

# **FAM REAL ESTATE INVESTMENT TRUST**

**Management's Discussion and Analysis  
of Results of Operations and Financial Condition  
For the three months and twelve months ended December 31, 2013**

**Dated March 6, 2014**

## MESSAGE TO FELLOW UNITHOLDERS

In the year since completing our IPO, we have improved FAM REIT's overall asset quality, geographic mix, financial leverage, and liquidity profile. While there is remaining work ahead for us in order to transform FAM REIT into a leading blue chip diversified REIT, we believe all of the initiatives undertaken to date have been made with this long-term goal in mind.

We are a performance driven organization, and this is evident in our results. We finished 2013 with a year-end occupancy rate of 98.2%, up from 97.4% at the end of 2012. This rate was superior to the IPO forecast, which predicted 93.6% and 95.2% occupancy rates at the end of 2013 on an all-property and same-property basis, respectively. Our same-property net operating income for 2013 was \$13.9 million, or 6.8% ahead of our IPO forecast. In achieving these operational results, I would like to personally thank all members of our team who have worked diligently to maximize tenant retention, lease vacant space and have been and are continuing to be proactively engaged with our tenants to optimize their long-term space requirements.

Our FFO - Core and AFFO – Core on a per unit basis for 2013 came in at \$0.96 and \$0.79, respectively, both in-line with the IPO forecast. These per unit results were achieved despite deleveraging, from 53.8% at the end of 2012, to 52.2% at the end of 2013, well below the maximum 65% as per our Declaration of Trust. While our results could have been higher on a per unit basis had we operated with higher financial leverage, we have strategically invested in deleveraging as an important risk management tool in order to navigate the current environment. Simply put, we are cautious of potentially rising long-term interest rates and heightened capital market volatility. This is an example of how our short and medium term decision making is calibrated with our long-term strategic objectives.

Looking ahead, we have a number of opportunities to improve FAM REIT's lease expiration profile, and we are focused on accretively investing capital to improve our properties in conjunction with securing long-term lease commitments. We believe there are a number of value creation opportunities embedded within our properties to increase base rents, reduce operating costs and improve building quality, while enhancing environmental sustainability. In a similar vein, we also intend to continue to recycle capital where we believe properties no longer fit our long-term objectives and/or represent excellent opportunities to lower FAM REIT's overall cost of capital.

We believe that the investment community has begun to recognize the progress we have made in building a quality diversified commercial REIT, and I am pleased to report that there are now four investment banks formally providing research coverage of FAM REIT. While our small size, relative newness to the REIT market and limited trading liquidity of our trust units remain important hurdles to overcome, I appreciate the efforts made by several of my former colleagues in the research analyst community to raise awareness of FAM REIT with individual and institutional investors.

We believe that FAM REIT is well-positioned to navigate the current environment and we are excited about the future. I would like to thank our investors for their trust and continued support.

Sincerely yours,

Shant Poladian, CPA (US), CPA, CA  
Chief Executive Officer

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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 three and twelve months ended December 31, 2013 has been prepared and includes material financial information as of March 6, 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, 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](http://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 March 6, 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](http://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.

#### ***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.

#### ***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 and finance costs.

### ***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 issued and revised in September 2010 and November 2012. 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; and distributions on Class B LP units.

In calculating AFFO – As Reported, the REIT makes certain adjustments to FFO – As Reported for other non-cash items including: amortization of straight-line rent; accretion on the vendor take-back loan; amortization of deferred transaction costs; and fair value adjustments to interest rate swaps; capital expenditures (recoverable and non-recoverable) and capitalized leasing costs; 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 and aborted transaction costs. 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***

The REIT calculates its leverage ratio as the average debt outstanding 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. Debt to EBITDA leverage ratio is a widely used and meaningful metric for the assessment of creditworthiness and debt default probability. This metric 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.

***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, 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 payable on the 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 March 6, 2014.

## Financial Highlights and Key Performance Indicators

(\$000s unless otherwise noted and except per unit amounts)	Three months ended December 31, 2013	Forecast - Three	Forecast - Twelve	
		months ended December 31, 2013 <sup>(1)</sup>	months ended December 31, 2013	months ended December 31, 2013 <sup>(1)</sup>
Revenue from investment properties	\$ 8,228	\$ 5,793	\$ 28,478	\$ 23,525
Net operating income	4,823	3,491	17,559	14,305
Same-property net operating income	3,332	3,178	13,868	12,985
Net income and comprehensive income	1,827	1,437	14,215	6,127
Funds from operations – As Reported	3,141	1,935	10,927	8,046
Funds from operations – Core	2,703	1,935	9,281	8,046
FFO per unit (basic and diluted <sup>(2)(4)</sup> ) – As Reported	\$ 0.27	\$ 0.23	\$ 1.13	\$ 0.96
FFO per unit (basic and diluted <sup>(2)(4)</sup> ) – Core	\$ 0.23	\$ 0.23	\$ 0.96	\$ 0.96
Adjusted funds from operations – As Reported	2,186	1,571	6,746	6,665
Adjusted funds from operations – Core	2,126	1,571	7,611	6,665
AFFO per unit (basic and diluted <sup>(2)(4)</sup> ) – As Reported	\$ 0.19	\$ 0.19	\$ 0.70	\$ 0.80
AFFO per unit (basic and diluted <sup>(2)(4)</sup> ) – Core	\$ 0.18	\$ 0.19	\$ 0.79	\$ 0.80
Distributions per unit – basic and diluted <sup>(2)(3)</sup>	\$ 0.19	\$ 0.19	\$ 0.75	\$ 0.75
AFFO – Core pay-out ratio <sup>(3)(4)</sup>	106%	100%	95%	94%
Cash distributions per unit – basic and diluted <sup>(2)(3)</sup>	\$ 0.13	\$ 0.19	\$ 0.64	\$ 0.75
AFFO – Core pay-out ratio, net of DRIP <sup>(3)(4)</sup>	72%	100%	81%	94%
Net operating income by asset class				
Industrial	\$ 1,448	\$ 1,409	\$ 5,789	\$ 5,589
Office	2,999	1,709	10,153	7,224
Retail	376	373	1,617	1,492
	\$ 4,823	\$ 3,491	\$ 17,559	\$ 14,305
Net operating income by geographic location				
Manitoba	\$ 1,706	\$ 1,810	\$ 7,523	\$ 7,469
Ontario	2,210	804	6,158	3,215
Saskatchewan	291	266	1,404	1,237
Alberta	484	481	1,950	1,864
Northwest Territories	132	130	524	520
	\$ 4,823	\$ 3,491	\$ 17,559	\$ 14,305
Interest coverage ratio (times)	2.9x	2.6x	2.7x	2.7x
Debt to EBITDA leverage ratio (times)*	8.0x	NF	8.4x	NF
Debt service coverage ratio (times)	1.8x	NF	1.7x	NF
Indebtedness ratio (%)*	52.2%	NF		
Weighted average mortgage interest rate*	4.7%	NF		
Same-property occupancy*	98.2%	95.2%		
Occupancy*				
Industrial	100.0%	100.0%		
Office	96.5%	89.6%		
Retail	100.0%	82.9%		
	98.2%	93.6%		
Square footage leased (sq. ft)*	1,795,277	1,553,431		
Rentable square footage (sq. ft.)*	1,828,574	1,659,633		

\* at period – end

NF = Not forecasted

(1) For information purposes only, select forecast financial information for the three months and twelve months ended December 31, 2013 has been included in this MD&A, based on the financial forecast in the initial public offering documents.

(2) 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.

