

Condensed Consolidated Interim Financial Statements of

FAM REAL ESTATE INVESTMENT TRUST

Three months and six months ended June 30, 2014
(Unaudited)

FAM REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position
(in thousands of Canadian dollars)
(unaudited)

	Note	As at June 30, 2014	As at December 31, 2013
Assets			
Non-current assets:			
Investment properties	4	\$ 262,849	\$ 265,367
Equity accounted investment	5	9,487	–
Interest rate swap asset	8	529	1,505
Restricted cash		1,491	1,494
Total non-current assets		274,356	268,366
Current assets:			
Note receivable	6	6,559	–
Prepaid expenses and other assets		508	325
Accounts receivable	18	952	789
Cash		6,732	1,785
Total current assets		14,751	2,899
Total assets		\$ 289,107	\$ 271,265
Liabilities and Unitholders' Equity			
Non-current liabilities:			
Mortgages payable	7	\$ 123,147	\$ 126,063
Provisions		541	602
Interest rate swap liabilities	8	1,520	569
Class B LP units	10	26,169	25,871
Warrants	11	56	64
Total non-current liabilities		151,433	153,169
Current liabilities:			
Mortgages payable	7	4,895	3,995
Vendor take-back loan		9,033	8,889
Revolving credit facility	9	–	1,659
Accounts payable and other liabilities	12 and 18	5,631	4,407
Total current liabilities		19,559	18,950
Total liabilities		170,992	172,119
Unitholders' equity	13	118,115	99,146
Total liabilities and unitholders' equity		\$ 289,107	\$ 271,265

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

Approved by the Board of Trustees

"Zachary R. George" Trustee "Ian MacKellar" Trustee

FAM REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income (Loss) and Comprehensive Income (Loss)
(in thousands of Canadian dollars)
(unaudited)

	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Revenue from investment properties		\$ 7,972	\$ 6,601	\$ 16,179	\$ 12,682
Property operating expenses	18	(3,045)	(2,471)	(6,487)	(4,666)
Property operating income		4,927	4,130	9,692	8,016
General and administration	15 and 18	(520)	(930)	(1,052)	(1,500)
Special Committee related expenses	20	(220)	–	(338)	–
Finance costs, net	16	(2,729)	(793)	(6,241)	(2,115)
Share of net loss from equity accounted investment	5	(109)	–	(109)	–
Fair value adjustments to financial instruments	17	6	1,323	(290)	1,983
Fair value adjustments to investment properties	4	(3,227)	519	(3,888)	4,863
Loss on disposal of investment property	4	–	(87)	–	(87)
Net income (loss) and comprehensive income (loss)		\$ (1,872)	\$ 4,162	\$ (2,226)	\$ 11,160

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

FAM REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
(in thousands of Canadian dollars)
(unaudited)

June 30, 2014	Note	Trust units	Retained earnings	Total
Unitholders' equity, beginning of period		\$ 77,993	\$ 21,153	\$ 99,146
Issued on public offering, net of issue costs	13	16,052	–	16,052
Issued on private placement	13	7,360	–	7,360
Distributions declared	14	–	(3,751)	(3,751)
Distributions reinvested in trust units		1,534	–	1,534
Net loss and comprehensive loss		–	(2,226)	(2,226)
Unitholders' equity, end of period		\$ 102,939	\$ 15,176	\$ 118,115

June 30, 2013	Note	Trust units	Retained earnings	Total
Unitholders' equity, beginning of period		\$ 51,516	\$ 12,348	\$ 63,864
Distributions declared	14	–	(2,253)	(2,253)
Distributions reinvested in trust units		13	–	13
Net income and comprehensive income		–	11,160	11,160
Unitholders' equity, end of period		\$ 51,529	\$ 21,255	\$ 72,784

