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March 2, 2015

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2014. The discussion outlines strategies and provides analysis of our financial performance for the fourth quarter and the full year.

The underlying financial statements in this MD&A, including 2013 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on March 2, 2015. Disclosure contained in this MD&A is current to March 2, 2015, unless otherwise indicated.

All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA Canada Handbook and do not have any standardized meaning prescribed by IFRS. These measures include funds from operations (FFO), adjusted funds from operations (AFFO) and net operating income (NOI), which are key measures of performance used by real estate businesses. We believe that these measures are important in evaluating the REIT's operating performance, financial risk, economic performance, and cash flows. These non-standard measures may not be comparable to similar measures presented by other companies and real estate investment trusts and should not be used as a substitute for performance measures prepared in accordance with IFRS.

Non-standard measures included in this MD&A are defined on page 33: "Non-standard Measures."

Financial Reporting

As Melcor Developments Ltd. (Melcor) retained control over the REIT, the May 1, 2013 initial public offering (IPO) and acquisition of the Initial Properties was accounted for as a reorganization and recapitalization using the continuity of interests method. Financial information for the pre-acquisition period is presented based on historical combined financial information for the Initial Properties as previously reported by Melcor.

Throughout this MD&A we make reference to the terms we, our and management. These terms are used to describe the activities of the REIT through the eyes of management, as provided by Melcor under the asset management and property management agreements entered into as part of the Offering and acquisition of the Initial Properties.

Formation of the REIT

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

We began operations on May 1, 2013 when our trust units were issued for cash pursuant to the IPO. Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor pursuant to the property management and asset management agreements entered into in conjunction with the IPO.

As of March 2, 2015, Melcor holds an approximate 56.5% effective interest in the REIT through ownership of all Class B LP units of the partnership through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated Declaration of Trust (DOT) dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At March 2, 2015, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Regulatory Filings

Additional information about the REIT, including our annual information form, management information circular and quarterly reports, is available on our website at melcorREIT.ca and on SEDAR at sedar.com.

2014 At-a-Glance

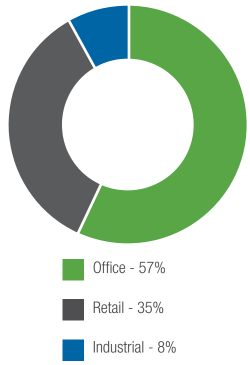
Growth through acquisition:

- Completed two acquisitions via our proprietary Melcor pipeline, adding six new properties and additional phases at two existing properties: 793,941 sf for $151.75 million
- Completed third party acquisitions of three properties: 249,361 sf for $42.83 million
- Completed a bought deal issuance of 2,145,000 units (including exercise of over-allotment option) for gross proceeds of $22.84 million
- Completed a bought deal issuance of 5.50% convertible debentures (including exercise of an over-allotment option) for gross proceeds of $34.50 million
- Increased GLA by 62%
- Improved portfolio diversification by increasing industrial and retail components

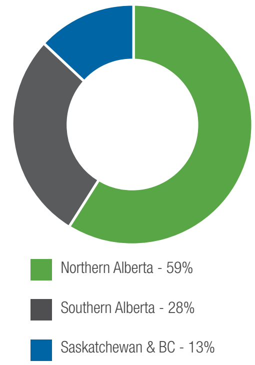
Improving assets:

- Improved asset and portfolio quality through capital expenditures and improvements program
- Increased occupancy to 92.4% in 2014
- Achieved tenant retention of 82.7% on expiring GLA (17.6% of portfolio) as a result of proactive leasing programs
- Achieved BOMA BESt level 2 at Westcor and Princeton Place (subsequent to year end)
- Extended our signature customer service program to retail and industrial properties
- Achieved 97% on-time response rate to customer service requests and responded to 10% more requests

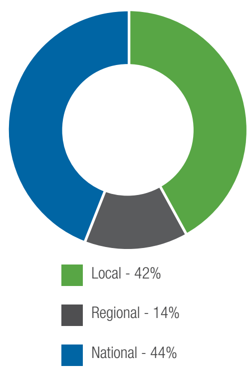
GLA By Property Type



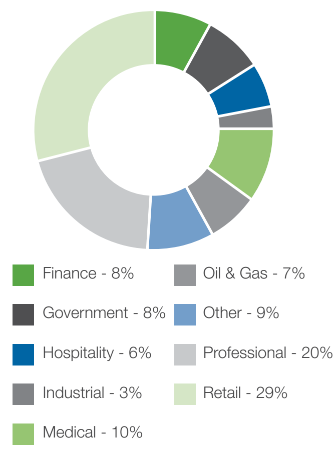
GLA By Region



Retail GLA By Tenant Profile



GLA By Tenant Industry



Caution Regarding Forward-looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent the REIT's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2015 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.