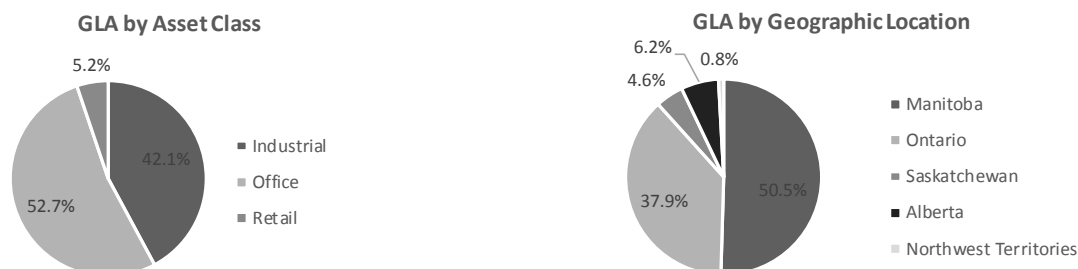
(3) Excludes distributions related to the four-day stub period from December 28, 2012 to December 31, 2012.

(4) The reconciliation between FFO – As Reported and FFO – Core is on page 24 of this MD&A. The reconciliation between AFFO – As Reported and AFFO – Core is on page 26 of this MD&A.



## Financial and Operational Highlights

### Twelve Months Ended December 31, 2013



The REIT did not have operations for the period from the date of formation, August 27, 2012 to December 28, 2012. To better assist investors gain insight into the REIT's performance, we have included the initial public offering ("IPO") forecast for the three months and twelve months ended December 31, 2013 for comparative purposes.

### Portfolio Performance

Overall portfolio occupancy was 98.2% as at December 31, 2013, up from 97.1% as at September 30, 2013. The sequential improvement in overall occupancy was the result of the acquisition of 1700 Ellice in Winnipeg, Manitoba, which was 100.0% occupied, the disposition of Humboldt Mall in Humboldt, Saskatchewan, which had an occupancy rate of 81.6%, lease up of vacant space in Toronto and Winnipeg, and partly offset by office space turnover in Regina. We expect modest additional turnover in Regina during 2014 as we work to optimize the long-term leasing profile and tenant mix through new leasing, relocations, early renewal and tenant expansion.

On a same-property basis, occupancy was also 98.2% as at December 31, 2013, which was well ahead of the forecasted occupancy rate of 95.2% driven by higher than forecasted tenant retention and lease-up of vacant space.

The REIT achieved NOI of \$4.8 million for the three months and \$17.6 million for the twelve months ended December 31, 2013 compared to the IPO forecast of \$3.5 million and \$14.3 million for the same periods. NOI was ahead of IPO forecast due to higher than forecasted tenant retention, lease-up of vacant space, and the acquisitions of 4211 Yonge and The Promontory office buildings in the Greater Toronto Area. These were slightly offset by the sale of 220 Portage and office space turnover in Regina.

NOI for the three months ended December 31, 2013 was negatively impacted by adverse weather conditions across Central Canada and resulted in higher repairs and maintenance, snow removal and utility costs of \$0.2 million, which were not fully recoverable from certain tenants under their respective lease arrangements. The negative impact is evident when comparing the NOI margin for the three months ended December 31, 2013 at 58.6% to the nine months ended September 30, 2013 at 62.9%. For the twelve months ended December 31, 2013, the NOI margin was 61.7%, slightly higher than the IPO forecast of 60.8%.

### **Funds From Operations (As Reported and Core)**

FFO – As Reported per unit was \$0.27 for the three months ended December 31, 2013. After adjusting for a \$0.03 per unit (\$0.4 million) fair value gain on interest rate swaps and a \$0.01 per unit (\$0.1 million) reimbursement of aborted transaction costs, FFO – Core per unit was \$0.23, consistent with the IPO forecast of \$0.23 per unit.

FFO – As Reported per unit was \$1.13 for the twelve months ended December 31, 2013. Items of note were: (i) \$0.18 per unit (\$1.8 million) fair value gain on interest rate swaps, (ii) \$0.08 per unit (\$0.7 million) gain from mark-to-market adjustments on mortgages that were refinanced or repaid during the period, (iii) \$0.06 per unit (\$0.6 million) of defeasance costs related to the discharge of the 220 Portage mortgage, which was incurred in conjunction with the disposition of this property, and (iv) \$0.03 per unit (\$0.3 million) of aborted transaction costs. After adjusting for these items, FFO – Core per unit was \$0.96 and consistent with the IPO forecast of \$0.96 per unit.

### **Adjusted Funds From Operations (As Reported and Core)**

AFFO – As Reported and AFFO – Core per unit was \$0.19 and \$0.18 for the three months ended December 31, 2013, respectively, compared to the IPO forecast of \$0.19 per unit. AFFO – Core for the fourth quarter would have been \$0.21, or \$0.02 ahead of forecast if leasing costs of \$0.03 per unit (or \$0.4 million) associated with the lease-up of 21,400 sf of vacant space in Toronto and Winnipeg were excluded.

As previously disclosed in our MD&A for the third quarter of 2013, the 21,400 sf of vacant space lease-up increased occupancy in the fourth quarter of 2013 and is projected to generate approximately \$0.5 million of gross annual rental revenue for a weighted average lease term of 10.7 years.

AFFO – As Reported per unit was \$0.70 for the twelve months ended December 31, 2013. Items of note were: (i) \$0.06 per unit (\$0.6 million) of defeasance costs related to the discharge of the 220 Portage mortgage which was incurred in conjunction with the disposition of this property, and (ii) \$0.03 per unit (\$0.3 million) of aborted transaction costs. After adjusting for these items, AFFO – Core per unit was \$0.79 and in line with the IPO forecast of \$0.80. Excluding the \$0.10 per unit (or \$0.9 million) of leasing costs associated with the lease up of 21,400 sf of vacant space, AFFO – Core for the year would have been \$0.89 per unit.

### **Pay-out Ratio**

The distribution payout ratio as a percentage of AFFO – Core was 106% for the three months ended December 31, 2013, which was above the IPO forecast of 100%. This was due to lower AFFO – Core associated with the above noted leasing costs incurred during the quarter. Excluding the \$0.03 per unit of leasing costs associated with the lease up of 21,400 sf of vacant space, the distribution payout ratio as a percentage of AFFO – Core would have been 90%.

The distribution payout ratio as a percentage of AFFO – Core was 95% for the twelve months ended December 31, 2013, which was slightly above the IPO forecast of 94%. Excluding \$0.10 per unit of leasing costs associated with the lease up of 21,400 sf of vacant space, the distribution payout ratio as a percentage of AFFO – Core would have been 84%.

## **Net Income**

Net income for the three months ended December 31, 2013 was \$1.8 million, higher than the forecasted \$1.4 million. The difference was largely due to the higher than forecasted NOI of \$1.3 million and the fair value gain on interest rate swap of \$0.4 million. These were partially offset by the fair value loss on investment properties of \$0.8 million and the higher mortgage interest expense of \$0.5 million related to the acquisition of both 4211 Yonge and The Promontory.

Net income for the twelve months ended December 31, 2013 was \$14.2 million, ahead of the \$6.1 million forecast. Higher than forecasted NOI accounted for \$3.3 million of the positive variance, while the balance was driven by fair value gains on financial instruments of \$4.2 million, investment properties of \$1.2 million, and interest rate swaps of \$1.8 million. These positive variances were slightly offset by a number of factors, which primarily related to higher mortgage interest expense of \$1.0 million associated with the acquisition of both 4211 Yonge and The Promontory, higher general and administration expense of \$1.0 million, and \$0.6 million of defeasance costs.

## **Recent Developments**

### ***Acquisition of investment properties***

On May 1, 2013, the REIT acquired 4211 Yonge, an approximately 170,000 square foot office building in Toronto, Ontario, for \$43.1 million, plus acquisition costs of \$0.8 million. Financing for the acquisition consisted of a \$25.0 million mortgage, approximately \$13.5 million of net cash proceeds from the disposition of 220 Portage, and the remaining balance from the REIT's existing liquidity.

