



**FAM Real Estate
Investment Trust**

FAMREIT.COM

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
For the six months ended June 30, 2014**

Dated August 7, 2014

MESSAGE TO FELLOW UNITHOLDERS

FAM REIT's operating performance during the three months ended June 30, 2014 showed sequential improvement over the three months ended March 31, 2014 as the temporary impact of unusually cold weather and a prolonged winter gave way to more normal operating costs and margins. Our portfolio continues to operate at close to full occupancy as reflected in our overall occupancy rate of 97.8% as at June 30, 2014.

Our same-property cash NOI for the three months ended June 30, 2014 increased 3.3% sequentially over the three months ended March 31, 2014 as a result of improved weather and lower operating costs. However, same-property cash NOI declined 5.0% over the three months ended June 30, 2013 due to office space turnover at Saskatchewan Place.

FFO – Core was \$0.22 per unit for the three months ended June 30, 2014 compared to \$0.25 for the three months ended June 30, 2013. While this \$0.03 per unit year-over-year decline may, at first blush, appear to be a negative trend, the underlying factors are temporary and warrant proper explanation:

- Equity issued to fund development of the MTS Data Centre which is not generating any FFO contribution during the construction period
- Deleveraging to a 47.6% indebtedness ratio at June 30, 2014 compared to 56.6% at June 30, 2013
- The dilutive impact of a higher uninvested cash balance which stood at \$6.7 million at June 30, 2014 compared to \$1.4 million at June 30, 2013; and
- The decline in same-property NOI, as noted above.

The incremental contribution from the MTS Data Centre to FFO – Core will be approximately \$2.4 million annualized, or \$0.16 per unit upon rent commencement which is slated for June 2015. As noted in this MD&A, the project is proceeding well with all construction permits received and all key milestones on schedule. FAM REIT's 47.6% indebtedness ratio is well-below our 50-55% target operating leverage (and 65% max limit per our Declaration of Trust), and our approximately \$21 million of available liquidity provides significant dry powder to fund FFO per unit growth.

On a relative basis, our indebtedness ratio and liquidity profile are among the strongest in the Canadian REIT industry. Achieving this strong financial position has clearly come at the expense of short term earnings performance on a per unit basis, yet we are confident our strategy will bear fruit and that the quality of balance sheet will allow us to capitalize on attractive investment opportunities as they arise. It is my view that FAM REIT is making progress in reducing our risk profile and improving the quality/reliability of our cash flow. I would like to thank our long-term investors for their trust and continued support.

Sincerely yours,

Shant Poladian, CPA (US), CPA, CA

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Management's Discussion and Analysis of Results of Operations and Financial Condition

Section 1 OBJECTIVES

Basis of Presentation

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") for the six months ended June 30, 2014 has been prepared and includes material financial information as of August 7, 2014. This MD&A should be read in conjunction with the audited consolidated financial statements of FAM Real Estate Investment Trust ("FAM REIT" or the "REIT") for the year ended December 31, 2013 and the unaudited condensed consolidated interim financial statements for the six months ended June 30, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All dollar amounts in this MD&A are in Canadian dollars.

Additional information relating to the REIT, including the REIT's annual information form for the year ended December 31, 2013 is available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain information herein constitutes "forward-looking statements" within the meaning of applicable securities legislation. Forward-looking statements include statements about management's expectations regarding objectives, plans, goals, strategies, future growth, operating results and performance, business prospects and opportunities of the REIT. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "might", "should", "seeks", "intends", "plans", "pro-forma", "estimates" or "anticipates"; or variations of such words; and phrases or statements that certain actions, events or results "may", "could" or "might" occur or be achieved; or the negative connotation thereof. Forward-looking statements are made based on reasonable assumptions, however, there is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are based on numerous assumptions of factors that if untrue, could cause actual results to differ materially from those that are implied by such forward-looking statements. These factors include but are not limited to: general and local economic and real estate business conditions; the financial condition of tenants; occupancy rates; rental rates; the ability of the REIT to refinance maturing debt; the REIT's ability to source and complete accretive acquisitions; changes in government, environmental and tax regulations; inflation and interest rate fluctuations; the REIT's ability to obtain equity or debt financing for additional funding requirements; and adequacy of insurance.

Forward-looking statements are subject to risks and uncertainties, many of which are beyond the REIT's control. These risks and uncertainties include, but are not limited to: risks related to general and local financial conditions including available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to

the REIT's properties; loss of key management and employees; governmental, environmental, taxation and other regulatory risks; litigation risks and other risks and factors described from time to time in the documents filed by the REIT with the securities regulators.

The REIT has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements. However, there may be other factors that could cause results to not be as anticipated, estimated or intended. Forward-looking statements are provided to inform readers about management's current expectations and plans and allow investors and others to better understand the REIT's operating environment. However, readers should not place undue reliance on forward-looking statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, or of the timing that such performance or results will be achieved. Forward-looking statements included in this MD&A are made as of August 7, 2014 and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities laws. Additional information about risks and uncertainties is contained in FAM REIT's annual information form for the year ended December 31, 2013 available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

The REIT has included certain non-IFRS financial measures throughout this MD&A. Management believes that in addition to conventional measures prepared in accordance with IFRS, investors in the real estate industry use these non-IFRS financial measures to evaluate the REIT's performance and ability to generate cash flows. Accordingly, these non-IFRS financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS. In addition, they do not have standardized meanings and may not be comparable to measures used by other issuers in the real estate industry or other industries. The non-IFRS financial measures included in this MD&A are as follows:

Net operating income ("NOI")

The REIT calculates net operating income as revenue from investment properties less property operating expenses and property management fee expenses.

Same property metrics

Same property metrics represent the operating results for the same properties over both reporting periods, and is intended to measure the period-over-period performance of the same asset base. These metrics adjust for the impact of properties that have been sold or acquired during the current period.

Same property net operating income on an accounting basis, which includes straight-line rent and amortization of leasing costs, highlights period-over-period differences driven by changes in occupancy, miscellaneous revenue, and property expenses.

Same property net operating income on a cash basis, which excludes straight-line rent and amortization of leasing costs, reflects the impact of contractual rental rate increases and the expiry of rent-free periods in the lease agreement.

Earnings before interest, taxes, depreciation and amortization (“EBITDA”)

The REIT calculates EBITDA as net income before income taxes, depreciation and amortization, fair value adjustments to investment properties and financial instruments, realized gains or losses on disposals of investment properties, share of net loss from equity accounted investment, and finance costs excluding interest income.

Funds From Operations (“FFO – As Reported”) and Adjusted Funds From Operations (“AFFO – As Reported”)

FFO and AFFO are commonly acceptable and meaningful indicators of financial performance for the commercial real estate industry. However, FFO and AFFO are not measures defined under IFRS.

The REIT calculates FFO – As Reported in accordance with the *Real Property Association of Canada (“REALpac”) White Paper on FFO for IFRS* which was revised April 2014. Specifically, the REIT calculates FFO – As Reported as net income calculated in accordance with IFRS; adjusted for most non-cash expenses including: amortization of capitalized leasing costs; gains and losses on dispositions of investment properties; fair value adjustments to investment properties; fair value adjustments to Class B LP units and warrants which are puttable instruments classified as financial liabilities; share of net loss from investment in the Data Centre; and distributions on Class B LP units.

In calculating AFFO – As Reported, the REIT makes certain adjustments to FFO – As Reported for certain items including: amortization of straight-line rent; accretion on the vendor take-back loan; amortization of deferred transaction costs; fair value adjustments to interest rate swaps; capital expenditures (recoverable and non-recoverable) and capitalized leasing costs; de-recognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged; and the interest rate and capital expenditure subsidies (as described under “Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies” of this MD&A). The method applied by the REIT to calculate AFFO – As Reported may differ from methods applied by other issuers in the real estate industry and therefore may not be comparable with measures reported by such issuers.

FFO – Core and AFFO – Core

Management believes that the computation of FFO – As Reported and AFFO – As Reported includes certain items that are not indicative of the results provided by the REIT’s operating portfolio and affect the comparability of the REIT’s period-over-period performance. These items include, but are not limited to, non-recurring expenses such as defeasance costs related to the discharge of mortgages, aborted transaction costs, and Special Committee related expenses. Therefore, in addition to FFO – As Reported and AFFO – As Reported, management uses FFO – Core and AFFO – Core to normalize for such items. Management believes that FFO – Core and AFFO – Core are useful supplemental measures, however, these may not be comparable to the adjusted or modified FFO or AFFO of other REITs.

Debt to EBITDA leverage ratio and Net Debt to EBITDA leverage ratio

The REIT calculates its leverage ratio using two methods: 1) the average debt outstanding divided by annualized EBITDA and 2) the average debt outstanding net of cash at period end divided by annualized EBITDA. Debt consists of mortgages payable, vendor take-back loan, and the revolving credit facility at face value, excluding deferred transaction costs. These ratios are widely used and meaningful metrics for the assessment of creditworthiness and debt default probability. The Debt to EBITDA leverage ratio indicates the number of years required for the REIT's unleveraged operating earnings (i.e. before depreciation, amortization, transaction costs, gains or losses, fair value adjustments, and taxes) to cover or repay all outstanding debts. The Net Debt to EBITDA ratio takes into consideration the cash on hand to decrease debt.

Indebtedness ratio (also referred to as Debt to Gross Book Value, or "Debt/GBV")

The REIT calculates its indebtedness ratio as total debt divided by total assets at period-end. The indebtedness ratio is a measure of the REIT's financial risk and determines the percentage of the REIT's assets financed by debt.

Interest coverage ratio

The REIT calculates the interest coverage ratio as EBITDA for the period divided by interest expensed during the period. Specifically, interest expense is computed as net finance costs adjusted for the interest rate subsidy and interest income, less non-cash items including gains and losses from interest rate swaps, de-recognition or amortization of mark-to-market adjustments on mortgages, amortization of deferred financing costs, accretion on the vendor take-back loan, distributions on Class B LP units, and defeasance costs. The interest coverage ratio is a measure of the REIT's ability to service its debt.

Debt service coverage ratio

The REIT calculates the debt service coverage ratio as EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects principal repayments and interest expensed during the period. Payments related to defeasance, prepayment penalties, or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a measure of the REIT's ability to meet annual interest and principal payments.

AFFO – Core pay-out ratio

The REIT calculates the AFFO – Core pay-out ratio as total distributions divided by AFFO – Core for the period. The AFFO – Core pay-out ratio is a measure of the REIT's ability to sustain its total distributions, when compared to its cash flow capacity. The REIT also calculates the AFFO – Core pay-out ratio, net of distributions reinvested in trust units ("AFFO – Core pay-out ratio, net of DRIP") as cash distributions divided by AFFO – Core for the period. The AFFO – Core pay-out ratio, net of DRIP reflects the actual amount of cash paid or payable after taking into account unitholders who have elected to take their distributions in the form of trust units instead of cash.

Review and Approval by the Board of Trustees

The Board of Trustees approved the contents of this MD&A on August 7, 2014.