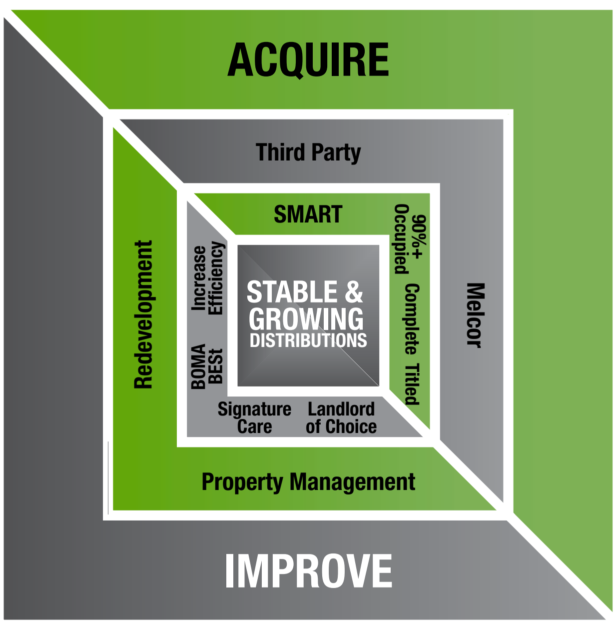
By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the western Canadian economy and how this performance will affect the REIT's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the REIT or on its behalf.

Our Business
Vision, Goals & Strategy

Melcor REIT (the REIT) has an established and diversified portfolio focused on Western Canada. We own 38 income-producing office, retail and industrial properties representing 2.74 million sf (square feet) in gross leasable area (GLA) at December 31, 2014. These high-quality properties feature stable occupancy and a diversified mix of tenants, some of whom have been in place for over 20 years. The REIT is externally managed, administered and operated by Melcor Developments Ltd. pursuant to the asset management and property management agreements entered into in conjunction with the IPO.

Melcor, a real estate company founded in 1923, has a rich history of growth and performance prior to the formation of the REIT. Our objective is to continue that tradition by expanding our portfolio of income-producing properties across Western Canada to provide stable and growing monthly cash distributions to unitholders. Our growth strategy is simple: acquire and improve. Together with Melcor, we have a proven track record of doing both.



Acquire

Our acquisition growth strategy is focused on:

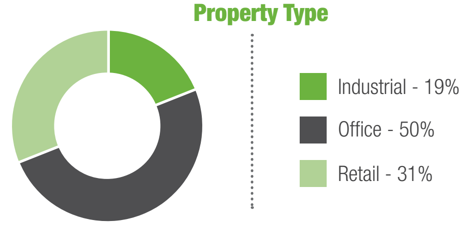
- Increasing penetration in existing geographic markets to exploit existing competitive advantage
- Diversifying our property portfolio, and
- Expanding to adjacent geographic markets.

We focus on two channels to support our acquisition growth strategy:

Acquiring properties via our proprietary pipeline: As Melcor completes development and leasing of commercial properties, the REIT has a first right to purchase each asset for its portfolio. This organic asset pipeline is unique to the REIT. Based on projects currently being developed or planned to begin in the near-term, we expect this current acquisition pipeline to yield over 6 million sf of GLA over the next 5-10 years. Under the Development and Opportunities Agreement entered into in conjunction with the IPO, the REIT also has the opportunity to participate in investment opportunities, joint ventures and mezzanine financing on Melcor projects.

In 2014, we acquired 793,941 sf of GLA from Melcor, including six new properties and additional phases at two existing properties. These high quality properties include both innovative mixed-use new developments and redeveloped properties and were acquired for an aggregate purchase price of $151.75 million. Melcor currently has an additional 237,000 sf of GLA under development.