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

FAM REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(unaudited - in thousands of Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2014	2013	2014	2013
Operating activities:					
Net income (loss)		\$ (1,872)	\$ 4,162	\$ (2,226)	\$ 11,160
Items not affecting cash	19	5,392	(1,074)	9,211	(4,852)
Change in non-cash working capital		1,035	(1,646)	1,872	(774)
Interest paid on mortgages payable		(1,506)	(1,315)	(3,020)	(2,549)
Interest paid on vendor take-back loan		(69)	(70)	(138)	(138)
Interest paid on revolving credit facility		(68)	(60)	(121)	(112)
Distributions on Class B LP units		–	(471)	–	(806)
Cash flows from (used in) operating activities		2,912	(474)	5,578	1,929
Investing activities:					
Acquisition of investment property		–	(43,632)	–	(43,632)
Deposit on investment property		–	1,250	–	(500)
Capital expenditures	4	(362)	(12)	(413)	(71)
Direct leasing expenses, net of tenant improvement payable	4	(330)	(45)	(543)	(122)
Proceeds from disposition of investment property		–	19,913	–	19,913
Issuance of note receivable	6	(3,500)	–	(6,500)	–
Investment in equity accounted investee	5	(9,596)	–	(9,596)	–
Cash flows used in investing activities		(13,788)	(22,526)	(17,052)	(24,412)
Financing activities:					
Proceeds from public offering	13	17,302	–	17,302	–
Proceeds from private placement	13	7,360	–	7,360	–
Transaction costs on public offering	13	(1,250)	–	(1,250)	–
Proceeds from mortgage financing		–	25,000	–	47,670
Mortgage principal payments		(989)	(11,652)	(1,975)	(31,024)
Transaction costs on mortgages and revolving credit facility		(10)	(1,136)	(118)	(1,258)
Draw down (repayment) of revolving credit facility		(5,025)	10,648	(1,750)	5,073
Distributions paid on trust units		(1,633)	(1,089)	(3,148)	(1,872)
Proceeds from issuance of warrants	11	–	–	–	57
Cash flows from financing activities		15,755	21,771	16,421	18,646
Increase (decrease) in cash		4,879	(1,229)	4,947	(3,837)
Cash, beginning of period		1,853	2,656	1,785	5,264
Cash, end of period		\$ 6,732	\$ 1,427	\$ 6,732	\$ 1,427

The accompanying notes form an integral part of these condensed consolidated interim financial statements.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

1. Organization

FAM Real Estate Investment Trust (the “Trust” or 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. The REIT’s trust units and trust unit purchase warrants are listed on the Toronto Stock Exchange (“TSX”) and traded under the symbols “F.UN” and “F.WT”, respectively. The registered office of the Trust is located at 4000-199 Bay Street, Toronto, Ontario, Canada.

On December 28, 2012, the Trust completed its initial public offering of offered units, raising gross proceeds of \$58.8 million. The net proceeds of the offering were used as partial consideration for the acquisition of a portfolio of 27 income-producing office, industrial, and retail properties located in four provinces and one territory of Canada (the “Initial Properties”). The Trust had no operations prior to December 28, 2012.

2. Basis of preparation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. As a result, these condensed consolidated interim financial statements should be read in conjunction with the Trust’s audited consolidated financial statements for the year ended December 31, 2013 (“Annual Financial Statements”).

These financial statements were approved by the Board of Trustees and authorized for issue on August 7, 2014.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

2. Basis of preparation (continued)

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on a going concern basis and historical cost basis except for the following material items:

- Investment properties are measured at fair value; and
- Financial instruments classified as fair value through profit or loss are measured at fair value.

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Trust's functional currency.

(c) Use of estimates and judgments:

The preparation of these condensed consolidated interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses and disclosures of contingent assets and liabilities. Actual results could differ from the estimated amounts.

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

(i) Business combinations:

The Trust 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 Trust has determined that the acquisition of the Initial Properties on December 28, 2012 constituted an asset acquisition.

(ii) Leases:

The Trust 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 Trust is the lessee, are operating or finance leases. The Trust has determined that none of its leases are finance leases.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

2. Basis of preparation (continued)

(c) Use of estimates and judgments (continued):

(iii) Income taxes:

The Trust 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.

(iv) Assets and liabilities held for sale:

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

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

(i) Valuation of investment properties:

The fair values of investment properties are determined by management using recognized valuation techniques with a portion of fair values supported by externally qualified third party appraisers. The critical estimates and assumptions underlying the valuation of investment properties include, among other things, rental revenue from current leases, rental revenue from future leases in light of current conditions, future cash outflows in respect of leasing costs, capital expenditures, property operations, and capitalization and discount rates based on market data within the applicable market segment and geographical 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.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

3. Significant accounting policies

These condensed consolidated interim financial statements were prepared using the same accounting policies as set out in the Annual Financial Statements, with the exception of the new application of IFRS 11, *Joint Arrangements*, in the current period related to the equity accounted investment (note 5) and the adoption of IFRIC 21, *Levies* (“IFRIC 21”) described below.