Financial Highlights and Key Performance Indicators

(\$000s unless otherwise noted and except per unit amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue from investment properties	\$ 7,972	\$ 6,601	\$ 16,179	\$ 12,682
Net operating income	4,927	4,130	9,692	8,016
Same-property net operating income, cash basis	3,221	3,390	6,340	6,785
Net income (loss) and comprehensive income (loss)	(1,872)	4,162	(2,226)	11,160
Funds from operations – As Reported	2,074	2,879	3,263	5,368
Funds from operations – Core	2,930	2,081	5,528	4,059
FFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – As Reported	\$ 0.15	\$ 0.34	\$ 0.26	\$ 0.64
FFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – Core	\$ 0.22	\$ 0.25	\$ 0.43	\$ 0.48
Adjusted funds from operations – As Reported	2,029	1,121	4,297	3,031
Adjusted funds from operations – Core	2,249	2,046	4,635	3,956
AFFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – As Reported	\$ 0.15	\$ 0.13	\$ 0.34	\$ 0.36
AFFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – Core	\$ 0.17	\$ 0.24	\$ 0.36	\$ 0.47
Distributions per unit ⁽²⁾	\$ 0.19	\$ 0.19	\$ 0.38	\$ 0.38
AFFO – Core pay-out ratio ⁽²⁾⁽³⁾	112%	76%	106%	79%
Cash distributions per unit ⁽²⁾	\$ 0.13	\$ 0.19	\$ 0.25	\$ 0.37
AFFO – Core pay-out ratio, net of DRIP ⁽³⁾⁽⁴⁾	76%	79%	69%	79%
Net operating income by asset class				
Industrial	\$ 1,387	\$ 1,447	\$ 2,835	\$ 2,896
Office	3,226	2,256	6,265	4,296
Retail	314	427	592	824
	\$ 4,927	\$ 4,130	\$ 9,692	\$ 8,016
Net operating income by geographic location				
Manitoba	\$ 1,822	\$ 1,866	\$ 3,519	\$ 3,966
Ontario	2,383	1,261	4,697	2,072
Saskatchewan	148	385	276	733
Alberta	443	482	940	975
Northwest Territories	131	136	260	270
	\$ 4,927	\$ 4,130	\$ 9,692	\$ 8,016
Interest coverage ratio (times)	2.8x	2.4x	2.8x	2.6x
Debt to EBITDA leverage ratio (times)	8.2x	9.3x	8.4x	8.7x
Net Debt to EBITDA leverage ratio (times)	7.8x	9.1x	8.1x	8.4x
Debt service coverage ratio (times)	1.7x	1.5x	1.7x	1.6x
Indebtedness ratio (%)*	47.6%	56.6%		
Weighted average mortgage interest rate*	4.7%	4.8%		
Same-property occupancy*	97.8%	98.3%		
Occupancy*				
Industrial	100.0%	100.0%		
Office	95.8%	95.4%		
Retail	100.0%	90.4%		
	97.8%	96.9%		
Square footage leased (sq. ft.)*	1,789,026	1,690,701		
Rentable square footage (sq. ft.)*	1,829,096	1,745,292		

* at period – end

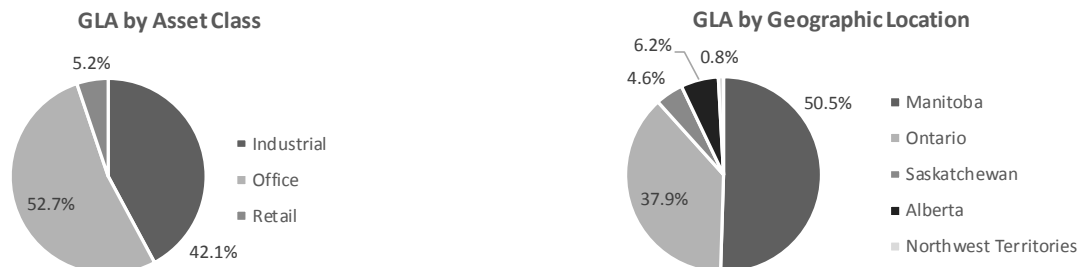
(1) The weighted average number of units outstanding used in the per unit calculations includes the weighted average of all REIT units and Class B LP units.

(2) Excludes distributions related to the four-day stub period from December 28, 2012 to December 31, 2012.

(3) The reconciliation between FFO – As Reported and FFO – Core is on page 28 of this MD&A. The reconciliation between AFFO – As Reported and AFFO – Core is on page 30 of this MD&A.

Financial and Operational Highlights

Six Months Ended June 30, 2014



Portfolio Performance

Overall portfolio occupancy was 97.8% as at June 30, 2014, largely unchanged compared to 97.9% on a sequential basis as at March 31, 2014 and 96.9% on a year-over-year basis as at June 30, 2013.

On a year-over-year basis, the overall portfolio occupancy gain was due to the lease up of vacant space in Toronto, Winnipeg, and Calgary, the acquisition of two fully leased properties (The Promontory and 1700 Ellice), the sale of Humboldt Mall in Humboldt, which was partly offset by the previously reported office turnover at Saskatchewan Place.

On a same-property basis, occupancy was 97.8% as at June 30, 2014, consistent with the occupancy rate of 97.8% as at March 31, 2014 and lower than the occupancy rate of 98.3% as at June 30, 2013 due to office space turnover at Saskatchewan Place.

The REIT achieved NOI of \$4.9 million for the three months and \$9.7 million for the six months ended June 30, 2014, compared to \$4.1 million and \$8.0 million for the same periods in 2013. The acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice generated NOI of \$1.7 million for the three months and \$3.2 million for the six months ended June 30, 2014 compared to \$0.4 million for the three months and six months ended June 30, 2013.

These increases were partially offset by the loss of NOI attributable to properties that were sold in 2013, including 220 Portage and Humboldt Mall, which contributed NOI of \$0.2 million for the three months and \$0.6 million for six months ended June 30, 2013.

Same property NOI was also negatively impacted by the office space turnover at Saskatchewan Place, resulting in lower NOI of \$0.1 million for the three months and \$0.2 million for the six months ended June 30, 2014. Same property NOI for the six months ended June 30, 2014 also had higher property operating costs of \$0.1 million due to the unusually cold and long-lasting winter weather in Manitoba, which were not fully recoverable from certain tenants under their respective lease arrangements. The higher property operating costs resulted from significant snow removal costs, utility expenses and repair costs on frozen waterlines that were incurred during the first quarter of 2014.

Funds From Operations (As Reported and Core)

FFO – As Reported was \$0.15 per unit for the three months ended June 30, 2014. After adjusting for the \$0.05 per unit (\$0.6 million) non-cash fair value loss on the interest rate swaps and the \$0.02 per unit (\$0.2 million) Special Committee related expenses, FFO – Core was \$0.22 per unit.

FFO – As Reported was \$0.34 per unit for the three months ended June 30, 2013. After adjusting for the \$0.18 per unit (\$1.5 million) fair value gain on interest rate swaps, \$0.03 per unit (\$0.2 million) de-recognition of non-cash mark-to-market adjustment on mortgages refinanced or discharged, \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, FFO – Core was \$0.25 per unit.

The decrease in FFO – Core of \$0.03 per unit for the three months ended June 30, 2014 over the three months ended June 30, 2013 is attributable to the following:

- Equity issued to fund development of the MTS Data Centre which is not generating any FFO contribution during the construction period;
- Deleveraging to a 47.6% indebtedness ratio at June 30, 2014 compared to 56.6% at June 30, 2013;
- The dilutive impact of a higher un-invested cash balance which stood at \$6.7 million at June 30, 2014 compared to \$1.4 million at June 30, 2013; and
- The decline in same-property NOI, as noted earlier.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to FFO - Core will be approximately \$2.4 million, or \$0.16 per unit upon rent commencement which is slated for June 2015.

Adjusted Funds From Operations (As Reported and Core)

AFFO – As Reported was \$0.15 per unit for the three months ended June 30, 2014. After adjusting for \$0.02 per unit (\$0.2 million) of Special Committee related expenses, AFFO – Core was \$0.17 per unit.

AFFO – As Reported was \$0.13 per unit for the three months ended June 30, 2013. After adjusting for the \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, AFFO – Core was \$0.24 per unit.

The decrease in AFFO – Core of \$0.07 per unit for the three months ended June 30, 2014 over the three months ended June 30, 2013 was due to the above noted factors accounting for the decrease in FFO – Core as well as higher capital expenditures and leasing costs.

The timing and magnitude of actual capital expenditures and leasing costs can vary significantly from quarter to quarter. Since FAM REIT does not utilize “normalized” reserves for capital expenditures and leasing costs in deriving AFFO, it is important to note that quarterly AFFO can be volatile.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to AFFO - Core will be approximately \$2.2 million, or \$0.15 per unit upon rent commencement which is slated for June 2015.

Pay-out Ratio

The distribution payout ratio as a percentage of AFFO – Core was 112% for the three months ended June 30, 2014, which was higher than the 76% for the same period in 2013.

The distribution payout ratio as a percentage of AFFO – Core was 106% for the six months ended June 30, 2014, which was higher than the 79% for the same period in 2013.

On a pro-forma basis, if the MTS Data Centre was operational at the beginning of the year, AFFO – Core would have been 24% higher for the three months (+\$0.5 million) and the six months (+\$1.1 million) ended June 30, 2014.

Net Income

For the three months ended June 30, 2014, the REIT incurred a loss of \$1.9 million compared to earnings of \$4.2 million for the same period in 2013. The difference was largely due to a \$3.7 million decrease in non-cash fair value adjustments to investment properties, an unrealized non-cash fair value loss on interest rate swaps of \$2.1 million, and the negative impact of \$1.3 million in non-cash fair value adjustments to financial instruments. These decreases were partly offset by an increase in net operating income of \$0.8 million.

For the six months ended June 30, 2014, the REIT incurred a loss of \$2.2 million compared to earnings of \$11.2 million for the same period in 2013. The difference was largely due to an \$8.8 million decrease in non-cash fair value adjustments to investment properties, an unrealized non-cash fair value loss on interest rate swaps of \$3.4 million, the negative impact of \$2.3 million in non-cash fair value adjustments to financial instruments. In addition, the three months ended June 30, 2013 was favorably impacted by the de-recognition of mark-to-market adjustments on mortgages of \$0.7 million. These decreases were partly offset by an increase in net operating income of \$1.7 million.

Recent Developments

Investment in MTS Data Centre development

On April 22, 2014, the REIT entered into an agreement to invest in a fully pre-leased 64,000 sf data centre development in Winnipeg, Manitoba (the “Data Centre”). The REIT acquired a 50% equity ownership interest in a limited partnership that will own the Data Centre through a \$9.5 million investment.

In connection with the investment in the Data Centre, the REIT issued a \$6.6 million mezzanine loan (the “Mezzanine Loan”) at an interest rate of 13.3% to its 50% limited partner, an arms’ length company to fund a portion of its \$9.5 million capital contribution.

The debt financing for the Data Centre development (on a 100% ownership basis) consists of a \$37.0 million loan facility and a \$2.0 million short term operating facility to be used solely to fund sales taxes during construction. The loan facility will mature 15 years after the earlier of (i) the completion of the Data Centre development and (ii) July 15, 2015.

The limited partnership had cash on hand of approximately \$6.0 million at June 30, 2014 and no amounts drawn on the loan facility.

The 15-year lease for Data Centre is expected to commence in June 2015, following substantial completion of the development project in May 2015. The Data Centre is expected to generate approximately \$6.1 million of annualized net operating income in the first year of the lease (on a 100% ownership basis), with contractual rent increases of approximately 5.2% in years six and eleven. There are three consecutive five-year lease renewal options beyond the initial term, as well as a \$12.0 million purchase option at the end of the 15-year lease in favour of the tenant. The lease for the Data Centre is a quadruple net lease whereby the tenant pays all realty taxes, operating costs, utilities, repairs and maintenance in respect of the building and equipment.

MTS Data Centre development progress update

Development is proceeding well with full construction permitting received and all key construction milestones on schedule. The building shell is expected to be complete in November 2014, and substantial completion is expected in May 2015. Building turnover to the tenant is slated for June 2015 upon commissioning.

Site excavation and piling work is complete and foundation walls are approximately 90% complete. Horizontal drilling and sewage pipe placement are currently in progress. Structural steel has been delivered to the site with erection of the building commencing in August. Generator sets have been ordered for delivery in December 2014, and procurement of major equipment is underway.

Construction change orders totaling \$2.2 million have been approved by all parties, and will result in a proportionate increase in annual base rent over the fifteen year lease term as contractually stipulated. Year one annualized cash NOI will increase from \$5.8 million to \$6.1 million (on a 100% ownership basis) as a result of the change orders. Importantly, these change orders do not negatively impact the project schedule or budget. There is a \$2.5 million cap on change orders to be funded by the limited partnership, and the full amount of potential change orders were included in the construction budget.

Equity offering and Huntingdon private placement

On May 13, 2014, in connection with the investment in the Data Centre, the REIT completed a public offering of 1,955,000 trust units, inclusive of 255,000 trust units issued pursuant to the full exercise of the over-allotment option at a price of \$8.85 per trust unit, for gross proceeds of approximately \$17.3 million (the "May 2014 Offering").

Concurrent with the closing of the May 2014 Offering, the REIT issued 831,639 trust units on a private placement basis to Huntingdon, at a purchase price of \$8.85 per trust unit for gross proceeds of \$7.4 million.

After deducting issuance costs of \$1.3 million, net proceeds of \$23.4 million from the May 2014 Offering and the private placement were used to (i) fund the investment in the Data Centre including the Mezzanine Loan and any additional amounts payable for closing costs, (ii) to fully repay amounts drawn on the REIT's revolving credit facility, and (iii) for general corporate purposes.

Section 2 BUSINESS OVERVIEW

Current Business Environment

Fundamentals

A diversified portfolio approach helps to manage downside risk associated with changing demand and supply fundamentals in any one particular asset class or market.

Recently, new supply risks have emerged across major downtown Class A office markets including Toronto, Calgary and Vancouver. This new wave of supply of Class A office product is anticipated to have a trickle-down effect on older downtown buildings as existing landlords compete with newer, more cost and environmentally efficient buildings. We expect older Class A building landlords will become more aggressive to retain tenancies through lower rents and higher lease incentives. As a result we expect downtown Class B/C product will ultimately face considerable challenges in the near to medium term.