Melcor GLA Under Development by Property Type

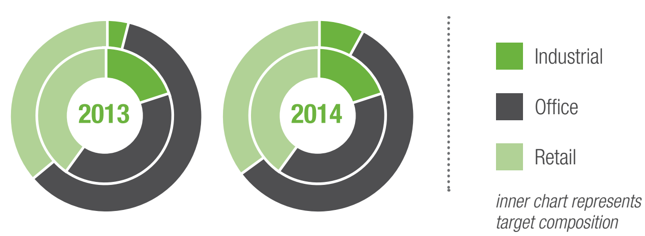


Acquiring accretive income-producing properties: We actively seek strategic property acquisitions that fit our SMART investment criteria: properties that have a good Strategic fit, are in the right Market, Accretive to AFFO per unit, at the Right price and in our Targeted areas. Target acquisitions include properties with potential to increase value through expansion, redevelopment or improved property management.

In 2014, we also acquired three properties with 249,361 sf of GLA from third parties for an aggregate purchase price of $42.83 million, demonstrating the advantage of local market knowledge, reputation and our ability to find and quickly close unmarketed opportunities.

These acquisitions helped to diversify our portfolio and brought us closer to our target portfolio mix of 40% office, 40% retail and 20% industrial.

REIT Portfolio by Property Type



The section titled Our Business: Vision, Goals & Strategy above and on the following pages contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 11.

SMART ACQUISITION STRATEGY

Strategic **M**arket **A**ccretive **R**ight Price **T**argeted	**Acquisition Targets** ▪ Stable, accretive properties ▪ Penetrate existing geographic markets ▪ Expand into adjacent markets ▪ Properties with redevelopment and repositioning potential **Acquisition & Integration Strengths** ▪ Proven due diligence process ▪ Agility to quickly execute on decisions ▪ Ability to close within 30 days (preferred access to unmarketed opportunities) ▪ Clustering of properties for efficient management & strong market knowledge

Each acquisition undertaken in 2014 was consistent with our acquisition growth strategy and helped to further diversify our portfolio.

Improve

There are two key components to improving our existing assets – property management and asset enhancement. The goals of our property management and asset enhancement programs are to:

- Maximize occupancy
- Maximize tenant retention
- Increase rental income

Property Management

To ensure that our occupancy rates remain high and that our space is leased at attractive rates, we are committed to being the Landlord of Choice by providing consistent, high quality service and our signature customer care program to our clients.

Efficient property management optimizes operating costs, occupancy and rental rates. Our hands-on, on-site building management identifies issues early on for prompt resolution, and with continuous logging and monitoring of all maintenance activity, we can make capital investment decisions at the right time to sustain operating margins.

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 20 years.

Our signature customer care program is focused on responsiveness. We are proud of our track record of responding to over 97% of service requests within 30 minutes during business hours. Our signature customer care program was enhanced with online customer care options in December 2013.

As 2014 was a year with higher than average lease expiries (297,298 sf or 17.6% of the portfolio at the beginning of the year), we developed an early renewal strategy for larger tenants. As a result of this program, 82.7% of expiring GLA was renewed.

322,473 sf of GLA or 11.8% of our portfolio expires in 2015. We continue to be proactive in our leasing strategy to maintain occupancy at or above our target.

Asset Enhancement

We continually improve our assets with value-adding investments that enhance property quality, which leads to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability. We use our intimate knowledge of the buildings we operate to support capital investment decisions, optimize operating efficiency and continuously improve our buildings for enhanced client satisfaction. Each building undergoes an annual assessment to identify preventative maintenance and capital investment requirements, and we continuously monitor and log all equipment and maintenance activity.

CAPITAL EXPENDITURES STRATEGY

PRESERVE	▪ Inner works (boilers, roofs, maintenance) ▪ Maintain asset value through routine care ▪ Improve efficiencies through upgrades (lower building operating costs) ▪ Driven by annual building & equipment condition assessments
ENHANCE	▪ Proven due diligence process ▪ Agility to quickly execute on decisions ▪ Ability to close within 30 days (preferred access to unmarketed opportunities) ▪ Clustering of properties for efficient management & strong market knowledge

Melcor invested over $17 million in asset preservation and enhancement prior to the IPO and the REIT expects to continue to invest a further $12 million over the coming 10 years based on third party building condition assessment reports.

