PARTNERS REIT

MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL RESULTS

ADVISORY

This *Management's Discussion and Analysis* ("MD&A") presents an analysis of the financial condition of Partners Real Estate Investment Trust ("Partners REIT", the "REIT", the "Trust", "we", "our", "us" and similar phrases) for the three and nine months ended September 30, 2010. The MD&A should be read in conjunction with the unaudited interim consolidated financial statements and the accompanying notes of the REIT for the three and nine months ended September 30, 2010 and the audited consolidated financial statements and the accompanying notes of the REIT for the year ended December 31, 2009. Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Additional information relating to the REIT, including the REIT's interim and annual consolidated financial statements and MD&A can be found on SEDAR at www.sedar.com.

This MD&A and other public announcements by the REIT may contain information that to the extent they are not historical fact, may constitute "forward-looking information" within the meaning of applicable securities legislation. Forward-looking information involves significant known and unknown risks, uncertainties and assumptions. Important assumptions relating to the forward-looking information contained in this MD&A include expansion, capital expenditures, capital raises, competitive conditions, current economic conditions and current levels of distributions. Forward-looking information includes information concerning the REIT's future financial performance, business strategy, plans, goals, and objectives. Forward-looking information generally can be identified by the use of forward-looking terminology such as "may", "would", "could", "will", "likely", "expect", "anticipate", "believe", "intend", "plan", "forecast", "project", "estimate", "outlook", "aim" and other similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

These statements involve known and unknown risks, uncertainties and other factors that could cause actual results or events to differ materially from those anticipated in such forward-looking statements, and accordingly, no undue reliance should be placed on any such forward-looking statements. Those risks and uncertainties include, among other things: the ability of the REIT to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits; risks associated with the current economic conditions; real property ownership, including occupancy rates; competitive conditions in the business in which the REIT participates; the outcome of pending legal proceedings, if any exist; general economic conditions and normal business uncertainty; interest rate fluctuations and other changes in borrowing and borrowing costs; environmental matters; reliance on external sources of capital; and changes to the laws, rules, and regulations applicable to the REIT or the markets in which the REIT operates. Additional information about these risks and uncertainties and any corresponding plan to mitigate these risks, where possible, is contained in the REIT's filings with securities regulators, including the REIT's Annual Information Form dated April 12, 2010 which is available on www.sedar.com.

Although the forward-looking information contained in this MD&A is based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with this forward-looking information. The REIT intends the forward-looking information to speak only as of the first time made and does not undertake to update or revise it whether as a result of new information, future events or otherwise, except as required by law.

This MD&A is dated November 11, 2010 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” 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 symbol CRH.UN. The REIT expects to apply for a new trading symbol in the near future.

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. The REIT currently owns ten retail properties located in Ontario and Quebec.

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.

During the third quarter of 2010, the Board of Trustees of the REIT convened a meeting to embark on the strategic planning process of the business. The purpose of this meeting was to review the opportunities available to the REIT over the short and long term. We are continuing the process of developing our strategic plan with the anticipation of formalizing that plan in the latter part of the fourth quarter of 2010.

As part of the REIT’s mandate to grow its business and reposition its operations in the market place, the REIT is building the internal infrastructure it requires to support its future plans. The REIT rebalanced its Board by replacing three members and adding a fourth member to its Board of Trustees all of which 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 is made up 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 because there are 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 which are accretive on a per unit basis.

The REIT is also continuing to focus on improving its existing assets through redevelopment and leasing initiatives in 2010 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):

	Q3 2010	Q3 2009	Q2 2010
NOI and same-property NOI[(1)]	**$ 2,511,601**	$ 2,730,506	$ 2,440,859
FFO[(1)]	**$ 813,480**	$ 1,088,052	$ 56,505
FFO per unit - diluted[(1)]	**$ 0.03**	$ 0.06	$ 0.003
FFO (excl. corp. trans. costs) [(1)]	**$ 875,147**	$ 1,088,052	$ 751,893
FFO per unit – diluted (excl. corp. trans. costs) [(1)]	**$ 0.04**	$ 0.06	$ 0.04
Net loss	**$ 620,542**	$ 305,476	$ 1,374,164
Net loss per unit – diluted	**$ 0.03**	$ 0.02	$ 0.07
Distributions[(2)]	**$ 1,029,665**	$ 737,472	$ 743,173
Distributions per unit[(2)]	**$ 0.040**	$ 0.040	$ 0.040
Cash distributions[(3)]	**$ 867,554**	$ 677,005	$ 679,494
Cash distributions per unit[(3)]	**$ 0.037**	$ 0.037	$ 0.037
Total assets	**$132,192,006**	$134,661,529	$132,382,690
Total debt[(4)]	**$ 85,762,579**	$ 92,042,088	$ 93,540,250
Debt-to-gross book value[(5)]	**57.4%**	62.8%	63.5%
Interest coverage ratio	**1.69**	1.89	1.62
Debt service coverage ratio	**1.37**	1.55	1.32
Weighted average interest rate[(6)]	**5.88%**	5.87%	5.88%
Portfolio occupancy	**95.2%**	95.9%	95.1%

