PARTNERS REIT

(Formerly Charter Real Estate Investment Trust)

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

FORWARD-LOOKING INFORMATION ADVISORY

This annual Management 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 (the "Trust"). 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", "predict", "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 Trust 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 Trust has applied material assumptions including, but not limited to, the assumption that: (1) commercial real estate markets continue to remain fluid, enabling the Trust to grow through acquisitions; (2) demand for vacant space at our Ontario and Quebec properties will improve as a result of anticipated general and economic growth; (4) capital expenditures at Mega 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 V - Risks and Uncertainties.

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

Factors that could cause actual results, performance, or achievements to differ materially from those set forth in the forward-looking statements and information include, but are not limited to: general economic conditions; local real estate conditions, including the development of properties in close proximity to the Trust'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 Trust to maintain stable cash flow and distributions; the impact of newly adopted accounting principles on the Trust's accounting policies and on period-to-period comparisons of financial results, including changes in accounting policies to be adopted under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board; and other risks and factors described from time to time in the documents filed by the Trust. The Trust 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 Trust's filings with securities regulators, including the Trust's Annual Information Form, dated April 12, 2010, which is available on www.sedar.com.

These forward-looking statements are made as of March 10, 2011 and presents material information up to this date, unless otherwise noted.

PART I – OVERVIEW & FINANCIAL HIGHLIGHTS

OVERVIEW OF THE BUSINESS

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", the "Trust" and similar references in this management discussion and analysis refer to Charter Real Estate Investment Trust prior to the name change.

Partners REIT is a publicly traded Canadian commercial real estate investment trust whose units are listed on the TSX Venture Exchange under the trading symbol PAR.UN.

The REIT's current business strategy is to focus on acquiring and managing a portfolio of 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. Since acquiring Wellington Southdale Plaza in December 2010, the REIT now owns eleven retail properties located in Ontario and Quebec. Furthermore, this number is expected to increase by an additional six retail properties located in Manitoba and Quebec in the first quarter of 2011.

On June 4, 2010, the REIT entered into a transaction with League Assets Corp. ("League") that resulted in a transformational change in the REIT's ownership structure, whereby one of League's affiliates, IGW Public Limited Partnership ("IGW Public"), acquired 6,047,095 units representing a 33% ownership position in the REIT from C.A. Bancorp and entered into a new asset management agreement with the REIT. IGW Public became the REIT's major unitholder and new sponsor. On July 23, 2010, IGW Public acquired an additional 6,765,765 units for $9,404,413 through a rights offering, resulting in a 49.9% ownership in the REIT.

At the end of December 2010, the REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public's ownership interest in the REIT to 41.5%.

The REIT's mandate is to grow its business and reposition its operations in the market place. To facilitate this mandate, the REIT is currently focused on building internal infrastructure. During the year, the REIT rebalanced its Board by replacing three members and adding a sixth member to its Board of Trustees all of whom have extensive executive management experience in commercial real estate and real estate development. The REIT's new executive management team is also extensively experienced in commercial real estate and real estate development. We continue to examine ways to lever our existing asset base to enable us to grow our operations.

Current Business Strategy

Partners REIT's current portfolio of properties consists of 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 remerchandizing and redevelopment of the properties. The REIT believes it has created a base of retail assets that provides reliable and stable cash flow, and continues to pursue opportunities for yield growth through lease renewals, redevelopment and/or development of assets. The goal of Partners REIT is to own "institutional grade" properties or properties with the potential to become "institutional grade" through remerchandizing and redevelopment.

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.

The REIT is also focused on improving its existing assets through redevelopment and leasing initiatives in 2011 and beyond.

FINANCIAL HIGHLIGHTS

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

	Three months ended December 31, 2010	Three months ended December 31, 2009	Three months ended September 30, 2010
NOI[1]	**$ 2,672,189**	$ 2,543,655	$ 2,511,601
NOI – same property[1]	**$ 2,618,118**	$ 2,543,655	$ 2,511,601
FFO[1]	**$ 752,462**	$ 800,920	$ 813,480
FFO per unit - diluted[1]	**$ 0.03**	$ 0.04	$ 0.03
FFO (excl. other trans. costs) [1]	**$ 924,020**	$ 800,920	$ 875,147
FFO per unit – diluted (excl. other trans. costs) [1]	**$ 0.04**	$ 0.04	$ 0.04
Net loss	**$ 680,711**	$ 607,645	$ 620,542
Net loss per unit – diluted	**$ 0.03**	$ 0.03	$ 0.03
Distributions[2]	**$ 1,100,391**	$ 739,632	$ 1,029,665
Distributions per unit[2]	**$ 0.04**	$ 0.04	$ 0.04
Cash distributions[3]	**$ 951,552**	$ 674,709	$ 867,554
Cash distributions per unit[3]	**$ 0.037**	$ 0.037	$ 0.037
Total assets	**$160,314,298**	$134,599,449	$132,192,006
Total debt[4]	**$107,086,726**	$ 92,225,963	$ 85,762,579
Debt-to-gross book value[5]	**59.8%**	62.7%	57.4%
Interest coverage ratio	**1.77**	1.66	1.69
Debt service coverage ratio	**1.44**	1.36	1.37
Weighted average interest rate[6]	**5.59%**	5.87%	5.88%
Portfolio occupancy	**95.7%**	95.1%	95.2%

		Year ended December 31,				
		2010		2009		2008
NOI[(1)]	**$**	**10,042,599**	$	10,740,078	$	9,564,812
NOI – same property[(1)]	**$**	**9,988,528**	$	10,740,078	$	11,254,339
FFO[(1)]	**$**	**2,327,506**	$	4,185,577	$	3,821,776
FFO per unit - diluted[(1)]	**$**	**0.11**	$	0.23	$	0.21
FFO (excl. other trans. costs) [(1)]	**$**	**3,364,620**	$	4,185,577	$	3,821,776
FFO per unit – diluted (excl. other trans. costs) [(1)]	**$**	**0.16**	$	0.23	$	0.21
Net loss	**$**	**3,473,323**	$	1,772,397	$	1,257,596
Net loss per unit – diluted	**$**	**0.16**	$	0.10	$	0.07
Distributions[(2)]	**$**	**3,614,356**	$	2,942,291	$	4,663,275
Distributions per unit[(2)]	**$**	**0.16**	$	0.16	$	0.22
Cash distributions[(3)]	**$**	**3,177,516**	$	2,435,809	$	3,842,402
Cash distributions per unit[(3)]	**$**	**0.14**	$	0.13	$	0.22
Total assets	**$**	**160,314,298**	$	134,599,449	$	138,143,389
Total debt[(4)]	**$**	**107,086,726**	$	92,225,963	$	92,345,108
Debt-to-gross book value[(5)]		**59.8%**		62.7%		63.7%
Interest coverage ratio		**1.70**		1.88		2.10
Debt service coverage ratio		**1.38**		1.57		1.91
Weighted average interest rate[(6)]		**5.59%**		5.87%		5.87%
Portfolio occupancy		**95.7%**		95.1%		95.9%

(1) Net operating income or "NOI" and funds from operations or "FFO" are non-GAAP financial measures widely used in the real estate industry. See "Part II – 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 3% 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) Includes secured debt and credit facility.
(5) See calculation under "Debt-to-Gross Book Value" in "Part IV – Results of Operations."
(6) Represents the weighted average interest rate for secured debt excluding the credit facility, which has a floating rate of interest.

Overall occupancy levels for the REIT as at December 31, 2010 had a small uplift over the level as at September 30, 2010 from 95.2% to 95.7%. Leasing initiatives were successful in offsetting lease expiries during the quarter ended December 31, 2010. The overall occupancy level was positively affected by the acquisition of Wellington Southdale Plaza in December 2010, as it was 97.2% occupied upon acquisition. Management is committed to actively pursuing new leases and renewals in 2011 and beyond.

Comparing funds from operations ("FFO") year over year and quarter to quarter produces inequitable results because of the significant incurrence of non-recurring other transaction costs that took place in 2010. These other transaction costs consist of non-capital expenses stemming from the strategic review process undertaken primarily in the second quarter of 2010, and expenses incurred on property acquisitions no longer pursued.

Consequently, to provide relevant analysis of year over year and quarter to quarter results, we used the 2010 quarter and year ended FFO amounts excluding these costs.

Due to the timing of the purchase of the Wellington Southdale property on December 22, 2010, it only contributed nine days to net operating income. As such this new property had essentially no effect on NOI, FFO and FFO excluding non-recurring other transaction costs in 2010.

Funds from operations, excluding non-recurring other transaction costs, for the three months ended December 31, 2010 was similar to the three months ended September 30, 2010. A $160,000 increase in net operating income was offset by an increase in interest expense for the quarter. Interest expense increased in the three months ended December 31, 2010 due to debt refinancing activities.

