process (mentioned above) completed in 2010, and the incurrence of $105,000 in acquisition costs that were no longer pursued in 2011. The decrease in other transaction costs in 2011 was partially offset

by the costs to early extinguish debt in 2011, as described above, and IFRS transition costs of $349,000 and $315,000, respectively.

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

Same Property NOI

"Same Property NOI" compares net operating income from only those properties that were contributing to operations for the entire reporting period in both the current and comparative year. Therefore, same property NOI excludes the REIT's 2010 and 2011 acquisitions for the three months and year ended analysis.

The SDM properties, Centuria Urban Village, Place Desormeaux, Evergreen Shopping Centre and 137th Avenue properties were acquired during 2011, and Wellington Southdale Plaza operations contributed to the REIT's NOI for only a partial period in the fourth quarter of 2010. The operating results of these properties have been excluded from the same properties net operating income data below for the three months and year ended December 31, 2011.

Three months ended		**December 31, 2011**		December 31, 2010		Variance favourable/(unfavourable)
Revenues from income producing properties	**$**	**4,362,135**	$	4,466,657	$	(104,522)
Property operating expenses		**(926,386)**		(996,965)		70,579
Realty taxes		**(888,916)**		(846,605)		(42,311)
Property management fees		**(71,666)**		(113,029)		41,363
		2,475,167		2,510,058		(34,891)
Amortization of tenant costs		**96,677**		94,778		1,899
Net operating income	**$**	**2,571,844**	$	2,604,836	$	(32,992)

NOI from same properties for the three months ended December 31, 2011 remained relatively flat, with a 1% decrease in NOI, over the same period in 2010. The decrease in NOI was due to: lower operating recoveries at the Cornwall Square and Place Val Est properties; an increase in property operating costs at Méga Centre, offset by a reduction in property operating expenses at Cornwall Square and Place Val Est; and an increase in realty taxes of 5% during the fourth quarter of 2011. In 2011, the REIT's property management fees were reduced as a result of bringing the majority of the property accounting function in-house and thus renegotiating external property management agreements at reduced rates.

Year ended		**December 31, 2011**		December 31, 2010		Variance favourable/(unfavourable)
Revenues from income producing properties	**$**	**16,775,002**	$	16,601,499	$	173,503
Property operating expenses		**(3,045,956)**		(3,077,738)		31,782
Realty taxes		**(3,502,133)**		(3,394,138)		(107,995)
Property management fees		**(370,037)**		(414,155)		44,118
		9,856,876		9,715,468		141,408
Amortization of tenant costs		**224,876**		214,999		9,877
Net operating income	**$**	**10,081,752**	$	9,930,467	$	151,285

Same property NOI for the year ended December 31, 2011 increased by $151,000 (2%) compared to the same period in 2010. Increases in revenues in 2011 over 2010 of $174,000 (1%) are mainly a result of increases in

revenues from Châteauguay, Place Val Est, and Méga Centre properties of $165,000, $135,000, and $112,000, respectively. The increase in revenue at the Châteauguay property is due to realizing a full year of rent from the Pharmaprix lease (which began in March 2010), and from new leases with Dooley's and Superclub in 2011. At Place Val Est, the increase in revenue is from the lease with Rossy, who did not occupy the property during 2010. Méga Centre experienced a net increase in rents from month to month tenants, and earned the first full year of revenues from Bentley Leathers during the year ended 2011 (lease began in June 2010). These revenue increases were offset by a net revenue decrease of $244,000 at the Cornwall Square from the expansion of the Shoppers Drug Mart, which required the relocation of tenants who were placed in temporary rental terms.

The increase in revenues were complimented by decreases in property operating costs and property management fees of 1% and 11%, respectively, which were offset by an increase in realty taxes of 3%. The decrease in operating costs was apparent at the Cornwall Square and Place Val Est properties, mainly due to reduced snow removal costs from the mild 2011 winter. The decrease in property management fees is due to the reclassification of a portion of the property management fees as property accounting fees, which were recorded to property operating costs. Increases in realty taxes were mainly due to increased realty taxes at Méga Centre for $105,000.

All Properties NOI

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

Three months ended	**December 31, 2011**	December 31, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	**$ 7,468,818**	$ 4,540,281	$ 2,928,537
Property operating expenses	**(1,344,812)**	(999,941)	(344,871)
Realty taxes	**(1,339,569)**	(860,974)	(478,595)
Property management fees	**(146,111)**	(115,238)	(30,873)
	4,638,326	2,564,128	2,074,198
Amortization of tenant costs	**98,034**	94,778	3,256
Net operating income	**$ 4,736,360**	$ 2,658,906	$ 2,077,454

The increase in all properties NOI of $2.1 million for the three months ended December 31, 2011 over the same period in 2010 is primarily due to the realization of a full quarter of operations from the six SDM properties, Centuria Urban Village, Place Desormeaux, and Evergreen Shopping Centre; which contributed $575,000, $175,000, $760,000, and $280,000, respectively to the REIT's NOI for the fourth quarter of 2011. The NOI contributions from these properties, which were all acquired in 2011, represents 87% of the increase in the REIT's NOI for the three months ended December 31, 2011 over the same prior year period. The remaining increase in all properties NOI is due to a full quarter of Wellington Southdale operations of $320,000, and increases in NOI for the Place Val Est, and Châteauguay properties. These increases were offset by a decrease in the fourth quarter NOI for Méga Centre of $155,000 (7%).

Increases in the property operating expenses, realty taxes and property management fees for all properties during the three months ended December 31, 2011 are almost entirely a result of the REIT's property acquisitions in 2011.