	Nine months ended September 30, 2010	2009
NOI and same-property NOI(1)	**$ 7,370,410**	$ 8,196,423
FFO(1)	**$ 1,575,044**	$ 3,384,657
FFO per unit - diluted(1)	**$ 0.08**	$ 0.19
FFO (excl. corp. trans. costs) (1)	**$ 2,440,600**	$ 3,384,657
FFO per unit – diluted (excl. corp. trans. costs) (1)	**$ 0.12**	$ 0.19
Net loss	**$ 2,792,612**	$ 1,164,752
Net loss per unit – diluted	**$ 0.14**	$ 0.06
Distributions(2)	**$ 2,513,965**	$ 2,202,659
Distributions per unit(2)	**$ 0.12**	$ 0.12
Cash distributions(3)	**$ 2,225,964**	$ 1,761,100
Cash distributions per unit(3)	**$ 0.11**	$ 0.097
Total assets	**$ 132,192,006**	$134,661,529
Total debt(4)	**$ 85,762,579**	$ 92,042,088
Debt-to-gross book value(5)	**57.4%**	62.8%
Interest coverage ratio	**1.65**	1.95
Debt service coverage ratio	**1.35**	1.64
Weighted average interest rate(6)	**5.88%**	5.87%
Portfolio occupancy	**95.2%**	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" section 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 non-cash distributions of units 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 – Financial Statement Analysis" section.
(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 at the end of the third quarter of 2010 had a small uplift over the second quarter of 2010 from 95.1% to 95.2%. The movement in leasing and renewals was virtually offset by lease expiries during the third quarter. When comparing year over year third quarter results, the 2010 occupancy level is still marginally lower than the 2009 occupancy of 95.9%. Management continues to actively pursue new leases and renewals in the fourth quarter.

Comparing funds from operations ("FFO") year over year and quarter to quarter produces inequitable results because of the significant incurrence of one-time corporate transaction costs that took place in 2010 (primarily in the second quarter of 2010). Consequently, in order to provide relevant analysis of year over year and quarter to quarter results, we used the 2010 quarterly and year to date FFO amounts excluding these costs.

Funds from operations, excluding the corporate transaction costs, for the quarter ended September 30, 2010 improved over the quarter ended June 30, 2010 by $123,000 due to the following: an increase in revenues from income producing properties of $65,000; a decrease in interest expense by $32,000 and a decrease in general and administration and other costs of $26,000.

Revenues from income producing properties for the third quarter ending September 30, 2010 improved over the previous quarter due to the leasing of temporary space in Méga Centre and the realization of a full quarter of revenue from new leases that were signed in the first two quarters of 2010.

Interest expense decreased for the third quarter ending September 30, 2010 over the previous quarter due to the pay down of our credit facility in July.

Excluding the impact of corporate transaction costs, which are one-time in nature, FFO remained $0.04 per unit for the three month periods ended September 30, 2010 and June 30, 2010.

The REIT's year over year results indicate that the FFO for the nine months ended September 30, 2010 is lower than the results for the same period ended September 30, 2009 by $944,000. Contributing factors impacting the lower FFO results in 2010 are: a decrease in revenues from income producing properties of $626,000; an increase of $199,000 in operating costs from income producing properties; an increase of $175,000 in interest expense; and a moderate decrease in general and administration and other costs of $56,000.

Excluding the impact of corporate transaction costs, which are one-time in nature, the year to date funds from operations for 2010 would have been $2,440,600 or $0.12 per unit as compared to 2009 results of $3,384,657 or $0.19 per unit.

Revenue from income producing properties was negatively impacted during the current year due to the performance of three properties. The high vacancy rate at Place Val Est primarily related to the space vacated by SAAN Stores Ltd. ("SAAN"). We have recently leased the 23,000 square foot space to a new tenant, Michael Rossy Ltd. ("Rossy"). We believe this will result in a positive impact in revenues which will be primarily reflected in the fourth quarter results. The Méga Centre performance remained flat during the period. At Cornwall Square, net operating income declined as a result of some small in-line tenant vacancies as well as a decrease in common area maintenance recoveries from certain tenants.

Operating costs increased during the nine months ended September 30, 2010 due to management's decision to write-off additional receivables of $95,000 to bad debt; and expenses related to vacant space that was unrecoverable.

Interest expense was negatively impacted during the nine months ended September 30, 2010 due to an increase in interest rates and the interest rate spread that the bank has continued to charge on the REIT's credit facility.

REAL ESTATE PORTFOLIO

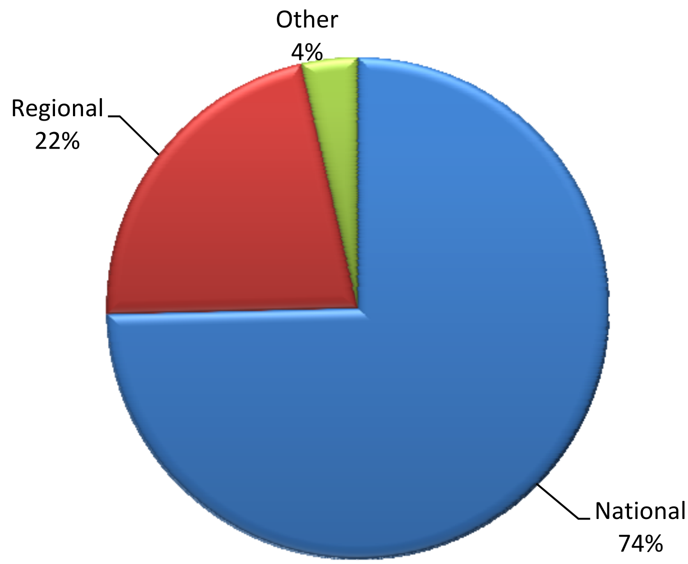
The REIT currently owns ten retail and mixed use retail properties in Ontario and Quebec as follows:

				Gross Leaseable Area (sq.ft.)				
Property and location	**Property type**	**Date built /redeveloped**	**Anchor tenants**	**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)	249,994	1,258	99.1%	28.5%	$11.55
Place Val Est Sudbury, Ontario	Grocery-anchored Strip Centre	1983/1987, 1990, 1998	Metro	110,598	-	91.3%	10.4%	$10.37
Canadian Tire Property Brockville, Ontario	Free Standing	1995/2006	Canadian Tire	70,380	-	100%	7.6%	$11.00
Canadian Tire Property Strathroy, Ontario	Free Standing	2005	Canadian Tire	67,834	-	100%	7.3%	$11.00
Canadian Tire Property Wasaga Beach, Ontario	Free Standing	2007	Canadian Tire	54,081	-	100%	5.9%	$11.00
Rona Property Exeter, Ontario	Free Standing	1996/2000	Rona	42,780	-	100%	1.5%	$3.54
Rona Property Seaforth, Ontario	Free Standing	1962/2000	Rona	19,622	-	100%	0.5%	$2.47
Rona Property Zurich, Ontario	Free Standing	1961/2000	Rona	24,400	-	100%	0.4%	$1.49
Quebec:								
Méga Centre Montreal, Quebec	Community Power Centre	1973/1993, 1999, 2000, 2004	Brault & Martineau Staples Future Shop	277,477	36,081	88.6%	24.8%	$10.18
Châteauguay Montreal, Quebec	Mixed-use Strip Centre	1970/1994, 2010	Shoppers Drug Mart Staples	114,756	-	94.4%	13.1%	$12.21
Total				**1,031,922**	**37,339**	**95.2%** [4]	**100%**	**$10.27** [4]

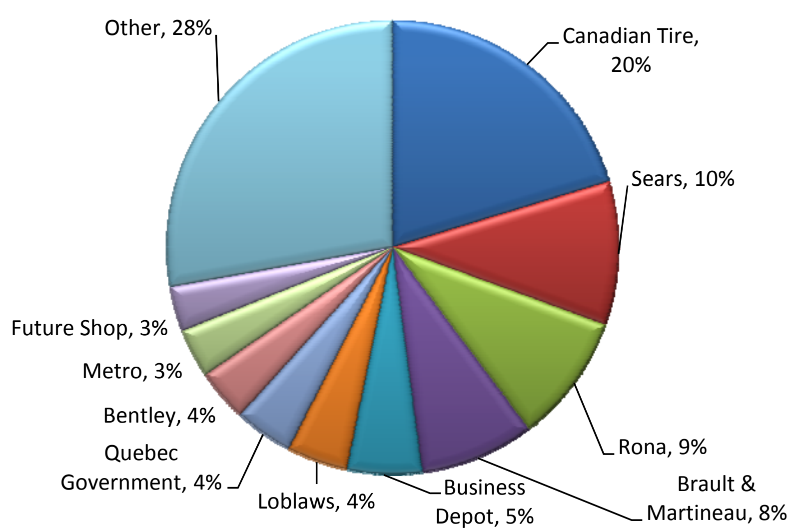
Notes:

(1) Includes office space in mixed-use retail properties.
(2) Excluding storage space.
(3) Calculated at September 30, 2010 and includes any material new/renewal leasing completed by November 11, 2010.
(4) Represents weighted average for the portfolio.

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

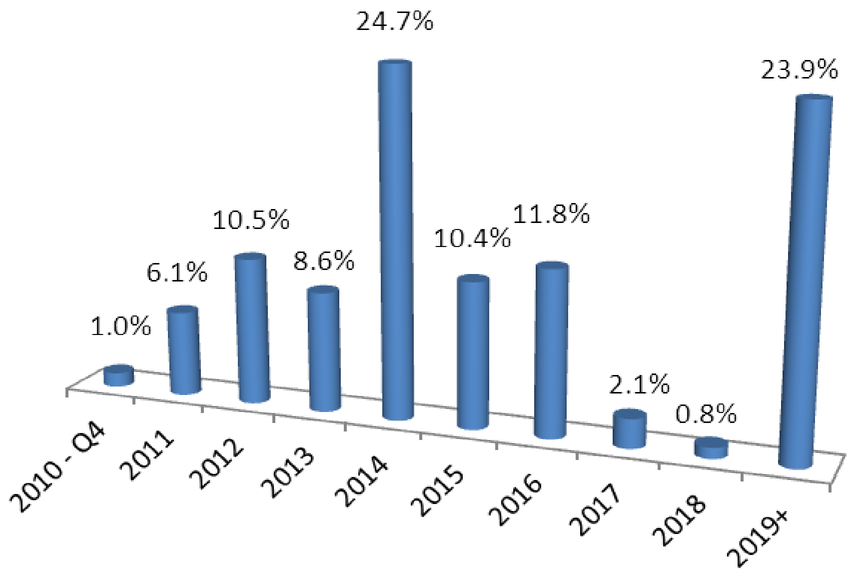


The tenant mix for the properties at the end of the third quarter is as follows:



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 the remainder of 2010 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:

	Q1	Q2	Q3	Q4	Total	
Lease expiries	36,203	14,936	10,258	80,227	141,624	
Base rent per square foot	$13.57	$11.96	$13.39	$7.25	$9.81	(1)
New leasing/renewals	33,867	13,662	29,752	47,299	125,004	
Base rent per square foot	$11.48	$12.50	$7.98	$7.31	$9.18	(1)

(1) weighted average

For the nine months ended September 30, 2010, the portfolio had lease expiries of 61,397 square feet; and new or renewed leases of 77,281 square feet have been entered into during this period. It is projected for the year ending December 31, 2010, that the portfolio will have lease expiries of 141,624 square feet. Of these, new or renewed leases of 125,004 square feet (or approximately 88% of expiries) are expected to be entered into during this same period.

The average occupancy rate for the portfolio at September 30, 2010 was 95.2%, compared with 95.9% at September 30, 2009 and 95.1% at June 30, 2010. The slightly improved occupancy over the previous quarter was mainly due to a new short term lease deal entered into at Méga Centre and a new long-term tenant at Cornwall Square (10 year lease deal). Lease payments have already commenced with the tenant at Méga Centre. The new tenant at Cornwall is expected to begin operations in the second quarter of 2011.

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 we have 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 in early 2011.

At the Méga Centre property in Montreal, a local dollar store operator occupying 18,573 square feet vacated its premises in February 2010. We currently have a short term tenant in this space for the remainder of the year. 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. Partners REIT believes 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. All of the square footage was occupied by small in-line tenants, and all of it has been renewed. 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. They also executed a lease amending agreement with a planned expansion to 13,152 square feet. We expect that the lease would be extended for 15 years.

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 components of net operating income and funds from operations under Part IV – Financial Statement Analysis under the heading "Operating Results".

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).

Management considers FFO a meaningful measure of operating performance for financial analysts, investors and unitholders, as it primarily rejects the assumption that the value of real estate investments diminishes predictably over time and it adjusts for items included in GAAP net income that may not necessarily be the best determinants of operating performance.

NOI and FFO should not be construed as an alternative to net earnings or cash flow from operating activities determined in accordance with GAAP. Management's method of calculating NOI and FFO may differ from other issuers' methods of calculating NOI and FFO and accordingly, may not be comparable to the NOI or FFO 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 at September 30, 2010 is $1.82. To determine the September 30, 2010 NAV, we used independent valuators to appraise 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 and FFO, we consider the following to be key internal drivers of our current and future financial performance:

- Increases in occupancy by leasing vacant space;
- Increases in rental rates when market conditions permit; and
- Reduction in occupancy costs through various cost savings measures such as diligently managing contracts.

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.

PART III – CAPABILITY TO DELIVER RESULTS

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, BC 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 has been invested in Partners REIT by IGW Public. The ownership interest held by IGW Public is currently 49.9% of the units of Partners REIT.

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 quarter, 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.

PART IV – FINANCIAL STATEMENT ANALYSIS

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 September 30, 2010 and 2009 and the three months ended June 30, 2010 and for the nine months ended September 30, 2010 and 2009.

	Three months ended		
	September 30,		**June 30,**
	2010	**2009**	**2010**
Revenues from income producing properties	**$ 4,106,369**	$ 4,186,174	$ 4,041,667
Interest income	**4,151**	8,254	897
Operating costs from income producing properties	**1,594,768**	1,455,668	1,600,808
Interest expense	**1,330,258**	1,350,824	1,361,828
General and administrative expenses	**264,899**	254,299	288,451
Depreciation and amortization	**1,479,470**	1,429,202	1,470,253
Incentive unit option compensation	**-**	9,911	-
Corporate transaction costs	**61,667**	-	695,388
Net loss	**620,542**	305,476	1,374,164
Net loss per unit-basic & diluted	**0.03**	0.02	0.07

	Nine months ended	
	September 30, 2010	**September 30, 2009**
Revenues from income producing properties	**$ 12,299,842**	$ 12,926,687
Interest income	**6,150**	20,699
Operating costs from income producing properties	**4,929,432**	4,730,264
Interest expense	**4,042,540**	3,867,102
General and administrative expenses	**773,792**	794,814
Depreciation and amortization	**4,487,284**	4,691,333
Incentive unit option compensation	**-**	28,625
Corporate transaction costs	**865,556**	-
Net loss	**2,792,612**	1,164,752
Net loss per unit-basic & diluted	**0.14**	0.06

Net Loss

The net loss increased in the third quarter of 2010 compared to the third quarter of 2009 primarily due to a decrease in net operating income from the properties, an increase in general and administrative expenses, and an increase depreciation and amortization.

The net loss decreased in the third quarter of 2010 compared to the second quarter of 2010 primarily due to an increase in revenues from income producing properties and a reduction of corporate transaction costs.

For the nine months ended September 30, 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 corporate 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”.

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.