A joint arrangement is a contractual arrangement in which the Trust has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements’ returns. The Trust classifies joint arrangements as either joint operations or joint ventures. As at June 30, 2014, the Trust has no joint operations, and one joint venture (note 5). The Trust’s interest in a joint venture, which is an arrangement wherein the parties have rights to the net assets, is accounted for using the equity method.

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

Recent accounting pronouncements

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

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

4. Investment properties

	June 30, 2014	December 31, 2013
Balance, beginning of period	\$ 265,367	\$ 195,710
Acquisition of investment properties	–	87,896
Additions:		
Capital expenditures	413	581
Direct leasing expenses	716	1,221
Disposition of investment properties	–	(21,850)
Provisions	40	102
Fair value adjustments	(3,888)	1,232
Amortization of leasing expenses and straight-line rents included in revenue, net	201	475
Balance, end of period	\$ 262,849	\$ 265,367

(a) Fair value of investment properties:

Investment properties are measured at fair value at each reporting date. As at June 30, 2014, four of the Trust's 28 properties with an aggregate fair value of \$49.5 million were appraised by qualified third party valuers. As at December 31, 2013, four investment properties with an aggregate fair value of \$46.3 million were externally appraised. Each of the Trust's investment properties are subject to an external appraisal on a rotating schedule such that each property will be appraised at least once over a two-year period.

The valuation approach for investment properties utilizes the direct capitalization, discounted cash flow, and direct comparison approaches. Under the direct capitalization approach, fair values are determined by capitalizing the stabilized net operating income at the market capitalization rates. Under the discounted cash flow approach, fair values are determined by discounting the expected future cash flows, generally over a term of 10 years, using an appropriate discount rate and including a terminal value based on the application of a terminal capitalization rate ("Terminal cap rate").

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

4. Investment properties (continued)

(a) Fair value of investment properties (continued):

Valuations are most sensitive to changes in discount rates and capitalization rates, which are set out in the following table:

	June 30, 2014			December 31, 2013		
	Discount rate	Terminal cap rate	Capitalization rate	Discount rate	Terminal cap rate	Capitalization rate
<i>Industrial:</i>						
Minimum	7.75%	7.25%	7.25%	7.75%	7.25%	7.25%
Maximum	10.00%	8.50%	7.50%	10.00%	8.50%	7.50%
Weighted average	8.53%	7.77%	7.42%	8.57%	7.78%	7.42%
<i>Office (including parking lots):</i>						
Minimum	7.25%	6.75%	6.50%	7.25%	6.75%	4.00%
Maximum	8.75%	8.00%	7.50%	8.50%	8.00%	7.50%
Weighted average	7.81%	7.10%	7.01%	7.81%	7.17%	6.67%
<i>Retail:</i>						
Minimum	8.50%	7.75%	7.75%	8.50%	7.75%	7.75%
Maximum	8.75%	7.75%	8.50%	8.75%	7.75%	8.50%
Weighted average	8.59%	7.75%	8.12%	8.59%	7.75%	8.12%

As at June 30, 2014, an investment property with a fair value of \$8.2 million (December 31, 2013 - \$8.2 million) is situated on a ground lease expiring in 2036.

As at June 30, 2014, investment properties with an aggregate fair value of \$263.1 million (December 31, 2013 - \$258.5 million) were pledged as security for outstanding mortgages and the revolving credit facility.

The capital expenditures subsidy received in connection with the acquisition of the Initial Properties has been recorded as a contra account to investment properties and will be reduced as the subsidy is utilized. As at June 30, 2014, the capital expenditures subsidy was \$2.7 million (December 31, 2013 - \$2.7 million).

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

4. Investment properties (continued)

(b) Investment property acquisitions:

During the year ended December 31, 2013, the Trust completed the following asset acquisitions:

	4211 Yonge Street Toronto, ON ("4211 Yonge")	2655 and 2695 North Sheridan Way Mississauga, ON ("The Promontory")	1700 Ellice Avenue Winnipeg, MB ("1700 Ellice")
Property type	Office	Office	Office
Acquisition date	May 1, 2013	August 14, 2013	December 20, 2013
Net assets acquired:			
Investment property	\$ 43,918	\$ 39,930	\$ 4,048
Working capital items, net	(286)	(339)	(40)
	\$ 43,632	\$ 39,591	\$ 4,008
Total consideration:			
Cash paid	43,632	39,591	8
Class B LP units	–	–	4,000
	\$ 43,632	\$ 39,591	\$ 4,008

The financing for the 4211 Yonge acquisition consisted of a \$25.0 million mortgage payable, approximately \$13.5 million of net cash proceeds from the disposition of a co-owned investment property, with the remaining balance funded from the Trust's existing liquidity. The Trust incurred \$0.8 million in transaction costs related to the acquisition of 4211 Yonge, which included a \$0.4 million acquisition fee payable to Huntingdon Capital Corp. ("Huntingdon").