Year ended	December 31, 2011	December 31, 2010	Variance favourable/(unfavourable)
Revenues from income producing properties	**$ 24,164,527**	$ 16,675,123	$ 7,489,404
Property operating expenses	**(3,779,313)**	(3,080,956)	(698,357)
Realty taxes	**(4,529,163)**	(3,408,063)	(1,121,100)
Property management fees	**(545,415)**	(416,364)	(129,051)
	15,310,636	9,769,740	5,540,896
Amortization of tenant costs	**228,223**	214,999	13,224
Net operating income	**$ 15,538,859**	$ 9,984,739	$ 5,554,120

NOI for all properties for the year ended December 31, 2011 increased by $5.6 million (55%) over the year ended December 31, 2010. The primary contributor to the increase in NOI for the year ended December 31, 2011 is due to the REIT's 2011 acquisitions as follows: $2.0 million in NOI from the SDM properties acquired in March 2011; $449,000 in NOI from Centuria Urban Village, acquired in May 2011; $990,000 in NOI from Place Desormeaux, acquired in August, 2011; and $366,000 in NOI from Evergreen Shopping Centre, acquired in September 2011. Fundamentally, the REIT's 2011 acquisitions contributed approximately 69% to the increase in all properties NOI for the year ended December 31, 2011 over December 31, 2010.

The remaining increase in all properties NOI is primarily from the first full year of NOI earned from the REIT's Wellington Southdale property, purchased in December 2010. Wellington Southdale contributed $1.6 million to the REIT's NOI for 2011. The REIT had increases in NOI at the Châteauguay and Place Val Est properties for the year ended December 31, 2011 representing 4% and 3% of the REIT's all properties NOI increase over the prior year. The REIT's NOI increases in 2011 over 2010, noted above, were offset by decreases in NOI from the Méga Centre and Cornwall Square properties of $101,000 and $66,000, respectively.

Funds from Operations

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

Three months ended	December 31, 2011	December 31, 2010	Change
Net income for the period	**$ 3,060,828**	$ 2,581,014	$ 479,814
Amortization of costs	**390,345**	199,385	190,960
Unit option compensation expense	**13,000**	-	13,000
Other transaction costs	**416,596**	171,558	245,038
Fair value gains	**(2,464,132)**	(1,936,612)	(527,520)
FFO	**$ 1,416,637**	$ 1,015,345	$ 401,292
Weighted average units - basic and diluted	**7,760,665**	6,462,705	1,297,960
FFO per unit	**$0.18**	$0.15	

FFO increased by $401,000 (40%) during the three months ended December 31, 2011 compared to the same period in 2010 due to an increase in NOI of $2.1 million which was offset by a $1.5 million increase in financing costs and a $214,000 increase in general and administrative expenses.

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

In determining the REIT's FFO per unit for the three months ended December 31, 2011 and 2010, the 40% increase in FFO in 2011 was impacted by the 20% increase in the weighted average number units in 2011. As a

result, FFO per unit for the three months ended December 31, 2011 only increased to $0.18 per unit from $0.15 per unit for the three months ended December 31, 2010.

Year ended		**December 31, 2011**		December 31, 2010		Change
Net income for the period	**$**	**7,253,430**	$	4,703,835	$	2,549,595
Amortization of costs		**1,009,419**		526,222		483,197
Unit option compensation expense		**57,000**		-		57,000
Other transaction costs		**730,573**		1,037,114		(306,541)
Fair value gains		**(4,031,626)**		(2,649,388)		(1,382,238)
FFO	**$**	**5,018,796**	$	3,617,783	$	1,401,013
Weighted average units - basic and diluted		**7,745,519**		5,405,881		2,339,638
FFO per unit		**$0.65**		$0.67		

FFO increased by $1.4 million (39%) for the year ended December 31, 2011 compared to the year ended December 31, 2010 due to an increase in NOI of $5.6 million which was offset by increases in financing costs of $3.6 million and in general and administrative expenses of $0.6 million.

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

In determining the REIT's FFO per unit for the years ended December 31, 2011 and 2010, the 38% increase in FFO in 2011 over 2010 was outpaced by the 43% increase in the weighted average number units in 2011. As a result, FFO per unit for the year ended December 31, 2011 decreased $.02 per unit to $0.65 per unit, from $0.67 per unit for the year ended December 31, 2010.

FINANCIAL POSITION ANALYSIS

Statement of Financial Position – Total Assets

As at		**December 31, 2011**		December 31, 2010
Income producing properties	**$**	**258,510,224**	$	155,907,020
Deferred financing costs		**-**		68,899
Other assets		**4,526,314**		3,291,985
Accounts receivable		**868,733**		268,699
Cash		**1,842,769**		6,869,242
Total assets	**$**	**265,748,040**	$	166,405,845

Income producing properties

As a result of the REIT's transition to IFRS and its election to use the fair value model in accordance with IAS 40, income producing properties are carried at their fair value at the reporting date. Gains or losses arising from changes in the fair value of income producing properties during the reporting period are included in profit and loss in the period in which they arise.

As at January 1, 2010 and December 31, 2010, all of the REIT's properties were appraised by an external valuation company (the "Appraisers"). Subsequent to December 31, 2010, external valuations were obtained from the Appraisers based on a cross section of properties based on different geographical locations and markets across the REIT's portfolio, as determined by management. At December 31, 2011, external appraisals were obtained for four of the REIT's properties for an aggregate fair value of $44,796,000, representing 17.3% of

the fair value of the income producing property portfolio as of that date. The value of the remainder of the REIT's portfolio was determined internally by management using the same assumptions and valuation techniques used by the Appraisers. Further discussion regarding the valuation technique used to determine the fair value of income producing properties can be found in Part II above.

Income producing properties for the year ended December 31, 2011 increased by $102.6 million over December 31, 2010 due to the purchases of the SDM properties for $32.9 million, Centuria Urban Village for $9.4 million, Place Desormeaux for $33.5 million, Evergreen Shopping Centre for $16.1 million, and the 137th Avenue property for $4.3 million; capitalized improvements to income producing properties of $1.0 million; expenditures on tenant incentives and direct leasing costs, net of amortization, of $0.9 million; increase in straight-line rents receivable included in the fair value of income producing properties of $0.6 million, and fair value gains of $3.9 million recognized upon the valuation of the income producing properties as at December 31, 2011.