Interest expense as at September 30, 2010 marginally decreased in comparison to September 30, of 2009 and from the second quarter of 2010 due to the pay down of the facility, offset somewhat by a small increase in the interest rate charged on the facility.

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 quarter ended September 30, 2010 increased approximately $11,000 from the same period in the prior year, and decreased approximately $24,000 from the prior quarter. General and administrative expenses decreased by approximately $21,000 from the nine months ended 2009 to 2010.

General and administrative expenses for the nine months ended September 30, 2010 consisted of legal and consulting fees of $49,179, audit and tax compliance fees of $106,931, trustee fees of $139,783, asset management fees of $343,287, transfer agent fees and fees for shareholder reports and other statutory filings of $69,137, and other miscellaneous expenses of $68,475.

Depreciation and Amortization

Depreciation and amortization for the nine months ended September 30, 2010 was lower compared to the prior year, mainly as a result of the prior year accelerated amortization in the amount of $321,000, partly offset by the current year accelerated amortization in the amount of $96,000.

Depreciation and amortization for the three months ended September 30, 2010 and June 30, 2010 were not materially different.

Incentive Unit Option Compensation

There was not any incentive unit option compensation expense recorded for the quarter ended September 30, 2010 since all of the previous grants of options have fully vested and have been fully amortized. No new options were granted during the period.

Corporate Transaction Costs

Corporate transaction costs represent a portion of legal, consulting and Trustee fees and other costs associated with the strategic review process that resulted in the transformational change in ownership structure as discussed in Parts I and III above. Costs incurred in prior periods were reclassified to conform to the presentation adopted in the current period. 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.

OPERATING RESULTS

Net Operating Income – All Properties and Same Properties

All ten of the REIT's properties were owned by the REIT for the three month periods ended September 30, 2010, September 30, 2009 and June 30, 2010. As such, the following tables of net operating income also serve as same property net operating income.

	Three months ended September 30, 2010	**Three months ended September 30, 2009**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 4,106,369**	$ 4,186,174	$ (79,805)
Operating costs from income producing properties	**1,594,768**	1,455,668	(139,100)
Net operating income	**$ 2,511,601**	$ 2,730,506	$ (218,905)

The decrease in NOI for the quarter ended September 30, 2010 compared to the same period in 2009 is primarily due to a decrease in NOI at the REIT's Méga Centre, Cornwall Square and Place Val Est properties, partly offset by an increase in NOI at the Rona properties.

At the Méga Centre property in Montreal, NOI was negatively affected by 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. During the second quarter of 2010, Partners REIT entered into a lease extension with Bentley. As part of the lease extension, the REIT is receiving more rent from the space, which has resulted in an increase in NOI, beginning May 1, 2010, by approximately $140,000 on an annual basis. However, the rent from Bentley is still less than the rent paid by the previous tenant. As well, NOI at the Méga Centre property was negatively affected by a local dollar store operator occupying 18,573 square feet vacating its premises in February 2010.

At Cornwall Square in Cornwall, Ontario, NOI was negatively impacted by some small in-line tenant vacancies as well as a decrease in common area maintenance recoveries from certain tenants.

At Place Val Est in Sudbury, Rossy commenced operating in the former SAAN location at the end of July 2010. Revenue was received through a rental guarantee that the REIT had from the previous owner of the property until the end of July 2009.

At the Rona properties in Exeter, Seaforth and Zurich, Ontario, NOI increased as a result of a contractual rental rate increase of 10%, effective March 13, 2010.

	Three months ended September 30, 2010	**Three months ended June 30, 2010**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 4,106,369**	$ 4,041,667	$ 64,702
Operating costs from income producing properties	**1,594,768**	1,600,808	6,040
Net operating income	**$ 2,511,601**	$ 2,440,859	$ 70,742

NOI improved in the third quarter compared to the second quarter mainly as a result of an improvement in NOI from the Cornwall and Place Val Est properties, partly offset by small decreases in NOI from the Méga Centre and Châteauguay properties. Cornwall experienced higher miscellaneous revenues due to timing of recognition. Place Val Est experienced lower property operating costs due to lower realty taxes.

	Nine months ended September 30, 2010	**Nine months ended September 30, 2009**	**Favourable/ (unfavourable) variance**
Revenues from income producing properties	**$ 12,299,842**	$ 12,926,687	$ (626,845)
Operating costs from income producing properties	**4,929,432**	4,730,264	(199,168)
Net operating income	**$ 7,370,410**	$ 8,196,423	$ (826,013)

The decrease in NOI for the nine months ended September 30, 2010 compared to the same period in 2009 is primarily due to a decrease in NOI at the REIT's Méga Centre, Cornwall Square, Châteauguay and Place Val Est properties.

At the Méga Centre property, as previously mentioned, 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 the Châteauguay property, NOI was negatively impacted by the redevelopment of the centre that continued in the first quarter of 2010. Pharmaprix did not commence rental payments until March 2010, upon completion of improvements for its premises.

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 has recently commenced operating in the former SAAN location and rental payments will commence in the fourth quarter of 2010.