Many of our continuous improvement initiatives focus on sustainability and energy reduction strategies to ensure our buildings are green. As we upgrade and replace equipment, we do so with technology that promotes energy efficiency. We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

We are dedicated to achieving and maintaining BOMA BESt standards. BOMA BESt is the leading environmental certification program for existing buildings in Canada. We had three BOMA BESt certified Green & Responsible buildings at the end of December 2014 and we were pleased to receive BOMA BESt certification on a fourth building in January 2015. Together, our BOMA BESt certified buildings have reduced electricity consumption by 28% and natural gas consumption by 22% since 2011. We continue to assess our buildings against the BOMA BESt standards and will apply for certification on additional properties once they meet the criteria as a result of our capital expenditures and improvements program.

Another component of asset enhancement that we consider is creating additional value out of existing properties through densification (adding GLA to existing properties). In 2014, we built a 7,456 sf commercial retail unit (CRU) at Chestermere (this CRU was not included in GLA for 2014). We expect tenants to take occupancy in early 2015. We continue to look for densification opportunities across our portfolio.

Key Metrics

Metric	Target	2014
Debt/gross book value	50-55%	**50%**
Debt/gross book value including debenture	max 65%	**56%**
Tenant retention	75%	**82.7%**
Occupancy	90%+	**92.4%**
Portfolio diversification		
Retail	40%	**34.6%**
Office	40%	**57.3%**
Industrial	20%	**8.1%**
Weighted average base rent		
Retail	$18.50+	**$18.40**
Office	$14.00+	**$14.15**
Industrial	$8.00+	**$8.63**
Customer Care On-time Response	95%+	**97%**

2014 Highlights
& Key Performance Indicators

	Year Ended December 31		
	2014	2013	Change
Non-Standard KPIs			
Net operating income (NOI)	**28,581**	25,295	13%
Funds from operations (FFO)	**17,907**	15,903	13%
Adjusted funds from operations (AFFO)	**15,613**	13,916	12%
Rental revenue	**44,509**	39,325	13%
Income before fair value adjustments and taxes	**8,375**	9,317	(10)%
Fair value adjustment on investment properties	**93**	16,953	(99)%
Distributions to unitholders	**7,128**	4,109	73%
Cash flows from operations	**9,252**	10,502	(12)%
Per Unit Metrics [1]			
Income - diluted	**$0.75**	$1.25	(40)%
FFO	**$0.87**	$0.85	2%
AFFO	**$0.76**	$0.75	1%
Distributions	**$0.68**	$0.45	50%
IFRS Measures			
Total assets ($000s)	**657,765**	454,743	45%
Equity ($000s)[2]	**261,853**	186,608	40%
Debt ($000s)[3]	**344,694**	215,601	60%
Weighted average interest rate on debt	**3.98%**	3.98%	—%
Debt to GBV ratio[4]	**56%**	51%	10%
Finance costs coverage ratio[5]	**2.94**	2.96	(1)%
Debt service coverage ratio[6]	**2.75**	2.83	(3)%
Operational Highlights			
Number of properties	**38**	29	31%
Gross leasable area (GLA) sf	**2,735,467**	1,691,920	62%
Occupancy % (weighted by GLA)	**92.4%**	90.6%	2%
Retention % (weighted by GLA)	**82.7%**	75.5%	10%
Weighted average remaining lease term (years)	**5.49**	4.75	16%
Weighted average base rent (per sf)	**$15.25**	$16.63	(8)%

1. 2013 figures are calculated as if the trust units and Class B LP Units issued in 2013 were outstanding during the entire comparative period, except for income - diluted which is calculated for the post formation period May 1, 2013 to December 31, 2013.
2. Calculated as the sum of trust units and Class B LP Units at their book value. Class B LP Units are presented as a financial liability in the consolidated financial statements.
3. Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units and convertible debenture, excluding unamortized discount and transaction costs.
4. Excluding convertible debentures, Debt to GBV ratio is 50%
5. Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units.
6. Calculated as FFO divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units.

Growth & Diversification of Portfolio

Throughout 2014, we continued to execute on growth through our acquisition strategy. Through a combination of Melcor and third party acquisitions, we increased our portfolio GLA by 62% while at the same time diversifying our portfolio mix by increasing industrial and retail GLA.