On August 14, 2013, the REIT acquired The Promontory, an approximately 160,000 square foot Class A office complex on an 11.1 acre site in Mississauga, Ontario, for \$39.0 million, plus acquisition costs of \$1.1 million. The financing for the acquisition consisted of a \$23.0 million mortgage, with the balance funded from the August 2013 equity offering.

On December 20, 2013, the REIT acquired 1700 Ellice, an approximately 30,000 square foot, fully occupied office building in Winnipeg, Manitoba from Huntingdon for \$4.0 million plus acquisition costs of \$0.1 million. The purchase price was settled through the issuance of 466,094 Class B LP units, at a price of \$8.58 per unit.

### ***Disposition of investment properties***

On April 30, 2013, the REIT completed the sale of its 50% interest in 220 Portage in Winnipeg, Manitoba for \$20.5 million, subject to certain adjustments. After taking into account the repayment of the existing first mortgage, debt extinguishment costs and closing adjustments, net cash proceeds from the disposition was \$13.5 million.

On December 30, 2013, the REIT completed the sale of Humboldt Mall in Humboldt, Saskatchewan for \$1.9 million. Net cash proceeds from the disposition were \$1.8 million after transaction costs.

## ***Equity offering***

On August 2, 2013, in connection with the acquisition of The Promontory, the REIT completed a public offering of 2,230,000 trust units, at a price of \$9.00 per trust unit, for gross proceeds of approximately \$20.1 million (the “Offering”). The REIT also granted the underwriters an over-allotment option to purchase up to an additional 334,500 trust units on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the offering (the “Over-Allotment Option”). On August 2, 2013, the underwriters exercised the Over-Allotment Option and purchased 334,500 trust units for gross proceeds of \$3.0 million.

Concurrent with the closing of the Offering, the REIT issued 425,532 trust units on a private placement basis to Huntingdon Capital Corp. (“Huntingdon”), the manager of the REIT, at a purchase price of \$9.40 per trust unit for gross proceeds of \$4.0 million.

After deducting issuance costs of \$1.5 million, net proceeds of \$25.6 million from the Offering, private placement, and Over-Allotment Option were used to partially fund the acquisition of The Promontory and to repay amounts drawn on the revolving credit facility.

## **Section 2 BUSINESS OVERVIEW**

### **Current Business Environment**

#### **Fundamentals**

The Canadian commercial real estate industry has been buoyed over the past several years by healthy underlying property demand fundamentals, low vacancy rates across all major property sectors, and minimal new supply. More recently, new supply risks have emerged across major downtown Class A office markets including Toronto, Calgary and Vancouver. [A diversified portfolio approach helps to manage downside risk associated with changing demand and supply fundamentals in any one particular asset class or market.](#)

#### **Valuations**

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

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.

### **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. During the second quarter of 2013, long-term government bond yields 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 2.7%). 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 the same path over this period.

Global capital markets initially 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. We expect this will continue to drive capital market volatility in the months ahead.

As a result, Canadian REITs, which had benefitted from a nearly uninterrupted bull market since early 2009, experienced its first major correction post the global financial crisis. In contrast, sectors which are more sensitive to economic growth significantly outperformed Canadian REITs, and the resulting sector rotation continues to drive investor fund flows out of REITs into other equities. To the extent that government bond yields further increase, we believe that the REIT sector remains vulnerable in the near term to further downward pressure on unit prices.

### **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 Capital Corp. (“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 a well-balanced mix 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 December 31, 2013					As at December 31, 2012	
	Industrial	Office	Retail	Total	%	Total	%
Manitoba	414,037	445,320	63,439	<b>922,796</b>	<b>50.5%</b>	978,194	58.9%
Ontario	258,960	433,663	-	<b>692,623</b>	<b>37.9%</b>	362,139	21.8%
Saskatchewan	-	84,243	-	<b>84,243</b>	<b>4.6%</b>	190,388	11.5%
Alberta	97,680	-	15,757	<b>113,437</b>	<b>6.2%</b>	113,437	6.8%
Northwest Territories	-	-	15,475	<b>15,475</b>	<b>0.8%</b>	15,475	0.9%
<b>Total</b>	<b>770,677</b>	<b>963,226</b>	<b>94,671</b>	<b>1,828,574</b>	<b>100.0%</b>	1,659,633	100.0%
<b>Percentage (%)</b>	<b>42.1%</b>	<b>52.7%</b>	<b>5.2%</b>	<b>100.0%</b>			
As at December 31, 2012							
Total	770,671	688,146	200,816	1,659,633			
Percentage (%)	46.4%	41.5%	12.1%	100.0%			

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

	Occupancy Rate (%)				As at December 31, 2012 Total
	As at December 31, 2013				
	Industrial	Office	Retail	Total	
<b>Manitoba</b>	100.0%	97.3%	100.0%	<b>98.7%</b>	97.7%
<b>Ontario</b>	100.0%	98.6%	-	<b>99.1%</b>	100.0%
<b>Saskatchewan</b>	-	82.0%	-	<b>82.0%</b>	89.3%
<b>Alberta</b>	100.0%	-	100.0%	<b>100.0%</b>	99.0%
<b>Northwest Territories</b>	-	-	100.0%	<b>100.0%</b>	100.0%
<b>Total</b>	<b>100.0%</b>	<b>96.5%</b>	<b>100.0%</b>	<b>98.2%</b>	97.4%
As at December 31, 2012					
	100.0%	96.5%	90.1%	97.4%	

## Outlook

Multiple initiatives were undertaken during 2013 and early 2014 to manage downside risk and build an “all weather” REIT, which is capable of successfully navigating through the full commercial real estate cycle. These included an expanded primary market presence through several high quality acquisitions, lower leverage, enhanced liquidity, lengthened term to maturity of mortgage debt, and executed an early extension of the secured revolving credit facility’s maturity date from November 2014 to November 2015.

FAM REIT is well positioned in the current environment. There are no mortgage debt maturities during 2014, our secured revolving credit facility limit was recently increased from \$14 million to \$17 million, and the DRIP participation rate currently stands at 32%, generating \$2.9 million of annual cash retention, which can be used to prudently reinvest the retained cash flow and/or to fund additional deleveraging.

Based on our current outlook of leasing activity, we expect FAM REIT’s occupancy to remain above 96% throughout 2014 with tenant retention in the range of approximately 90%, assuming no acquisitions, dispositions or redevelopment initiatives.

On February 19, 2014, Huntingdon announced that it has commenced a strategic review process to enhance shareholder value. Huntingdon has assured FAM REIT of its continued sponsorship of FAM REIT and commitment to the management of FAM REIT during its review.

In response, FAM REIT announced on February 20, 2014, that it has formed a Special Committee comprised of its Independent Trustees, Chaired by Gary Samuel, FAM REIT’s Lead Independent Trustee. 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.

## 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 and except per unit amounts)	Three months ended	Forecast – Three months ended	Twelve months ended	Forecast – Twelve months ended
	December 31, 2013	December 31, 2013 <sup>(1)</sup>	December 31, 2013	December 31, 2013 <sup>(1)</sup>
Revenue from investment properties	\$ 8,228	\$ 5,793	\$ 28,478	\$ 23,525
Property operating expenses	(3,405)	(2,302)	(10,919)	(9,220)
Net operating income	\$ 4,823	\$ 3,491	\$ 17,559	\$ 14,305
General and administration	\$ (351)	\$ (363)	\$ (2,425)	\$ (1,452)
Finance costs, net	(1,851)	(1,691)	(6,169)	(6,726)
Fair value adjustment to financial instruments	71	-	4,193	-
Fair value adjustment on investment properties	(777)	-	1,232	-
Loss on disposal of investment properties	(88)	-	(175)	-
Net income and comprehensive income	\$ 1,827	\$ 1,437	\$ 14,215	\$ 6,127
Total assets*	271,265	NF		
Total debt <sup>(2)*</sup>	141,484	NF		

\* at period-end

NF = Not forecasted

(1) For information purposes only, select forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A. Forecast net income does not include any fair value adjustments to investment properties or financial instruments; or the interest rate swaps which would be included in finance costs.