After nearly two decades of strong demand fundamentals, the retail sector appears to be at an inflection point. A wave of US retailers recently expanding into Canada intensified the competitive landscape. This has occurred during a period when Canadian consumers have stretched their balance sheets with record household debt levels. Further creating pressure is the rapid consumer adoption of e-commerce, with many box retailers once known to be “category killers” now struggling with declining demand.

In contrast, rising energy prices, the strengthening US economy and a weaker Canadian dollar are positive demand drivers for the industrial sector. As industrial demand has outpaced new supply, the net impact is rising rents and declining vacancies, particularly in Western Canada. As online retail sales growth continues to outpace bricks and mortar retail activity, demand for distribution and warehouse space is expected to provide a tailwind for the industrial sector in the years ahead.

Technological innovation, proliferation of consumer and business requirements for secure, fast and reliable data usage, storage, backup and cloud based services is driving significant growth in demand for high quality data centres. Social media, significant growth in smartphones/tablets, and the disruptive impact that technology is having on the shopping centre industry will drive further demand growth for data centres.

Valuations

Low interest rates and robust availability of debt and equity capital fueled an environment whereby Canadian commercial real estate prices recently surpassed peak valuations achieved in 2007 immediately before the onset of the global financial crisis.

In a low interest rate environment, institutional real estate investors, including pension funds and life insurance companies, continue to maintain and/or increase their allocations to commercial real estate. Recent property transactions indicate the highest quality assets are still trading at or near peak valuations. It is unclear at this point whether this is simply a late cycle phenomenon (as there remains excess capital chasing limited product availability) or whether valuations will ultimately be impacted as interest rates move higher.

Our interactions with various property market participants indicate that valuations of lesser quality assets are likely to be more negatively impacted by the recent market volatility. However, there is little transactional data to firmly support this assertion at this point in time. Rising yields and declining valuations for properties which are not directly targeted by major institutional investors and the largest REITs may create new growth opportunities for FAM REIT. The MTS Data Centre investment is one such opportunity which FAM REIT was able to identify and execute upon.

Market Volatility

A key risk of the current environment is a sudden spike in borrowing costs, either through widening credit spreads and/or rising interest rates. Long-term government bond yields have exhibited significant volatility, with US 10-year treasury yields initially declining to generationally low levels approaching 1.6% in May 2013, subsequently spiking as high as 3.0% during the summer months of 2013 (currently at 2.5%). The catalyst was the US Federal Reserve communicating its plan to begin tapering its quantitative easing program. Government of Canada bond yields are highly correlated to US treasuries and followed a similar path.

Global capital markets interpreted the Federal Reserve's message as a clear inflection point in monetary policy, triggering a sharp negative reaction in global fixed income markets and yield oriented equity securities, including REITs. The Federal Reserve's tapering program is currently underway, and is expected to be fully unwound by the end of 2014.

While some market participants are calling for a "new normal" environment where interest rates and economic growth remain lower for a longer period, we believe an eventual resumption of central bank rate hikes in developed countries is likely to emerge as economic growth gains traction. There are increasing signs of this, as the US economy has now recovered all the jobs lost during the 2007-2009 recession, and unemployment has recently fallen to 6.1% in June 2014, its lowest level since September 2008.

As further data points emerge to reinforce improving macro-economic growth, this will likely trigger significant volatility in the market valuation of yield oriented securities, including REITs, as a natural human-nature reaction to changes through the market cycle.

Capital Raising

The total volume of equity issuance by Canadian REITs during the past year is at its lowest level since 2008. Not surprisingly, net money flows into dedicated funds which invest in REITs have turned negative since June 2013 with a small rebound in spring 2014 as long-term government bond yields have moderated from levels observed several months earlier.

Larger cap REITs have benefited from an easing of selling pressure as mutual fund redemptions have moderated, while many small cap REITs have not seen meaningful new interest from mutual funds, as liquidity concerns continue to remain at the forefront of risks which investment managers are seeking to address. Without a reliable trend of positive inflows, managers typically need to hold most of their investments in larger, more liquid REITs to address the ongoing risk of fund redemptions.

Many of the larger cap REITs are aggressively accessing senior unsecured debt issuance in order to fund their capital requirements, instead of issuing equity. This is not a long-term sustainable trend as issuing more debt than equity to fund capital requirements will eventually increase the risk profile of the REIT industry.

Overall this has resulted in some of the most adverse fund raising conditions for small cap REITs since the onset of the global financial crisis. Small cap REITs with weak balance sheets and poor liquidity profiles are particularly vulnerable.

Risk Management

To protect against downside risk, we believe prudent property investors must carefully monitor debt levels and liquidity on a continuous basis, as the timing of macro shocks are either difficult or near impossible to accurately predict. In a period of rising interest rates and increased capital market volatility, we believe that strong liquidity, low leverage and the utilization of long-term fixed rate debt financing will best serve the interests of our unitholders.

Long Term Perspective

Despite what appears to be the start of a trend towards long-term government bond yields normalizing to pre-global financial crisis levels, we continue to believe that the global economy remains in a structurally low growth and low inflation environment. This will ultimately make it difficult for central banks to pursue very aggressive tightening monetary policies in the near to medium term, and we believe will ultimately put a ceiling on how high long-term government bond yields will rise.

Notwithstanding current market volatility, we believe income oriented investing remains a secular theme which is underpinned by aging demographic trends. The demographic shift drives a greater need for current income to support retirement living as opposed to long-term capital gains. This has been a major driving force in recent years, and this trend is likely to continue for the next two decades due to the aging boomer cohort. We believe aging demographics in developed countries will continue to drive income oriented investing. These are all positive long-term demand drivers for the Canadian REIT model.

Core Business and Objectives

FAM REIT's trust units and warrants are listed on the Toronto Stock Exchange ("TSX") and traded under the symbols "F.UN" and "F.WT", respectively.

The REIT is an unincorporated, open-ended real estate investment trust which was created pursuant to a Declaration of Trust dated August 27, 2012, as amended and restated on December 27, 2012, under the laws of the Province of Ontario and the applicable laws of Canada. On December 28, 2012, the REIT completed its initial public offering of offered units, which comprised of trust units and warrants, and acquired a portfolio of 27 income-producing office, industrial, and retail properties located in four provinces and one territory of Canada (the "Initial Properties"). The REIT had no operations prior to December 28, 2012.

The objectives of the REIT are to: (i) provide unitholders with stable and growing cash distributions from investments focused on office, industrial and retail properties initially in Canada, on a tax efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term trust unit value through active management; and (iii) expand the asset base of the REIT and increase the REIT's AFFO per trust unit, including through accretive acquisitions.

As stewards of capital for our unitholders, the true owners of the business which we manage on their behalf, we believe our job is to manage downside risk and build an "all weather" REIT, which is capable of successfully navigating through the full commercial real estate cycle.

The REIT is externally managed and operated by Huntingdon. Huntingdon's senior management team has a considerable track record in real estate ownership and management, debt and equity capital markets and corporate finance. Huntingdon's interests are aligned with the unitholders of the REIT through its sponsorship and as the REIT's largest unitholder.

Our Board of Trustees provides strong oversight and has extensive experience in all aspects of commercial real estate (transactional, operational, development and leasing), capital markets, securities law, risk management and financial accounting and reporting.

Portfolio

The REIT's properties are located in Alberta, Saskatchewan, Manitoba, Ontario and the Northwest Territories, and consist of properties across the industrial, office and retail real estate asset classes. The diversity of properties is expected to reduce the REIT's exposure to negative trends that may arise within particular sectors, while increasing management's ability to capitalize on differential supply and demand characteristics that may exist across sectors. The composition of the portfolio of investment properties is set out in the following table:

	Gross Leasable Area (sq. ft.)				As at June 30, 2014		As at December 31, 2013	
	Industrial	Office	Retail	Total	%	Total	%	
Manitoba	414,037	445,842	63,439	923,318	50.5%	922,796	50.5%	
Ontario	258,960	433,663	-	692,623	37.9%	692,623	37.9%	
Saskatchewan	-	84,243	-	84,243	4.6%	84,243	4.6%	
Alberta	97,680	-	15,757	113,437	6.2%	113,437	6.2%	
Northwest Territories	-	-	15,475	15,475	0.8%	15,475	0.8%	
Total	770,677	963,748	94,671	1,829,096	100.0%	1,828,574	100.0%	
Percentage (%)	42.1%	52.7%	5.2%	100.0%				
As at December 31, 2013								
Total	770,677	963,226	94,671	1,828,574				
Percentage (%)	42.1%	52.7%	5.2%	100.0%				

A summary of occupancy for the portfolio is set out in the following table:

	Occupancy Rate (%)				As at
	Industrial	Office	As at June 30, 2014 Retail	Total	December 31, 2013 Total
Manitoba	100.0%	97.3%	100.0%	98.7%	98.7%
Ontario	100.0%	98.1%	-	98.8%	99.1%
Saskatchewan	-	76.7%	-	76.7%	82.0%
Alberta	100.0%	-	100.0%	100.0%	100.0%
Northwest Territories	-	-	100.0%	100.0%	100.0%
Total	100.0%	95.8%	100.0%	97.8%	98.2%
As at December 31, 2013	100.0%	96.5%	100.0%	98.2%	

Outlook

FAM REIT's operating performance during the three months ended June 30, 2014 showed sequential improvement over the three months ended March 31, 2014 as the temporary impact of unusually cold weather and a prolonged winter gave way to more normal operating costs and margins.

Based on our current outlook of leasing activity, we expect FAM REIT's occupancy to remain above 96% throughout 2014 with tenant retention at or above 90%, assuming no acquisitions, dispositions or redevelopment initiatives. There are approximately 254,000 of lease maturities during the six months ending December 31, 2014. FAM REIT has completed lease renewals for 142,000 sf, signed binding offers to lease for 24,000 sf, is in long-term lease renewal negotiations for 76,000 of tenancies, with 2,700 sf continuing as month-to-month leases.

FAM REIT is well positioned in the current environment. Despite adverse equity capital raising conditions for the REIT sector, FAM REIT successfully closed \$24.7 million of equity financing during the second quarter. On a relative basis, our indebtedness ratio and liquidity profile are among the strongest in the Canadian REIT industry.

On a pro-forma basis, the MTS Data Centre is expected to have a significant positive impact on FAM REIT's financial performance upon rent commencement in June 2015. As noted earlier, the incremental year one contribution from the MTS Data Centre to AFFO – Core will be approximately \$2.2 million, or \$0.15 per unit upon rent commencement. This is approximately 24% higher than the AFFO – Core achieved during the three months and six months ended June 30, 2014.

In addition to the embedded growth in AFFO from the MTS Data Centre, FAM REIT's 47.6% indebtedness ratio and \$21 million of available liquidity provide significant dry powder to fund growth and downside protection in the event of prolonged adverse capital market conditions.

On February 20, 2014, FAM REIT announced that it has formed a Special Committee comprised of its Independent Trustees, Chaired by Gary Samuel, FAM REIT's Lead Independent Trustee in response to Huntingdon's initiation of a Strategic Review as announced on February 19, 2014.

The Special Committee's mandate is to evaluate the impact of the strategic review, and if advisable, to respond to such review. While Huntingdon undertakes its strategic review, FAM REIT expects to continue to carry on normal operations with Huntingdon acting as its manager. Please refer to the disclosures contained in FAM REIT's final prospectus dated May 5, 2014 for additional information.

Strategy

Internal Growth

The REIT's internal growth strategy includes the following:

- ***Maintaining strong tenant relationships and achieving high retention rates.*** The REIT will nurture its relationships with existing tenants by anticipating and adapting to their changing needs and being proactive with lease renewals.
- ***Maximizing rental income through leasing initiatives.*** Many of the REIT's properties are located in areas with low vacancy rates, limited new competitive supply, and in-place rents below economic replacement rents. These attributes should allow for high tenant retention rates, thereby minimizing leasing costs and allow the REIT to replace in-place rents with increased market rents as leases expire. Management also seeks to include contractual rent escalators in leases to further facilitate growth in rental income.
- ***Active management of operating costs and utilization of preventative maintenance programs.*** Site visits, inspections and preventive maintenance programs are utilized to ensure properties are well maintained and operating expenses are minimized. The geographic clustering of certain assets within the Initial Properties provides economies of scale in local markets, translating into stable and competitive operating expenses.

External Growth

The REIT's external growth strategy includes the following:

- ***Value creation focus.*** Value creation is the guiding principle to the REIT's overall acquisition program, and we evaluate this on a risk-adjusted total return basis. The concept of AFFO per unit "accretion" is measured on a leverage-neutral basis. Our analysis typically incorporates long-term fixed rate debt financing to ensure there is no financial benefit ascribed to lower interest rates on short term debt sources.
- ***Opportunistically divesting assets.*** Capital recycling is a key component of the overall growth strategy in order to continuously improve the overall risk-return profile of the portfolio and, where possible, to reduce FAM REIT's overall cost of capital.
- ***Multiple avenues to sourcing acquisitions.*** Acquisitions of commercial real estate properties are selected for strategic fit, organic growth and high grading the overall quality of the portfolio. The REIT is agnostic in terms of acquiring individual assets, property portfolios, or through mergers and acquisitions.