The financing for The Promontory acquisition consisted of a \$23.0 million mortgage payable, with the balance funded from the August 2013 equity offering. The Trust incurred \$1.1 million in transaction costs related to the acquisition of The Promontory, which included a \$0.4 million acquisition fee payable to Huntingdon.

In exchange for the 1700 Ellice investment property acquired from Huntingdon, FAM LP issued 466,094 Class B LP units at a price of \$8.58 per unit for a total consideration of \$4.0 million. The Trust incurred \$0.1 million in transaction costs related to the acquisition of 1700 Ellice.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

4. Investment properties (continued)

(c) Investment property dispositions:

On April 30, 2013, the Trust completed the sale of its 50% interest in one office property at 220 Portage Avenue, Winnipeg, Manitoba ("220 Portage") for \$20.5 million less certain adjustments, and the related mortgage payable of \$5.9 million was repaid. The Trust incurred \$0.6 million in mortgage defeasance fees recorded as finance costs and \$0.1 million in professional fees, which were recorded as a loss on disposition of investment property.

On December 30, 2013, the Trust completed the sale of one retail property at 1919A 8th Avenue, Humboldt, Saskatchewan ("Humboldt Mall") for \$1.9 million. The Trust incurred \$0.1 million in professional fees, which was recorded as a loss on disposition of investment property.

5. Equity accounted investment

	June 30, 2014	
Balance, beginning of period	\$	–
Initial investment		9,501
Acquisition fees		95
Share of net loss		(109)
Balance, end of period	\$	9,487

On April 22, 2014, the Trust entered into an agreement to invest in a fully pre-leased 64,000 square feet data centre development in Winnipeg, Manitoba (the "Data Centre development"). The Trust acquired a 50% equity ownership interest in a limited partnership and its general partner (the "Partnership") that will own the Data Centre through a \$9.5 million investment paid in cash.

In connection with the investment in the Partnership, the Trust also issued a \$6.6 million mezzanine loan (the "Mezzanine Loan") to the other 50% limited partner, an arms' length company to fund a portion of its \$9.5 million capital contribution in the Partnership (note 6).

The debt financing for the Data Centre development (on a 100% ownership basis) consists of a \$37.0 million loan facility and a \$2.0 million short term operating facility to be used solely to fund sales taxes during construction. The loan facility will mature 15 years after the earlier of (i) the completion of the Data Centre development, and (ii) July 15, 2015. As at June 30, 2014, no amounts have been drawn on the loan facility or the short term operating facility.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

5. Equity accounted investment (continued)

The Trust has agreed to provide a guarantee for prompt payment to the lender for up to \$18.5 million up to the Completion Date (as defined in the loan agreement). After the Completion Date, the guarantee will be limited to the amount due on the 15th anniversary of the loan facility. This guarantee is not personally binding on any trustee of the Trust or registered holder of the Trust's securities.

The Trust incurred \$0.1 million in acquisition fees payable to Huntingdon in connection with the investment in the Partnership. As at June 30, 2014, the Trust recognized an amount receivable from the Partnership of \$0.3 million related to professional and legal fees that the Trust paid for on behalf of the Partnership.

The following amounts represent summarized financial information about the Partnership's assets and liabilities, reconciled to the carrying amount of the Trust's investment in the Partnership:

	June 30, 2014
Assets	
Investment property under development	\$ 13,570
Other non-current assets	250
Total non-current assets	13,820
Cash	5,953
Other current assets	955
Total current assets	6,917
Total assets	20,737
Liabilities	
Security deposit payable	1,050
Total non-current liabilities	1,050
Accounts payable and other liabilities	904
Total current liabilities	904
Total liabilities	1,954
Net assets	18,783
Ownership interest in the Partnership	50%
Trust's share of net assets	9,392
Acquisition fees	95
Trust's net investment	\$ 9,487

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

5. Equity accounted investment (continued)

The non-current assets consist largely of the data centre under development, which was initially measured at cost. The cost of an investment property under development includes the acquisition cost of the land, pre-construction costs essential to the development of the property, construction costs, realty taxes, and borrowing costs directly attributable to the development. Borrowing costs are capitalized from the commencement of the development until the date of substantial completion. The Partnership considers substantial completion to have occurred when the property is fully commissioned and delivered to the tenant for occupancy.