There weren't any income producing property dispositions during the year ended December 30, 2011 or 2010.

Deferred financing costs

Deferred financing costs consist of financing fees incurred to renew the Acquisition Facility, net of amortization. The deferred financing costs are amortized over the renewal periods of the Acquisition Facility to financing costs in the statements of comprehensive income. The change from December 31, 2010 to December 31, 2011 is due to the costs incurred to renew the Acquisition Facility that was offset by the amortization recognized in the period.

Other assets

Other assets are primarily comprised of prepaid realty taxes and insurance, deferred acquisition costs, amounts held in escrow, deposits on acquisitions and other prepaid expenses.

Other assets of $4.5 million at December 31, 2011 include prepaid realty taxes and insurance of $0.6 million, deferred acquisition costs of $0.7 million, amounts held in escrow of $1.4 million, deposits on acquisitions of $1.5 million and other prepaid expenses of $0.3 million. Other assets as at December 31, 2010 amounting to $3.3 million include prepaid realty taxes of $0.3 million, deposits on acquisitions of $2.5 million, deferred acquisition costs of $0.2 million, amounts held in escrow of $0.1 million, and other prepaid expenses of $0.2 million.

The increase in the prepaid realty taxes as at December 31, 2011 over December 31, 2010 of $0.3 million is a consequence of the REIT acquiring 10 additional properties upon which realty taxes have been prepaid. Amounts held in escrow are $1.3 million higher as at December 31, 2011 over December 31, 2010 due to the acquisition of Place Desormeaux, whereby a restricted fund was set up to fund future capital expenditures on the property. The decrease of $1.0 million in deposits on acquisitions is a result of the deposits the REIT has on nine properties as at December 31, 2011, offset by a return of a deposit to the REIT for $2.5 million on a potential acquisition that, subsequent to December 31, 2010, was not pursued. The REIT has $1.0 million in deposits across a six property portfolio in Ontario and Alberta, $300,000 deposited on a property in Terrebonne, Québec, $100,000 deposited on a property in Canmore, Alberta, and $50,000 deposited on a property in Belleville, Ontario.

Accounts receivable

Accounts receivable increased by $600,000 from December 31, 2010 to December 31, 2011. The increase in accounts receivable is primarily due to: unbilled 2010 CAM recoveries of $77,000 at Cornwall Square; $20,000 in unbilled 2011 property taxes at Méga Centre due to higher than budgeted property taxes; $274,000 owed from a tenant at Evergreen Shopping Centre relating to a cross-provisional tenant inducement; $228,000 in tenant receivables from Cornwall Square (primarily from tenants who pay percent rents, and $85,000 for property taxes billed to a tenant, in accordance to their lease, at the end of the year). As at December 31, 2011 the REIT had $25,000 in allowance for doubtful accounts from a tenant at the Wellington Southdale Plaza property, compared to $41,000 as at December 31, 2010. During the year ended December 31, 2011 the REIT wrote-off $41,000 in accounts receivable allowed for at December 31, 2010 as this receivable was from either vacated or bankrupt tenants.

Cash

The REIT does have cash restrictions in the amount of $1.4 million that is held in escrow. Please refer to *"Other assets"* above for a more detailed account of amounts held in escrow.

Capital

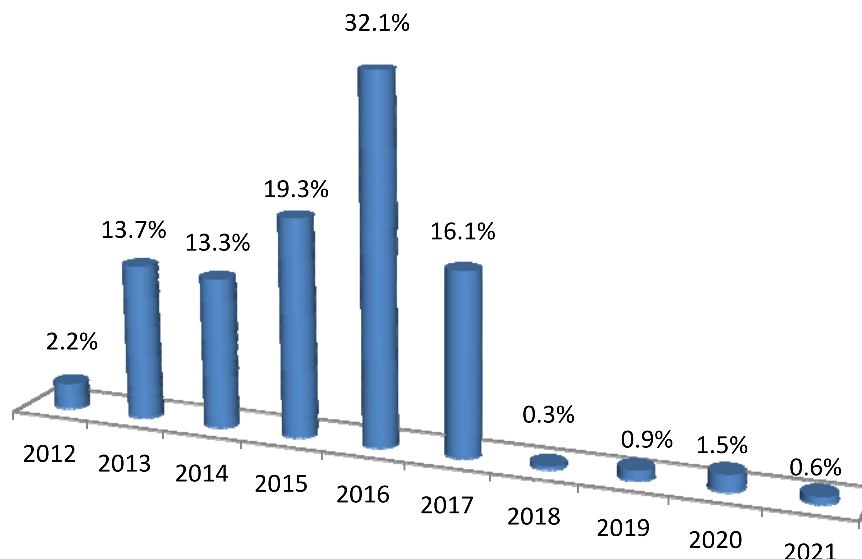
The REIT's capital consists of debt and equity capital. Real estate is a capital intensive industry. As a result, debt capital, in particular, is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from acquired real estate. Given the importance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

The following table shows the REIT's capital as at December 31, 2011 and December 31, 2010:

As at	**December 31, 2011**	December 31, 2010
Mortgages payable	**$ 156,518,686**	$ 107,086,727
Debentures	**26,889,496**	-
Revolving credit facilities	**18,545,886**	-
Unitholders' equity	**56,406,374**	53,860,348
Total capital	**$ 258,360,442**	$ 160,947,075

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's mortgages payable and debentures as at December 31, 2011:



The primary contributor of the debt maturing in 2016 is the $28.75 million convertible debentures.

For the year ended December 31, 2011, the REIT refinanced its only loan that was due to expire in 2012. The new loan matures in 2016.