- ***Geographic expansion, increasing diversity and reducing the REIT's cost of capital.*** Management anticipates an expanded geographic footprint and increasing focus on primary markets will result in a reduction in the REIT's cost of capital which will facilitate further growth and reduce borrowing costs.
- ***Right of First Offer with Huntingdon.*** The REIT leverages its relationship with Huntingdon to access the industrial, office and retail properties owned or subsequently acquired by Huntingdon. The REIT expects Huntingdon to offer its assets to the REIT as properties become stabilized and suitable under the REIT's investment criteria. The REIT has a right of first offer on properties to be sold by Huntingdon that meet the REIT's investment criteria.

Section 3 REVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Summary of Selected Financial Information

(\$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue from investment properties	\$ 7,972	\$ 6,601	\$ 16,179	\$ 12,682
Property operating expenses	(3,045)	(2,471)	(6,487)	(4,666)
Net operating income	\$ 4,927	\$ 4,130	\$ 9,692	\$ 8,016
General and administration	\$ (520)	\$ (930)	\$ (1,052)	\$ (1,500)
Special Committee related expenses	(220)	-	(338)	-
Finance costs, net	(2,729)	(793)	(6,241)	(2,115)
Share of net loss from equity accounted investment	(109)	-	(109)	-
Fair value adjustments to financial instruments	6	1,323	(290)	1,983
Fair value adjustments on investment properties	(3,227)	519	(3,888)	4,863
Loss on disposal of investment property	-	(87)	-	(87)
Net income (loss) and comprehensive income (loss)	\$ (1,872)	\$ 4,162	\$ (2,226)	\$ 11,160
Total assets*	289,107	232,218		
Total debt ^{(1)*}	137,759	131,547		

* At period-end

(1) Includes mortgages payable, vendor take-back loan, and amounts drawn under revolving credit facility at face value.

Review of Financial Results

Revenue from Investment Properties

Revenue from investment properties includes rent from tenants under lease agreements, straight-line rental income, percentage rents, property taxes and operating cost recoveries, and other incidental income.

For the three months ended June 30, 2014, revenue from investment properties was \$8.0 million compared to \$6.6 million for the same period in 2013. For the six months ended June 30, 2014, revenue from investment properties was \$16.2 million compared to \$12.7 million for the same period in 2013. The growth in revenue from investment properties of 21.2% for the three months and 27.6% for the six months ended June 30, 2014 were driven by incremental revenues from the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice. These were partially offset by the dispositions of 220 Portage and Humboldt Mall, and office space turnover at Saskatchewan Place.

Property Operating Expenses

Property operating expenses consist of property taxes, property management fees, and other expenses such as common area costs, utilities, and insurance. The majority of the REIT's operating expenses are recoverable from tenants in accordance with the terms of the tenants' lease agreements. Operating cost recoveries are included in revenue from investment properties and amounted to \$2.8 million for the three months and \$5.8 million for the six months ended June 30, 2014, compared to \$2.3 million and \$4.2 million for the same periods in 2013.

For the three months ended June 30, 2014, property operating expenses were \$3.0 million compared to \$2.5 million for the same period in 2013. For the six months ended June 30, 2014, property operating expenses were \$6.5 million compared to \$4.7 million for the same period in 2013. The increase in property operating expenses of \$0.5 million for the three months and \$1.8 million for the six months ended June 30, 2014 was primarily due to incremental expenses from the acquisitions of 4211 Yonge, The Promontory and 1700 Ellice. This increase was slightly offset by the sale of 220 Portage and Humboldt Mall.

General and administration

General and administration expenses are primarily comprised of asset management fees, professional fees, trustee fees, and other reporting fees.

General and administration expenses decreased by \$0.4 million during the three months and six months ended June 30, 2014. These decreases were primarily due to aborted transaction costs of \$0.3 million and post-closing IPO costs of \$0.1 million that were incurred during the prior periods.

Special Committee related expenses

In February 2014, the REIT established a Special Committee to assess the implications of Huntingdon's strategic review on the REIT. Special Committee related expenses include legal, financial advisory and trustee fees, which totaled \$0.2 million for the three months and \$0.3 million for the six months ended June 30, 2014.

Finance costs, net

Finance costs primarily consist of mortgage interest expense, distributions to unitholders of Class B LP units, defeasance costs, interest on both the vendor take-back loan and the revolving credit facility, non-cash accretion expense, the de-recognition or amortization of the mark-to-market adjustment on mortgages, and gains or losses on interest rate swaps.

For the three months ended June 30, 2014, finance costs were \$2.7 million compared to \$0.8 million in the same period in 2013. The increase in finance costs of \$1.9 million was primarily due to the fluctuations in fair value adjustments related to interest rate swaps of \$2.1 million. In addition, finance costs during the prior period were favorably impacted by the de-recognition of mark-to-market adjustments on mortgages of \$0.2 million.

For the six months ended June 30, 2014, finance costs were \$6.2 million compared to \$2.1 million in the same period in 2013. The increase in finance costs of \$4.1 million was primarily due to the fluctuations in fair value adjustments related to interest rate swaps of \$3.4 million. In addition, finance costs during the prior period were favorably impacted by the de-recognition of mark-to-market adjustments on mortgages of \$0.7 million.

Fair value adjustments to financial instruments

The Class B LP units issued to Huntingdon on December 28, 2012, as partial consideration for the acquisition of the Initial Properties, are exchangeable into trust units of the REIT on a one-for-one basis at the option of Huntingdon. Under IFRS, the Class B LP units are considered puttable financial instruments to the REIT, and are recognized in the consolidated financial statements as financial liabilities measured at fair value through profit or loss. The fair value is re-measured at the end of each reporting period.

During the three months ended June 30, 2014, the fair value adjustment to Class B LP units were nominal. The fair value per unit decreased slightly from \$8.80 at March 31, 2014 to \$8.79 at June 30, 2014. During the three months ended June 30, 2013, the REIT recognized a \$1.1 million unrealized fair value gain representing a decrease in the fair value per unit from \$9.95 at March 31, 2013 to \$9.50 at June 30, 2013.

During the six months ended June 30, 2014, the REIT recognized a \$0.3 million unrealized fair value loss representing an increase in the fair value per unit from \$8.58 at December 31, 2013 to \$8.79 at June 30, 2014. During the six months ended June 30, 2013, the REIT recognized a \$1.5 million unrealized fair value gain representing a decrease in the fair value per unit from \$10.10 at December 31, 2012 to \$9.50 at June 30, 2013.

Under IFRS, the trust unit purchase warrants issued on December 28, 2012 in connection with the REIT's IPO are considered puttable instruments to the REIT, and are recognized in the consolidated financial statements as financial liabilities measured at fair value through profit or loss. The fair value is re-measured at the end of each reporting period.

During the three months ended June 30, 2014, the fair value adjustment to warrants were nominal. The fair value per warrant increased from \$0.02 at March 31, 2014 to \$0.035 at June 30, 2014. During the three months ended June 30, 2013, the REIT recognized a \$0.2 million unrealized fair value gain representing a decrease in the fair value per warrant from \$0.30 at March 31, 2013 to \$0.18 at June 30, 2013.

During the six months ended June 30, 2014, the fair value adjustment to warrants were nominal. The fair value per warrant decreased from \$0.04 at December 31, 2013 to \$0.035 at June 30, 2014. During the six months ended June 30, 2013, the REIT recognized a \$0.5 million unrealized fair value gain representing a decrease in the fair value per warrant from \$0.48 at December 31, 2012 to \$0.18 at June 30, 2013.

Fair value adjustments to investment properties

In accordance with IFRS, the REIT measures its investment properties at fair value at the end of each reporting period. The fair values of investment properties are determined either internally by management or externally by nationally-recognized qualified third party appraisers using a number of approaches including the discounted cash flow and direct capitalization approaches.

The fair value losses of \$3.2 million during the three months and \$3.9 million during the six months ended June 30, 2014 reflect changes in leasing assumptions, the most notable of which relates to an industrial property in Brooks, Alberta. This property is in a tertiary market with limited industrial user demand. Management is currently in the process of assessing its options for this non-core asset, which include terminating the lease with the existing tenant, divesting the asset to an owner-user, or entering into a lease arrangement with a stronger tenant covenant.

The fair value gain of \$0.5 million during the three months ended June 30, 2013 was due to improved cash flow metrics. The fair value gain of \$4.9 million during the six months ended June 30, 2013 was primarily driven by the gain associated with the sale of 220 Portage, partially offset by changes in leasing assumptions.

Income taxes

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under the Income Tax Act (Canada), so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to unitholders. It therefore has not recognized any current or deferred income taxes in its consolidated financial statements for the three and six months ended June 30, 2014 and 2013.

Segmented Information

The REIT invests in three property asset classes and currently operates in five geographic locations. Management measures the performance of the REIT on a combined basis of financial and operating results by asset class and geographic location as follows:

Net operating income

(\$000s except percentages)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Revenue from investment properties	\$ 7,972	\$ 6,601	\$ 16,179	\$ 12,682
Property operating expenses	(3,045)	(2,471)	(6,487)	(4,666)
Net operating income	4,927	4,130	9,692	8,016
Margin (%)	61.8%	62.6%	59.9%	63.2%

The following table summarizes NOI by asset class and geographic location for the three months and six months ended June 30, 2014:

(\$000s except percentages)	Net Operating Income				Percentage (%)
	Three months ended June 30, 2014				
	Industrial	Office	Retail	Total	
Manitoba	\$ 574	\$ 1,132	\$ 116	\$ 1,822	36.9%
Ontario	437	1,946	-	2,383	48.4%
Saskatchewan	-	148	-	148	3.0%
Alberta	376	-	67	443	9.0%
Northwest Territories	-	-	131	131	2.7%
	\$ 1,387	\$ 3,226	\$ 314	\$ 4,927	100.0%
Percentage (%)	28.1%	65.5%	6.4%	100.0%	

(\$000s except percentages)	Net Operating Income				Percentage (%)
	Six months ended June 30, 2014				
	Industrial	Office	Retail	Total	
Manitoba	\$ 1,154	\$ 2,169	\$ 196	3,519	36.3%
Ontario	877	3,820	-	4,697	48.5%
Saskatchewan	-	276	-	276	2.8%
Alberta	804	-	136	940	9.7%
Northwest Territories	-	-	260	260	2.7%
	\$ 2,835	\$ 6,265	\$ 592	\$ 9,692	100.0%
Percentage (%)	29.3%	64.6%	6.1%	100.0%	

The following table summarizes NOI by asset class and geographic location for the three months and six months ended June 30, 2013:

(\$000s except percentages)	Net Operating Income			Total	Percentage (%)
	Three months ended June 30, 2013				
	Industrial	Office	Retail		
Manitoba	\$ 589	\$ 1,146	\$ 131	\$ 1,866	45.2%
Ontario	436	825	-	1,261	30.5%
Saskatchewan	-	285	100	385	9.3%
Alberta	422	-	60	482	11.7%
Northwest Territories	-	-	136	136	3.3%
	\$ 1,447	\$ 2,256	\$ 427	\$ 4,130	100.0%
Percentage (%)	35.1%	54.6%	10.3%	100.0%	

(\$000s except percentages)	Net Operating Income			Total	Percentage (%)
	Six months ended June 30, 2013				
	Industrial	Office	Retail		
Manitoba	\$ 1,175	\$ 2,540	\$ 251	\$ 3,966	96.0%
Ontario	871	1,201	-	2,072	50.2%
Saskatchewan	-	555	178	733	17.7%
Alberta	850	-	125	975	23.6%
Northwest Territories	-	-	270	270	6.5%
	\$ 2,896	\$ 4,296	\$ 824	\$ 8,016	100.0%
Percentage (%)	36.1%	53.6%	10.3%	100.0%	

Industrial Properties

The actual results of operations for the three months and six months ended June 30, 2014 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
# of properties (period-end)			11	11
Owned GLA (000s of sf) (period-end)			771	771
Occupancy rate (%) (period-end)			100.0%	100.0%
Revenue from investment properties	\$ 1,942	\$ 1,915	\$ 3,884	\$ 3,849
Property operating expenses	(555)	(468)	(1,049)	(953)
Net operating income	\$ 1,387	\$ 1,447	\$ 2,835	\$ 2,896
Margin %	71.4%	75.6%	73.0%	75.2%

Net operating income for industrial properties for the three months and six months ended June 30, 2014 were relatively consistent when compared to the same periods in 2013.