The fair value of the property under development will be based on the percentage of completion of the project. As at June 30, 2014, the Data Centre development was still in its initial stages of construction, therefore the costs incurred to date approximate its fair value.

As at June 30, 2014, the estimated committed costs to complete the Data Centre development project, after taking into account change orders, is approximately \$40.8 million (on a 100% basis).

The following amounts represent summarized financial information about the Partnership's expenses, reconciled to the Trust's share of net loss:

	June 30, 2014
Property management fees	\$ (14)
Legal and professional fees	(204)
Net loss and comprehensive loss	(218)
Ownership interest in the Partnership	50.0%
Share of net loss	\$ (109)

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

6. Note receivable

On February 10, 2014, the Trust funded a loan for \$3.0 million at a 10.0% interest rate per annum with a one-year term. The loan was secured by a first mortgage charge on real estate, a general security agreement, and the assignment of rents related to a pre-leased investment property development.

On April 22, 2014, the \$3.0 million loan and unpaid accrued interest of \$0.1 million were converted to form part of the \$6.6 million Mezzanine Loan issued to the other 50% limited partner of the Partnership (note 5). The Mezzanine Loan bears interest at a rate of 13.3% per annum, and is repayable at any time on or before the earlier of (a) rent commencement under the tenant lease and (b) July 31, 2015.

If the Mezzanine Loan is not repaid in full, it will be converted into an additional 30% equity ownership interest in the Partnership. If only a portion of the Mezzanine Loan is repaid, the equity ownership interest conversion will be pro-rated based on the amount outstanding. The remaining 20% equity ownership interest held by the other limited partner is subject to a put-call option. The put-call option becomes effective if at least 50% of the Mezzanine Loan's face value of \$3.3 million is not repaid. Under the put-call option, the Trust will have the option to purchase the other limited partner's remaining equity interest in the Partnership at fair market value. Similarly, the other limited partner will have the option to obligate the Trust to purchase the limited partner's residual equity interest in the Partnership at fair market value.

During the three months and six months ended June 30, 2014, the Trust earned \$0.2 million of interest income in connection with the note receivable (note 16).

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

7. Mortgages payable

Mortgages payable comprise the following:

	June 30, 2014	December 31, 2013
Mortgages payable	\$ 128,579	\$ 130,554
Mark-to-market adjustment arising on acquisition of the Initial Properties	441	552
Transaction costs	(978)	(1,048)
	128,042	130,058
Less: current portion	(4,895)	(3,995)
	\$ 123,147	\$ 126,063
Range of interest rates (%)	3.68 – 6.15	3.68 – 6.15
Weighted average contractual interest rate (%)	4.72	4.72
Range of terms to maturity (years)	0.75 – 10.60	1.25 – 11.10
Weighted average term to maturity (years)	5.68	6.17

The mortgages payable are secured by mortgage charges registered against the title of specific investment properties, assignment of book debts, assignment of rents and repayment guarantees. Huntingdon has provided guarantees on mortgages with a principal balance of \$26.4 million at June 30, 2014 (December 31, 2013 - \$26.9 million). In July 2014, Huntingdon was released from the guarantee of mortgages with a principal balance of \$24.6 million at June 30, 2014. The Trust is required to maintain quarterly and annual debt service, interest service, and loan to value ratios for certain mortgages. As at June 30, 2014 and December 31, 2013, the Trust was compliant with all financial covenants.

Future principal payments, excluding amortization of mark-to-market adjustments and transaction costs, on mortgages payable at June 30, 2014 are as follows:

2014 (remaining 6 months)	\$ 2,020
2015	18,055
2016	14,081
2017	10,084
2018	21,227
Thereafter	63,112

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

7. Mortgages payable (continued)

The mark-to-market adjustment arising on acquisition of the Initial Properties is amortized using the effective interest method. During the three months and six months ended June 30, 2014, the Trust recorded amortization of \$0.1 million and \$0.1 million, respectively, (three months and six months ended June 30, 2013 - \$0.1 million and \$0.2 million, respectively) related to the mark-to-market adjustment. In addition, the Trust de-recognized \$nil (three months and six months ended June 30, 2013 - \$0.2 million and \$0.7 million, respectively) of the mark-to-market adjustment as a result of certain mortgages being refinanced during the period. These adjustments have been recorded in finance costs (note 16).