Excluding the impact of the non-recurring other transaction costs, FFO remained consistent with at $0.04 per unit for the three month period ended December 31, 2010 from the three month period ended September 30, 2010.

The REIT's year over year FFO, excluding non-recurring other transaction costs, for the year ended December 31, 2010 is lower than the results for the year ended December 31, 2009 by $821,000. Contributing factors impacting the lower FFO results in 2010 are: a decrease in revenues from income producing properties of $170,000; an increase of $528,000 in operating costs from income producing properties; and an increase of $211,000 in interest expense. These variances are discussed further in Part IV – Results of Operations.

Excluding the impact of the non-recurring other transaction costs, FFO per unit decreased from $0.23 per unit for the year ended December 31, 2009 to $0.16 per unit for the year ended December 31, 2010. In addition to the effect of $821,000 decrease in FFO, excluding other transaction costs discussed above, this decrease is a reflection of the increased number of units outstanding as a result of units issued under the rights offering in July 2010 and the public unit offering in December 2010.

Distributions per unit remained at $0.16 annually ($0.04 quarterly) throughout 2010 and 2009. 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 are solely due to the increase in outstanding units.

The $25 million increase in total assets as at December 31, 2010 over December 31, 2009 is primarily due to the purchase price of Wellington Southdale Plaza, including closing costs, of $21 million.

The $15 million increase in total debt as at December 31, 2010 over December 31, 2009 is primarily due to the assumption of a first mortgage upon purchase, and a second mortgage on the Wellington Southdale property.

REAL ESTATE PORTFOLIO

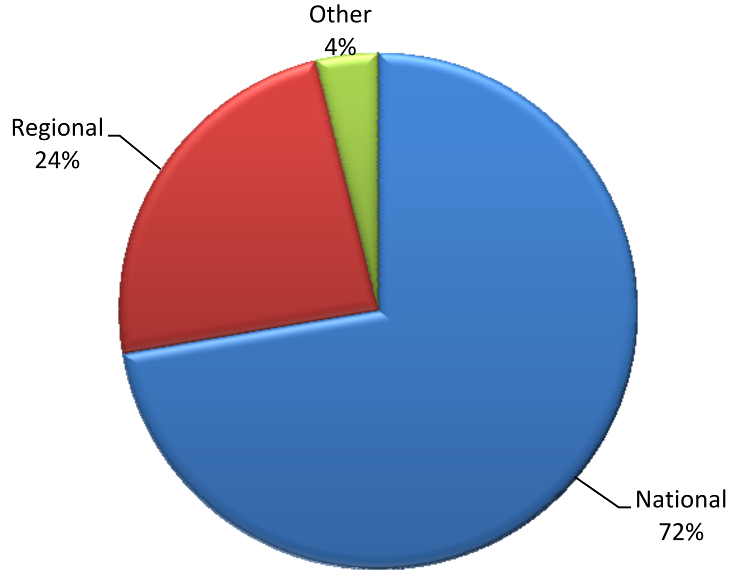
The REIT currently owns eleven retail and mixed use retail properties in Ontario and Quebec as follows:

Property and location	Property type	Date built /redeveloped	Anchor tenants	Gross Leaseable Area (sq.ft.) Retail[1]	Storage space	Occupancy[2][3]	% of annualized base rental revenue[3]	Weighted average rent[3]
Ontario:								
Cornwall Square Cornwall, Ontario	Enclosed Mall	1979/1989	Sears Loblaws (No Frills)	250,187	1,269	98.9%	23.1%	$11.43
Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,513	-	92%	9.9%	$11.95
Wellington Southdale Sudbury, Ontario	Shopping Centre	1986, 2000, 2004, 2006	Empire Theatres	86,612	-	97.2%	13.4%	$19.53
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	-	100%	6.3%	$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	-	100%	6.1%	$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	-	100%	4.8%	$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	-	100%	1.2%	$3.54
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	-	100%	0.4%	$2.47
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	-	100%	0.3%	$1.49
Quebec:								
Méga Centre Montreal, Quebec	Community Power Centre	1973/1993, 1999, 2000, 2004	Brault & Martineau Staples Future Shop	313,559	36,081	89.4%	23.7%	$10.38
Châteauguay Montreal, Quebec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	114,651	-	97.9%	10.8%	$11.76
Total				**1,154,619**	**37,350**	**95.7%** [4]	**100%**	**$11.25** [4]

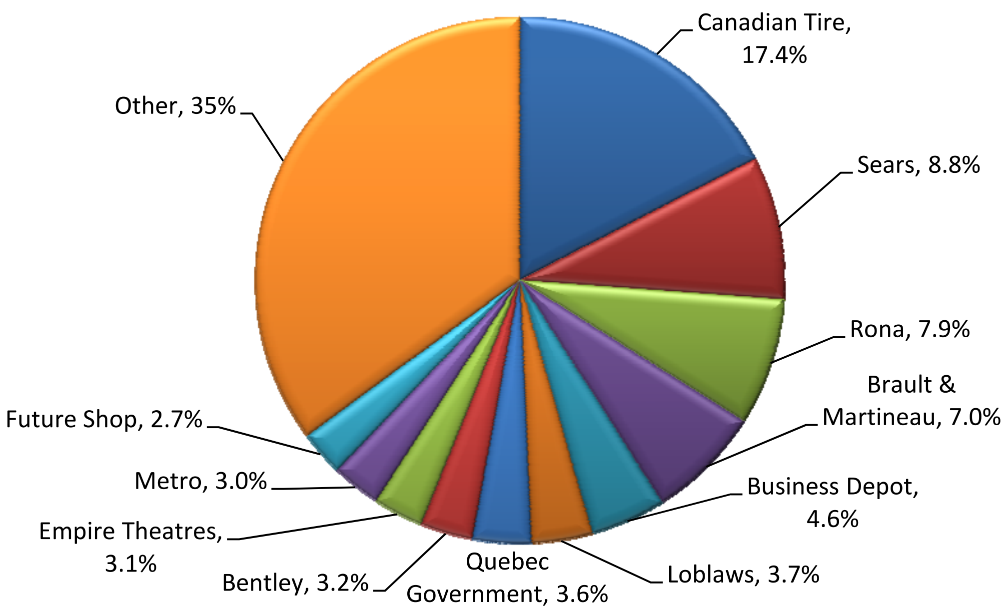
Notes:

(1) Includes office space in mixed-use retail properties.
(2) Excluding storage space.
(3) Calculated at December 31, 2010 and includes any material new/renewal leasing completed by February 24, 2011.
(4) Represents weighted average for the portfolio.

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

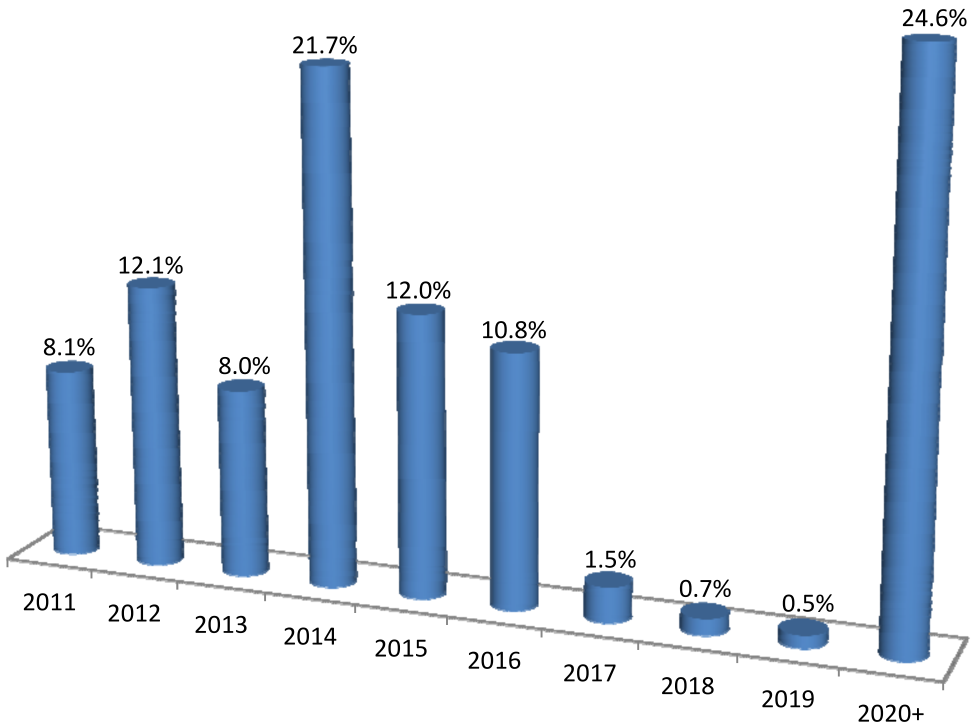


The tenant mix for the properties as at December 31, 2010 is as follows:



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

The weighted average term to maturity of existing leases is approximately seven years. The chart below shows the lease expiration schedule of the properties as a percentage of leased square feet for 2011 and beyond:



Leasing Activity and Occupancy

Lease expiries for 2010 and new leasing/renewals completed by the date of this MD&A are as follows:

Three months ended:	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010	**Total 2010**	Total 2009
Lease expiries	36,203	14,936	10,258	27,561	**88,958**	104,082
Base rent per square foot(1)	$13.57	$11.96	$13.39	$16.47	**$14.18**	$9.88
New leasing/renewals	33,867	13,662	29,752	27,767	**105,048**	21,548
Base rent per square foot(1)	$11.48	$12.50	$7.98	$19.21	**$12.65**	$11.96

(1) weighted average

The total area leased in Partners REIT's portfolio increased during 2010 by 12,687 square feet (1.2%). For the year ended December 31, 2010, the portfolio had lease expiries of 88,958 square feet; and new or renewed leases of 105,048 square feet (approximately

118% of expires) have been entered into during the year. The annual average rental rate on the new leases is slightly lower than that of the expired leases, largely due to the fact that some of the new leases were for short term tenancies allowing time to complete negotiations with long term national tenants.

The average occupancy rate for the portfolio at December 31, 2010 was 95.7%, compared with 95.1% at December 31, 2009 and 95.2% at September 30, 2010. The improved occupancy over the previous quarter was mainly due to the addition to the portfolio of the Wellington Southdale property, which was 97.2% occupied upon acquisition, and also partially due to a short term lease deal at Chateauguay. Lease payments have already commenced with the tenant at Chateauguay.

One of the REIT's goals is to generate organic growth through redevelopment and lease renewal activities at its existing centres. The following provides an update on the progress made as at the date of the MD&A.

At the Châteauguay property in Montreal, the lease for a retail tenant occupying 12,012 square feet expired on March 31, 2010. The REIT entered into a binding offer with a new tenant to take 9,676 square feet of this space. It was originally anticipated that the tenant would begin operations in the fourth quarter. The tenant will occupy the space commencing in the second quarter of 2011.

At the Méga Centre property in Montreal, a local dollar store operator occupying 18,573 square feet vacated its premises in February 2010. For the remainder of 2010, we had a short term tenant in this space. As of March 10, 2011, this same tenant occupies this space on a month-to-month basis until such time as we are able to secure a long term tenant deal. The net impact to net operating income as a consequence of the original vacancy and subsequent short term lease arrangement is a loss of $167,500 for the current year. 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.

At Place Val Est in Montreal, our new tenant, Rossy, a regional junior department store, has leased approximately 23,000 square feet of space that was vacated by SAAN. Rossy commenced operations at the end of July and began making rental payments in the fourth quarter. The lease contains both a fixed base rent and percentage rent component that could impact net operating income from between $160,000 to $220,000 annually.

At Cornwall Square, leases covering 24,758 square feet expired during the first six months of the year. Shoppers Drug Mart ("Shoppers") is leasing approximately 7,600 square feet at Cornwall Square and its lease constituted the most significant expiry at the centre in the second half of 2010. However, Shoppers has exercised its three year option to renew the lease on the current space. During the fourth quarter of 2010, Shoppers also executed a lease amending agreement with a planned expansion to 13,152 square feet, and committed to extend the lease by 15 years.

On December 22, 2010, Partners REIT completed the acquisition of Wellington Southdale, an 86,612 square foot shopping plaza located in London, Ontario. The plaza is anchored by Empire Theatres.

PART II – 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");
- Net asset value ("NAV");
- Debt service coverage ratio ("DSCR");
- Weighted average interest rate; and
- Occupancy levels.

We have provided the analysis of net operating income and funds from operations under Part IV – 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, administration, amortization and depreciation, income taxes, realized and unrealized gains and losses, and the equity pick-up of an investment's net earnings. NOI is a non-GAAP ("GAAP" refers to Canadian generally accepted accounting principles) financial measure used in the real estate industry. Management considers NOI a meaningful measure of the results of the property portfolio which is useful in analyzing the operating performance of the property portfolio.

Funds from Operations

Funds from operations, or FFO, is a non-GAAP 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 GAAP) excluding gains or losses from the sale of property; plus depreciation and amortization; and after adjustments for unconsolidated partnerships and joint ventures (which is also calculated to reflect FFO on the same basis).

Partners REIT also calculates FFO excluding non-recurring other transaction costs. This adjustment to FFO is not in accordance with the recommendations of RealPac as described above.

Management considers FFO, and FFO excluding non-recurring other transaction costs meaningful measures of operating performance for financial analysts, investors and unitholders, as they primarily reject the assumption that the value of real estate investments diminishes predictably over time and it adjust for items included in GAAP net income that may not necessarily be the best determinants of operating performance.

NOI, FFO, and FFO excluding non-recurring other transaction costs should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP. 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.

Net Asset Value

Net asset value is calculated as the fair market value of the real estate assets plus the book value of all other assets less the liabilities of the trust. The NAV per unit is calculated as the NAV divided by the total number of units outstanding at the end of the period. The NAV and NAV per unit are non-GAAP financial statistics. The NAV per unit was $1.82 at September 30, 2010. The NAV calculation is based on independent valuations of the real estate assets.

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 NOI 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. Our credit facility DSCR ratio minimum requirement is 1.25 to 1.

Weighted Average Interest Rate

Our weighted average interest rate includes secured debt and excludes the credit facility, which has a floating rate 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.

Occupancy Levels

Occupancy levels are presented in different manners depending on its context. It could be presented as an average portfolio occupancy when analyzing the overall operating performance, or as a point-in-time reference when analyzing future lease expiries, or as an assessment of the performance of each property period over period. 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.

KEY PERFORMANCE DRIVERS

In addition to monitoring and analyzing the performance of operations through such measures as NOI, FFO and FFO excluding non-recurring other transaction costs, we consider the following to be key internal drivers of our current and future financial performance:

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

For the year ended December 31, 2010, the portfolio had lease expiries of 88,958 square feet; and new or renewed leases of 105,048 square feet have been entered into during the year. In addition, the weighted average rent including any material new and renewed leases completed by February 24, 2011 is $10.57 per square foot, exclusive of Wellington Southdale ($11.25 inclusive of Wellington Southdale). This is an increase from the weighted average rent disclosed in the September 30, 2010 Management Discussion and Analysis of $10.27 per square foot, which included any material new and renewed leases completed by November 11, 2010. Management considers these as 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 enhances our portfolio.

Partners REIT had a successful rights offering and a successful public unit offering in the year ended 2010. More recently, in March 2011, Partners REIT issued $25 million of 8% extendible convertible unsecured subordinated debentures. In December 2010, the REIT replaced two of its debt facilities with a $25.5 million mortgage secured against the Cornwall Square property, reducing the interest rate to 4.9% and extending the term to December 2015. The REIT purchased the Wellington Southdale property in December 2010 and expects to close on six additional income producing properties on March 15, 2011. Management considers all of these achievements as indicators of positive performance.

PART III – RECENT DEVELOPMENTS

In April 2009, the Board of Trustees of the REIT began a process to develop various strategic alternatives that would enable Partners REIT to reposition its operations given the lack of growth in the business as a result of the challenging economic environment and reaching an impasse in the stock market. As a result of this initiative, in June 2010, the REIT entered into a transaction with League Assets Corp. that has resulted in a transformational change in the REIT's ownership structure. League's affiliate, IGW Public Limited Partnership bought C.A. Bancorp's 33% interest in Partners REIT and entered into a new asset management agreement with Partners REIT, thereby becoming Partners REIT's major unitholder and new sponsor. League is a Victoria, British Columbia based real estate company that indirectly owns and manages in excess of $600 million in commercial and residential properties.

As part of the transaction and ownership change, League also agreed to invest additional funds in Partners REIT through supporting a rights offering that closed on July 23, 2010. An additional $9,404,413 was invested in Partners REIT by IGW Public. The ownership interest held by IGW Public at this time was approximately 49.9% of the units of Partners REIT.

At the end of December 2010, the REIT issued a further 5,148,000 units by way of a public offering, reducing IGW Public's ownership interest in the REIT to 41.5%.