Office Properties

The actual results of operations for the three months and six months ended June 30, 2014 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
# of properties (period-end)			14	12
Owned GLA (000s of sf) (period-end)			964	774
Occupancy rate (%) (period-end)			95.8%	95.4%
Revenue from investment properties	\$ 5,575	\$ 4,028	\$ 11,369	\$ 7,516
Property operating expenses	(2,349)	(1,772)	(5,104)	(3,220)
Net operating income	\$ 3,226	\$ 2,256	\$ 6,265	\$ 4,296
Margin %	57.9%	56.0%	55.1%	57.2%

Net operating income for office properties increased by \$1.0 million for the three months and \$2.0 million for the six months ended June 30, 2014, when compared to the same periods in 2013. The growth in net operating income for both periods were driven by incremental NOI related to the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice. These were partially offset by the dispositions of 220 Portage, as well as a decrease in same property net operating income related to office space turnover at Saskatchewan Place.

We are competitively well-positioned with Saskatchewan Place's solid downtown Regina location along a major thoroughfare, in-place net rents below market, and highly competitive operating costs. Stabilizing the property's occupancy level and cash flow will likely take several quarters to execute, including working with existing tenants for space expansion needs, attracting new tenancies, conversion of former ground level office into retail space, and select capital improvements to enhance physical appeal.

Retail Properties

The actual results of operations for the three months and six months ended June 30, 2014 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
# of properties (period-end)			3	4
Owned GLA (000s of sf) (period-end)			95	201
Occupancy rate (%) (period-end)			100.0%	90.4%
Revenue from investment properties	\$ 455	\$ 658	\$ 926	\$ 1,317
Property operating expenses	(141)	(231)	(334)	(493)
Net operating income	\$ 314	\$ 427	\$ 592	\$ 824
Margin %	69.0%	64.9%	63.9%	62.6%

Net operating income for retail properties decreased by \$0.1 million for the three months and \$0.2 million for the six months ended June 30, 2014 compared to the same periods in 2013. These declines

were due to the sale of Humboldt Mall in December 2013. Same property net operating income for the three months and six months ended June 30, 2014 were relatively consistent with the same periods in 2013.

Same Property Analysis

The comparative net operating income results on a same property and sequential basis are as follows:

Net Operating Income, Accounting Basis

(\$000s)	For the three months ended:					
	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Industrial	\$1,387	\$1,448	\$1,448	\$1,445	\$1,447	\$1,449
Office	1,550	1,479	1,599	1,807	1,704	1,723
Retail	314	278	285	316	327	318
Total	\$3,251	\$3,205	\$3,332	\$3,568	\$3,478	\$3,490

Net Operating Income, Cash Basis

(\$000s)	For the three months ended:					
	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Industrial	\$1,317	\$1,366	\$1,367	\$1,364	\$1,370	\$1,372
Office	1,589	1,476	1,579	1,766	1,695	1,709
Retail	315	277	284	311	325	314
Total	\$3,221	\$3,119	\$3,230	\$3,441	\$3,390	\$3,395

On a same property basis, net operating income for the three months ended June 30, 2014 improved compared to the three months ended March 31, 2014. This improvement resulted from more moderate weather following the harsh winter which contributed to higher operating costs. The 2014 results, in comparison to each of the quarters in 2013, were negatively impacted primarily by the tenant turnover at Saskatchewan Place.

Funds From Operations (As Reported and Core)

FFO is a supplemental non-IFRS financial measure of operating performance widely used in the Canadian real estate industry. FFO is not defined under IFRS and should not be used as a substitute to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. Instead, FFO has been included to provide readers and investors of the REIT with additional information to improve their understanding of the operating results of the REIT. FFO when compared period over period reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and property taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS.

The REIT calculates FFO – As Reported in accordance with the REALpac White Paper on Funds from Operations and FFO – Core as described in the “Non-IFRS Measures” section of this MD&A. The reconciliation of FFO – As Reported and FFO – Core to net income is as follows:

(\$000s unless otherwise noted and except per unit amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net income (loss)	\$ (1,872)	\$ 4,162	\$ (2,226)	\$ 11,160
Add (deduct):				
Amortization of leasing costs	58	1	86	4
Loss on disposition of investment property	-	87	-	87
Distributions on Class B LP units	558	471	1,116	963
Share of net loss from investment in Data Centre	109	-	109	-
Fair value adjustments to financial instruments	(6)	(1,323)	290	(1,983)
Fair value adjustments to investment properties	3,227	(519)	3,888	(4,863)
Funds from operations – As Reported	\$ 2,074	\$ 2,879	\$ 3,263	\$ 5,368
Add (deduct):				
Fair value loss (gain) on interest rate swaps	636	(1,479)	1,927	(1,511)
De-recognition of mark-to-market adjustment on mortgages refinanced or discharged	-	(244)	-	(723)
Special Committee related expenses	220	-	338	-
Defeasance costs	-	598	-	598
Aborted transaction costs	-	327	-	327
Funds from operations – Core	\$ 2,930	\$ 2,081	\$ 5,528	\$ 4,059
Weighted average number of units outstanding (000s) ⁽¹⁾ :				
Basic and diluted	13,551	8,394	12,776	8,394
Per unit (basic and diluted)				
FFO per unit – As Reported	\$ 0.15	\$ 0.34	\$ 0.26	\$ 0.64
FFO per unit – Core	\$ 0.22	\$ 0.25	\$ 0.43	\$ 0.48

(1) The basic and diluted weighted average number of units outstanding includes the weighted average of all REIT units and Class B LP units.

FFO – As Reported was \$0.15 per unit for the three months ended June 30, 2014. After adjusting for the \$0.05 per unit (\$0.6 million) non-cash fair value loss on the interest rate swaps and the \$0.02 per unit (\$0.2 million) Special Committee related expenses, FFO – Core was \$0.22 per unit.

FFO – As Reported was \$0.34 per unit for the three months ended June 30, 2013. After adjusting for the \$0.18 per unit (\$1.5 million) fair value gain on interest rate swaps, \$0.03 per unit (\$0.2 million) de-recognition of non-cash mark-to-market adjustment on mortgages refinanced or discharged, \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, FFO – Core was \$0.25 per unit.

FFO – As Reported was \$0.26 per unit for the six months ended June 30, 2014. After adjusting for the \$0.15 per unit (\$1.9 million) non-cash fair value loss on the interest rate swaps and the \$0.03 per unit (\$0.3 million) Special Committee related expenses, FFO – Core was \$0.43 per unit.

FFO – As Reported was \$0.64 per unit for the six months ended June 30, 2013. After adjusting for the \$0.18 per unit (\$1.5 million) fair value gain on interest rate swaps, \$0.09 per unit (\$0.7 million) de-recognition of non-cash mark-to-market adjustment on mortgages refinanced or discharged, \$0.07 per

unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, FFO – Core was \$0.48 per unit.

The decrease in FFO – Core of \$0.03 per unit for the three months ended June 30, 2014 over the three months ended June 30, 2013 is attributable to the following:

- Equity issued to fund development of the MTS Data Centre which is not generating any FFO contribution during the construction period
- Deleveraging to a 47.6% indebtedness ratio at June 30, 2014 compared to 56.6% at June 30, 2013
- The dilutive impact of a higher uninvested cash balance which stood at \$6.7 million at June 30, 2014 compared to \$1.4 million at June 30, 2013; and
- The decline in same-property NOI, as noted earlier.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to FFO - Core will be approximately \$2.4 million, or \$0.16 per unit upon rent commencement which is slated for June 2015.

Adjusted Funds from Operations (As Reported and Core)

The operations of a real estate business require capital expenditures to both maintain and increase the occupancy and rental revenue streams of existing properties. These expenditures include replacements and major repairs of component parts of the underlying properties (for example: roofing, heating, ventilating and air conditioning equipment, paving) referred to as capital expenditures. In addition to capital expenditures, leasing costs including leasing commissions, tenant improvements and inducements, are fundamental to the operating activities of a real estate business. AFFO is a widely used non-IFRS financial measure in the Canadian real estate industry to indicate available cash flow after capital expenditures and leasing costs. AFFO is not defined under IFRS and the method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and, as a result, may not be comparable with measures used by such other issuers.

In calculating AFFO – As Reported and Core, the REIT makes certain adjustments to FFO – As Reported for other non-cash items as described in the “Non-IFRS Measures” section of this MD&A.

The reconciliation of AFFO – As Reported and Core to the REIT’s FFO – As Reported is as follows:

(\$000s unless otherwise noted and except per unit amounts)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Funds from operations – As Reported	\$ 2,074	\$ 2,879	\$ 3,263	\$ 5,368
Add (deduct):				
Interest rate subsidy ⁽¹⁾	94	143	191	313
Accretion on vendor take-back loan	72	69	144	136
Amortization of deferred transaction costs	67	36	126	83
De-recognition of mark-to-market adjustments on mortgages refinanced or discharged	-	(244)	-	(723)
Amortization of mark-to-market adjustments on mortgages	(55)	(113)	(111)	(230)
Amortization of straight-line rent	(167)	(113)	(287)	(212)
Capital expenditures	(362)	(12)	(413)	(71)
Leasing costs	(330)	(45)	(543)	(122)
Fair value loss (gain) on interest rate swaps	636	(1,479)	1,927	(1,511)
Adjusted funds from operations – As Reported	\$ 2,029	\$ 1,121	\$ 4,297	\$ 3,031
Add:				
Special Committee related expenses	220	-	338	-
Defeasance costs	-	598	-	598
Aborted transaction costs	-	327	-	327
Adjusted funds from operations – Core	\$ 2,249	\$ 2,046	\$ 4,635	\$ 3,956
Weighted average number of units outstanding (000s) ⁽²⁾ :				
Basic and diluted	13,551	8,394	12,776	8,394
Per unit (basic and diluted)				
AFFO per unit – As Reported	\$ 0.15	\$ 0.13	\$ 0.34	\$ 0.36
AFFO per unit – Core	\$ 0.17	\$ 0.24	\$ 0.36	\$ 0.47

(1) The interest rate subsidy is described in further detail under “Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies” of this MD&A.

(2) The basic and diluted weighted average number of units outstanding includes the weighted average of all REIT units and Class B LP units.

For the three months ended June 30, 2014, AFFO – As Reported was \$0.15 per unit. After adjusting for \$0.02 per unit (\$0.2 million) of Special Committee related expenses, AFFO – Core was \$0.17 per unit.

For the three months ended June 30, 2013, AFFO – As Reported was \$0.13 per unit. After adjusting for \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, AFFO – Core was \$0.24 per unit.

For the six months ended June 30, 2014, AFFO – As Reported was \$0.34 per unit. After adjusting for \$0.03 per unit (\$0.3 million) of Special Committee related expenses, AFFO – Core was \$0.36 per unit.

For the six months ended June 30, 2013, AFFO – As Reported was \$0.36 per unit. After adjusting for \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, AFFO – Core was \$0.47 per unit.

The decrease in AFFO – Core of \$0.07 per unit for the three months ended June 30, 2014 over the three months ended June 30, 2013 was due to the above noted factors accounting for the decrease in FFO – Core as well as higher capital expenditures and leasing costs.

The timing and magnitude of actual capital expenditures and leasing costs can vary significantly from quarter to quarter. Since FAM REIT does not utilize “normalized” reserves for capital expenditures and leasing costs in deriving AFFO, it is important to note that quarterly AFFO can be volatile.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to AFFO - Core will be approximately \$2.2 million, or \$0.15 per unit upon rent commencement which is slated for June 2015.

Leasing costs and maintenance capital expenditures can vary from period to period depending on various factors including the lease expiry profile of the REIT’s properties, tenant quality, asset type, local market conditions, seasonality and other building requirements. There is often a delay between lease commencement and the expenditures on leasing costs and maintenance capital expenditures due to the timing of the installation of tenant improvements and the required inspections and certifications. As a result, AFFO can experience volatility when comparing period-over-period results.

Leasing costs and capital expenditures (net of tenant improvement payables) for the three months and six months ended June 30, 2014 and 2013 were as follows:

(\$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Tenant improvements and leasing commissions				
New leasing	\$ -	\$ -	\$ 94	\$ -
Renewals				
Office	247	29	347	89
Industrial	77	16	81	16
Retail	6	-	21	17
	330	45	543	122
Recoverable capital expenditures				
Major maintenance items	248	-	281	49
Recurring capital expenditures	113	12	125	22
	361	12	406	71
Non-recoverable capital expenditures				
	1	-	7	-
Total	\$ 692	\$ 57	\$ 956	\$ 193

Leasing costs for new tenants were \$nil for the three months and \$0.1 million for the six months ended June 30, 2014. Leasing costs related to existing or renewing tenants were \$0.3 million for the three months and \$0.5 million for the six months ended June 30, 2014.