8. Interest rate swaps

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

Interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve.

The following tables summarize the interest rate swap agreements outstanding as at June 30, 2014 and December 31, 2013:

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

Notional amount at December 31, 2013	Effective interest rate	Maturity date	Unrealized loss (gain) for the year ended December 31, 2013	Cumulative unrealized loss (gain) at December 31, 2013
\$ 4,109	5.89%	1-Feb-25	\$ (292)	\$ 558
22,835	4.60%	14-Aug-23	11	11
24,640	3.68%	1-May-23	(1,505)	(1,505)

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

9. Revolving credit facility

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

In February 2014, the Trust increased its revolving credit facility limit from \$14.0 million to \$17.0 million. The expiry date has been extended from November 30, 2014 to November 30, 2015 and is secured by four investment properties. The amended revolving credit facility bears interest at prime plus 1.25% per annum and a standby fee of 0.5% charged quarterly in arrears based on the average daily undrawn amount. As at June 30, 2014, the Trust had \$nil drawn on the revolving credit facility (December 31, 2013 - \$1.8 million). Transaction costs of \$0.2 million (December 31, 2013 - \$0.1 million) have been deferred and will be amortized using the effective interest method.

The Trust is required under the revolving credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity balance at all times. As at June 30, 2014 and December 31, 2013, the Trust was compliant with all financial covenants under the revolving credit facility.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

10. Class B LP Units

The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis subject to anti-dilution adjustments. As at June 30, 2014, the Class B LP units were re-measured based on the quoted closing price of the trust units into which they are exchangeable. The change in Class B LP units during the six months ended June 30, 2014 and the year ended December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
	Units	Amount	Units	Amount
Balance, beginning of period	2,977,132	\$ 25,871	2,513,700	\$ 25,388
Issued in connection with the acquisition of investment property (note 4)	–	–	466,094	4,000
Exchanged for trust units	–	–	(2,662)	(23)
Fair value adjustment	–	298	–	(3,494)
Balance, end of period	2,977,132	\$ 26,169	2,977,132	\$ 25,871

During the three months and six months ended June 30, 2014, the Trust declared distributions of \$0.6 million and \$1.1 million (three months and six months ended June 30, 2013 - \$0.5 million and \$1.0 million) on the Class B LP units, which were recorded as finance costs (notes 14 and 16).

During the year ended December 31, 2013, FAM LP issued 466,094 Class B LP units to Huntingdon in connection with the acquisition of 1700 Ellice (note 4).

11. Warrants

Each 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. As at June 30, 2014, the warrants were re-measured based on the quoted closing price of the warrants. The change in warrants during the six months ended June 30, 2014 and the year ended December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
	Warrants	Amount	Warrants	Amount
Balance, beginning of period	1,598,550	\$ 64	1,470,000	\$ 706
Issued	–	–	128,550	57
Fair value adjustment	–	(8)	–	(699)
Balance, end of period	1,598,550	\$ 56	1,598,550	\$ 64

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

12. Accounts payable and other liabilities

	June 30, 2014	December 31, 2013
Trade payables and accrued liabilities	\$ 4,287	\$ 3,496
Prepaid rent	421	152
Security deposits	586	585
Tenant improvement payable	337	174
	\$ 5,631	\$ 4,407

13. Unitholders' equity

The change in trust units during the six months ended June 30, 2014 and the year ended December 31, 2013 were as follows:

	June 30, 2014		December 31, 2013	
	Units	Amount	Units	Amount
Balance, beginning of period	8,974,482	\$ 77,993	5,880,000	\$ 51,516
Issued on public offering	1,955,000	17,302	2,564,500	23,081
Issue costs	–	(1,250)	–	(1,472)
Issued on private placement	831,639	7,360	425,532	4,000
Issued on exchange of Class B LP units to trust units	–	–	2,662	23
Distributions reinvested in trust units	179,046	1,534	101,788	845
Outstanding, end of period	11,940,167	\$ 102,939	8,974,482	\$ 77,993

(a) Issuance of May 2014 trust units :

On May 13, 2014, in connection with the investment in the Partnership (note 5), The Trust completed a public offering of 1,955,000 trust units, inclusive of 255,000 trust units issued pursuant to the full exercise of the over-allotment option at a price of \$8.85 per trust unit, for gross proceeds of approximately \$17.3 million (the "May 2014 Offering").