Interest coverage and debt service coverage ratios are as follows:

For the rolling four quarters ended	**December 31, 2011**	December 31, 2010
Interest coverage ratio(1)	**1.70**	1.69
Debt service coverage ratio(2)	**1.26**	1.38

(1) Interest coverage ratio is calculated on a rolling four quarter basis as EBITDA divided by interest expense (before amortization of financing fees included in interest expense), where EBITDA is net income before fair value gains or losses, interest expense, incentive unit option compensation expense, depreciation and amortization, other transaction costs, and bad debt expense. EBITDA is a non-IFRS financial measure of operating performance.

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

For the four quarters ended December 31, 2011 the REIT's interest coverage ratio remained consistent compared to the four quarters ended December 31, 2010 notwithstanding the secondary mortgages undertaken during the period, due to the reduced lending rates on its primary mortgages. The debt service coverage ratio for the four quarters ended December 31, 2011 compared to the four quarters ended December 31, 2010 decreased from 1.38 to 1.26 as a result of increased debt issued in December 2011 and that there was a greater proportion of debt raised than equity since December 31, 2010.

Mortgages Payable

The REIT's current weighted average term to maturity on mortgages payable (excluding the convertible debentures and revolving credit facilities discussed below in more detail) is approximately four years, and the weighted average contractual interest rate is 5.00%.

Future principal repayments on the secured debt (including mortgages payable and corporate secured debt but excluding the convertible debentures and revolving credit facilities) are as follows for 2012 to 2016 and thereafter:

Year	Principal installment payments	Principal maturing	Total	W.A. contractual rate on debt maturing
2012	4,141,873	-	4,141,873	-
2013	4,281,608	21,027,938	25,309,546	5.91%
2014	3,886,050	20,609,472	24,495,522	4.05%
2015	3,260,995	32,267,407	35,528,402	5.08%
2016	2,044,261	28,376,013	30,420,274	4.33%
Thereafter	2,287,970	33,455,445	35,743,415	5.43%
Total	19,902,757	135,736,275	155,639,032	5.00%

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. The REIT has conventional first mortgages on all of its properties except for Centuria Urban Village.

During the year ended December 31, 2011 the following mortgages were obtained:

In December 2011, upon the acquisition of 137th Avenue, the REIT acquired a first mortgage on the property for a total of $2.55 million. The loan matures in January 2017, has a contractual interest rate of 4.23% per annum, and has an amortization period of 20 years.

In September 2011, upon the acquisition of Evergreen Shopping Centre, the REIT acquired a first mortgage on the property for a total of $10.5 million. The loan matures in October 2016, has a contractual interest rate of 3.80% per annum, and has an amortization period of 25 years.

In August 2011, upon the acquisition of Place Desormeaux, the REIT acquired a first mortgage on the property for a total of $23.0 million. The loan matures in October 2014, has a contractual interest rate of 4.05% per annum, and has an amortization period of 20 years.

In July 2011, the REIT obtained a second mortgage in the amount of $4 million secured by five Shoppers Drug Mart properties located in Manitoba. It is an interest only loan maturing April 30, 2013 and bears interest at a floating rate of the Royal Bank prime rate plus 4.00%.

On the acquisition of the SDM properties, the REIT assumed the first mortgages on each of the six properties for a total of $17.2 million. The mortgages are secured by the properties and have a weighted average interest rate, adjusted to market, of 4.9% per annum. The mortgages mature between 2015 and 2021. The REIT capitalized approximately $172,000 in financing costs associated with assuming the mortgages, and recorded an interest differential of $1.5 million as the assumed mortgages were accompanied by contractual interest rates greater than those available to the REIT at the time of acquisition.

Debentures

On March 8, 2011 the REIT closed its public offering of $25 million in aggregate principal amount of 8.0% extendible convertible unsecured subordinated debentures, and on March 15, 2011 closed the overallotment option of the public offering for an additional $3.75 million of similar debt, for a total issuance of $28.75 million aggregate principal amount. The debentures bear interest at an annual rate of 8% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011. The debentures mature on March 31, 2016.

The debentures are convertible into units of the REIT at the option of the holder at any time on the earlier of the maturity date, or the date fixed for redemption of the debentures at a conversion price of $8.80 per unit.

The cost to issue the debentures was $2.1 million, and is netted against the debentures on the statement of financial position and will be amortized over the term of the debentures.

Corporate Secured Debt

At December 31, 2011 the REIT did not have any corporate secured debt outstanding (December 31, 2010 - $8.6 million; January 1, 2010 - $10.0 million). The original $10.0 million comprised of two facilities (the “Facilities”).

During the three months ended March 31, 2011, the first facility was repaid, without penalty, from proceeds of new debt, maturing in 2016. It consisted of an $8.6 million five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The second facility was repaid, without penalty, during the year ended December 31, 2010. It consisted of a $1.4 million five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The Facilities required that the REIT maintain an overall debt-to-gross book value ratio of no more than 75% and were secured by: (a) a first charge on the REIT’s three Rona properties located near Exeter, Seaforth and Zurich, Ontario; (b) second charges on the Méga Centre property, the Châteauguay property and the Canadian Tire properties; and (c) a general security agreement relating to the above properties.

Revolving Credit Facilities

The REIT has a revolving operating and acquisition facility (the “Acquisition Facility”) with a Canadian chartered bank. Pursuant to the terms of the Acquisition Facility, from time to time, the amount permitted to be drawn under the Acquisition Facility may be adjusted based on certain financial tests (including a loan-to-value ratio). The amount available to be drawn upon is calculated based on the value of a property that has been specified under the agreement. As at December 31, 2011, the REIT specified the Centuria Urban Village property as

security for this facility, providing a maximum facility amount of $5.7 million. During 2010, the Acquisition Facility was secured by the REIT's Cornwall Square shopping centre, providing a maximum amount of up to $26.0 million, which was replaced by a new first mortgage loan in December 2010. At December 31, 2011 there was $5.7 million outstanding under the Acquisition Facility (December 31, 2010 – nil).