Recoverable capital expenditures were \$0.4 million for the three months and six months ended June 30, 2014. These costs were primarily attributable to a roof replacement at one industrial property, HVAC replacements, as well as fire panel and security access upgrades.

Distributions

The REIT's Board of Trustees has full discretion with respect to the timing and extent of distributions, including the adoption, amendment or revocation of any distribution policy. In determining the amount of monthly cash distributions paid to unitholders, the Board of Trustees applies discretionary judgment to forward-looking cash flow information, including forecasts and budgets. As net income calculated in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt of or the payment of cash, the Board of Trustees considers AFFO when establishing cash distributions to unitholders, as well as other factors. The excess of AFFO over cash distributions represents a measure of operating cash flow retained in the business.

It is the REIT's intention to make distributions to unitholders at least equal to the amount of net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for current income taxes.

On March 21, 2013, the Trust implemented a distribution reinvestment plan (the "DRIP"). The DRIP came into effect with the distribution of \$0.0625 per trust unit that was payable on May 15, 2013 to unitholders of record on April 30, 2013. Eligible unitholders, which include holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT and will also receive a "bonus distribution" of units equal in value to 3% of each distribution.

The REIT may initially issue up to 295,000 trust units of the REIT under the DRIP. On April 3, 2014, the REIT received approval from the TSX to reserve an additional 250,000 trusts units of the REIT pursuant to the DRIP. The REIT may increase the number of trust units available to be issued under the DRIP at any time in its discretion subject to (a) the approval of the REIT's Board of Trustees, (b) the approval of any stock exchange upon which the trust units trade, and (c) public disclosure of such increase.

The distributions declared during the six months ended June 30, 2014 resulted in 186,952 trust units issued or issuable under the DRIP. As at June 30, 2014, there were 317,268 trust units cumulatively issued or issuable under the DRIP.

During the six months ended June 30, 2014 and 2013, the REIT declared monthly distributions of \$0.0625 per unit. The distributions were paid on or about the 15th day of the month following declaration.

The following table summarizes the distribution payments for the three months and six months ended June 30, 2014 and 2013:

(\$000s unless otherwise noted)	Three months ended June 30, 2014		Six months ended June 30, 2014	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 1,751	\$ –	\$ 3,266	\$ –
Distributions reinvested in trust units	307	558	485	1,116
	\$ 2,058	\$ 558	\$ 3,751	\$ 1,116

(\$000s unless otherwise noted)	Three months ended June 30, 2013		Six months ended June 30, 2013	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 1,083	\$ 471	\$ 2,234	\$ 963
Distributions reinvested in trust units	19	–	19	–
	\$ 1,102	\$ 471	\$ 2,253	\$ 963

As at June 30, 2014, approximately 33.2% of the total trust units and Class B LP units outstanding were subscribed to the REIT's DRIP.

The REIT expects that distributions for the year ending December 31, 2014 will represent an approximate 100% return of capital, assuming no dispositions of investment properties.

The following table reconciles AFFO – As Reported to cash flow from operating activities reported in the consolidated financial statements of the REIT for the three months and six months ended June 30, 2014 and 2013.

(\$000s)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Cash flow from operating activities	\$ 2,912	\$ (474)	\$ 5,578	\$ 1,929
Add (deduct):				
Changes in non-cash working capital	(1,035)	1,646	(1,872)	774
Leasing costs	(330)	(45)	(543)	(122)
Capital expenditures	(362)	(12)	(413)	(71)
Distributions on Class B LP units paid in cash	-	471	-	806
Distributions on Class B LP units reinvested in trust units	558	-	1,116	-
Interest rate subsidy	94	143	191	313
Defeasance costs	-	(598)	-	(598)
Interest income accrued	192	-	240	-
Other	-	(10)	-	-
Adjusted funds from operations – As Reported	\$ 2,029	\$ 1,121	\$ 4,297	\$ 3,031

The table below illustrates that the REIT has sufficient cash flow capacity, based on AFFO – Core, to sustain its cash distributions:

(\$000s)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Adjusted funds from operations – As Reported	\$ 2,029	\$ 1,121	\$ 4,297	\$ 3,031
Add:				
Special Committee related expenses	220	-	338	-
Defeasance costs	-	598	-	598
Aborted transaction costs	-	327	-	327
Adjusted funds from operations – Core	\$ 2,249	\$ 2,046	\$ 4,635	\$ 3,956
Total distributions paid or payable in cash – trust units and Class B LP units	1,751	1,554	3,266	3,197
Less: distributions related to four day sub- period from December 28 - 31, 2012	-	-	-	(69)
Distributions paid or payable in cash, excluding four day sub-period	\$ 1,751	\$ 1,554	\$ 3,266	\$ 3,128
Excess of AFFO - Core over cash distributions	\$ 498	\$ 492	\$ 1,369	\$ 828

Summary of Selected Quarterly Information

(\$000s unless otherwise noted, except per unit amount)	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012 ⁽¹⁾
Revenues from investment properties	\$7,972	\$8,207	\$ 8,228	\$7,568	\$6,601	\$6,081	\$234
Net income (loss) and comprehensive income (loss)	(1,872)	(354)	1,827	1,228	4,162	6,998	12,348
Per Unit							
- Basic ⁽²⁾	\$(0.18)	\$(0.04)	\$0.20	\$0.16	\$0.71	\$1.19	\$2.10
- Diluted	\$(0.18)	\$(0.04)	\$0.20	\$(0.03)	\$0.42	\$0.85	\$1.50

(1) Basic and diluted net income for the three months ended December 31, 2012 was based on the four day period from December 28, 2012, the IPO date, to December 31, 2012.

(2) The weighted average number of basic units reflects the REIT units, and excludes the Class B LP units.

The financial results for the three months ended December 31, 2012 reflected the operations of the Initial Properties from December 28, 2012, the date of acquisition, which included \$12.8 million in unrealized net fair value adjustments to its investment properties.

The growing trend in revenues from investment properties was largely driven by the 4211 Yonge acquisition in May 2013, The Promontory acquisition in August 2013, and 1700 Ellice acquisition in December 2013. The incremental revenues from these acquisitions were partially offset by the dispositions of 220 Portage in April 2013 and the Humboldt Mall in December 2013. The second quarter of 2014, however, was negatively impacted by office space turnover in Saskatchewan Place.

Net income (loss) and comprehensive income (loss) for each of the periods in the table above reflect fluctuations arising from fair value adjustments on investment properties, Class B LP units, warrants, and interest rate swaps.

Section 4 FINANCIAL CONDITION

Liquidity and Capital Resources

The principal liquidity needs of the REIT arise from working capital requirements; debt servicing and repayment obligations, which include mortgages payable, amounts drawn on the revolving credit facility and a vendor take-back loan; distributions to unitholders; obligations to redeem outstanding puttable trust units at the option of the unitholders; planned funding of maintenance capital expenditures and leasing costs; and future investment property acquisition funding requirements.

Cash flows from operating the REIT's property portfolio, available funding under the REIT's revolving credit facility and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon rental occupancy levels, rental rates, collection of rents, recoveries of operating costs and operating costs.

Debt Strategy

The REIT's obligations with respect to debt repayments, redemption of outstanding trust units which are puttable at the option of the unitholders and funding requirements for future investment property acquisitions will be primarily funded by refinancing the REIT's maturing debt, financing unencumbered properties, or future issuances of trust units and debentures.

The REIT's overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to (i) achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix rates and extend loan terms when borrowing conditions are favourable; and floating rate secured short-term, construction and/or revolving debt. The fixed rate mortgages are expected to be comprised primarily of first charge mortgages. Subject to market conditions and the growth of the REIT, management currently intends to maintain total indebtedness at approximately 50% - 55% of the REIT's gross book value ("GBV"). The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. If this strategy is unsuccessful, mortgage principal repayments would be funded by operating cash flows, additional draws under the REIT's revolving credit facility, financing of unencumbered income-producing properties or by issuances of equity or debt securities. As at June 30, 2014, the REIT's unencumbered income-producing properties had a fair value of \$2.5 million.

In accordance with the Declaration of Trust dated August 27, 2012, which was amended and restated on December 27, 2012 ("DOT"), the REIT may not incur or assume any indebtedness if, after giving effect to the incurring or assumption of such indebtedness, the total indebtedness of the REIT would exceed 65% of the GBV of the REIT's assets. As at June 30, 2014, the REIT's indebtedness ratio was 47.6%.

Indebtedness Ratios

(\$000s unless otherwise noted)	As at June 30, 2014	As at June 30, 2013
Mortgages payable	\$ 128,579	\$ 110,994
Vendor take-back loan	9,180	9,180
Revolving credit facility	-	11,373
Total debt at period end	\$ 137,759	\$ 131,547
Total assets at period end	289,107	232,218
Indebtedness ratio	47.6%	56.6%

Interest rates and debt maturities are reviewed regularly by the REIT's Board of Trustees to ensure the appropriate debt management strategies are implemented.

Leverage and Interest Coverage Ratios

(\$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Weighted average:				
Mortgages payable	\$ 129,074	\$ 104,957	\$ 129,570	\$ 100,061
Vendor take-back loan	9,180	9,180	9,180	9,180
Revolving credit facility	5,035	4,652	4,225	4,261
Weighted average amount of indebtedness	\$ 143,289	\$ 118,789	\$ 142,975	\$ 113,502
Deduct: Cash at period end	(6,590)	(2,468)	(4,301)	(3,593)
Weighted average amount of indebtedness, net of cash	\$ 136,699	\$ 116,321	\$ 138,674	\$ 109,909

(\$000s unless otherwise noted)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
EBITDA	\$ 4,379	\$ 3,200	\$ 8,542	\$ 6,516
Debt to EBITDA leverage ratio (times)	8.2x	9.3x	8.4x	8.7x
Net Debt to EBITDA leverage ratio (times)	7.8x	9.1x	8.1x	8.4x
Interest expense	\$ 1,549	\$ 1,320	\$ 3,088	\$ 2,504
Interest coverage ratio (times)	2.8x	2.4x	2.8x	2.6x
Debt service requirements:				
Interest expense	\$ 1,549	\$ 1,320	\$ 3,088	\$ 2,504
Principal repayments	989	783	1,975	1,486
Total debt service requirements	\$ 2,538	\$ 2,103	\$ 5,063	\$ 3,990
Debt service coverage ratio (times)	1.7x	1.5x	1.7x	1.6x

Mortgage Repayment Schedule

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated by matching debt maturities with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the REIT staggers the maturity dates of the REIT's mortgage portfolio over a number of years.

The following table outlines the REIT's annual principal payments and mortgage maturity schedule, together with the annual weighted average interest rates:

For the periods ending December 31,	Annual Principal Payments (\$000s)	Principal Repayments on Maturity (\$000s)	Total (\$000s)	Percentage (%)	Weighted Average Contractual Interest Rate (%) ⁽¹⁾⁽²⁾
2014 (remaining six months)	\$ 2,020	\$ -	\$ 2,020	1.6%	4.7%
2015	4,103	13,952	18,055	14.0%	4.6%
2016	3,457	10,624	14,081	11.0%	4.5%
2017	3,334	6,750	10,084	7.8%	4.4%
2018	2,553	18,674	21,227	16.5%	4.3%
Thereafter	9,885	53,227	63,112	49.1%	4.3% ⁽³⁾
	\$ 25,352	\$ 103,227	\$ 128,579	100.0%	

(1) Pursuant to the acquisition agreement with Huntingdon, the total purchase price payable for the Initial Properties acquired on December 28, 2012 was reduced by \$1.9 million in respect of an interest rate subsidy. The interest rate subsidy will be used to subsidize the REIT's mortgage interest payments to achieve an annual blended cash interest rate of 4.5% for the years 2013 to 2017.

(2) Includes payments under interest rate swaps.

(3) Represents the weighted average interest rate as at December 31, 2018.

Total Debt Repayments

The following table outlines the principal repayment schedule for the REIT's total debt with fixed repayment terms:

(\$000s)	For the periods ending December 31,						
	Total	2014 ⁽¹⁾	2015	2016	2017	2018	Thereafter
Mortgages payable	\$ 128,579	\$ 2,020	\$ 18,055	\$ 14,081	\$ 10,084	\$ 21,227	\$ 63,112
Vendor take-back loan	9,180	9,180	-	-	-	-	-
	\$ 137,759	\$ 11,200	\$ 18,055	\$ 14,081	\$ 10,084	\$ 21,227	\$ 63,112

(1) For the remaining six months of 2014.

As at December 31, 2013, the REIT had a \$14.0 million revolving credit facility that expires on November 30, 2014 and is secured by two investment properties. The interest rate was at prime plus 1.5% per annum and a standby fee of 0.6% charged quarterly in arrears based on the average daily undrawn amount.