Acquisitions completed in 2014 are outlined below:

Property	Date Acquired	Purchase Price	Acquired From	Property Type	GLA	Occupancy %
LC Industrial	January 2014	$5,900,000	3rd Party	Industrial	67,610	100%
May 2014 Melcor Acquisition	May 2014	$13,500,000	Melcor			
Kingview Market Phase 3				Retail	11,555	100%
Market Mall				Retail	42,586	100%
Select Building (107 Avenue Building)	May 2014	$5,550,000	3rd Party	Office	23,432	100%
White Oaks Square	December 2014	$31,380,000	3rd Party	Retail	158,319	98%
December 2014 Melcor Acquisition	December 2014	$138,250,000	Melcor			
Lethbridge Centre				Office	446,272	90%
Telford Industrial				Industrial	88,699	100%
Leduc Common Phase 4				Retail	71,240	100%
The Village at Blackmud Creek				Office	48,335	100%
The Village at Blackmud Creek				Retail	9,029	87%
University Park Mall				Retail	41,238	97%
West Henday Promenade				Retail	34,987	96%
Total		**$194,580,000**			**1,043,302**	**95%**

The acquisitions completed in December had minimal impact on our 2014 financial results and will be accretive in 2015.

We also continued to execute on our strategy of improving existing assets through exceptional property management and asset enhancement programs designed to maximize occupancy, maximize tenant retention, increase rental income and optimize operating costs. These programs achieved the following results in 2014.

- Leveraged strategic leasing programs to increase occupancy to 92% in 2014 in spite of 17.6% of total GLA expiring in the year. The addition of fully occupied properties also contributed to this increase. Tenant retention was 82.7% of expiring GLA.
- Achieved BOMA BESt Level 2 certification at Westcor Building and Princeton Place (subsequent to year end). BOMA BESt is the leading environmental certification program for existing buildings in Canada. Our four BOMA BESt certified Green & Responsible buildings have reduced electricity consumption by 28% and natural gas consumption by 22% since 2011.
- Extended our signature customer service program to our retail and industrial properties and achieved a 97% on-time response rate on customer service requests (responding to requests within 30 minutes). Our call volume also increased by 10% over 2013.

The successful execution of these strategies contributed to:

- 13% growth in both Revenue and NOI over 2013
- FFO growth of 13% and AFFO growth of 12% over 2013

Other financial highlights include:

- 45% increase in total asset value
- Distributions of $0.05625 per trust unit per month were paid. 70% of distributions to unitholders were classified as return of capital.

Consolidated Revenue & Net Operating Income

	Year Ended December 31		
($000s unless noted)	2014	2013	Change
Base rent	**28,487**	25,196	13%
Recoveries	**16,740**	14,457	16%
Other	**1,214**	1,572	(23)%
Amortization of tenant incentives	**(2,539)**	(2,297)	11%
Straight-line rent adjustments	**607**	397	53%
Rental revenue	**44,509**	39,325	13%
Operating expenses	**8,801**	8,009	10%
Utilities and property taxes	**9,059**	7,921	14%
Direct operating expenses	**17,860**	15,930	12%
Net rental income	**26,649**	23,395	14%
NOI	**28,581**	25,295	13%
Same-asset NOI	**22,839**	22,954	(1)%
Operating margin	**60%**	59%	2%

Revenue

Rental revenue for the year ended December 31, 2014 increased $5.18 million or 13% over 2013. Higher revenue was driven by portfolio growth, with nine properties and additional phases at two existing properties acquired during 2014 increasing our GLA by 62% or 1,043,547 sf compared to December 31, 2013. Rental revenue generated by newly acquired properties was $5.19 million in 2014 (2013 - $0.59 million). Same-asset rental revenue grew by $0.58 million or 2% over 2013 driven by recoveries on higher direct operating expenses incurred during the year.

Weighted average base rent was $15.25 per sf at December 31, 2014, a decrease of 8% compared to 2013. Rate compression was driven by the increase in our industrial GLA, which typically have lower average rents, and certain anchor tenants which have lower base rents. On a same-asset basis average base rents were steady over 2013 with escalations on in-place rents in conjunction with a modest increase in average base rents on renewed leases driving the increase.