(2) Includes mortgages payable, vendor take-back loan, and amounts drawn under revolving credit facility.

### 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.

Revenue from investment properties of \$8.2 million for the three months and \$28.5 million for the twelve months ended December 31, 2013 were ahead of forecasted revenue due to incremental revenues from the acquisitions of 4211 Yonge and The Promontory, higher same-property occupancy and tenant retention, which were partially offset by the sale of 220 Portage.

#### Property Operating Expenses

Property operating expenses consists 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 \$3.0 million for the three months and \$9.8 million for the twelve months ended December 31, 2013.

Property operating expenses of \$3.4 million for the three months and \$10.9 million for the twelve months ended December 31, 2013 were slightly higher than forecasted property operating expenses

due to incremental expenses from the acquisitions of 4211 Yonge and The Promontory, offset by the sale of 220 Portage and lower repairs and maintenance costs.

Operating cost recoveries as a percentage of property operating costs were 88% for the three months and 90% for the twelve months ended December 31, 2013. The operating cost recovery in the three months ended December 31, 2013 was negatively impacted by adverse weather conditions across most of Canada and resulted in higher snow removal and utility costs, which were not fully recoverable from certain tenants under their respective lease arrangements.

### ***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 for the three months ended December 31, 2013 were \$0.4 million, consistent with the forecasted general and administration expenses of \$0.4 million.

General and administration expenses for the twelve months ended December 31, 2013 were \$2.4 million, which were higher than the forecasted general and administration expenses of \$1.5 million. This was primarily due to aborted transaction costs of \$0.3 million, other transactional-related costs of \$0.2 million from post-closing IPO costs and trustee meetings, higher than forecasted professional fees of \$0.3 million, and an increase in asset management fees of \$0.1 million related to the growth of the REIT's property portfolio.

### ***Finance costs***

Finance costs primarily consists of mortgage interest expense, distributions to unitholders of Class B LP units, defeasance costs, interest expense 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.

Finance costs for the three months ended December 31, 2013 were \$1.9 million, which were higher than forecasted finance costs of \$1.7 million. This was primarily due to higher mortgage interest expense related to 4211 Yonge and The Promontory acquisitions, which were excluded from forecast.

Finance costs for the twelve months ended December 31, 2013 were \$6.2 million, which were lower than forecasted finance costs of \$6.7 million. This was largely due to the unrealized fair value gain on interest rate swaps of \$1.8 million and the release of the mark-to-market adjustments on mortgages refinanced or discharged of \$0.7 million. These items were partially offset by defeasance costs of \$0.6 million related to the discharge of the 220 Portage mortgage, and higher mortgage interest expense of \$1.0 million related to 4211 Yonge and The Promontory acquisitions.

### ***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 December 31, 2013, the fair value adjustments to Class B LP units were nominal. The fair value per unit decreased slightly from \$8.70 at September 30, 2013 to \$8.69 at December 31, 2013. During the twelve months ended December 31, 2013, the REIT recognized a \$3.5 million unrealized fair value gain. This reflected a decrease in the fair value per unit from \$10.10 at December 31, 2012 to \$8.69 at December 31, 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 December 31, 2013, the REIT recognized a \$0.1 million unrealized fair value gain on the warrants. This represented a decrease in the fair value per warrant from \$0.10 at September 30, 2013 to \$0.04 at December 31, 2013. During the twelve months ended December 31, 2013, the REIT recognized a \$0.7 million unrealized fair value gain, which reflected a decrease in the fair value per unit from \$0.48 at December 31, 2012 to \$0.04 at December 31, 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 qualified third party appraisers using a number of approaches including a discounted cash flow approach, a direct capitalization approach or a direct comparison approach.

During the three months ended December 31, 2013, the REIT recognized a net fair value loss of \$0.8 million primarily due to capital expenditures and leasing costs of \$0.6 million and the write-off of acquisition costs of \$0.1 million related to 1700 Ellice. During the twelve months ended December 31, 2013, the REIT recognized a net fair value gain of \$1.2 million. This reflects the gain associated with the sale of 220 Portage, which was partially offset by the write-off of acquisition costs of \$2.0 million, capital expenditures and leasing costs of \$1.8 million, and changes to discount and capitalization rates for certain properties.

#### ***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 year ended December 31, 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

	Three months ended December 31, 2013	Forecast - Three months ended December 31, 2013 <sup>(1)</sup>	Twelve months ended December 31, 2013	Forecast - Twelve months ended December 31, 2013 <sup>(1)</sup>
(\$000s except percentages)				
Revenue from investment properties	\$ 8,228	\$ 5,793	\$ 28,478	\$ 23,525
Property operating expenses	(3,405)	(2,302)	(10,919)	(9,220)
Net operating income	4,823	3,491	17,559	14,305
Margin (%)	58.6%	60.3%	61.7%	60.8%

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

The following table summarizes NOI by asset class and geographic location:

Net Operating Income (\$000s except percentages)					
Three months ended December 31, 2013					
	Industrial	Office	Retail	Total	Percentage (%)
<b>Manitoba</b>	\$ 574	\$ 1,040	\$ 92	1,706	35.5%
<b>Ontario</b>	450	1,760	-	2,210	45.8%
<b>Saskatchewan</b>	-	199	92	291	6.0%
<b>Alberta</b>	424	-	60	484	10.0%
<b>Northwest Territories</b>	-	-	132	132	2.7%
	\$ 1,448	\$ 2,999	\$ 376	\$ 4,823	100.0%
<b>Percentage (%)</b>	30.0%	62.2%	7.8%	100.0%	

The following table summarizes forecasted NOI by asset class and geographic location:

Forecasted - Net Operating Income (\$000s except percentages) <sup>(1)</sup>					
Three months ended December 31, 2013					
	Industrial	Office	Retail	Total	Percentage (%)
<b>Manitoba</b>	\$ 555	\$ 1,130	\$ 125	\$ 1,810	51.9%
<b>Ontario</b>	432	372	-	804	23.0%
<b>Saskatchewan</b>	-	207	59	266	7.6%
<b>Alberta</b>	422	-	59	481	13.8%
<b>Northwest Territories</b>	-	-	130	130	3.7%
	\$ 1,409	\$ 1,709	\$ 373	\$ 3,491	100.0%
<b>Percentage (%)</b>	40.4%	48.9%	10.7%	100.0%	

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

## Industrial Properties

The actual and forecasted results of operations for the three months and twelve months ended December 31, 2013 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended December 31, 2013	Forecast – Three months ended December 31, 2013 <sup>(1)</sup>	Twelve months ended December 31, 2013	Forecast – Twelve months ended December 31, 2013 <sup>(1)</sup>
# 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	\$ 1,936	\$ 1,912	\$ 7,711	\$ 7,602
Property operating expenses	(488)	(503)	(1,922)	(2,013)
Net operating income	\$ 1,448	\$ 1,409	\$ 5,789	\$ 5,589
Margin %	74.8%	73.7%	75.1%	73.5%

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

Net operating income for industrial properties was \$1.4 million for the three months and \$5.8 million for the twelve months ended December 31, 2013, which were consistent with the forecasted NOI.

## Office Properties

The actual and forecasted results of operations for the three months and twelve months ended December 31, 2013 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended December 31, 2013	Forecast – Three months ended December 31, 2013 <sup>(1)</sup>	Twelve months ended December 31, 2013	Forecast – Twelve months ended December 31, 2013 <sup>(1)</sup>
# of properties (period-end)			14	12
Owned GLA (000s of sf) (period-end)			963	688
Occupancy rate (%) (period-end)			96.5%	89.6%
Revenue from investment properties	\$ 5,627	\$ 3,240	\$ 18,139	\$ 13,359
Property operating expenses	(2,628)	(1,531)	(7,986)	(6,135)
Net operating income	\$ 2,999	\$ 1,709	\$ 10,153	\$ 7,224
Margin %	53.3%	52.7%	56.0%	54.1%

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

Net operating income for office properties was \$3.0 million for the three months and \$10.2 million for the twelve months ended December 31, 2013, which were ahead of forecasted NOI. This was primarily due to higher than forecasted tenant retention in the Manitoba office portfolio, incremental NOI from the acquisitions of 4211 Yonge and The Promontory, and partially offset by the disposition of 220 Portage.