On May 16, 2011, the Acquisition Facility was renewed and the interest rate was revised to the Bank's prime rate plus 2.25% per annum or the Banker's Acceptance stamping fee plus 3.25% per annum. Prior to May 16, 2011, amounts drawn under the Acquisition Facility incurred interest at a rate equal to the Bank's prime rate plus 3.50% per annum or the Banker's Acceptance stamping fee plus 4.50% per annum.

The Acquisition Facility contains financial covenants with respect to maintaining a debt-to-gross book value ratio of no more than 75% as well as other tests customary for this type of facility (debt service coverage ratio, minimum unitholder equity amount). As at December 31, 2011, the REIT complied with all of the covenants of the Acquisition Facility.

In September 2011, the REIT obtained a revolving loan facility for $13.5 million secured against the Partners REIT portfolio of properties with a floating interest rate equal to the greater of 9.00% or the TD Canada Trust Posted Bank prime rate of interest plus 4.00%. The loan facility revolves until August 31, 2013 at which time any outstanding balance can be extended for one year upon payment of an additional 2% fee on such balance. The revolving loan facility also included a funding fee, whereby the lender received 625,000 unit purchase warrants to purchase 625,000 Partners REIT units. Each whole warrant entitles the lender to receive one Partners REIT unit at $7.20 per Partners REIT unit for a term of three years from the interest adjustment date (September 1, 2011) of the loan.

Financing Costs

Financing costs represent commitment fees and other fees paid in connection with securing mortgages and corporate secured debt.

The unamortized balance of financing costs as at December 30, 2011 was $1.8 million, which is $1.0 million higher than the December 31, 2010 year-end balance of $0.8 million. The increase in the unamortized financing costs as at December 31, 2011 is due to the various fees paid to assume mortgages, acquire new mortgages, and refinance existing mortgages. The REIT incurred, as at December 31, 2011, $1.4 million in mortgage fees, brokerage fees, legal fees, processing fees and commitment fees. All of these costs are associated with the acquisition of the SDM properties, Evergreen Shopping Centre, Place Desormeaux, 137th Avenue Edmonton property, and the refinancing of Châteauguay and the second mortgage on the five Manitoba SDM properties. Offsetting the increase in financing costs for the year ended December 31, 2011 is the accelerated and normal amortization of deferred financing costs of approximately $447,000. The unamortized portion of the financing costs is netted against the secured debt on the statements of financial position.

The unamortized balance of financing costs related to the Acquisition Facility for the year ended December 31, 2011 is $63,800 (December 31, 2010 - $69,000) and these costs are netted against the related facility.

Debt-to-Gross Book Value

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 REIT monitors its debt-to-gross book value ratio, a ratio that has become a common industry metric reviewed by analysts, unitholders and others within the industry. The REIT does not have a specific debt-to-gross book value threshold imposed on it in its Declaration of Trust; however, the REIT's Acquisition Facility and corporate secured debt impose a restriction on the REIT's debt-to-gross book value ratio, being a maximum of 75%. At December 31, 2011 the REIT has a debt-to-gross book value ratio of 73.0% (December 31, 2010 – 55.0%; January 1, 2010 – 56.1%), calculated as follows:

As at		December 31, 2011		December 31, 2010		January 1, 2010
Debt						
Secured debt	**$**	**155,639,032**	$	107,148,141	$	72,253,090
Debentures, excluding fair value of convertible feature		**27,950,000**		-		-
Revolving credit facilities		**19,003,000**		-		20,500,000
	$	**202,592,032**	$	107,148,141	$	92,753,090
Gross Book Value of Assets						
Original cost of income producing properties [2]	**$**	**266,725,072**	$	167,837,271	$	145,094,494
Book value of all other assets		**7,237,816**		10,429,926		1,678,782
Deferred financing fees		**3,566,944**		847,695		721,255
	$	**277,529,832**	$	179,114,892	$	147,494,531
Debt-to-Gross Book Value[3]		**73.0%**		59.8%		62.9%

[1] Debt capital refers to secured debt, debenture and revolving credit facility excluding deferred financing costs, the value of the debentures' convertible feature, fair value of embedded derivatives, and unamortized above market interest rate adjustments.
[2] Original cost of income producing properties represents the historical costs incurred to acquire the REIT's properties.
[3] Following the closing or the Recent Developments described in Part IV above relating to NorRock Realty Finance Corporation, the public offering and the acquisition of six properties with related debt financing, the debt will increase to $249.3 million and the gross book value of assets will increase to $398.1 million resulting in a Debt-to-Gross Book Value of 62.6%.

Unitholders' Equity

In the three months ended December 30, 2011 unitholders' equity is consistent with unitholders' equity as at December 31, 2010.

The REIT currently makes monthly cash distributions of $0.05333 per unit, representing an annualized distribution of $0.64 per unit. The REIT's trustees have discretion in declaring distributions and review the distributions on a regular basis.

For further discussion about the REIT's distribution, see "Liquidity Requirements" below. The REIT issues equity when it is available and appropriate to replenish cash for acquisitions or other uses. The REIT has access to an Acquisition Facility to fund the equity portion of acquisitions as well as to fund general working capital requirements between capital raises, when required.

LIQUIDITY REQUIREMENTS

The REIT's main liquidity requirements arise from ongoing working capital requirements, debt servicing and repayment obligations, capital and leasing expenditures on existing properties, property acquisitions and distributions to unitholders. All of the aforementioned liquidity requirements, except for debt repayment obligations at maturity and property acquisitions, are generally funded from cash flows from operations or from drawing on the REIT's Acquisition Facility. Debt repayment obligations are generally funded from refinancing the related debt and property acquisitions are generally funded from capital raises as well as obtaining debt financing on the related property – although between capital raises, the REIT may use its Acquisition Facility to fund the equity portion of property acquisitions.