Management believes that the change in ownership has enabled Partners REIT to reposition itself in the market through the following:

- Changing the composition of the Board of Trustees – Partners REIT's six member Board has four new trustees. The new Board is now comprised of members that have an average of 30 years' experience in commercial real estate, including extensive experience with publicly traded real estate companies.
- Changing its core management – Partners REIT has a new Chief Executive Officer, President and Chief Operating Officer and Chief Financial Officer who have a combined total of 62 years of professional experience, of which, 48 years have been in the commercial real estate and real estate development sectors.
- Managing its current asset base to refinance current properties and potentially raise new debt – As part of its ongoing obligation, Partners REIT is seeking new opportunities to recapitalize its existing properties at attractive terms and conditions; and building relationships with potential lenders for current strategic property acquisitions.
- Develop a thoroughly vetted strategic plan – In the third and fourth quarters, Partners REIT's Board of Trustees, executive management team and invited advisors met to discuss the direction that Partners REIT will take to strategically position itself in the market.

- Provide access to League’s re-implemented financial and accounting systems in the upcoming year - League is currently redesigning its financial and accounting system. This design is expected to provide more timely and accurate financial and asset management data; will have a sophisticated forecasting, budgeting and acquisition modeling module; and will enable Partners REIT to manage its leases through its data base.

On February 25, 2011, the REIT filed a final short form prospectus. The prospectus qualifies the distribution of $25 million aggregate principal amount of 8% extendible convertible unsecured subordinated debentures at a price of $1,000 per $1,000 principal amount of debentures. The debentures mature on March 31, 2016. The debentures bear interest at an annual rate of 8.0% payable semi-annually, in arrears, on March 31 and September 30 in each year commencing on September 30, 2011.

Proceeds of the debentures will be used in part to purchase a portfolio of income producing properties for an aggregate purchase price of $31 million. The purchase is expected to close on March 15, 2011 and has been funded by the assumption of existing mortgages of $17 million and cash.

PART IV – RESULTS OF OPERATIONS

STATEMENT OF OPERATIONS

The following is a summary of selected financial information from the consolidated statements of operations and comprehensive loss for the three months ended December 31, 2010 and 2009 and the three months ended September 30, 2010 and for the years ended December 31, 2010 and 2009.

	Three months ended		
	December 31,		September 30,
	2010	**2009**	**2010**
Revenues from income producing properties	**$ 4,648,341**	$ 4,191,382	$ 4,106,369
Interest income	**25,865**	976	4,151
Operating costs from income producing properties	**1,976,152**	1,647,727	1,594,768
Interest expense	**1,387,049**	1,351,655	1,330,258
General and administrative expenses	**341,384**	350,547	264,899
Depreciation and amortization	**1,478,774**	1,450,074	1,479,470
Incentive unit option compensation	**-**	-	-
Other transaction costs	**171,558**	-	61,667
Net loss	**680,711**	607,645	620,542
Net loss per unit-basic & diluted	**0.03**	0.03	0.03

	Year ended December 31,		
	2010	**2009**	**2008**
Revenues from income producing properties	**$ 16,948,183**	$ 17,118,069	$15,822,563
Interest income	**32,015**	21,675	64,515
Operating costs from income producing properties	**6,905,584**	6,377,991	6,257,751
Interest expense	**5,429,589**	5,218,757	4,038,269
General and administrative expenses	**1,115,176**	1,145,361	1,246,958
Depreciation and amortization	**5,966,058**	6,141,407	5,435,249
Incentive unit option compensation	**-**	28,625	166,447
Other transaction costs	**1,037,114**	-	-
Net loss	**3,473,323**	1,772,397	1,257,596
Net loss per unit-basic & diluted	**0.16**	0.10	0.07

Net Loss

The net loss increased in the three months ended December 31, 2010 compared to the three months ended December 31, 2009 primarily due to an increase in depreciation and amortization, and an increase in other transaction costs, offset by an increase in net operating income from the properties.

The net loss increased in the three months ended December 31, 2010 compared to the three months ended September 30, 2010 primarily due to an increase in other transaction costs, partially offset by an increase in net operating income from properties.

For the year ended December 31, 2010, the net loss increased compared to the prior year, mainly due to a decrease in net operating income from the properties, an increase in interest expense, and an increase in other transaction costs.

For a discussion of net operating income from the properties (comprised of revenues from income producing properties less operating costs from income producing properties), see "Net Operating Income" below.

Interest Expense

Partners REIT's secured debt has fixed interest rates and consequently has similar interest expense from period to period. In 2010, Partners REIT's credit facility increased until July, at which time a significant portion of the rights offering proceeds were applied against the facility. By the end of fiscal 2010, the facility had been paid down in full from a portion of the proceeds of a first mortgage secured on the Cornwall Square property in December 2010.

Interest expense for the three months ended December 31, 2010 marginally increased in comparison to the three months ended December 31, 2009 by $57,000 (4%) and in comparison to the three months ended September 30, 2010 by $35,000 (3%). During December 2010, new debt replaced higher cost financing. However, the resulting interest savings was more than offset by accelerated recognition of deferred financing costs and by new interest expense on the Wellington Southdale property mortgage assumed upon purchase in December 2010.

Interest expense grew by $211,000 (4%) in the year ended December 31, 2010 from December 31, 2009 primarily due to increased debt at the end of 2010 and a small increase in the interest rate charged on the facility, somewhat offset by reductions in the credit facility amount outstanding during the third and fourth quarters of 2010.

The increase in the credit facility's interest rate was the result of both an increase in the Bank of Canada overnight rate during the second quarter of 2010 and a spread increase of 250 basis points at the time of the facility renewal and two-year term extension in May 2009, which reflected market conditions at that time.

General and Administrative Expenses

General and administrative expenses for the three months ended December 31, 2010 decreased approximately $9,000 (3%) from the same period in the prior year, and increased approximately $76,000 (29%) from the prior quarter. General and administrative expenses decreased by approximately $30,000 (3%) from the year ended 2009 to the year ended 2010.

General and administrative expenses for the year ended December 31, 2010 consist of legal and consulting fees of $49,000, audit and tax compliance fees of $163,000, trustee fees of $184,000, asset management fees of $477,000, transfer agent fees, fees for shareholder reports, news releases and other statutory filings of $105,000, director and officer insurance of $40,000, travel and accommodation of $35,000 and other miscellaneous expenses of $62,000.

Depreciation and Amortization

Depreciation and amortization for the three months ended December 31, 2010 increased approximately $29,000 (2%) from the same period in the prior year, and was consistent with the prior quarter ended September 30, 2010.

Depreciation and amortization for the year ended December 31, 2010 was $175,000 (3%) lower compared to the prior year, due to assets that were fully amortized by the end of 2009 and prior year accelerated amortization in the amount of $321,000, mostly offset by the current year accelerated amortization in the amount of $314,000.

Incentive Unit Option Compensation

There was not any incentive unit option compensation expense recorded in 2010. All previously granted options have fully vested and have been fully amortized. No new options were granted during the 2010.

Other Transaction Costs

Other transaction costs consist of non-capital expenses stemming from the strategic review process undertaken primarily in the second quarter of 2010, and expenses incurred on property acquisitions no longer pursued. The strategic review process transaction costs consist of legal, consulting, Trustee fees and other costs undertaken to effect the transformational change in ownership structure as discussed in Parts I and III above.

The total costs of the management changes and rights offering, including financial advisory fees, legal fees, Independent Committee fees, printing and other costs are approximately $2.3 million, of which $1.5 million was recorded as equity issue costs.

During the three months ended December 31, 2010, expenses of approximately $172,000 were incurred to explore potential property acquisitions which, upon performance of more in depth due diligence procedures, were determined to have not met the REIT’s portfolio requirements.

OPERATING RESULTS

Net Operating Income – All Properties and Same Properties

Ten of the REIT's properties were owned by the REIT for the three month periods ended December 31, 2010, December 31, 2009 and September 30, 2010. The eleventh property was purchased on December 22, 2010 and contributed approximately $54,000 to net operating income by December 31, 2010. As such, the following tables of net operating income also serve for our discussion of same property net operating income.

	Three months ended December 31, 2010	**Three months ended December 31, 2009**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 4,648,341**	$ 4,191,382	$ 456,959
Operating costs from income producing properties	**1,976,152**	1,647,727	(328,425)
Net operating income	**$ 2,672,189**	$ 2,543,655	$ 128,534

The increase in NOI for the three months ended December 31, 2010 compared to the same period in 2009 is primarily due to a 31% increase in NOI at the REIT's Chateauguay property. If we remove the effect of the Wellington property, the favourable variance is reduced to $74,000 (3%).

At the Chateauguay property, NOI was positively affected by an increase in base rents and recovery of expenses period over period due to a new lease which commenced March 2010 with Pharmaprix (18,181 square feet).