## Retail Properties

	Three months ended December 31, 2013	Forecast – Three months ended December 31, 2013 <sup>(1)</sup>	Twelve months ended December 31, 2013	Forecast – Twelve months ended December 31, 2013 <sup>(1)</sup>
<i>(stated in \$000s, unless otherwise noted)</i>				
<i># of properties (period-end)</i>			<b>3</b>	4
<i>Owned GLA (000s of sf) (period-end)</i>			<b>95</b>	201
<i>Occupancy rate (%) (period-end)</i>			<b>100%</b>	82.9%
Revenue from investment properties	\$ 665	\$ 641	\$ 2,628	\$ 2,564
Property operating expenses	(289)	(268)	(1,011)	(1,072)
Net operating income	\$ 376	\$ 373	\$ 1,617	\$ 1,492
Margin %	<b>56.5%</b>	58.2%	<b>61.5%</b>	58.2%

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

Net operating income for retail properties was \$0.4 million for the three months and \$1.6 million for the twelve months ended December 31, 2013, which were consistent with the forecasted NOI.

## Same Property Analysis

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

(\$000s)	Three months ended December 31, 2013	Three months ended September 30, 2013	Three months ended June 30, 2013	Three months ended March 31, 2013
Industrial	\$ 1,448	\$ 1,445	\$ 1,447	\$ 1,449
Office	1,599	1,807	1,704	1,723
Retail	285	316	327	318
Total	\$ 3,332	\$ 3,568	\$ 3,478	\$ 3,490

On a same property basis, the results for the three months ended December 31, 2013 were lower compared to prior quarters. This was primarily due to adverse winter weather conditions across Canada that resulted in higher snow removal and utility costs of \$0.2 million in the fourth quarter, which were not fully recoverable from tenants under their respective lease arrangements.

In the addition to the above, the decrease in occupancy at an office property in Regina resulting from tenant turnover also contributed to the decline in the office sector during the three months ended December 31, 2013. We expect modest additional turnover in Regina during 2014 as we work to optimize the long-term leasing profile and tenant mix through new leasing, relocations, early renewal and tenant expansion.

## 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		Forecast –	
	December 31, 2013	December 31, 2013 <sup>(1)</sup>	December 31, 2013	December 31, 2013 <sup>(1)</sup>
Net income	\$ 1,827	\$ 1,437	\$ 14,215	\$ 6,127
Add (deduct):				
Amortization of leasing costs	20	27	28	35
Loss on disposition of investment properties	88	-	175	-
Distributions on Class B LP units	500	471	1,934	1,884
Fair value adjustments to investment properties	777	-	(1,232)	-
Fair value adjustments to financial instruments	(71)	-	(4,193)	-
<b>Funds from operations – As Reported</b>	<b>\$ 3,141</b>	<b>\$ 1,935</b>	<b>\$ 10,927</b>	<b>\$ 8,046</b>
Add (deduct):				
Fair value gain on interest rate swaps	(378)	-	(1,786)	-
Mark-to-market adjustments on mortgages refinanced or discharged	-	-	(725)	-
Defeasance costs	-	-	598	-
Aborted transaction costs	(60)	-	267	-
<b>Funds from operations – Core</b>	<b>\$ 2,703</b>	<b>\$ 1,935</b>	<b>\$ 9,281</b>	<b>\$ 8,046</b>
Weighted average number of units outstanding (000s) <sup>(2)</sup> :				
Basic and diluted	<b>11,504</b>	8,394	<b>9,663</b>	8,394
Per unit (basic and diluted)				
FFO per unit – As Reported	\$ 0.27	\$ 0.23	\$ 1.13	\$ 0.96
FFO per unit – Core	\$ 0.23	\$ 0.23	\$ 0.96	\$ 0.96

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in 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 December 31, 2013, FFO – As Reported was \$0.27 per unit. After adjusting for the \$0.03 per unit fair value gain on the interest rate swaps and the \$0.01 per unit reimbursement of aborted transaction costs, FFO – Core was \$0.23 per unit and consistent with the IPO forecast.



For the twelve months ended December 31, 2013, FFO – As Reported was \$1.13 per unit. The following items, which amount to a net \$1.6 million gain (\$0.17 per unit), were excluded from FFO – Core:

- Unrealized fair value gain of \$1.8 million (\$0.18 per unit) on the interest rate swap;
- Unrealized gain of \$0.7 million (\$0.08 per unit) related to mark-to-market adjustments on mortgages refinanced or discharged during the period;
- Defeasance costs of \$0.6 million (\$0.06 per unit) associated with the discharge of the 220 Portage mortgage; and
- Aborted transaction costs of \$0.3 million (\$0.03 per unit).

After adjusting for these items, FFO – Core was \$0.96 per unit, which was consistent with the IPO forecast.

### **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 maintenance capital expenditures. In addition to maintenance 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 maintenance 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, 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 to the REIT’s FFO – As Reported is as follows:

(\$000s unless otherwise noted and except per unit amounts)	Three months ended December 31, 2013	Forecast – Three months ended December 31, 2013 <sup>(1)</sup>	Twelve months ended December 31, 2013	Forecast – Twelve months ended December 31, 2013 <sup>(1)</sup>
Funds from operations – As Reported	\$ 3,141	\$ 1,935	\$ 10,927	\$ 8,046
Add (deduct):				
Interest rate subsidy <sup>(2)</sup>	117	131	503	588
Accretion on vendor take-back loan	72	-	279	-
Amortization of deferred transaction costs	57	18	196	70
Mark-to-market adjustments on mortgages refinanced	-	-	(725)	-
Amortization of mark-to-market adjustments on mortgages	(55)	(131)	(343)	(588)
Amortization of straight-line rent	(138)	(79)	(503)	(329)
Capital expenditures	(248)	(170)	(581)	(675)
Leasing costs	(382)	(133)	(1,221)	(447)
Fair value gain on interest rate swaps	(378)	-	(1,786)	-
<b>Adjusted funds from operations – As Reported</b>	<b>\$ 2,186</b>	<b>\$ 1,571</b>	<b>\$ 6,746</b>	<b>\$ 6,665</b>
Add:				
Defeasance costs	-	-	598	-
Aborted transaction costs	(60)	-	267	-
<b>Adjusted funds from operations – Core</b>	<b>\$ 2,126</b>	<b>\$ 1,571</b>	<b>\$ 7,611</b>	<b>\$ 6,665</b>
Weighted average number of units outstanding (000s) <sup>(3)</sup> :				
Basic and diluted	11,504	8,394	9,663	8,394
Per unit (basic and diluted)				
AFFO per unit – As Reported	\$ 0.19	\$ 0.19	\$ 0.70	\$ 0.80
AFFO per unit – Core	\$ 0.18	\$ 0.19	\$ 0.79	\$ 0.80

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

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

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

AFFO – As Reported and AFFO – Core per unit was \$0.19 and \$0.18 for the three months ended December 31, 2013, respectively, compared to the IPO forecast of \$0.19 per unit. AFFO – Core per unit for the fourth quarter would have been \$0.21 per unit, or \$0.02 per unit ahead of forecast if leasing costs of \$0.03 per unit (or \$0.4 million) (tenants improvements and leasing commissions) associated with the lease-up of 21,400 sf of vacant space were excluded.

The 21,400 sf lease up of vacant space increased occupancy in the fourth quarter of 2013 and is projected to generate approximately \$0.5 million of gross annual rental revenue for a weighted average lease term of 10.7 years.