The REIT's FFO for the three months ended December 31, 2011 was sufficient to cover cash distributions generated from its same property NOI and from the accretion in NOI from its 2011 acquisitions of the SDM properties, Centuria Urban Village, Place Desormeaux, Evergreen Shopping Centre, and 137th Avenue properties. With the deployment of cash on hand and the full impact of the REIT's acquisitions for the quarter (with the exception of 137th Avenue, which was acquired in late December 2011), management expects FFO to continue to be sufficient to cover cash distributions on a going forward basis. For the three months and year ended December 31, 2011, the REIT's payout ratio is 88% and 99% of FFO, respectively and the cash payout ratio is 82% and 93% of FFO. In comparison to the prior year, for the three months and year ended December 31, 2010, the REIT's payout ratio was 108% and 100% of FFO respectively and the cash payout ratio is 94% and 88% of FFO.

Payout ratio and cash payout ratio are non-IFRS measures. Payout ratio is the total distributions expressed as a percentage of FFO. Cash payout ratio is the total distributions paid out in cash during the period (this excludes DRIP distributions, as unitholders enrolled in the DRIP receive units, not cash distributions) expressed as a percentage of FFO. Readers are cautioned that these measures may not be comparable to financial measures with similar captions reported by other issuers.

RELATED PARTY TRANSACTIONS

Pursuant to the REIT's management agreement with IGW Public's subsidiary, League Global Asset Management Corp ("LAPP"), LAPP provides the REIT with strategic, advisory, asset management and administrative services in exchange for an annual management fee equal to 0.30% of the "adjusted book value" of the REIT's assets, paid quarterly in arrears, and an acquisition fee equal to 0.50% of the "property cost" of each property acquired by the REIT. "Adjusted book value" equals the original property cost of the income producing properties, plus the book value of all other assets, and plus the add back of accumulated amortization of deferred costs.

The initial term of the management agreement is for a three year period, expiring on June 3, 2013. Upon expiry of the initial term, the management agreement will renew automatically for successive three year terms, unless terminated in accordance with its terms. The management agreement may be terminated if the independent trustees make the decision to employ individuals directly by the REIT rather than by LAPP, where the independent trustees determine the cost of doing so would be less on an annual basis than the fees paid to LAPP under the management agreement. The management agreement provides each party with termination rights, the exercise of which may, in certain situations, require the REIT to pay a termination fee equal to two times the annual management fee paid in respect of the last full calendar year prior to the date of termination.

In accordance with the management agreement, LAPP is providing the services of certain executives, consultants and other employees to the REIT. As the REIT grows, LAPP will provide additional executives to the REIT in order to fulfill its obligations under the management agreement as recommended by the trustees and agreed to by the trustees and LAPP. All costs associated with the executives and personnel shall be borne by LAPP. In accordance with the terms of the management agreement, LAPP is required to consult with the independent trustees with regard to compensation decisions for executives who devote substantially all of their time to the business of the REIT. In the event that any executive providing services to the REIT ceases to do so for any reason, LAPP will replace such individual with another employee with similar qualifications and experience.

Under the terms of the current management agreement, the REIT paid the following fees to the Manager for the quarter ended December 31, 2011: $235,006 in asset management fees and $20,425 in acquisition fees. Amounts owing to the Manager and other related parties at December 31, 2011 are $50,460. Subsequent to December 31, 2011 all amounts owing to the Manager and related parties have been paid. These amounts have been classified in accounts payable and other liabilities, and consist of outstanding reimbursements payable.

QUARTERLY PERFORMANCE

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

	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010	Q2 2010	Q1 2010
Total revenues	$ 7,468,818	$ 6,157,707	$ 5,578,270	$ 4,959,732	$ 4,540,281	$ 4,047,910	$ 3,986,070	$ 4,959,732
Operating expenses	2,830,492	2,055,712	1,963,959	2,003,727	1,976,152	1,594,568	1,600,809	2,003,727
Other expenses	4,041,629	3,102,358	2,744,638	2,200,207	1,748,169	1,698,319	2,384,374	2,200,207
Fair value gains (losses)	2,464,132	1,113,602	141,752	312,140	1,765,054	1,767,038	(1,025,155)	312,140
Net income	3,060,829	2,113,239	1,011,425	1,067,938	2,581,014	2,522,061	(1,024,268)	1,067,938
Net income per unit - basic & diluted	0.39	0.26	0.15	0.13	0.43	0.52	(0.22)	0.14

PART VI – RISKS AND UNCERTAINTIES

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

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

The following is an examination of the key factors that influence Partners REIT's operations. A more detailed description of our risk factors is contained in the REIT's Annual Information Form.

INDUSTRY RISK

The REIT operates in the Canadian commercial and retail markets and is dependent on access to financing. Fluctuations in real estate market values and general industry and economic circumstances affect the amount that can be borrowed and the terms and conditions under which funds are available. This may limit the REIT's ability to execute its operating and growth plans. Partners REIT manages this risk by maintaining sufficient resources to meet its obligations without undue risk to the REIT.

INTEREST RATE AND FINANCING RISK

The REIT attempts to stagger the maturities of its debt portfolio evenly over a ten year time horizon in order to effectively manage both interest rate and liquidity risks.

The REIT has an on-going obligation to access debt markets to refinance maturing debt as it becomes due. There is a risk that lenders will not refinance such maturing debt on terms and conditions that are acceptable to Partners REIT or on any terms at all. The REIT's strategy of staggering the maturities of its debt portfolio attempts to limit the exposure to excessive amounts of debt maturing in any one year.

There is interest rate risk associated with the REIT's Acquisition Facility since the interest rate is 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, 2011 would have been 100 basis points higher or lower, calculated on all debts maturing over the next 24 months, with all other variables held constant.