Occupancy improved to 92.4% as a result of higher average occupancy on newly acquired properties. On a same-asset basis occupancy improved moderately as a result of leasing activity on new and renewed deals during the year. We achieved a retention rate of 82.7% on the GLA expiring in 2014.

The following table summarizes the REIT's average base rent, GLA, occupancy and retention:

	Year Ended December 31		
	2014	2013	Change
Average base rent (per sf)	**$15.25**	$16.63	(8)%
Weighted average remaining lease term	**5.49**	4.75	16%
GLA	**2,735,467**	1,691,920	62%
Occupancy %	**92.4%**	90.6%	2%
Retention %	**82.7%**	75.5%	10%

Recoveries are amounts recovered from tenants for direct operating expenses incurred during the year and include a nominal administrative charge. During the year ended December 31, 2014, recoveries revenue increased by $2.28 million or 16% and correlates with the increase in direct operating expenses which were 12% or $1.93 million higher than 2013. Recovery revenue from newly acquired properties contributed $1.37 million in 2014 (2013 - $0.11 million). During 2014 we reclassified costs related to tenant recoveries from operating expenses to general & administrative expense, resulting in growth in recovery revenue exceeding increases in direct operating expenses during the year.

Other revenue is comprised of parking revenue and other miscellaneous revenue. These revenues can fluctuate from period to period.

Net non-cash adjustments related to amortization of tenant incentives and straight-line rent adjustments were steady over the comparative period. Amortization of tenant incentives increased over 2013 as a result of higher lease rollover during 2014, contributing to increased tenant incentives on new and renewed leases. Straight-line rent adjustments relate to new leases entered into during the period which have escalating rent rates and/or rent-free periods. Straight-line rent adjustments fluctuate from period to period due to the timing of leases signed.

Direct operating expenses

Direct operating expenses increased by $1.93 million or 12% over 2013. Excluding the impact of newly acquired properties, direct operating expenses increased by $0.70 million over 2013. On a same-asset basis operating expenses were $0.22 million or 3% higher than 2013 and reflect inflationary growth in the cost of goods and services, offset by lower snow removal costs and certain non-recoverable costs. Property taxes and utilities increased by $0.47 million or 6% on a same-asset basis compared to 2013 and reflect higher property taxes on specific assets due to rising appraised values. These increases were partially offset by cost savings on utility contracts.

NOI and Same-asset NOI

Net operating income (NOI) and same-asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same-asset NOI is net income.

Property acquisitions completed in 2014 and the last half of 2013 contributed to the increase in NOI, which grew 13% over 2013. On a same-asset basis, NOI was steady over 2013. The calculation of same-asset NOI is as follows (refer to non-standard measures for calculation of NOI and reconciliation to net income):

	Year Ended December 31		
($000s)	2014	2013	Change
Same-asset NOI	**22,839**	22,954	(1)%
Acquisitions	**3,810**	441	
NOI before adjustments	**26,649**	23,395	14%
Amortization of tenant incentives	**2,539**	2,297	
Straight-line rent adjustments	**(607)**	(397)	
NOI	**28,581**	25,295	13%

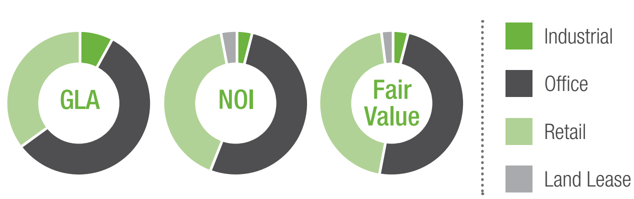
Property Analysis

At December 31, 2014 our portfolio includes interests in 38 retail, office and industrial income-producing properties located in Western Canada for a total of 2,735,467 sf of GLA, and a land lease community.

During 2014 we acquired nine properties and additional phases at two existing properties, adding 1,043,302 sf to our portfolio. Since our IPO on May 1, 2013 our portfolio GLA has increased 74%, adding depth and diversification to our portfolio.