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

13. Unitholders' equity (continued)

(a) Issuance of May 2014 trust units (continued):

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

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

(b) Issuance of August 2013 trust units :

On August 2, 2013, in connection with the acquisition of The Promontory (note 4), the Trust completed a public offering of 2,564,500 trust units, inclusive of 334,500 trust units issued pursuant to the full exercise of the over-allotment option at a price of \$9.00 per trust unit for gross proceeds of approximately \$23.1 million (the "August 2013 Offering").

Concurrent with the closing of the August 2013 Offering, the Trust issued 425,532 trust units in a private placement to Huntingdon, 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 August 2013 Offering and private placement were used to (i) partially fund the acquisition of The Promontory, and (ii) to repay amounts drawn on the revolving credit facility.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

13. Unitholders' equity (continued)

(c) Distribution reinvestment plan:

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 Trust may initially issue up to 295,000 trust units of the Trust under the DRIP. The Trust 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 Trust's board of Trustees, (b) the approval of any stock exchange upon which the trust units trade, and (c) public disclosure of such increase. On April 3, 2014, the Trust received approval from the TSX to reserve an additional 250,000 trust units of the REIT pursuant to the DRIP.

As at June 30, 2014, there were 317,268 trust units cumulatively issued or issuable under the DRIP.

14. Distributions

Pursuant to the Declaration of Trust, the income of the Trust is distributed on dates and in amounts as determined by the Trustees. During the three months and six months ended June 30, 2014, the Trust declared monthly distributions of \$0.0625 per unit. The distributions were paid on or about the 15th day of the month following declaration.

The following table summarizes the distributions declared for the three months and six months ended June 30, 2014:

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

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

14. Distributions (continued)

The following table summarizes the distributions declared for the three months and six months ended June 30, 2013:

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

The distributions declared during the six months ended June 30, 2014 resulted in 186,952 trust units issued or issuable under the DRIP.

15. General and administration

General and administration expenses for the three months and six months ended June 30, 2014 and 2013 were comprised of the following:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Professional fees	\$ 140	\$ 222	\$ 319	\$ 397
Asset management fees	204	176	406	327
Trustee fees	72	73	148	174
Other	104	459	179	602
	\$ 520	\$ 930	\$ 1,052	\$ 1,500

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

16. Finance costs, net

Net finance costs for the three months and six months ended June 30, 2014 and 2013 were comprised of the following:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Mortgage interest	\$ 1,506	\$ 1,325	\$ 3,020	\$ 2,549
Defeasance costs	–	598	–	598
Distributions on class B LP units (note 14)	558	471	1,116	963
Accretion on vendor take-back loan	72	69	144	136
Interest on vendor take-back loan	69	70	138	138
Interest on revolving credit facility	68	60	121	112
Amortization of deferred transaction costs	67	36	126	83
Amortization of mark-to-market adjustment on mortgages (note 7)	(55)	(113)	(111)	(230)
De-recognition of mark-to-market adjustment on mortgages (note 7)	–	(244)	–	(723)
Loss (gain) on interest rate swaps (note 8)	636	(1,479)	1,927	(1,511)
Interest income (note 6)	(192)	–	(240)	–
	\$ 2,729	\$ 793	\$ 6,241	\$ 2,115

17. Fair value adjustments to financial instruments

During the three months and six months ended June 30, 2014 and 2013, the Trust recognized the following fair value gains (losses) to financial instruments:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Class B LP units (note 10)	\$ 30	\$ 1,131	\$ (298)	\$ 1,508
Warrants (note 11)	(24)	192	8	475
	\$ 6	\$ 1,323	\$ (290)	\$ 1,983

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

18. Related party transactions

On December 28, 2012, the Trust entered into a management agreement (the "Management Agreement") with Huntingdon, whereby Huntingdon will provide the Trust with strategic and administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the day-to-day operations of the Trust and its assets. Huntingdon will provide such services using its own employees, including the provision of key personnel to serve as the Chief Executive Officer and Chief Financial Officer of the Trust. As at June 30, 2014, Huntingdon held an approximate 30.1% interest in the Trust through the ownership of 2,977,132 Class B LP units (note 10) and 1,508,491 trust units (note 13).