	Approximate Change in Annual Interest Expense	Approximate Change on Interest Expense per Unit per Annum
Revolving credit facilities	$ 57,000	$ 0.002
Mortgages payable	210,300	0.007
Debentures	-	-

Partners REIT's strategy to mitigate interest rate price risk for its fixed rate mortgages is to enter into interest rate swap arrangements when deemed necessary. As at December 31, 2011, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

Finally, management is of the opinion that all debt can be extended, renewed, or refinanced as they become due.

CREDIT RISK

Credit risk arises primarily from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease commitments. The REIT attempts to mitigate this risk by conducting credit assessments on new lessees, and by ensuring its tenant mix is diversified by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2011 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.

The REIT is not a lender of financing and is not exposed to credit risk associated with this function.

LIQUIDITY RISK

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they become due, not having sufficient debt and equity capital available to fund future growth, and/or refinance debts as they mature. Liquidity risk also arises when the REIT is not able to obtain financing or refinancing on favourable terms.

The REIT's approach to managing its obligations is to maintain sufficient resources to meet its obligations when due without undue risk or recourse to the REIT.

The REIT's principal liquidity needs arise from working capital requirements, debt servicing and repayment obligations, planned funding of maintenance and improvements, leasing costs, distributions, and property acquisition funding requirements.

These liquidity needs are funded from cash flows from operations or the Acquisition Facility, with the exception of debt repayment obligations at maturity and property acquisitions. Debt repayment obligations are generally funded from refinancing the related debt; and property acquisitions are generally funded from equity raises as well as obtaining debt financing on the related property. Between capital raises, the REIT may use its Acquisition Facility to fund the equity portion of property acquisitions.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and the perceived desirability of such investments. Such illiquidity may limit Partners REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If Partners REIT was required to liquidate a real property investment, the proceeds to Partners REIT might be significantly less than the aggregate carrying value of such property.

ENVIRONMENTAL RISKS

Partners REIT is subject to various federal, provincial and municipal laws and regulations relating to environmental matters, which deal primarily with the costs of removal and remediation of hazardous substances. Environmental risk is relevant to Partners REIT's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against us. Management is not aware of any material non-compliance with environmental laws or regulations at any of the REIT's properties, or of any pending or threatened actions, investigations or claims against Partners REIT relating to environmental matters.

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

TAXATION

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

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

The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exemption"). The REIT has reviewed the REIT Exemption, including the Proposed Amendment, and has assessed their interpretation and application to the REIT's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the REIT believes that it has met the prescribed conditions of the SIFT Rules, assuming the Proposed Amendment is enacted, throughout the year ended December 31, 2012. In the event the Proposed Amendment is not enacted as proposed, the REIT met the prescribed conditions for 2011 and believes it will meet them for 2013 and beyond. However, the REIT believes it will not meet the prescribed conditions, absent the Proposed Amendment, throughout the year ended December 31, 2012, due to the acquisition of certain non-qualified assets as part of the NorRock transaction; but will meet them by the end of such period due to the in-place contractual disposal of such assets prior to the end of 2012. The requirement to record a liability for current taxes will be determined by the REIT at the end of that period. However, the REIT does not expect to have taxable income before any deduction for distributions.

PART VII – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

The REIT adopted IFRS as the basis of financial reporting effective for the first quarter of 2011 with the restatement of comparative periods, using a transition date of January 1, 2010. The significant accounting policies applicable to the REIT under IFRS are provided for in Note 2 to the audited consolidated financial statements included in this report. Note 3 of the audited consolidated financial statements include reconciliations of our equity, net income and comprehensive income as reported under Canadian GAAP and IFRS.

FUTURE ACCOUNTING POLICY CHANGES

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 audited consolidated financial statements and accordingly not applied to these audited consolidated financial statements, may have a future impact:

Financial instruments

IFRS 9 – *Financial Instruments* ("IFRS 9") was issued by IASB in November 2009 and contains requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains or losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010, and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

Consolidated Financial Statements

IFRS 10 – *Consolidated Financial Statements* ("IFRS 10") builds on existing principals and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. The REIT is currently evaluating the impact of IFRS 10 on its consolidated financial statements.

Joint Arrangements

IFRS 11 – *Joint Arrangements* ("IFRS 11") establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 11 on its consolidated financial statements.

Disclosure of Interests in Other Entities

IFRS 12 – *Disclosure of Interests in Other Entities* ("IFRS 12") provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 12 on its consolidated financial statements.

Fair Value Measurement

IFRS 13 – *Fair Value Measurement* ("IFRS 13") defines fair value, requires disclosure of fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IFRS 13 on its consolidated financial statements.

Employee Benefits

IAS 19 – *Employee Benefits ("IAS 19")* eliminates the corridor approach, with all changes to the defined benefit obligation and plan assets recognized when they occur. Retrospective application is required with certain exceptions. IAS 19 is effective for annual periods beginning on or after January 1, 2013. IAS 19 does not have any impact on the REIT's consolidated financial statements.

Separate Financial Statements

IAS 27 – *Separate Financial Statements* ("IAS 27") provides guidance on the accounting and disclosure requirements for subsidiaries, jointly controlled entities, and associates in separate, or unconsolidated, financial statements. It will not have any impact on the REIT's consolidated financial statements. IAS 27 is effective for annual periods beginning on or after January 1, 2013.

Investments in Associates and Joint Ventures

IAS 28 – *Investments in Associates and Joint Ventures* ("IAS 28") is a revision of the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 is effective for annual periods beginning on or after January 1, 2013. The REIT has not yet evaluated the impact of IAS 28 on its consolidated financial statements.

Presentation of Financial Statements

IAS 1 – *Presentation of Financial Statements* ("IAS 1") provides guidance on the presentation of items contained in other comprehensive income ("OCI") and their classification within OCI. Retrospective application is required. IAS 1 is effective for annual periods beginning on or after July 1, 2012. The REIT is currently evaluating the impact to the consolidated financial statements as a result of adopting this standard.