In February 2014, the REIT increased its revolving credit facility limit from \$14.0 million to \$17.0 million. The expiry date has been extended from November 30, 2014 to November 30, 2015 and is secured by four investment properties. The amended revolving credit facility bears interest at prime plus 1.25% per annum and a standby fee of 0.5% charged quarterly in arrears based on the average daily undrawn amount.

The amount available for drawdown under the revolving credit facility is computed on the 12 month trailing net operating income and the appraised values of the secured properties, up to a maximum of \$17.0 million. As at June 30, 2014, the REIT did not have an outstanding balance on the revolving credit facility, and was compliant with all financial covenants.

As at August 7, 2014, the REIT had \$nil million drawn on its revolving credit facility.

As partial consideration for the acquisition of the Initial Properties on December 28, 2012, the REIT entered into a vendor take-back loan agreement with Huntingdon. The unsecured loan has a face value of \$9.2 million bearing interest at 3.0% per annum payable quarterly, with the principal due in full on December 28, 2014.

Interest rate swaps

On December 28, 2012, the REIT acquired an interest rate swap as part of the acquisition of the Initial Properties. In 2013, the REIT entered into interest rate swaps as part of the mortgage financing related to 4211 Yonge and The Promontory. These interest rate swaps entitle the REIT to receive interest at floating rates and pay interest at a fixed rate.

Interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. At June 30, 2014, the REIT had the following interest rate swap agreements:

Notional amount	Effective interest rate	Maturity date	Unrealized loss for the six months ended June 30, 2014	Cumulative unrealized loss (gain) at June 30, 2014
\$ 3,976	5.89%	1-Feb-25	\$ 60	\$ 618
22,583	4.60%	14-Aug-23	891	902
24,326	3.68%	1-May-23	976	(529)

Financial Condition

The REIT's primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the REIT's obligations through current cash and cash equivalents, cash flows from operations and refinancing of mortgages.

The following table provides an overview of the REIT's cash flows from operating, financing and investing activities for the three months and six months ended June 30, 2014 and 2013.

(\$000s)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Net change in cash related to:				
Operating	\$ 2,912	\$ (474)	\$ 5,578	\$ 1,929
Investing	(13,788)	(22,526)	(17,052)	(24,412)
Financing	15,755	21,771	16,421	18,646
Increase (decrease) in cash	\$ 4,879	\$ (1,229)	\$ 4,947	\$ (3,837)

The increase (decrease) in net cash flow for the three months and six months ended June 30, 2014 compared to the same period in 2013 was the result of the following factors:

- Operating - cash flows from operating activities increased mainly due to higher net operating income arising from the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice, offset by the sale of 220 Portage and Humboldt Mall. In addition, the distributions related to the Class B LP units that were settled in cash in the prior periods are reinvested into trust units under the DRIP in the current periods.
- Investing - cash flows used in investing activities were primarily related to the investment in the Data Centre and the issuance of a note receivable to the other 50% limited partner of the Data Centre investment. Cash flows used in investing activities for the three months ended June 30, 2013 were primarily related to the acquisition of 4211 Yonge Street, offset by proceeds from disposition of 220 Portage.
- Financing - cash flows from financing were largely related to net proceeds on the issuance of trust units in May 2014, offset by repayments on the revolving credit facility, mortgage principal payments, and distributions paid on trust units. Cash flows from financing for the three months ended June 30, 2013 were primarily due to drawdown on the revolving credit facility of and net proceeds from mortgage financing, and distributions paid on trust units.

Unitholders' Equity

The REIT is authorized to issue an unlimited number of trust units. Each trust unit represents a proportionate undivided beneficial interest and voting right in the REIT and entitles the holder to an equal participation in distributions of the REIT. The trust units are redeemable at the option of the holder at any time. The trust units are traded on the TSX with a closing ask price of \$8.79 as at June 30, 2014.

On May 13, 2014, the REIT completed a public offering of 1,955,000 trust units and the issuance of 831,639 trust units to Huntingdon on a private placement basis at a purchase price of \$8.85 per trust unit. After deducting issuance costs of \$1.3 million, net proceeds of \$23.4 million from the May 2014 Offering and private placement were used (i) to fund the investment in the Data Centre including the Mezzanine Loan and any additional amounts payable for closing costs, (ii) to fully repay amounts drawn on the REIT's revolving credit facility, and (iii) for general corporate purposes.

On August 2, 2013, the REIT completed a public offering of 2,564,500 trust units at a purchase price of \$9.00 per trust unit. Concurrent with the August 2013 Offering, the REIT issued 425,532 trust units in a private placement to Huntingdon at a purchase price of \$9.40 per trust unit. After deducting issuance costs of \$1.5 million, net proceeds of \$25.6 million from the August 2013 Offering and private placement were used to (i) partially fund the acquisition of the Promontory, (ii) to repay amounts drawn on the revolving credit facility.

The REIT is also authorized to create and issue an unlimited number of preferred units, in one or more classes comprised of unlimited series, having terms and conditions as may be determined by the Board of Trustees from time to time. There were no preferred units created or issued during the six months ended June 30, 2014.

As at June 30, 2014, the total number of trust units outstanding was 11,940,167. As at August 7, 2014, the total number of trust units outstanding was 11,976,601.

Potential trust units:

	Number of Units	
	June 30, 2014	December 31, 2013
Class B LP Units	2,977,132	2,977,132
Warrants	1,598,550	1,598,550
	4,575,682	4,575,682

As partial consideration for the acquisition of the Initial Properties from Huntingdon, FAM LP issued 2,513,700 Class B LP Units of FAM LP to Huntingdon. The Class B LP Units are exchangeable into trust units of the REIT on a one-for-one basis, subject to anti-dilution adjustments. Each Class B LP Unit is accompanied by one special voting unit of the REIT providing the same voting rights in the REIT as the trust units of the REIT and is entitled to distributions of cash from FAM LP equal to the cash distributions paid to holders of trust units by the REIT. Huntingdon has agreed to retain all of its Class B LP Units for a minimum of twelve months following the closing date of the acquisition and thereafter to retain 1,678,740 Class B LP Units for a minimum of 24 months following the closing date, subject to dilution exceptions. The Class B LP Units are recognized in the REIT's consolidated financial statements as financial liabilities measured at fair value through profit and loss. Upon exchange into trust units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP Units on exchange date will be reclassified to unitholders' equity. During the three months ended June 30, 2014, there were no Class B LP units exchanged for the REIT's trust units.

As at June 30, 2014 and August 7, 2014, the total number of Class B LP units outstanding was 2,977,132.

Each whole warrant entitles the holder to acquire one trust unit of the REIT at an exercise price of \$10.50 per trust unit at any time until December 28, 2015. The warrants are recognized in the consolidated financial statements of the REIT as financial liabilities measured at fair value through profit or loss. Upon exercise, the carrying amount of the liability representing the fair value of the warrants on exercise date will be reclassified to unitholders' equity. The warrants are traded on the TSX with a closing ask price of \$0.035 as at June 30, 2014.

As at June 30, 2014 and August 7, 2014, the total number of warrants outstanding was 1,598,550.

Interest Rate and Capital Expenditures Subsidies

On December 28, 2012, in connection with the acquisition of the Initial Properties, the total purchase price payable by the REIT was reduced by \$4.9 million in respect of interest rate and capital expenditures subsidies. Of the amount retained, \$1.9 million will be used to subsidize the REIT's interest payments on mortgages payable (including interest paid under the interest rate swap) related to the Initial Properties to achieve a blended cash interest rate of 4.5% for the five year period to December 2017, representing the market interest rate on similar debt. The remaining \$3.0 million retained will be used to subsidize capital expenditures on the Initial Properties in excess of the normalized maintenance capital expenditure level of \$675,000 on an annual basis for the five year period to December 2017. The

capital expenditures subsidy of \$3.0 million received has been recorded as a contra account to investment properties and will be reduced as the subsidy is utilized.

The amounts retained for both the interest rate and capital expenditures subsidies can be utilized by the REIT for operational matters but must be ultimately replenished to fund the required interest payments and capital expenditures. The table below summarizes the movements related to the interest rate subsidy for the six months ended June 30, 2014:

(\$000s)	Six months ended June 30, 2014	Twelve months ended December 31, 2013
Balance, beginning of period	\$ 1,271	\$ 1,874
Amortization of interest rate subsidy	(191)	(503)
Subsidy written-off	-	(100)
Balance, end of period	\$ 1,080	\$ 1,271

The interest rate subsidy of \$0.2 million was utilized during the six months ended June 30, 2014 to reflect the blended interest rate of 4.5% on the mortgages payable related to the Initial Properties.

The table below summarizes the movements related to the capital expenditures subsidy for the six months ended June 30, 2014:

(\$000s)	Six months ended June 30, 2014	Twelve months ended December 31, 2013
Balance, beginning of period	\$ 2,736	\$ 2,991
Subsidy written-off	-	(255)
Balance, end of period	\$ 2,736	\$ 2,736

Related Party Transactions

The REIT has a management agreement with Huntingdon (the "Management Agreement") as disclosed in the Annual Financial Statements. During the three months and six months ended June 30, 2014, the REIT incurred the following costs in connection with the Management Agreement:

(\$000s)	Three months ended June 30, 2014	Three months ended June 30, 2013	Six months ended June 30, 2014	Six months ended June 30, 2013
Property management fees	\$ 224	\$ 169	\$ 454	\$ 321
Asset management fees	204	176	406	327
Leasing, financing, and construction management fees	128	84	171	120
Acquisition fees	95	433	95	433
	\$ 651	\$ 862	\$ 1,126	\$ 1,201

Property administration fees are allowable under the tenants' leases relating to assets or resources of Huntingdon that are directly attributable to the management of the REIT's properties. For the three months ended June 30, 2014, property administration fees were \$0.2 million, consistent with the same period in 2013. For the six months ended June 30, 2014, property administration fees were \$0.5 million, compared to \$0.3 million for the same period in 2013. These fees are recovered from the tenants by the REIT and payable by the REIT to Huntingdon under the terms of the Management Agreement. As at June 30, 2014, included in accounts payable is \$0.4 million due to Huntingdon (December 31, 2013 - \$0.4 million).

As at June 30, 2014, the Trust has recognized an amount receivable from Huntingdon of \$0.1 million (December 31, 2013 - \$0.2 million) related to environmental work required on certain of the Initial Properties for which the Trust will be reimbursed by Huntingdon in accordance with the acquisition agreement.

Section 5 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND KEY ESTIMATES

Significant Accounting Policies

The condensed consolidated interim financial statements were prepared using the same accounting policies as set out in the audited consolidated financial statements for the year ended December 31, 2013, with the exception of the new application of IFRS 11, Joint Arrangements, in the current period related to the equity accounted investment and the adoption of IFRIC 21, Levies (“IFRIC 21”) described below.

A joint arrangement is a contractual arrangement in which the REIT has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements’ returns. The REIT classifies joint arrangements as either joint operations or joint ventures. As at June 30, 2014, the REIT has no joint operations, and one joint venture. The REIT’s interest in a joint venture, which is an arrangement wherein the parties have rights to the net assets, is accounted for using the equity method.

Effective January 1, 2014, the REIT adopted IFRIC 21, *Levies* (“IFRIC 21”), which provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation, and clarifies when a liability for a levy should be recognized. IFRIC 21 did not have an impact on the condensed consolidated interim financial statements.

Recent accounting pronouncements

IFRS 9, *Financial Instruments* (“IFRS 9”), replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The tentative effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Estimates are

based on historical experience and on various assumptions that are reasonable under the circumstances. Actual results could differ from the estimated amounts.

Critical Judgments

The critical judgments made by management, apart from those involving estimations, that have the most significant effect on the reported amounts of assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the period are as follows:

Business combinations

The REIT makes certain judgments based on relevant facts and circumstances to determine whether a set of assets acquired and liabilities assumed constitute a business accounted for as a business combination. The REIT has determined that the acquisition of the Initial Properties on December 28, 2012 constituted an asset acquisition.

Leases

The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms where the lessee is the sole tenant in a property and long-term ground leases where the REIT is the lessee, are operating or finance leases. The REIT has determined that none of its leases are finance leases.

Income taxes

The REIT has determined that it is not subject to income taxes as it intends to continue to meet prescribed conditions under the Income Tax Act (Canada) and make distributions not less than the amount necessary to ensure that it is not liable to pay income taxes under current tax legislation.

Assets and liabilities held for sale

The REIT makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. As at June 30, 2014, the REIT has determined that there were no assets or group of assets and liabilities that met the specified criteria.