During the three months and six months ended June 30, 2014 and 2013, the Trust incurred the following costs in connection with the Management Agreement:

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

Property administration fees are allowable under the tenants' leases relating to assets or resources of Huntingdon that are directly attributable to the management of the Trust's properties. Property administration fees were \$0.2 million and \$0.5 for the three months and six months ended June 30, 2014 (three months and six months ended June 30, 2013 - \$0.2 million and \$0.3 million, respectively). These fees are recovered from tenants by the Trust and payable by the Trust to Huntingdon under the terms of the Management Agreement. As at June 30, 2014, included in accounts payable and other liabilities is an amount owing to Huntingdon of \$0.4 million (December 31, 2013 - \$0.4 million).

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

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

19. Supplemental cash flow information

The following table summarizes the items not affecting cash in the condensed consolidated interim statements of cash flows:

	Three months ended		Six months ended	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Amortization of leasing expenses and straight-line rent, net (note 4)	\$ (109)	\$ (112)	\$ (201)	\$ (208)
Finance costs, net (note 16)	2,729	793	6,241	2,115
Share of net loss from equity accounted investment (note 5)	109	–	109	–
Fair value adjustments to financial instruments (note 17)	(6)	(1,323)	290	(1,983)
Fair value adjustments to investment properties (note 4)	3,227	(519)	3,888	(4,863)
Loss on disposal of investment property (note 4)	–	87	–	87
Distributions on Class B LP units reinvested in trust units (note 14)	(558)	–	(1,116)	–
	\$ 5,392	\$ (1,074)	\$ 9,211	\$ (4,852)

20. Special Committee related expenses

In February 2014, the Trust established a Special Committee to assess the implications of Huntingdon's strategic review on the Trust. Special Committee related expenses include legal, financial advisory and trustee fees.

21. Financial risk management

Refer to the Trust's Annual Financial Statements for a description of risk and an explanation of the Trust's risk management policy.

22. Capital management

Refer to the Trust's Annual Financial Statements for a description of the Trust's capital management policy.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

23. Fair values

The Trust uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its consolidated financial statements. The Trust has a management team that has overall responsibility for overseeing all significant fair value measurements. Significant unobservable inputs and valuation adjustments are reviewed on a regular basis. In addition, when third party information is used to measure fair values, supporting evidence is obtained and reviewed to ensure compliance with the IFRS requirements. Significant valuation issues are reported to the Audit Committee. The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values:

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

The fair values of the Trust's cash, accounts receivable and accounts payable and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the Trust's revolving credit facility approximates its carrying value since the revolving credit facility bears interest at floating market interest rates. Mortgages are measured at amortized cost, and their fair values are based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks. The note receivable and the vendor take-back loan are measured at amortized cost, whose fair values approximate face value due to the relatively short period to maturity.

FAM REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements

(all tabular amounts are expressed in thousands of Canadian dollars, unless otherwise noted)

(unaudited)

For the three months and six months ended June 30, 2014

23. Fair values (continued)

The fair value hierarchy of the Trust's assets and liabilities measured and recognized at fair value on the condensed consolidated interim statement of financial position as at June 30, 2014 and December 31, 2013 are categorized as follows:

June 30, 2014	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
<i>Recorded at fair value:</i>				
Investment properties (note 4)	\$ 262,849	\$ -	\$ -	\$ 262,849
Interest rate swap asset (note 8)	529	-	529	-
Interest rate swap liabilities (note 8)	(1,520)	-	(1,520)	-
Class B LP units (note 10)	(26,169)	-	(26,169)	-
Warrants (note 11)	(56)	(56)	-	-
<i>Fair values disclosed:</i>				
Note receivable (note 6)	6,559	-	-	6,559
Mortgages (note 7)	(128,042)	-	-	(131,183)
Vendor take-back loan	(9,033)	-	-	(9,180)

December 31, 2013	Carrying amount	Fair value		
		Level 1	Level 2	Level 3
<i>Recorded at fair value:</i>				
Investment properties (note 4)	\$ 265,367	\$ -	\$ -	\$ 265,367
Interest rate swap asset (note 8)	1,505	-	1,505	-
Interest rate swap liabilities (note 8)	(569)	-	(569)	-
Class B LP units (note 10)	(25,871)	-	(25,871)	-
Warrants (note 11)	(64)	(64)	-	-
<i>Fair values disclosed:</i>				
Mortgages (note 7)	(130,058)	-	-	(133,465)
Vendor take-back loan	(8,889)	-	-	(8,973)

Transfers between the levels of the fair value hierarchy are deemed to have occurred as of the date of the event or change in circumstances that caused the transfer. During the six months ended June 30, 2014, there were no transfers between the levels of the fair value hierarchy.