Financial Instruments: Disclosures, Amendment Regarding Disclosures on Transfer of Financial Assets

IFRS 7 – *Financial Instruments: Disclosures* ("IFRS 7") requires that the REIT provide the disclosures for all transferred financial assets that are not derecognized and for a continuing involvement in a transferred asset, existing at the reporting date, irrespective of when the related transfer transaction occurred. The REIT will start the application of IFRS 7 in the financial statements effective from January 1, 2012. The REIT does not expect any impact to the consolidated financial statements as a result of adopting this standard.

Deferred Tax: Recovery of Underlying Assets

IAS 12 – *Income Taxes* ("IAS 12") provides amendments that are applicable to the measurement of deferred tax liabilities and deferred tax assets where investment property is measured using the fair value model in IAS 40 – *Investment Property*. The amendments introduce a rebuttable presumption that, for purposes of determining deferred tax consequences associated with temporary differences relating to investment properties, the carrying amount of an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. The amendments to IAS 12 are effective for annual periods beginning on or after January 1, 2012. The REIT is currently evaluating the impact to the consolidated financial statements as a result of adopting this standard.

CRITICAL ACCOUNTING POLICIES

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

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

Income Producing Properties

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

Commercial retail properties, developments and redevelopments are measured initially at cost. Cost includes all amounts relating to the acquisition, including transaction costs (except transaction costs related to a business combination), and improvement of the properties. All costs associated with upgrading and extending the economic life of the existing facilities, other than ordinary repairs and maintenance, are capitalized to income producing properties. Costs that are directly attributable to income producing properties under development or redevelopment are capitalized. These costs include direct development costs, realty taxes and other costs directly attributable to the development.

Subsequent to initial recognition, income producing properties are measured at fair value, determined based on valuations performed by third-party appraisers or available market evidence in accordance with IAS 40. Gains or losses arising from changes in the fair value of income producing properties are included in profit and loss in the period in which they arise.

The carrying value of income producing properties includes straight-line rent receivable, tenant incentives and direct leasing costs, since these amounts are incorporated in the appraised values of real estate properties.

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

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

Revenue Recognition

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

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

Financial Instruments

We classify our financial instruments into categories based on the purpose for which the instrument was acquired or issued, its underlying characteristics, and our designation of the instrument. The category into which we classify the financial instruments determines its measurement basis subsequent to initial recognition.

The following summarizes the REIT's classification and measurement of its financial assets:

Financial Asset	Classification	Measurement
Other assets	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Cash	Loans and receivables	Amortized cost

The following summarizes the REIT's classification and measurement of its financial liabilities:

Financial liability	Classification	Measurement
Mortgages payable	Other financial liabilities	Amortized cost
Debentures	Other financial liabilities	Amortized cost
Embedded derivatives	FVTPL	Fair value
Revolving credit facilities	Other financial liabilities	Amortized cost
Accounts payable and other liabilities - Deferred unit-based compensation	FVTPL	Fair value
Accounts payable and other liabilities – trade and other payables	Other financial liabilities	Amortized cost
Exchangeable LP units	FVTPL	Fair value

In determining the fair value of financial instruments, management must make estimates and assumptions with respect to current market interest rates, credit spreads and terms to maturity.

Embedded Derivatives – Convertible Feature on Debentures

Fair value of the convertible feature of the debenture was determined by applying a convertible bond pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and credit spread.

Embedded Derivatives – Partners REIT Unit Purchase Warrants

The Partners REIT unit purchase warrants were issued as a funding fee on the issuance of a corporate revolving loan. The fair value of the unit purchase warrants was determined by applying a binomial option pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield, as well as assumptions regarding option holder behaviours, such as risk aversion.

Deferred Unit-Based Compensation

Fair value of the options issued under the unit option plan was determined by applying a binomial option pricing model. The model requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield, as well as assumptions regarding option holder behaviours, such as exit rates and risk aversion.

Exchangeable LP Units

The fair value of the Exchangeable LP Units was determined by using the closing price as at December 31, 2011 of the Partners REIT units, since all of the 1.15 million Exchangeable LP Units of 137th Avenue LP are exchangeable on a one-for-one basis, at the option of the holder, into Partners REIT units. The closing price of the Partners REIT units on Friday, December 30, 2011 was $1.81 per unit. The fair value of the Exchangeable LP Units as at December 31, 2011 was immaterial and was not recorded in the consolidated financial statements.

Basis of Consolidation

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

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

All intra-group transactions, balances, income and expenses are eliminated upon consolidation.

Use of Estimates

The REIT makes estimates and assumptions that affect carried amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amount of earnings for the period. Our estimates are based on previous experience, results, and various other assumptions that are believed to be reasonable under the circumstances. The result of our ongoing evaluation of these estimates forms the basis for making judgments about the carrying values of the REIT's assets and liabilities, and the reported amounts of revenues and expenses that are not readily apparent from other sources. Consequently, actual results could differ from these estimates.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to ensure the information that is publicly disclosed is complete, reliable and timely. This includes establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management believes that the REIT's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2011 were appropriately designed. However, management is not required to certify the design and evaluation of the REIT's disclosure controls and procedures or internal controls over financial reporting and have not completed such an evaluation. As well, inherent limitations on the ability of management to design and implement on a cost-effective basis, disclosure controls and procedures or internal controls over financial reporting for the REIT, may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

There has not been any change in internal controls over financial reporting in the period that has materially affected, or is reasonably likely to materially affect he REIT's internal controls over financial reporting. For many of its properties the REIT has engaged the services of third-party property managers whose internal controls form part of the REIT's system of internal controls. The REIT has documented and continues to review those internal controls, reports and other documentation provided by the property managers as part of its internal control activities.