AFFO – As Reported per unit was \$0.70 for the twelve months ended December 31, 2013 and was impacted by \$0.06 per unit of defeasance costs related to the discharge of the 220 Portage mortgage and \$0.03 per unit of aborted transaction costs. After adjusting for these items, AFFO – Core per unit was \$0.79 compared to the IPO forecast of \$0.80. Excluding the \$0.10 per unit of leasing costs

associated with the lease up of 21,400 sf of vacant space, AFFO – Core would have been above the IPO forecast at \$0.89 per unit.

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 for the three months and twelve months ended December 31, 2013 were as follows:

(\$000s unless otherwise noted)	Three months ended December 31, 2013	Twelve months ended December 31, 2013
<b>Tenant improvements and leasing commissions</b>		
New leasing	\$ 392	\$ 923
Renewals		
Office <sup>(1)</sup>	(50)	231
Industrial	5	22
Retail	35	45
	382	1,221
<b>Recoverable capital expenditures</b>		
Major maintenance items <sup>(1)</sup>	192	394
Recurring capital expenditures	35	166
	227	560
<b>Non-recoverable capital expenditures</b>	21	21
<b>Total</b>	<b>\$ 630</b>	<b>\$ 1,802</b>

(1) Credit amount relates to the reclassification of costs incurred from tenant improvements to recoverable capital expenditures during the three months ended December 31, 2013.

Leasing costs for new tenants were \$0.4 million for the three months and \$0.9 million for twelve months ended December 31, 2013. Renewal related leasing costs were nominal for the three months and \$0.3 million for the twelve months ended December 31, 2013.

## 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. The REIT intends to make pro rata monthly cash distributions to its unitholders, including Huntingdon as the holder of the Class B LP units, initially equal to, on an annual basis, approximately 95% of AFFO.

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. During the twelve months ended December 31, 2013, there were 130,316 trust units issued under 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.

During the twelve months ended December 31, 2013, the REIT declared monthly distributions of \$0.0625 per unit, with the exception of January 2013. The REIT announced a cash distribution of \$0.0707 for the month of January 2013 to include distributions related to the four day stub-period from December 28, 2012 to December 31, 2012. The distributions were paid on or about the 15<sup>th</sup> day of the month following declaration.

The following table summarizes the distribution payments for the three months and twelve months ended December 31, 2013:

(\$000s unless otherwise noted)	Three months ended December 31, 2013		Twelve months ended December 31, 2013	
	Trust units	Class B LP units	Trust units	Class B LP units
<b>Cash distributions</b>				
Paid	\$ 1,011	\$ -	\$ 4,632	\$ 1,120
Payable at December 31, 2013	505	-	505	-
	\$ 1,516	\$ -	\$ 5,137	\$ 1,120
<b>Distributions reinvested in trust units</b>				
Issued	\$ 106	\$ 314	\$ 217	\$ 628
Payable at December 31, 2013	56	186	56	186
	\$ 162	\$ 500	\$ 273	\$ 814
	\$ 1,678	\$ 500	\$ 5,410	\$ 1,934

As at December 31, 2013, approximately 32.4% of the total trust units and Class B LP units outstanding were subscribed to the REIT's DRIP.

The distributions on the REIT's trust units for the year ended December 31, 2013 represent an approximate 48% return of capital for the year. The sale of 220 Portage created a taxable capital gain which cannot be offset in its entirety from the REIT's available deductions.

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 table below reconciles AFFO – As Reported to cash flow from operating activities reported in the consolidated financial statements of the REIT for the three months and twelve months ended December 31, 2013:

(\$000s)	Three months ended December 31, 2013	Twelve months ended December 31, 2013
Cash flow (used in) from operating activities	\$ 3,109	\$ 8,109
Add (deduct):		
Changes in non-cash working capital	(881)	(1,214)
Leasing costs	(382)	(1,221)
Capital expenditures	(248)	(581)
Distributions on Class B LP units paid in cash	-	1,120
Distributions on Class B LP units reinvested in trust units	471	628
Interest rate subsidy	117	503
Defeasance costs	-	(598)
<b>Adjusted funds from operations – As Reported</b>	<b>\$ 2,186</b>	<b>\$ 6,746</b>

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 December 31, 2013	Twelve months ended December 31, 2013
Adjusted funds from operations – As Reported	\$ 2,186	\$ 6,746
Add:		
Defeasance costs	-	598
Aborted transaction costs	(60)	267
<b>Adjusted funds from operations – Core</b>	<b>\$ 2,126</b>	<b>\$ 7,611</b>
Total distributions paid or payable in cash – trust units and Class B LP units	1,516	6,257
Less: distributions related to four day stub-period from December 28 - 31, 2012	-	(69)
<b>Distributions paid or payable in cash, excluding four day stub-period</b>	<b>\$ 1,516</b>	<b>\$ 6,188</b>
<b>Excess of AFFO - Core over cash distributions</b>	<b>\$ 610</b>	<b>\$ 1,423</b>

## Summary of Selected Quarterly Information

(\$000s unless otherwise noted, except per unit amounts)

	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012 <sup>(1)</sup>
Revenues from investment properties	\$ 8,228	\$ 7,568	\$ 6,601	\$ 6,081	\$ 234
Net income and comprehensive income	1,827	1,228	4,162	6,998	12,348
Per Unit					
- Basic <sup>(2)</sup>	\$ 0.20	\$ 0.16	\$ 0.71	\$ 1.19	\$ 2.10
- Diluted	\$ 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 are largely due to the 4211 Yonge acquisition in May 2013 and The Promontory acquisition in August 2013. The incremental revenues from these acquisitions were partially offset by the disposition of 220 Portage in April 2013 and the Humboldt Mall in December 2013.

Net income and comprehensive income for each of the periods in the table above reflect fluctuations arising from fair value gains in investment properties and financial instruments.

## Summary of Selected Annual Information

(\$000s)

	2013	2012
Revenues	\$ 28,478	\$ 234
Net income and comprehensive income	14,215	12,348
Net income per unit		
Basic	\$ 1.99	\$ 2.10
Diluted	\$ 1.31	\$ 1.50
Total assets	271,265	203,085
Total non-current liabilities	153,169	124,834
Distributions declared per unit	\$ 0.75	-

The financial results for the year ended December 31, 2013 reflected the first full year of operations. The financial results for the year ended December 31, 2012 reflected the operations of the Initial Properties from December 28, 2012, the date of acquisition, to December 31, 2012. Net income and comprehensive income for both periods reflect fluctuations arising from fair value gains in investment properties and financial instruments.

The increase in total assets at December 31, 2013 compared to December 31, 2012 was largely due to the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice. The increase was slightly offset by the sale of 220 Portage and Humboldt Mall.

The increase in total non-current liabilities was primarily attributable to the mortgages of 4211 Yonge and The Promontory. The increase was partially offset by the discharge of mortgages at 220 Portage and the repayment of maturing mortgages for one office building and one retail property.

## 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 December 31, 2013, the REIT's unencumbered income-producing properties had a fair value of \$9.6 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 December 31, 2013, the REIT's Debt to GBV was 52.2%.

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)	For the Three months ended December 31, 2013	For the Twelve months ended December 31, 2013
Weighted average:		
Mortgages payable	\$ 130,878	\$ 113,868
Vendor take-back loan	9,180	9,180
Revolving credit facility	3,554	4,532
Weighted average amount of indebtedness	\$ 143,612	\$ 127,580

(\$000s unless otherwise noted)	Three months ended December 31, 2013	Forecast - Three months ended December 31, 2013 <sup>(1)</sup>	Twelve months ended December 31, 2013	Forecast - Twelve months ended December 31, 2013 <sup>(1)</sup>
EBITDA	\$ 4,472	\$ 3,128	\$ 15,134	\$ 12,851
Debt to EBITDA leverage ratio (times)	8.0x	NF	8.4x	NF
Interest expense <sup>(2)</sup>	\$ 1,545	\$ 1,202	\$ 5,546	\$ 4,771
Interest coverage ratio (times)	2.9x	2.6x	2.7x	2.7x
Debt service requirements:				
Interest expense	\$ 1,545		\$ 5,546	
Principal repayments	971		3,340	
Total debt service requirements	\$ 2,516	NF	\$ 8,886	NF
Debt service coverage ratio (times)	1.8x	NF	1.7x	NF

(1) For information purposes only, selected forecast financial information from the initial public offering documents for the three months and twelve months ended December 31, 2013 has been included in this MD&A.