Key Estimates

The key estimates and assumptions made by management about the future and other major sources of estimation uncertainty at the date of the consolidated financial statements that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Valuation of investment properties

The fair values of investment properties are determined by management using recognized valuation techniques with a portion of fair values supported by qualified third party appraisers. The critical estimates and assumptions underlying the valuation of investment properties include, among other things, rental revenue from current leases, rental revenue from future leases in light of current conditions, future cash outflows in respect of leasing costs, capital expenditures, property operations, and capitalization and discount rates based on market data within the applicable market segment and geographic location. Changes to the estimates and assumptions used by management or to local and general economic conditions can result in a significant change to the valuation of investment properties, which will be recognized as fair value adjustments during the periods the changes occur.

Section 6 RISKS AND UNCERTAINTIES

For a full list and explanation of the REIT's risks and uncertainties, please refer to the REIT's Annual Information Form for the year ended December 31, 2013, available on SEDAR at.

In the normal course of business, the REIT is exposed to financial risks that arise from its financial instruments. The mandate of the REIT's Board of Trustees includes identifying and managing the REIT's risk exposure. Other than the use of interest rate swaps to reduce the impact of floating rate mortgages, the REIT does not use hedging transactions to manage risk. As a part of the overall operation of the REIT, management takes steps to avoid undue concentrations of risks. The following describes the types of risks that the REIT is exposed to and its objectives and policies for managing those risk exposures:

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty in meeting its debt and other financial obligations as they mature. Refer to the discussion under "Section 4 – Financial Condition on Liquidity and Capital Resources" of the REIT.

Interest rate risk

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows or fair values of the REIT's financial instruments. The Canadian economy in recent years has been in a low interest rate environment. A reversal of this trend, however, could significantly affect the REIT's ability to meet its financial obligations. Interest rate cash flow risk is minimized by the REIT by having the majority of its mortgages on fixed term arrangements. In addition, the maturity dates of mortgages are staggered over a number of years to reduce the exposure in any one year. The REIT also utilizes interest rate swaps to fix interest rates on its floating rate mortgages. As at June 30, 2014, the REIT had three interest rate swaps outstanding with a notional amount of \$50.9 million.

As at June 30, 2014, excluding the mortgages associated with interest rate swaps, the REIT had no floating rate mortgages.

The REIT is required under the revolving credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity balance at all times. As at June 30, 2014, the REIT is compliant with all financial covenants under the revolving credit facility.

Credit risk

Credit risk is the risk that the REIT incurs a loss as a result of a counterparty not fulfilling its financial obligation. Credit risk is associated with the REIT's cash, restricted cash and accounts receivable. The REIT controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings and investing cash in large financial institutions with strong credit ratings. The REIT has credit policies to address credit risk which are applied during lease negotiations and may include an analysis of the financial position of the debtor; and a review of credit limits, credit history and credit performance. In the event of a tenant default, delays or limitations in enforcing rights of the lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of the REIT's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the REIT. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information. As at June 30, 2014, the allowance for doubtful accounts or any other impairment provisions recognized in the REIT's consolidated financial statements was \$0.1 million.

Lease Rollover Risk

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. In addition, the terms of any subsequent leases may be less favourable than the existing lease terms. The REIT's ability to re-lease vacant space upon their lease expiry is affected by many factors. The failure to lease vacant space on a timely basis or at all could have a material adverse effect on the REIT's financial condition and results of operations.

To mitigate lease rollover risk, the REIT attempts to stagger its lease expiry profile so that the REIT is not faced with disproportionate amounts of space expiring in any one year. Management further mitigates this risk by maintaining a diversified portfolio of properties both by asset class and geographic location.

The following tables summarizes the weighted average remaining lease term by asset class and geographic location:

	Weighted Average Remaining Lease Term (years)			Weighted
	As at June 30, 2014			average
	Industrial	Office	Retail	remaining lease
				term by province
Manitoba	3.5	3.6	8.4	3.9
Ontario	11.9	3.4	-	6.6
Saskatchewan	-	0.7	-	0.7
Alberta	9.3	-	2.8	8.4
Northwest Territories	-	-	1.9	1.9
Weighted average remaining lease term by asset class	7.0	3.3	6.4	5.1

The following table outlines the expiries of tenant leases, by square footage, with respect to the REIT's property portfolio as at June 30, 2014:

	Lease Expiries by Asset Class							Total
	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	
Industrial								
Sq. ft. (000s)	-	136	-	48	89	36	462	771
Sq. ft. (%)	-	17.7%	-	6.2%	11.5%	4.7%	59.9%	100.0%
Office								
Sq. ft. (000s)	6	118	109	239	45	194	212	923
Sq. ft. (%)	0.6%	12.8%	11.8%	25.9%	4.9%	21.0%	23.0%	100.0%
Retail								
Sq. ft. (000s)	-	-	-	23	3	1	68	95
Sq. ft. (%)	-	-	-	24.2%	3.2%	1.0%	71.6%	100.0%
Total Sq.ft. (000s)	6	254	109	310	137	231	742	1,789

	Lease Expiries by Geographic Location (sq. ft. in 000s)							Total
	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	
Manitoba	-	210	47	98	107	109	331	902
Ontario	4	29	19	189	23	85	345	694
Saskatchewan	2	15	43	-	4	-	-	64
Alberta	-	-	-	10	-	37	66	113
Northwest Territories	-	-	-	13	3	-	-	16
Total Sq.ft. (000s)	6	254	109	310	137	231	742	1,789
Percentage (%)	0.3%	14.2%	6.1%	17.3%	7.7%	12.9%	41.5%	100.0%

Environmental Risks

The REIT is subject to various federal, provincial and municipal laws relating to environmental matters, primarily dealing with costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the REIT's ability to sell or finance affected assets, and potentially result in claims against the REIT. Management is not aware of any material non-compliance with environmental laws or regulations with respect to the REIT's properties or of any pending or threatened investigations, actions, or claims against the REIT relating to environmental matters.

Land Leases

The REIT has one single tenant property that is situated on land leased from the Winnipeg Airport Authority in Winnipeg, Manitoba. There can be no assurance that the Winnipeg Airport Authority will renew the ground lease upon expiry in 2036. If the ground lease is not renewed, or if the REIT defaults under the ground lease, the REIT would be unable to operate the building situated on the leased land and may be required to relocate the tenant to comparable space. Under this circumstance, the REIT may seek to acquire the replacement property. There can be no assurance that such property will be available for acquisition on favourable terms to the REIT or that any such acquired property will

generate anticipated operating results. If the REIT is unable to provide alternative suitable space for its tenant, including construction of new buildings, the REIT would lose its tenant.

Income taxes

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under the Income Tax Act (Canada), so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to its unitholders in order to avoid paying income taxes. In the event that the REIT fails to meet the REIT Conditions or to distribute the required amount of income to its unitholders, the REIT will be subject to current taxes at the combined Canadian federal and provincial tax rate. The applicable combined Canadian federal and provincial tax rate as at June 30, 2014 was 45.0%. As at June 30, 2014, the REIT has satisfied the REIT Conditions and is not liable to pay Canadian income taxes.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of properties will compete with the REIT in seeking tenants. Some of the properties located in the same markets as the REIT’s properties are newer, better located, less levered or have stronger tenant profiles than the REIT’s properties. Some owners with properties located in the same markets as the REIT’s properties may be better capitalized and may be stronger financially and hence better able to withstand an economic downturn. Competition from developers, managers and owners in the markets in which the REIT operates could have a negative effect on the REIT’s ability to lease space, rental rates charged, or concessions granted, which could have an adverse effect on the REIT’s financial condition and results of operation and decrease the amount of cash available for distribution to unitholders.

Competition for acquisitions of real properties can be intense and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that the REIT may be prepared to accept. Increases in the availability of funds from investors and interests in real property investments, or a decrease in interest rates may increase competition, thereby increasing the prices paid by the REIT for property acquisitions and reducing the yield on the investments.

Current Economic Environment

Continued concerns and uncertainties surrounding inflation, deflation or stagflation, and the systemic impact of increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the Canadian mortgage market and a softening commercial real estate market can contribute to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect the REIT’s ability to maintain occupancy rates and generate revenues, thereby reducing its operating income and net earnings. If these economic conditions continue, the REIT’s tenants and operators may be unable to meet their rental payments and other obligations due to the REIT, which could have a material adverse effect on the REIT’s financial position.

Section 7 DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109").

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the REIT's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The REIT has adopted the *Internal Control – Integrated Framework (1992)* published by the Committee of Sponsoring Organizations of the Treadway Commission for the design of its ICFR for the six months ended June 30, 2014.

As required by NI 52-109, the REIT's CEO and CFO have evaluated the effectiveness of the REIT's DC&P and ICFR. Based on such evaluations, they have concluded that the design and operation of the REIT's DC&P and ICFR, as applicable, are adequately designed and effective, as at June 30, 2014. No changes were made in the REIT's design of ICFR during the six months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Appendix A – Property Table as at June 30, 2014

A summary of details of the REIT's property portfolio as at June 30, 2014 is set out in the table below.

Asset Class	Property Name	City, Province	Year Built / Renovated / Expanded	(sq. ft.)	GLA Occupancy
INDUSTRIAL					
1.	35 Martin Way	Brooks, AB	2005	28,400	100.0%
2.	5404 36th Street SE	Calgary, AB	1980	36,000	100.0%
3.	7001 96th Street	Grande Prairie, AB	1980	33,280	100.0%
4.	891 – 895 Century Street	Winnipeg, MB	1961 / 1968	51,841	100.0%
5.	110 Lawson Crescent	Winnipeg, MB	1996	60,903	100.0%
6.	130 Lawson Crescent	Winnipeg, MB	1999	25,672	100.0%
7.	119 – 130 Plymouth Street	Winnipeg, MB	1977 / 1999	43,364	100.0%
8.	1271 Sargent Avenue	Winnipeg, MB	1981 / 1984	40,893	100.0%
9.	1855 Sargent Avenue	Winnipeg, MB	1953 / 1998	77,500	100.0%
10.	1935 Sargent Avenue ⁽¹⁾	Winnipeg, MB	1962 / 1997	113,864	100.0%
11.	505 Industrial Drive	Milton, ON	1987 / 1991	258,960	100.0%
TOTAL – INDUSTRIAL				770,677	100.0%
OFFICE					
12.	Saskatchewan Place	Regina, SK	1985	84,243	76.7%
13.	280 Broadway Avenue ⁽²⁾	Winnipeg, MB	1957	115,354	96.7%
14.	585 Century Street ⁽³⁾	Winnipeg, MB	1959	9,680	100.0%
15.	220 Cree Crescent	Winnipeg, MB	1980	18,000	100.0%
16.	1680 Ellice Avenue ⁽³⁾	Winnipeg, MB	1980	29,843	89.8%
17.	1700 Ellice Avenue ⁽³⁾	Winnipeg, MB	1956/1959 ⁽⁶⁾	30,268	100.0%
18.	1030 – 1040 Empress Street	Winnipeg, MB	1956 / 1983	33,478	100.0%
19.	114 Garry Street	Winnipeg, MB	1950 / 1995	74,248	100.0%
20.	1336 – 1340 Sargent Avenue	Winnipeg, MB	1950 / 1995	42,092	100.0%
21.	895 Waverley Street	Winnipeg, MB	1991	34,364	100.0%
22.	1000 Waverley Street	Winnipeg, MB	1966 / 1998	58,515	91.2%
23.	4211 Yonge Street ⁽⁴⁾	Toronto, ON	1982	170,732	95.1%
24.	1189 Colonel Sam Drive	Oshawa, ON	2001	103,179	100.0%
25.	The Promontory ⁽⁵⁾	Mississauga, ON	1987/1989	159,752	100.0%
TOTAL – OFFICE				963,748	95.8%
RETAIL					
26.	125 – 185 First Street	Cochrane, AB	1998	15,757	100.0%
27.	Flin Flon Wal-Mart	Flin Flon, MB	2002	63,439	100.0%
28.	Airport Road Shopping Centre	Yellowknife, NWT	2001 / 2003 ⁽⁷⁾	15,475	100.0%
TOTAL – RETAIL				94,671	100.0%
TOTAL PROPERTIES				1,829,096	97.8%

Notes:

- (1) Leasehold interest with ground lease expiring in 2036.
- (2) Includes a seven-storey office building at 280 Broadway Avenue, a three-storey multi-family residential building located at 70 Smith Street and two parking lots located at 286 Broadway Avenue and 68 Smith Street; excludes occupancy from the residential tenants at 70 Smith Street.
- (3) 1680 Ellice Avenue, 1700 Ellice Avenue and 585 Century Street comprise the Century Business Park.
- (4) The REIT acquired 4211 Yonge Street on May 1, 2013.
- (5) The REIT acquired The Promontory on August 14, 2013.
- (6) The REIT acquired 1700 Ellice Avenue on December 20, 2013.
- (7) The Airport Road Shopping Centre consists of two buildings. 307 Old Airport Road was originally built in 1993 and subsequently renovated in 2003. 309 Old Airport Road was originally built in 1982 and subsequently renovated in 2001.