Funds from Operations

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

	Three months ended September 30, 2010	**Three months ended September 30, 2009**	**Three months ended June 30, 2010**
Net (loss) for the period	**$ (620,542)**	$ (305,476)	$ (1,374,164)
Add depreciation & amortization of:			
Income producing properties	**951,363**	915,858	950,734
Deferred costs	**24,675**	6,160	21,951
Intangible assets	**457,984**	471,510	457,984
FFO	**$ 813,480**	$ 1,088,052	$ 56,505
Weighted average units			
Basic	**23,522,397**	18,387,944	18,529,623
Diluted	**23,522,397**	18,387,944	18,529,623
FFO per unit			
Basic	**$ 0.03**	$ 0.06	$ 0.003
Diluted	**$ 0.03**	$ 0.06	$ 0.003

FFO decreased by $274,572 during the quarter ended September 30, 2010 compared to the same period in 2009 primarily due to decreased NOI of approximately $219,000, and increased corporate transaction costs of approximately $62,000.

FFO for the quarter ended September 30, 2010 increased compared to the quarter ended June 30, 2010, primarily due to a decrease of corporate transaction costs, which are one-time in nature.

Weighted average units increased due to the completion of the REIT's rights offering at the end of July 2010. Due to the timing, the weighting effect of the new units issued is greater over the three months ended September 2010 as compared to the nine months ended September 2010.

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net (loss) for the period	**$ (2,792,612)**	$(1,164,752)
Add depreciation & amortization of:		
Income producing properties	**2,832,077**	2,779,817
Deferred costs	**63,036**	17,378
Intangible assets	**1,472,543**	1,752,214
FFO	**$ 1,575,044**	$ 3,384,657
Weighted average units		
Basic	**20,198,941**	18,231,511
Diluted	**20,198,941**	18,231,511
FFO per unit		
Basic	**$ 0.08**	$ 0.19
Diluted	**$ 0.08**	$ 0.19

FFO decreased during the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 mainly as a result of a decrease of approximately $826,000 in NOI from the properties, an increase in interest expense of approximately $199,000 and an increase in corporate transaction costs of approximately $866,000. Excluding corporate transaction costs which are one-time in nature, FFO would have been $2,440,600 or $0.12 per unit.

BALANCE SHEET ANALYSIS

Balance Sheet – Total Assets

	As at September 30, 2010	As at December 31, 2009
Income producing properties	**$ 119,969,955**	$ 122,216,906
Intangible assets	**8,266,394**	9,738,939
Deferred costs	**445,174**	403,390
Cash	**1.621,091**	1,074,765
Other assets	**1,889,392**	1,165,449
Total assets	**$ 132,192,006**	$ 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). No acquisitions were made in the first nine months of 2010. The change in the balances of income producing properties and intangible assets is primarily due to depreciation and amortization on these previously acquired assets, partly offset by approximately $600,000 of capital expenditures and tenant improvements on income producing properties.

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

Other assets of $1,889,392 at September 30, 2010 include accounts receivable of $561,106 (net of allowance for doubtful accounts), prepaid expenses of $1,328,286 (which primarily consist of prepaid property taxes, prepaid insurance, deposits and prepaid interest on Bankers' Acceptances entered into under the credit facility). Within accounts receivable, $867,786 relates to accumulated rental revenue recognized on a straight-line basis.

The increase in other assets from December 31, 2009 is due in part to deposits of $407,000 made in the third quarter of 2010. The REIT has subsequently received in the fourth quarter of 2010, a return of $50,000 of the total deposits made in the third quarter. The remaining increase is due to cycle timing of prepaid annual expenses.

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.

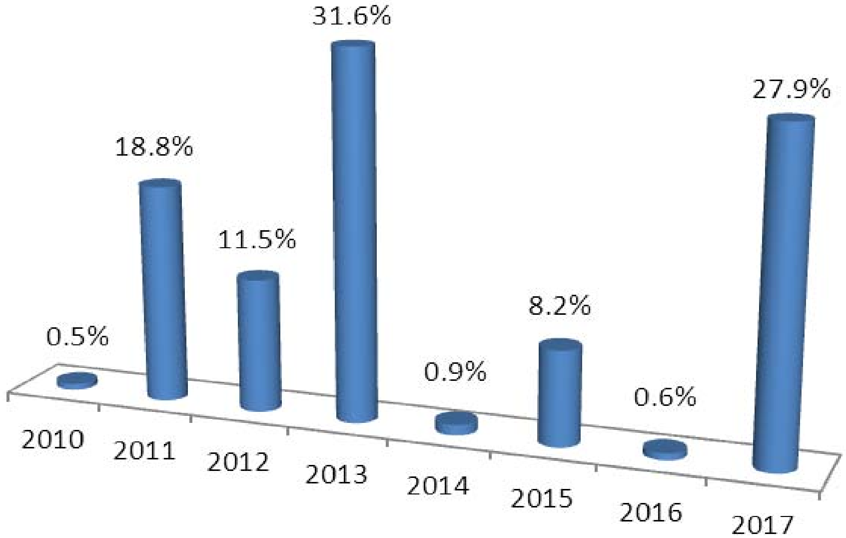
Real estate is a capital intensive industry. As a result, debt capital in particular, is a very important aspect to managing the business. In addition, financial leverage is used to enhance returns from purchased real estate. Given the importance of debt capital, the REIT monitors its debt regularly 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 at September 30, 2010 and December 31, 2009.