(2) Interest expense is computed as net finance costs adjusted for the interest subsidy, 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 payable on the Class B LP units, and defeasance costs.

## 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 (%) <sup>(1)(2)</sup>
2014	\$ 3,995	\$ -	\$ 3,995	3.1%	4.7%
2015	4,103	13,952	18,055	13.8%	4.7%
2016	3,457	10,624	14,081	10.8%	4.6%
2017	3,334	6,750	10,084	7.7%	4.5%
2018	2,553	18,674	21,227	16.3%	4.4%
Thereafter	9,885	53,227	63,112	48.3%	4.4% <sup>(3)</sup>
	<b>\$ 27,327</b>	<b>\$ 103,227</b>	<b>\$ 130,554</b>	<b>100.0%</b>	

(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. As at December 31, 2013, the REIT had interest rate swaps with a notional amount of \$24.6 million, \$22.8 million and \$4.1 million, which entitle the REIT to pay interest at an annual fixed rate of 3.68%, 4.60% and 5.89%, respectively, and receive interest at floating rates.

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

During the twelve months ended December 31, 2013, the REIT discharged a \$5.9 million mortgage related to 220 Portage and repaid maturing mortgages related to one office building and one retail property of \$5.0 million and \$0.9 million, respectively. In addition, the REIT refinanced \$18.7 million in mortgages for incremental proceeds of \$4.0 million at fixed rates ranging from 4.29% to 4.91% for terms of five years. In connection with the 4211 Yonge acquisition, the REIT obtained a fixed rate, 10 year mortgage of \$25.0 million with an interest rate of 3.68%. In connection with The Promontory acquisition, the REIT obtained a fixed rate, 10 year mortgage of \$23.0 million with an interest rate of 4.60%.

### 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	2015	2016	2017	2018	Thereafter
Mortgages payable							
-principal and interest <sup>(1)</sup>	\$ 162,451	\$ 10,027	\$ 23,856	\$ 18,665	\$ 14,143	\$ 24,189	\$ 71,571
Vendor take-back loan	9,452	9,452	-	-	-	-	-
Revolving credit facility <sup>(2)</sup>	1,750	1,750	-	-	-	-	-
Accounts payable and other liabilities <sup>(1)</sup>	3,941	3,941	-	-	-	-	-
Provisions	734	165	-	-	-	-	569
Ground lease payments <sup>(3)</sup>	8,257	366	366	366	366	366	6,427
	<b>\$ 186,585</b>	<b>\$ 25,701</b>	<b>\$ 24,222</b>	<b>\$ 19,031</b>	<b>\$ 14,509</b>	<b>\$ 24,555</b>	<b>\$ 78,567</b>

(1) The amounts for accounts payable and other liabilities excludes accrued interest on mortgages payable and vendor take-back loan which is included in the contractual payments of the mortgages payable and vendor take-back loan, respectively

(2) The amounts for the revolving credit facility is for the principal amount only.

(3) Ground lease payments relates to one industrial property which expires in 2036.

On December 28, 2012, the REIT entered into an \$8.0 million revolving credit facility with a bank bearing interest 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 June 2013, the REIT increased its revolving credit facility from \$8.0 million to \$14.0 million. The revolving credit facility expires on November 30, 2014 and is secured by two investment properties. The amount available for drawdown under the revolving credit facility is computed on the 12 month trailing cash flows and the appraised values of the secured properties, up to a maximum of \$14.0 million. As at December 31, 2013, the REIT utilized \$1.8 million on the revolving credit facility. As at December 31, 2012, the REIT utilized \$6.3 million on the revolving credit facility.

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 to November 30, 2015. Four investment properties are pledged as security.

As at March 6, 2014, the REIT has \$4.7 million outstanding 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.

### **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 \$8.69 as at December 31, 2013.

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 three and twelve months ended December 31, 2013.

As at December 31, 2013, the total number of trust units outstanding was 8,974,482. As at March 6, 2014, the total number of trust units outstanding was 9,031,196.

### ***Potential trust units:***

**As at December 31, 2013**

	<b>Number of Units</b>
Class B LP Units	2,977,132
Warrants	1,598,550
	<b>4,575,682</b>

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 twelve months ended December 31, 2013, 2,662 Class B LP units were exchanged for the REIT's trust units.

On December 20, 2013, FAM LP issued 466,094 Class B LP units to Huntingdon in connection with the acquisition of 1700 Ellice, as described in the "Recent Developments" section of this MD&A.

As at December 31, 2013 and March 6, 2014, the total number of Class B LP units outstanding was 2,977,132.

On December 28, 2012, on completion of its IPO, the REIT issued a total of 1,470,000 trust unit purchase warrants. 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. In addition, on January 29, 2013, the underwriters of the REIT's IPO exercised their over-allotment option and purchased 128,550 additional warrants. 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 \$0.04 as at December 31, 2013.

As at December 31, 2013 and March 6, 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 twelve months ended December 31, 2013:

(\$000s)	<b>Twelve months ended December 31, 2013</b>	
Balance, beginning of period	\$	1,874
Amortization of interest rate subsidy		(503)
Subsidy written-off		(100)
Balance, end of period	\$	1,271

The interest rate subsidy of \$0.5 million was utilized during the twelve months ended December 31, 2013 to reflect the blended interest rate of 4.5% on the mortgages payable related to the Initial Properties. The interest rate subsidy of \$0.1 million was written-off in connection with the discharge of the 220 Portage mortgage.

The table below summarizes the movements related to the capital expenditures subsidy for the twelve months ended December 31, 2013:

(\$000s)	<b>Twelve months ended December 31, 2013</b>	
Balance, beginning of period	\$	2,991
Subsidy written-off		(255)
Balance, end of period	\$	2,736

During the year ended December 31, 2013, the Trust derecognized \$0.3 million of the capital expenditures subsidy in connection with the sale of Humboldt Mall, which was recorded as a gain in fair value adjustments to investment properties.

## Related Party Transactions

The REIT has a management agreement with Huntingdon (the "Management Agreement") as disclosed in the Annual Financial Statements. During the three and twelve months ended December 31, 2013, the REIT incurred the following costs in connection with the Management Agreement:

(\$000s)	<b>Three months ended December 31, 2013</b>		<b>Twelve months ended December 31, 2013</b>	
Property management fees	\$	222	\$	752
Asset management fees		200		712
Acquisition fees		-		823
Leasing, financing, and construction management fees		191		472
	\$	613	\$	2,759

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. Property administration fees were \$0.3 million for the three months and \$0.8 million for the twelve months

ended December 31, 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 December 31, 2013, included in accounts payable and other liabilities was an amount owing to Huntingdon of \$0.2 million related to operating expenses. In addition, as at December 31, 2013, included in accounts receivable was \$0.2 million receivable from Huntingdon related to environmental remediation.

## **Section 5     Significant Accounting Policies, Critical Judgments and Key Estimates**

Effective January 1, 2013, the REIT adopted IFRS 10, *Consolidated Financial Statements* (“IFRS 10”), IFRS 11, *Joint Arrangements* (“IFRS 11”), IFRS 12, *Disclosure of Interests in Other Entities* (“IFRS 12”), and IFRS 13, *Fair Value Measurements* (“IFRS 13”).