	Three months ended December 31, 2010	**Three months ended September 30, 2010**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 4,648,341**	$ 4,106,369	$ 541,972
Operating costs from income producing properties	**1,976,152**	1,594,768	(381,384)
Net operating income	**$ 2,672,189**	$ 2,511,601	$ 160,588

NOI improved in the three months ended December 31, 2010 compared to the three months ended September 30, 2010 mainly as a result of small improvements in NOI from the Méga Centre, Cornwall and Chateauguay properties, partly offset by a small decrease at the Place Val Est property. If we remove the effect of the Wellington property, the favourable variance is reduced to $107,000.

	Year ended December 31, 2010	Year ended December 31, 2009	Favourable/ (unfavourable) variance
Revenues from income producing properties	**$ 16,948,183**	$ 17,118,069	$ (169,886)
Operating costs from income producing properties	**6,905,584**	6,377,991	(527,593)
Net operating income	**$ 10,042,599**	$ 10,740,078	$ (697,479)

The decrease in NOI for the year ended December 31, 2010 compared to the same period in 2009 is primarily due to decreases in NOI at the REIT's Méga Centre, Cornwall Square, and Place Val Est properties. If we remove the effect of the Wellington property, the unfavourable variance is increased to $752,000.

At the Méga Centre property, NOI was negatively affected by: (i) a decrease in rental income from the Bentley Leathers Inc. lease (34,093 square feet that commenced in October 2009), compared to the rent paid by the previous tenant that was occupying that space; and (ii) a local dollar store operator occupying 18,573 square feet vacating its premises in February 2010.

At Cornwall Square, NOI was negatively impacted by some small in-line tenant vacancies as well as a decrease in common area maintenance recoveries from certain tenants. As well, NOI decreased as a result of new accounting standards implemented in the first quarter of 2009 that caused a one-time adjustment to recoveries recorded in the prior year.

At Place Val Est, the REIT continued to receive rent in 2009 on the 23,000 square foot former SAAN space through a rental guarantee that the REIT had from the previous owner of the property. This rental guarantee expired at the end of July 2009. Rossy Ltd. took over the former SAAN location and rental payments commenced in the fourth quarter of 2010.

Funds from Operations

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

	Three months ended December 31, 2010	Three months ended December 31, 2009	Three months ended September 30, 2010
Net loss for the period	**$ 680,711**	$ 607,645	$ 620,542
Add depreciation & amortization of:			
Income producing properties	**1,008,685**	933,343	951,363
Deferred costs	**19,514**	14,134	24,675
Intangible assets	**404,974**	461,088	457,984
FFO	**$ 752,462**	$ 800,920	$ 813,480
Weighted average units			
Basic	**25,850,818**	18,440,938	23,522,397
Diluted	**25,850,818**	18,440,938	23,522,397
FFO per unit			
Basic	**$ 0.03**	$ 0.04	$ 0.03
Diluted	**$ 0.03**	$ 0.04	$ 0.03

FFO decreased by $48,000 (6%) during the three months ended December 31, 2010 compared to the same period in 2009 primarily due to increased non-recurring other transaction costs of approximately $172,000, offset by increased NOI of $129,000.

FFO for the three months ended December 31, 2010 decreased $61,000 (8%) compared to the three months ended September 30, 2010, primarily due to increased general and administrative expenses of $76,000, increased interest expense of $35,000 and increased non-recurring other transaction costs of $110,000, offset by increased NOI of $161,000.

Weighted average units increased due to the completion of the REIT’s rights offering at the end of July 2010 and again upon the public unit offering in December 2010.

	Year ended December 31, 2010	Year ended December 31, 2009
Net loss for the period	**$ 3,473,323**	$1,772,397
Add depreciation & amortization of:		
Income producing properties	**3,840,762**	3,713,160
Deferred costs	**82,550**	31,512
Intangible assets	**1,877,517**	2,213,302
FFO	**$ 2,327,506**	$ 4,185,577
Weighted average units		
Basic	**21,623,523**	18,284,298
Diluted	**21,623,523**	18,284,298
FFO per unit		
Basic	**$ 0.11**	$ 0.23
Diluted	**$ 0.11**	$ 0.23

FFO decreased during the year ended December 31, 2010 by $1,858,000 (44%) compared to 2009 mainly as a result of a decrease of approximately $697,000 in NOI from the properties, an increase in interest expense of approximately $211,000 and an increase in non-recurring other transaction costs of approximately $1,037,000. Excluding non-recurring other transaction costs, FFO would have been $3,365,000 or $0.16 per unit.

BALANCE SHEET ANALYSIS

Balance Sheet – Total Assets

	As at December 31, 2010	As at December 31, 2009
Income producing properties	**$ 138,612,235**	$ 122,216,906
Intangible assets	**10,058,263**	9,738,939
Deferred costs	**390,528**	403,390
Cash	**6,869,242**	1,074,765
Other assets	**4,384,030**	1,165,449
Total assets	**$ 160,314,298**	$ 134,599,449

The REIT allocates the purchase price of properties acquired largely to income producing properties (land, building and tenant improvements) and intangible assets (which represent above-market leases, lease origination costs and tenant relationship values that are acquired in a property purchase). On December 22, 2010, the REIT acquired Wellington Southdale Plaza for a total purchase price, including closing costs of $21 million. Of this, $19 million has been classified as income producing properties, and $2 million classified as intangible assets. These increases were partially offset by depreciation and amortization on previously acquired assets. Capital expenditures and tenant improvements of $1 million were also capitalized to income producing properties in the year ended December 31, 2010.

Deferred costs represent leasing costs, net of amortization, as well as deferred financing costs on the credit facility, also net of amortization. The decrease is due to regular leasing commission and deferred financing amortization, offset partially by an increase of leasing commission costs for a significant new lease at Place Val Est.

Other assets as at December 31, 2010 include accounts receivable of $1,092,000 (net of allowance for doubtful accounts), deposits on income producing property acquisitions of $2,684,000, prepaid expenses of $488,000 (which primarily consist of prepaid property taxes, prepaid insurance, and other deposits), and $120,000 held in escrow, that relates to the purchase of the Wellington Southdale property. Within accounts receivable, $823,000 relates to accumulated rental revenue recognized on a straight-line basis.

As at the year ended December 31, 2009 accounts receivable were $819,000 (net of accumulated amortization). The increase from 2009 to 2010 is due to an increase of $167,000 in straight-line rent receivable and a reduction of $92,000 in allowance for doubtful accounts.

Capital

The REIT's capital consists of debt and equity capital. The REIT actively manages both its debt and equity capital with the objective of ensuring that the REIT can continue to grow and operate its business.

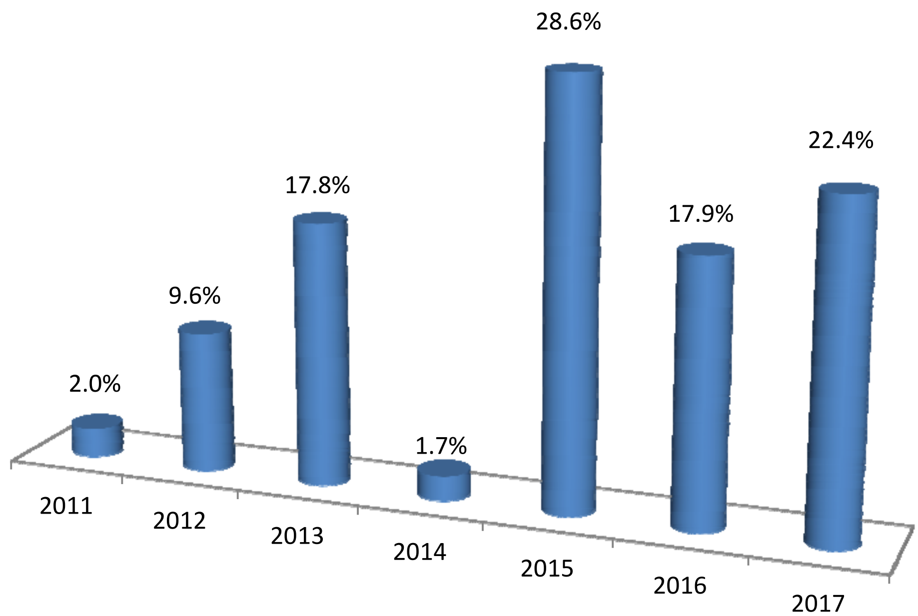
Real estate is a capital intensive industry. As a result, debt capital in particular, is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Given the importance of debt capital, the REIT monitors its debt regularly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

The following table shows the REIT's total capital as at December 31, 2010 and 2009.