	As at September 30, 2010	**As at December 31, 2009**
Secured debt	**$ 70,922,437**	$ 71,725,963
Credit facility	**14,400,000**	20,500,000
Unitholders' equity	**42,791,423**	39,496,064
Total capital	**$ 128,113,860**	$ 131,722,027

Mortgages and Other Financing

The following is a debt maturity table for the REIT's secured debt and credit facility, starting with the remainder of 2010:



It should be noted that 90% of the 2011 maturity as shown in the above table relates to the expiry of the REIT's credit facility.

Interest coverage and debt service coverage ratios are as follows:

	Three months ended September 30, 2010	**Three months ended September 30, 2009**	**Three months ended June 30, 2010**
Interest coverage ratio(1)	**1.69**	1.89	1.62
Debt service coverage ratio(2)	**1.37**	1.55	1.32

(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 corporate 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 and debt service coverage ratio in the third quarter of 2010 compared to the third quarter of 2009 mainly relates to the decrease in NOI and FFO recorded.

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Interest coverage ratio[1]	**1.65**	1.95
Debt service coverage ratio[2]	**1.35**	1.64

(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 corporate 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 nine months ended September 30, 2010 compared to the nine months ended September 30, 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 nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 is due to (i) the decrease in NOI and FFO, (ii) the increase in interest expense 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 5.88%.

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

Year	Principal instalment payments	Balance maturing	Total	Contractual interest rate on debt maturing
2010 (remainder of year)	**$ 408,279**	**$ -**	**$ 408,279**	
2011	**1,697,518**	**-**	**1,697,518**	
2012	**1,805,741**	**8,014,133**	**9,819,874**	**5.39%**
2013	**1,479,292**	**25,627,933**	**27,107,225**	**6.69%**
2014	**755,905**	**-**	**755,905**	
Thereafter	**1,488,127**	**30,085,651**	**31,573,778**	**5.29%**
Total	**$ 7,634,862**	**$ 63,727,717**	**$ 71,362,579**	

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 and Cornwall Square. The Rona properties secure the REIT's $8.6 million corporate secured debt (see "Corporate Secured Debt"). Cornwall Square secures the credit facility discussed in more detail under "Credit Facility" below.

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.

The second facility is a $1,400,000 five-year facility that bears interest at 8.75% per annum on an interest-only basis for the first two years and is then self-amortizing over the final three years. The facility can be prepaid without penalty at any time with 45 days notice and is secured by a second charge on the Cornwall Square shopping centre.

The facilities require that the REIT maintain an overall debt-to-gross book value ratio of no more than 75%.

Credit Facility

The REIT has a revolving operating and acquisition facility available to it from a Canadian chartered bank. The facility is secured by the Cornwall Square property. The facility may be used to fund the equity portion of future acquisitions (without lender approval of the particular acquisition) and for general working capital purposes. The facility expires on May 19, 2011 and is for a maximum amount of $26 million.

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. At September 30, 2010, the permitted draw down is $23,750,000. 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% (September 30, 2010 – 57.4%) and maintaining a debt service coverage ratio of no less than 1.25:1 calculated on a rolling four quarter basis (September 30, 2010 – 1.37:1) as well as requiring that cash distributions do not exceed funds from operations (calculated excluding corporate transaction costs) in any quarter.

Financing Costs

The unamortized balance of financing costs of $440,142 at September 30, 2010 relating to secured debt (including mortgages payable and corporate secured debt), has been netted against the secured debt on the balance sheet. The unamortized balance of financing costs of $114,499 at September 30, 2010 relating to the credit facility has been capitalized to deferred costs on the balance sheet.

These financing costs represent commitment fees and other fees paid in connection with securing these loans and facilities.

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 September 30, 2010, the REIT has a debt-to-gross book value ratio of 57.4%, calculated as follows:

	As at September 30, 2010	**As at December 31, 2009**
Debt:		
Gross value of secured debt[(1)]	**$ 71,362,579**	$ 72,253,090
Amounts drawn on available credit facility	**14,400,000**	20,500,000
	$ 85,762,579	$ 92,753,090
Gross Book Value of Assets:		
Total assets	**$ 132,192,006**	$ 134,599,449
Accumulated depreciation and amortization	**17,271,232**	13,252,337
	$ 149,463,238	$ 147,851,786
Debt-to-Gross Book Value	**57.4%**	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 nine months ended September 30, 2010, unitholders' equity grew by $3.3 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 and net proceeds received under the distribution reinvestment plan of $0.2 million, offset by the net loss of $2.8 million and $2.5 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 those 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 quarter and nine months ended September 30, 2010 (excluding one-time corporate transaction costs) was sufficient to cover its distributions. The REIT's payout ratio for the quarter ended September 30, 2010 is 118% of FFO (excluding one-time corporate transaction costs) based on the current distribution level of $0.04 per quarter and the cash payout ratio is 99% of FFO (excluding one-time corporate transaction costs). For the nine months ended September 30, 2010, the REIT's payout ratio is 103% of FFO (excluding one-time corporate transaction costs) and the cash payout ratio is 91% of FFO (excluding one-time corporate transaction costs).