IFRS 10 uses a single consolidation model to be applied in the control analysis for all investees. IFRS 10 defines control as when an investor has power over an investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power over the investee to affect the amount of the investor’s returns. The adoption of IFRS 10 did not have an impact on the REIT’s consolidated financial statements.

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. An entity’s interest in a joint operation, which is an arrangement wherein the parties have rights to the assets and obligations for the liabilities, will be accounted for based on the entity’s interest in those assets, liabilities, revenues and expenses. An entity’s interest in a joint venture, which is an arrangement wherein the parties have rights to the net assets, will be accounted for using the equity method. The REIT has no interest in joint ventures as defined by IFRS 11. As at December 31, 2012, the REIT had an interest in a joint arrangement that was classified as a joint operation, and was sold in April 2013. As a result, as at December 31, 2013, the adoption of IFRS 11 did not have an impact on the REIT’s consolidated financial statements.

IFRS 12 requires enhanced disclosures about the nature of, and the risks associated with, an entity’s interest in other entities and the effects of those interests on the entity’s financial position, financial performance and cash flows. The application of IFRS 12 resulted in additional disclosures in the REIT’s consolidated financial statements.

IFRS 13 sets out a single framework for measuring fair value and the related disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with the transitional provisions of IFRS 13, the REIT has applied the new fair value measurement guidance prospectively and has not provided any comparative information for new disclosures. Effective January 1, 2013, the REIT re-measures the fair value of Class B LP units and Warrants using the closing market price. Prior to the adoption of IFRS 13, the REIT used the asking price. With the exception of the additional disclosures required for fair value measurements, the adoption of IFRS 13 did not have a material impact on the REIT’s consolidated 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. IFRS 9 will use a single approach to determine whether a financial asset is measured at amortized cost or fair value. 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 mandatory effective date of IFRS 9 is not yet determined. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

IFRIC 21, *Levies*, 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. Realty taxes payable by the Trust may be considered levies. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The Trust is currently evaluating the impact of IFRIC 21 on its consolidated financial statements.

The preparation of financial statements in accordance with IFRS 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 consolidated financial statements and the reported amounts of revenues and expenses during the year 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 December 31, 2013, 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 value of investment properties is determined either internally by management using recognized valuation techniques with a portion of fair values supported by qualified third party appraisers. The critical estimates and assumptions used in completing the valuations 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, and property operations, and capitalization and discount rates based on market data within the applicable market segment and geographic location. Valuations are most sensitive to changes in discount rates and capitalization rates. 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 [www.sedar.com](http://www.sedar.com).

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 December 31, 2013, the REIT had three interest rate swaps outstanding with a notional amount of \$51.6 million.

As at December 31, 2013, 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 December 31, 2013, 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 December 31, 2013, there was no allowance for doubtful accounts or any other impairment provisions recognized in the REIT’s consolidated financial statements.

### ***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 terms by asset class and geographic location:

<b>Weighted Average Remaining Lease Term (years)</b>				
<b>As at December 31, 2013</b>				
	<b>Industrial</b>	<b>Office</b>	<b>Retail</b>	<b>Total</b>
<b>Manitoba</b>	4.0	3.8	8.9	4.2
<b>Ontario</b>	12.4	3.6	-	6.9
<b>Saskatchewan</b>	-	1.1	-	1.1
<b>Alberta</b>	9.8	-	1.9	8.7
<b>Northwest Territories</b>	-	-	2.3	2.3
	<b>7.5</b>	<b>3.5</b>	<b>6.6</b>	<b>5.4</b>

As at December 31, 2013, approximately 5.1% of the REIT's tenancies are on a month-to-month basis. The following table outlines the expiries of tenant leases, by square footage, with respect to the REIT's property portfolio as at December 31, 2013:

<b>Lease Expiries by Asset Class</b>								
	<b>Month-to-month</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019 and beyond</b>	<b>Total</b>
<b>Industrial</b>								
Sq. ft. (000s)	-	138	-	47	90	36	460	<b>771</b>
Sq. ft. (%)	-	17.9%	-	6.1%	11.7%	4.7%	59.6%	<b>100.0%</b>
<b>Office</b>								
Sq. ft. (000s)	92	68	151	181	45	182	210	<b>929</b>
Sq. ft. (%)	9.9%	7.3%	16.3%	19.5%	4.8%	19.6%	22.6%	<b>100.0%</b>
<b>Retail</b>								
Sq. ft. (000s)	-	5	-	23	3	1	63	<b>95</b>
Sq. ft. (%)	-	5.3%	-	24.2%	3.2%	1.1%	66.3%	<b>100.0%</b>
<b>Total Sq.ft. (000s)</b>	<b>92</b>	<b>211</b>	<b>151</b>	<b>251</b>	<b>138</b>	<b>219</b>	<b>733</b>	<b>1,795</b>

**Lease Expiries by Geographic Location (sq. ft. in 000s)**

	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	Total
Manitoba	86	166	24	96	108	97	334	911
Ontario	4	21	79	133	27	85	338	687
Saskatchewan	2	19	48	-	-	-	-	69
Alberta	-	5	-	10	-	37	61	113
Northwest Territories	-	-	-	12	3	-	-	15
Total Sq.ft. (000s)	<b>92</b>	<b>211</b>	<b>151</b>	<b>251</b>	<b>138</b>	<b>219</b>	<b>733</b>	<b>1,795</b>
Percentage (%)	<b>5.1%</b>	<b>11.8%</b>	<b>8.4%</b>	<b>14.0%</b>	<b>7.7%</b>	<b>12.2%</b>	<b>40.8%</b>	<b>100.0%</b>

***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 December 31, 2013 was 45.0%. As at December 31, 2013, 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 year ended December 31, 2013.

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 December 31, 2013. No changes were made in the REIT's design of ICFR during the three months and twelve months ended December 31, 2013, 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 December 31, 2013

A summary of details of the REIT's property portfolio as at December 31, 2013 is set out in the table below.

Asset Class	Property Name	City, Province	Year Built / Renovated / Expanded	(sq. ft.)	GLA Occupancy
<b>INDUSTRIAL</b>					
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 <sup>(1)</sup>	Winnipeg, MB	1962 / 1997	113,864	100.0%
11.	505 Industrial Drive	Milton, ON	1987 / 1991	258,960	100.0%
<b>TOTAL – INDUSTRIAL</b>				<b>770,677</b>	<b>100.0%</b>
<b>OFFICE</b>					
12.	Saskatchewan Place	Regina, SK	1985	84,243	82.0%
13.	280 Broadway Avenue <sup>(2)</sup>	Winnipeg, MB	1957	115,354	96.7%
14.	585 Century Street <sup>(3)</sup>	Winnipeg, MB	1959	9,680	100.0%
15.	220 Cree Crescent	Winnipeg, MB	1980	18,000	100.0%
16.	1680 Ellice Avenue <sup>(3)</sup>	Winnipeg, MB	1980	29,843	89.8%
17.	1700 Ellice Avenue <sup>(3)</sup>	Winnipeg, MB	1956/1959 <sup>(6)</sup>	30,268	100%
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	33,842	100.0%
22.	1000 Waverley Street	Winnipeg, MB	1966 / 1998	58,515	91.2%
23.	4211 Yonge Street <sup>(4)</sup>	Toronto, ON	1982	170,732	96.4%
24.	1189 Colonel Sam Drive	Oshawa, ON	2001	103,179	100.0%
25.	The Promontory <sup>(5)</sup>	Mississauga	1987/1989	159,752	100.0%
<b>TOTAL – OFFICE</b>				<b>963,226</b>	<b>96.5%</b>
<b>RETAIL</b>					
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	1982 / 2003 <sup>(7)</sup>	15,475	100.0%
<b>TOTAL – RETAIL</b>				<b>94,671</b>	<b>100.0%</b>
<b>TOTAL PROPERTIES</b>				<b>1,828,574</b>	<b>98.2%</b>

**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.