	As at December 31, 2010	**As at December 31, 2009**
Secured debt	**$ 107,086,726**	$ 71,725,963
Credit facility	**-**	20,500,000
Unitholders' equity	**47,559,251**	39,496,064
Total capital	**$ 154,645,977**	$ 131,722,027

Mortgages and Other Financing

The following is a debt maturity chart for the REIT's secured debt and credit facility:



In March 2011, the REIT replaced an $8.6 million debt, that otherwise would have expired in 2013 with debt expiring in 2016. The above chart classifies this debt as maturing in 2016.

Interest coverage and debt service coverage ratios are as follows:

	Three months ended December 31, 2010	**Three months ended December 31, 2009**	**Three months ended September 30, 2010**
Interest coverage ratio(1)	**1.77**	1.66	1.69
Debt service coverage ratio(2)	**1.44**	1.36	1.37

(1) Interest coverage ratio is calculated as EBITDA divided by interest expense (before amortization of financing fees included in interest expense), where EBITDA is net income before interest expense, incentive unit option compensation expense, depreciation and amortization and other transaction costs. EBITDA is a non-GAAP financial measure of operating performance.

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

The increase in the interest coverage ratio and debt service coverage ratio in the three months ended December 31, 2010 compared to December 31, 2009 and to September 30, 2010 mainly relates to the increase in NOI.

	Year ended December 31, 2010	Year ended December 30, 2009
Interest coverage ratio[1]	**1.70**	1.88
Debt service coverage ratio[2]	**1.38**	1.57

(1) Interest coverage ratio is calculated as EBITDA divided by interest expense (before amortization of financing fees included in interest expense), where EBITDA is net income before interest expense, incentive unit option compensation expense, depreciation and amortization and other transaction costs. EBITDA is a non-GAAP financial measure of operating performance.

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

The decrease in the interest coverage ratio for the year ended December 31, 2010 compared to 2009 is due to the decrease in NOI and FFO, as well as due to the increase in interest expense, as discussed above.

The decrease in the debt service coverage ratio for the year ended December 31, 2010 compared to 2009 is due to: (i) the decrease in NOI and FFO; (ii) the increase in interest expense primarily due to the increase in interest rates and interest rate spread on the REIT's credit facility; and (iii) the increase in principal repayments primarily caused by the expiration of the interest-only period on the Méga Centre first mortgage.

Secured Debt

The REIT's current average term to maturity on its secured debt (including mortgages payable and corporate secured debt but excluding the credit facility all discussed below in more detail) is approximately five years, and the weighted average contractual interest rate is 5.59%.

Future principal repayments on the secured debt (including mortgages payable and corporate secured debt but excluding the credit facility) are as follows:

Year	Principal installment payments	Balance maturing	Total	Contractual interest rate on debt maturing
2011	**$ 2,144,221**	**$ -**	**$ 2,144,221**	
2012	**2,260,290**	**8,014,133**	**10,274,423**	**5.39%**
2013	**2,074,620**	**17,027,933**	**19,102,553**	**5.65%**
2014	**1,787,800**	**-**	**1,787,800**	
2015	**1,836,283**	**28,839,943**	**30,676,226**	**4.96%**
Thereafter	**998,631**	**42,164,287**	**43,162,918**	**5.96%**
Total	**$ 11,101,845**	**$ 96,046,296**	**$ 107,148,141**	**5.59%**

Mortgages Payable

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 the Rona properties. The Rona properties secure the REIT's $8.6 million corporate secured debt (see "Corporate Secured Debt").

During 2010 the following mortgages were obtained:

On the acquisition of Wellington Southdale Plaza, the REIT assumed a first mortgage loan in the amount of $9,690,000 secured by the property. The loan matures in 2016 and bears contractual interest at a rate of 6% per annum. The amortization period of the loan from the date of acquisition (December 22, 2010) was 18.9 years.

On the acquisition of Wellington Southdale Plaza, the REIT also acquired a second mortgage in the amount of $2,300,000 secured by a second mortgage on the property. The loan matures in 2016 and bears contractual interest at a rate of 4.57% per annum. The amortization period of the loan from the date of acquisition (December 22, 2010) was 25 years.

During December 2010 the REIT acquired a first mortgage loan in the amount of $25,500,000, secured by a mortgage on the Cornwall property. The loan matures in 2015, has a 25 year amortization period, and bears contractual interest at a rate of 4.90% per annum.

Corporate Secured Debt

Concurrently with the closing of the Canadian Tire properties in September 2008, the REIT obtained corporate financing in the total amount of $10 million, comprising two facilities. The facilities were primarily used to finance the equity portion of the Canadian Tire properties, as well as for working capital purposes.

The first facility is an $8,600,000 five-year facility that bears interest at 8.75% per annum on an interest-only basis. The facility can be prepaid without penalty at any time with 45 days notice, and is secured by (a) a first charge on the REIT's three Rona properties located in 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.

Subsequent to December 31, 2010, the first facility has been repaid, without penalty, from proceeds of new debt, maturing in 2016.

The second facility was repaid, without penalty, during the year ended December 31, 2010. It consisted of a $1,400,000 five-year facility maturing in 2013 that bears interest at 8.75% per annum.

The facilities required the REIT to maintain an overall debt-to-gross book value ratio of no more than 75%, see “Credit Facility” and “Debt-to-Gross Book Value” below.

Credit Facility

The REIT has a revolving operating and acquisition facility available to it from a Canadian chartered bank. Pursuant to the terms of the facility, from time to time, the amount permitted to be drawn under the facility may be adjusted based on certain financial tests. 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, 2010, the REIT has no property specified as security for this facility. During 2010 and 2009, the facility was secured by the REIT’s Cornwall Square shopping centre, providing a maximum amount of up to $26,000,000. At December 31, 2010 there was no amount outstanding under the facility, compared to $20,500,000 outstanding as at December 31, 2009.

Amounts drawn down under the facility bear interest at a rate equal to the Bank's prime rate plus 3.50% per annum and Banker's Acceptances bear interest at a rate equal to the Bank's Acceptance stamping fee plus 4.50% per annum.

Amongst a number of customary tests for this type of facility, the credit facility contains financial covenants with respect to maintaining a debt-to-gross book value ratio of no more than 75% (December 31, 2010 – 59.9%) and maintaining a debt service coverage ratio of no less than 1.25:1 calculated on a rolling four quarter basis (December 31, 2010 – 1.38:1) as well as requiring that cash distributions do not exceed funds from operations (calculated excluding other transaction costs) in any quarter.

Financing Costs

Financing costs represent commitment fees and other fees paid in connection with securing mortgages and credit facilities.

The unamortized balance of financing costs grew to $779,000 as at December 31, 2010 from $440,000 as at September 30, 2010 reflecting the deferred costs incurred in December 2010 that relate to the new mortgage secured on the Cornwall Square property and to the mortgages secured on the Wellington Southdale property. These financing costs relate to secured debt (including mortgages payable and corporate secured debt), and the unamortized portion is netted against the secured debt on the balance sheet.

The unamortized balance of financing costs that relate to the credit facility, $69,000 at December 31, 2010 are capitalized to deferred costs on the balance sheet.

Debt-to-Gross Book Value

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-gross book value threshold imposed on it in its Declaration of Trust; however, the REIT's credit 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, 2010, the REIT has a debt-to-gross book value ratio of 59.8%, calculated as follows:

	As at December 31, 2010	**As at December 31, 2009**
Debt:		
Gross value of secured debt(1)	**$ 107,148,141**	$ 72,253,090
Amounts drawn on available credit facility	-	20,500,000
	$ 107,148,141	$ 92,753,090
Gross Book Value of Assets:		
Total assets	**$ 160,314,298**	$ 134,599,449
Accumulated depreciation and amortization	**18,749,990**	13,252,337
	$ 179,064,288	$ 147,851,786
Debt-to-Gross Book Value	**59.8%**	62.7%

(1) Represents actual balance of mortgages and corporate secured debt without netting the unamortized balance of the financing fees.

Unitholders' Equity

In the year ended December 31, 2010, unitholders' equity grew by $8.0 million over unitholders' equity as at December 31, 2009. This increase is due to net proceeds of the rights offering received in July 2010 of $8.4 million, net proceeds of the public unit offering in December 2010 of $6.5 million, and net proceeds received under the distribution reinvestment plan of $0.3 million, offset by the net loss of $3.6 million and $3.6 million distributed to unitholders.

The REIT currently makes monthly cash distributions of $0.01333 per unit, representing an annualized distribution of $0.16 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 distributions, see below under the heading "Cash Flows". The REIT issues equity when it is available and appropriate to replenish cash, for acquisitions or other uses. The REIT generally uses its credit facility to fund the equity portion of acquisitions as well as to fund general working capital requirements between capital raises.