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

	Three months ended			Nine months ended	
	September 30, 2010	**September 30, 2009**	**June 30, 2010**	**September 30, 2010**	**September 30, 2009**
Net cash provided by operating activities	**$ 712,349**	$ 1,412,450	**$ 309,380**	**$ 1,559,344**	$ 3,343,041
Net cash provided by (used in) financing activities	**$ 621,357**	$ (969,425)	**$(417,854)**	**$ 480,185**	$ (3,064,941)
Net cash (used in) investing activities	**$(270,325)**	$ (89,693)	**$(546,010)**	**$(1,493,203)**	$ (265,992)

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

Cash provided by operating activities for the quarter ended September 30, 2010 increased compared to the prior quarter due to an improvement in FFO.

Cash provided by financing activities increased during the current quarter compared to the quarter ended September 30, 2009 due to the proceeds received from the rights offering (net of issue costs) of $9,740,000; which was used to fund a $7,950,000 net repayment on the credit facility and was further offset by a $190,000 increase of cash distributed to unitholders due to the increased number of outstanding units after the rights offering in July 2010.

Cash provided by financing activities increased in the quarter ended September 30, 2010 as compared to the quarter ended June 30, 2010 due to proceeds received from the rights offering (net of issue costs) of $9,740,000; which was used to fund an $8,550,000 net repayment on the credit facility (net repayment is $7,950,000 in the current quarter plus net drawdown of $600,000 in the prior quarter) and was further offset by a $190,000 increase of cash distributed to unitholders due to the increased number of outstanding units after the rights offering in July 2010.

Cash provided by financing activities increased for the nine months ended September 30, 2010 compared to the same period in the prior year due to the net of: (i) a net repayment on the credit facility of $6,100,000 compared to a net repayment of $200,000 in the prior year; (ii) a decrease in financing fees on the credit facility as the two-year renewal and extension happened in 2009; (iii) an increase of principal repayments due in part to the cessation of the interest-only payment period of the Méga Centre debt; (iv) a discontinuance of the normal course issuer bid program; and (v) a $465,000 increase of cash distributed to unitholders due to the increased number of outstanding units.

Cash used in investing activities increased for the quarter ended September 30, 2010 compared to the quarter ended September 30, 2009 due to the increase in tenant improvement expenditures in the current quarter.

Cash used in investing activities was lower for the quarter ended September 30, 2010 compared to the quarter ended June 30, 2010 due to fewer building additions and tenant improvements in the third quarter compared to the second quarter.

Cash used in investing activities for the nine months ended September 30, 2010 increased compared to the prior year mainly as a result of higher expenditures on tenant improvements (from the Châteauguay redevelopment) and the $422,830 change in restricted cash affecting last year's cash flows.

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. As well, 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. In the first nine months of 2010, approximately $56,000 was incurred for landlord's work and tenant improvements relating to new leasing and renewals.

With respect to the Châteauguay property, in the first nine months of 2010 approximately $290,000 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 first nine months of 2010, approximately $151,000 was incurred for landlord's work related to the new leasing of the former SAAN space to Rossy.

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 4, 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 also provides that 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 September 30, 2010, asset management fees of $116,738 were payable to LAPP. For the nine months ended September 30, 2010, total asset management fees of $343,287 were accrued or paid to either LAPP or C.A. Realty Management Inc. ($329,018 for the nine months ended September 30, 2009).

QUARTERLY PERFORMANCE

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

	Q3-2010	Q2-2010	Q1-2010	Q4-2009	Q3-2009	Q2-2009	Q1-2009	Q4-2008
Total revenues	$4,110,520	$4,042,564	$4,152,908	$4,192,358	$4,194,428	$4,217,765	$4,535,193	$4,608,879
Expenses	$4,731,062	$5,416,728	$4,950,814	$4,800,003	$4,499,904	4,882,326	$4,729,908	$4,837,249
Net loss	$620,542	$1,374,164	$ 797,906	$ 607,645	$ 305,476	$664,561	$194,715	$ 228,370
Net loss per unit – basic & diluted	$0.03	$0.07	$0.04	$0.03	$0.02	$0.04	$0.01	$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.

As at September 30, 2010, we had a floating rate credit facility of $26 million which expires in May 2011. At September 30, 2010, $14.4 million was drawn on the facility. There is a risk that the lender will not refinance this facility on terms and conditions acceptable to management or on any terms at all. Management is also exploring other re-financing alternatives with our existing portfolio in order take advantage of more amenable terms and conditions.

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 September 30, 2010 would have been 100 basis points higher or lower, calculated on all debts maturing over the next 15 months, with all other variables held constant.

	Approximate Change in Annual Interest Expense	Approximate Change on Interest Expense per Unit per Annum
Credit Facility	$ 180,000	$ 0.008
Mortgages Payable	-	

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 September 30, 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 September 30, 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 nine months ended September 30, 2010 was an increase of $165,000.

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 3 to the audited consolidated financial statements for the year ended December 31, 2009 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 commence the preparation of a reconciliation of the REIT's historical Canadian GAAP financial statements to IFRS financial statements. 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 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 2 to the consolidated financial statements for the year ended December 31, 2009. 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 make 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 September 30, 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
- Potential acquisitions anticipated to occur during the remainder of the year.

Partners REIT intends to seek acquisition opportunities during the remainder of 2010, and in 2011 and 2012 in Canada and the United States. 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.

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.