CASH FLOW ANALYSIS

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

The REIT's FFO for the year ended December 31, 2010 (excluding non-recurring other transaction costs) was sufficient to cover its cash distributions. The REIT's payout ratio for the year ended December 31, 2010 is 107% of FFO (excluding non-recurring other transaction costs) based on the current distribution level of $0.04 per quarter and the cash payout ratio is 94% of FFO (excluding non-recurring other transaction costs). For the three months ended December 31, 2010, the REIT's payout ratio is 119% of FFO (excluding non-recurring other transaction costs) and the cash payout ratio is 103% of FFO (excluding non-recurring other transaction costs). The payout ratios include the impact of distributions accrued on new units issued in late December 2010.

Payout ratio and cash payout ratio are non-GAAP 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.

The following table summarizes the net cash provided by or (used in) the REIT's activities:

	Three months ended			Year ended	
	December 31, 2010	**December 31, 2009**	**September 30, 2010**	**December 31, 2010**	**December 31, 2009**
Net cash provided by (used in) operating activities	**$ (873,213)**	$ 1,089,603	$ 712,349	**$ 686,131**	$ 4,432,644
Net cash provided by (used in) financing activities	**$17,151,095**	$ 34,513	$ 621,357	**$ 17,631,280**	$(3,030,428)
Net cash (used in) investing activities	**$(11,029,731)**	$(1,465,730)	$(270,325)	**$(12,522,934)**	$(1,731,722)

Cash provided by operating activities for the three months ended December 31, 2010 compared to the three months ended December 31, 2009 and to September 30, 2010 decreased primarily due to a decrease in FFO.

Cash provided by operating activities for the year ended December 31, 2010 decreased compared to 2009 due to a decrease in FFO and to a change in non-cash working capital.

Cash provided by financing activities increased during the three months ended December 31, 2010 compared to the three months ended December 31, 2009 due to the net proceeds received from the public unit offering and refinancing activities in December 2010, offset partially by a $0.2 million increase of cash distributed to unitholders due to the increased number of outstanding units after the rights offering in July 2010 and the public unit offering in December 2010.

Cash provided by financing activities increased in the three months ended December 31, 2010 as compared to the three months ended September 30, 2010 due to the net proceeds received from the public unit offering and refinancing activities in December 2010.

Cash provided by financing activities increased for the year ended December 31, 2010 compared to 2009 primarily due to: i) net cash proceeds from the rights offering in July 2010 and the public unit offering in December 2010 of approximately $16.7 million (no similar issues in prior year); ii) debt refinancing activities resulting in approximately $4.7 million greater net cash proceeds from debt in 2010 than in 2009; and offset by iii) approximately $0.7 million more cash expended for distributions to unitholders, resulting from increased units outstanding in 2010 over 2009.

Cash used in investing activities increased for the three months ended December 31, 2010 compared to the the three months ended December 31, 2009 reflecting the cash portion expended to purchase the Wellington Southdale property on December 22, 2010, offset somewhat due to a greater amount of cash expended in 2009 for capital improvements.

Cash used in investing activities for the three months ended December 31, 2010 increased compared to the three months ended September 30, 2010 reflecting the cash portion expended to purchase the Wellington Southdale property on December 22, 2010.

Cash used in investing activities for the year ended December 31, 2010 increased compared to 2009 reflecting the cash portion expended to purchase the Wellington Southdale property on December 22, 2010.

CAPITAL EXPENDITURES AND LEASING COSTS

Management believes that over the next five years, the Méga Centre property will require capital expenditures between $150,000 and $250,000 primarily for parking lot maintenance. In addition, the REIT has committed $150,000 for building repairs within leased areas at the Méga Centre property. The REIT may choose to undertake certain cosmetic upgrades to the shopping centre's façade, landscaping, lighting and pylon signage that would cost approximately $500,000. The extent of these renovations will depend on leasing activity in the centre.

With respect to Cornwall Square, the REIT does not expect to make significant non-recoverable capital expenditures on the property in the next five years. During the year ended December 31, 2010, approximately $60,000 was incurred for landlord's work and tenant improvements relating to new leasing and renewals.

With respect to the Châteauguay property, during the year ended December 31, 2010 approximately $526,000 was incurred for tenant improvements and landlord's work and approximately $88,000 was incurred for building improvements relating to the property's redevelopment and lease renewal initiatives that were started in 2009. The REIT does not expect to incur any further significant capital expenditures on the property in the next five years.

With respect to Place Val Est, management expects to spend between $175,000 and $350,000 in capital expenditures over the next five years. These expenditures are primarily for HVAC replacement, parking lot maintenance and sidewalk renovations. Management believes that approximately 50% of this amount will be recoverable from tenants. In the year ended December 31, 2010, approximately $162,000 was incurred for landlord's work primarily related to the new leasing of the former SAAN space to Rossy. A further $52,000 was incurred for tenant improvements.

During the due diligence for the purchase of the Wellington Southdale property, it was determined that approximately $120,000 will be required for roof repairs. Management is currently undergoing a review of the capital requirements for the next five year period for this property and for the six additional properties expected to be acquired in the first quarter of 2011.

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.

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.

For the quarter ended December 31, 2010, $134,000 asset management fees, $101,000 acquisition fees, and $89,000 expenses were payable to LAPP. For the year ended December 31, 2010, total asset management fees of $477,000 were accrued or paid to either LAPP or C.A. Realty Management Inc. ($440,000 for the year ended December 31, 2009).

QUARTERLY PERFORMANCE

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

	Q4-2010	Q3-2010	Q2-2010	Q1-2010	Q4-2009	Q3-2009	Q2-2009	Q1-2009
Total revenues	$4,674,206	$4,110,520	$4,042,564	$4,152,908	$4,192,358	$4,194,428	$4,217,765	$4,535,193
Expenses	$5,354,917	$4,731,062	$5,416,728	$4,950,814	$4,800,003	$4,499,904	4,882,326	$4,729,908
Net loss	$680,711	$620,542	$1,374,164	$ 797,906	$ 607,645	$ 305,476	$664,561	$194,715
Net loss per unit – basic & diluted	$0.03	$0.03	$0.07	$0.04	$0.03	$0.02	$0.04	$0.01

PART V – RISKS AND UNCERTAINTIES

Income producing properties are inherently subject to various risks and uncertainties due to their relative illiquidity and long term nature of the investment. Partners REIT's financial results, are therefore, impacted by the performance of our operations and by various external factors that impact our sector and geographic markets in which we operate. Some of the external factors that we are 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 our current portfolio, we believe, provides the leverage we need to grow our business in new markets and acquire high performing properties. We believe this strategy will enable our operations to achieve highly sustainable cash flows.

The following is an examination of the factors that influence our operations.

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.

We have 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. Our strategy of staggering the maturities of our debt portfolio attempts to limit our exposure to excessive amounts of debt maturing in any one year.

During the quarter ended December 31, 2010, we re-financed our floating rate credit facility of $26 million with a fixed mortgage on the Cornwall Square property reducing our interest rate exposure. As at December 31, 2010 no amount was drawn on the credit facility.

There is interest rate risk associated with the REIT's credit 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 due to the requirement to refinance this debt in the year of maturity. The following table outlines the impact to the REIT's annual net income if interest rates at December 31, 2010 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
Credit Facility	$ -	$ -
Mortgages Payable	$ 80,000	$ 0.003

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, 2010, Partners REIT has not entered into any swap arrangements. Partners REIT does not use swaps for speculative purposes.

Finally, we are of the opinion that all debts 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, by ensuring its tenant mix is diversified by limiting its exposure to any one tenant. The maximum credit risk exposure at December 31, 2010 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. The change in allowance for doubtful accounts for the year ended December 31, 2010 was a decrease of $92,000.

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 balance sheet. 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 credit 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 credit 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. We are not aware of any material non-compliance with environmental laws or regulations at any of our properties, or of any pending or threatened actions, investigations or claims against Partners REIT relating to environmental matters.

We will continue to make capital and operating expenditures that are necessary to ensure that we are compliant with environmental laws and regulations. At this time, we do not believe that these costs will have a materially adverse impact on our business or financial results. We understand that environmental laws and regulations are subject to change and our financial liabilities can be adversely impacted if the laws and regulations become more rigorous.

TAXATION

Partners REIT is a mutual fund trust by definition under the Income Tax Act ("the Tax Act"). The distributions made during 2010 are expected to be tax deferred and, therefore, would not be included in the income of a unitholder for tax purposes. Instead, the distributions would reduce the adjusted cost base of the unitholder's units. Also, as currently structured, management believes that the REIT qualifies as a "real estate investment trust" under the SIFT rules of the Tax Act. Under the SIFT rules, certain distributions to investors from certain publicly listed or traded trusts and partnerships, other than real estate investment trusts, will be subject to tax at a rate that is equivalent to the general tax rate applicable to Canadian corporations and will be taxed in the hands of the unitholders as though they were a dividend from a taxable Canadian corporation. The result is that trusts and partnerships that are subject to the SIFT rules will be taxed in a similar manner to corporations and their investors will be taxed in a manner similar to investors in a corporation. The SIFT rules became applicable in the 2007 taxation year. The SIFT rules do not apply to certain trusts that qualify as real estate investment trusts. Should it be found that the REIT fails to qualify as a real estate investment trust or that the REIT undertakes subsequent activities that cause it to fail to qualify as a real estate investment trust, the REIT will become subject to the SIFT rules in that taxation year.

PART VI – CRITICAL ACCOUNTING POLICIES AND ESTIMATES

CHANGES IN ACCOUNTING POLICIES

There are not any current year changes in accounting policies.

With respect to future changes in accounting pronouncements, management monitors the CICA's recently issued accounting pronouncements to assess the applicability and impact, if any, of those pronouncements on the REIT's consolidated financial statements and note disclosures. Note 4 to the audited consolidated financial statements for the year ended December 31, 2010 contains a list of those future accounting policy changes currently outstanding. However, the principal future accounting change relates to the changeover to International Financial Reporting Standards ("IFRS").

FUTURE ACCOUNTING POLICY CHANGES

International Financial Reporting Standards

The Accounting Standards Board ("AcSB") confirmed that the adoption of IFRS would be mandatory, effective for interim and annual periods beginning on or after January 1, 2011 for Canadian publicly accountable profit-oriented enterprises. IFRS will become Canada's current GAAP for these enterprises. Comparative IFRS information for the previous fiscal year will also have to be provided.

IFRS Conversion Plan

Management has a conversion plan and continues to evaluate the potential impact of IFRS on the REIT's financial statements. This will be an ongoing process as the International Accounting Standards Board ("IASB") and the AcSB issue new standards and recommendations. The REIT's consolidated financial performance and financial position as disclosed in the current GAAP financial statements will be significantly different when presented in accordance with IFRS.

The REIT has prepared a comprehensive IFRS conversion plan which addresses changes in accounting policies, the restatement of comparative periods, various education and training sessions on the adoption of IFRS, as well as required changes to business processes and internal controls. The REIT has evaluated its preliminary policies and procedures as they relate to IFRS. As a result of the training program, the REIT will complete the preparation of a reconciliation of the REIT's historical Canadian GAAP financial statements to IFRS financial statements during the first quarter of 2011. The REIT believes that its applicable personnel have obtained an appropriate understanding of IFRS as it applies to the REIT's financial reporting. While new controls are being put into place to address certain unique IFRS accounting and disclosure requirements, the REIT does not anticipate comprehensive changes to its current accounting and consolidation systems, its internal controls or its disclosure control process as a result of the conversion to IFRS. For income producing properties, additional controls will need to be designed and implemented to ensure that the recorded balance is fairly stated. Such additional controls will include the use of independent valuators and senior management oversight on the development of key assumptions.

The REIT's IFRS conversion plan has been communicated to the REIT's trustees and is updated regularly and the REIT is currently on track with respect to the relevant timelines. Management believes that it has sufficient resources to deal with the conversion.

Impact of Adoption of IFRS

IFRS are premised on a conceptual framework similar to Canadian GAAP, although significant differences exist in certain matters of recognition, measurement and disclosure. While the adoption of IFRS will not have an impact on the REIT's reported net cash flows, the REIT does expect it to have a material impact on its consolidated balance sheets and statements of income. The REIT is continuing to evaluate the impact of IFRS to the presentation and classification in its statements of cash flow. In particular, the REIT's opening balance sheet will reflect the revaluation of all properties to fair value. In addition, a significant portion of the REIT's intangible assets and liabilities will no longer be separately recognized.

IFRS 1: First-Time Adoption of IFRS

The REIT's adoption of IFRS will require the application of IFRS 1, *First-time Adoption of International Financial Reporting Standards ("IFRS 1")*, which provides guidance for the entity's initial adoption of IFRS. IFRS 1 generally requires that an entity apply all IFRS effective at the end of its first IFRS reporting period retrospectively. However, IFRS 1 does require certain mandatory exceptions and permits limited optional exemptions.

IFRS 1 allows for certain other optional exemptions; however, the REIT does not expect such exemptions to be significant to its adoption of IFRS.

Impact of IFRS on Financial Position

The following discussion describes the expected impact of significant differences between the REIT's December 31, 2009 balance sheet under Canadian GAAP and its January 1, 2010 opening balance sheet under IFRS. This discussion has been prepared using the standards and interpretations currently used and expected to be effective as at December 31, 2010. The information presented below is prepared using the current assumptions that the REIT intends to follow in preparing its opening balance sheet upon adoption of IFRS.

Income Producing Properties

IFRS defines an investment property as land and buildings held primarily to earn rental income or for capital appreciation or both. A key characteristic of an investment property is that it generates cash flows largely independently of the other assets held by an entity. Accordingly, the REIT considers its commercial properties to be investment properties under IAS 40, *Investment Property* ("IAS 40").

Similar to Canadian GAAP, IFRS requires investment properties to be initially measured at cost under IAS 40. However, subsequent to initial recognition, IFRS requires that an entity choose either the cost or the fair value model to account for its investment property. The fair value model requires an entity to record a gain or loss in income arising from a change in the fair value of investment property in the period of change. No depreciation related to investment property is recognized under the fair value model. The REIT expects to adopt the fair value model when preparing its financial statements under IFRS. The REIT engaged independent valuators to assist management in determining the fair value of the income producing properties and have completed their valuations.

Tenant Improvements

Both Canadian GAAP and IFRS require that tenant incentives be recorded as a reduction of rental revenue. However, the IFRS definition of tenant incentives may differ from what the REIT currently applies under Canadian GAAP; which may result in more tenant improvement costs being amortized against revenue.

Accounts Receivable

Straight line rent receivable reflected in accounts receivable under Canadian GAAP will be included in the carrying amount of income producing properties in the REIT's consolidated balance sheets under IFRS.

Intangible Assets and Liabilities

With the adoption of IFRS, the REIT will derecognize its intangible assets and liabilities that relate to assets and obligations otherwise considered in the determination of the fair value of its investment properties as at January 1, 2010.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements requires the REIT to make 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 3 to the consolidated financial statements for the year ended December 31, 2010. Management believes that the following policies are those most subject to estimation and management's judgment.

Property Acquisitions

In accordance with the CICA Handbook, management is required to allocate the purchase price to all identifiable tangible and intangible assets and liabilities, which may include land, buildings, tenant improvements, above and below market in-place leases, lease origination costs and tenant relationship values. Management uses estimates and judgments with respect to such items as market rates and discount rates to derive the fair values of these various components. Future depreciation and amortization is impacted by the derived allocations, due to the varying rates of amortization for these different assets.

Impairment of Income Producing Properties

Management must evaluate the recoverability of the net carrying amount of income producing properties. An impairment in the value of income producing properties is recognized when the carrying value exceeds the total undiscounted future cash flows expected from the use and eventual disposal of the asset. In making this evaluation, estimates are made regarding the future cash flows of the property, which involve assumptions on future occupancy, rental rates and residual value.

Depreciation and Amortization

Depreciation and amortization requires estimates of useful lives of the underlying assets.

Incentive Unit Options

Incentive unit compensation represents the amortization of the fair value of options granted. The derivation of the fair value of options granted uses the Black-Scholes option pricing model and requires assumptions regarding the REIT's underlying units, such as expected volatility, the risk-free rate of return and dividend yield.

Fair Value Disclosures

Management is required to disclose the fair value of financial instruments in the financial statements. 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.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS

Management maintains appropriate information systems, procedures and controls to ensure that 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 GAAP. Management believes that the REIT's disclosure controls and procedures and internal controls over financial reporting as at December 31, 2010 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 2010 that has materially affected, or is reasonably likely to materially affect the 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.

PART VII – OUTLOOK

Management believes that there continues to be an improvement in the real estate investment trust 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 and lease renewals; 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. 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 ourselves to take advantage of the growth that accompanies a recovering economic environment through same property rental income growth, redevelopment, and acquisitions. Management believes that demand for retail space in Canada appears to be on the rise. Leasing interest in Place Val Est has increased with the improvement of the Sudbury economy and the addition of the Rossy store will be a positive influence in the REIT's leasing efforts of the remaining space. Management believes that Méga Centre's location, transportation access, visibility and the surrounding community's demographics will enable us to improve its absorption in occupancy and stabilize our net operating income from the property. The addition of the Wellington Southdale property, with a 97.2% occupancy rate will provide stable cash flows.

Finally, 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 to 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 global recession.