The following table summarizes the composition of our properties at December 31, 2014 by property type:

	Number of Properties	GLA (sf) / Lots	% of Portfolio (GLA)	Fair value ($000s)	NOI ($000s)
Retail	13	946,585	34.6%	286,821	11,656
Office	20	1,567,600	57.3%	314,317	14,988
Industrial	4	221,282	8.1%	28,300	994
Land Lease Community	1	308 lots	n/a	14,850	943
	38	2,735,467	100.0%	644,288	28,581



The following table details key financial and operational metrics for each of property type for the year ended December 31, 2014:

	Retail		Office		Industrial		Land Lease Community	
	2014	2013	2014	2013	2014	2013	2014	2013
Year ended December 31 ($000s)								
Rental revenue	15,843	12,279	26,134	25,166	1,274	652	1,258	1,228
NOI	11,656	9,126	14,988	14,896	994	419	943	854
As at December 31								
Average base rent (per sf)	$18.40	$19.12	$14.15	$15.55	$8.63	$6.67	n/a	n/a
Occupancy	96.8%	93.2%	89.0%	88.4%	97.9%	100%	100%	100%

Retail - our 13 retail properties include 5 multi-building retail power centres and 8 neighborhood shopping centres. Retail GLA increased by 56% or 338,351 sf over 2013 through acquisitions. Rental revenue grew 29% over 2013. The increase is a result of two property acquisitions and additional phases at two power centres in 2014 (2013 - two property additions), contributing revenues of $4.04 million (2013 - $0.59 million). On a same-asset basis, rental revenue was consistent with 2013.

Office - our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Office GLA increased by 54% or 548,887 sf over 2013 through acquisitions. Rental revenue increased by 4% over 2013. Property acquisitions resulted in GLA growth of 548,887 sf and generated $0.53 million of revenues in 2014 (2013 - $nil). Weighted average base rent decreased by $1.40 per sf as a result of an anchor tenant with lower base rents in one of the newly acquired properties. Normalizing for the anchor tenant, weighted average base rent on office properties was $15.50 at December 31, 2014.

Industrial - our 4 industrial properties include single and multi-tenant buildings. Industrial GLA increased by 241% or 156,309 sf over 2013 through acquisitions. Rental revenue increased 95% compared to 2013 as a result of the acquisition of two industrial properties in Alberta during the year, which generated $0.62 million in 2014 revenues (2013 - $nil).

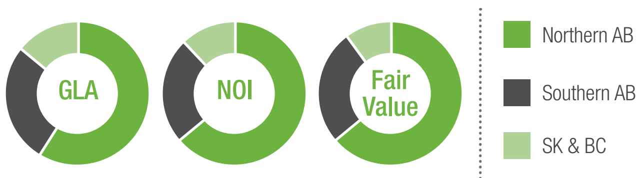
Land Lease Community – we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2014 (December 31, 2013 – 100%). Rental revenue was steady over 2013; improved NOI was due to lower property taxes during the year.

During 2014, same-asset NOI was steady across our portfolio.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2014 by geographic region:

	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair value ($000s)	NOI ($000s)
Northern Alberta	24	1,618,150	59.2%	412,430	18,366
Southern Alberta	7	750,854	27.4%	167,158	6,788
Saskatchewan & British Columbia	7	366,463	13.4%	64,700	3,427
	38	2,735,467	100.0%	644,288	28,581



The following table details key financial and operational metrics for each of our geographic regions for the year ended December 31, 2014:

	Northern AB 2014	Northern AB 2013	Southern AB 2014	Southern AB 2013	SK & BC 2014	SK & BC 2013
Year ended December 31 ($000s)						
Rental revenue	29,220	25,531	9,329	8,246	5,960	5,548
NOI	18,366	16,441	6,788	5,737	3,427	3,117
As at December 31						
Average base rent (per sf)	$16.22	$17.19	$14.00	$23.22	$13.39	$12.88
Occupancy	93.1%	90.0%	91.9%	98.4%	90.5%	86.8%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and Red Deer. Rental revenue grew 14% over 2013. The increase is a result of six property acquisitions and the acquisition of an additional phase in an existing property in 2014 (2013 - two property additions), contributing revenues of $3.32 million (2013 - $0.59 million). On a same-asset basis, rental revenue growth was driven by recoveries for higher direct operating expenses.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere, and Lethbridge. Rental revenue increased by 13% over 2013. Property acquisitions completed in the region resulted in GLA growth of 468,212 sf and generated $1.23 million of revenues in 2014 (2013 - $nil). Weighted average base rent decreased by $9.22 per sf as a result of new property additions in the region. Rate compression was driven by the increase in our industrial GLA through the acquisition of LC Industrial, which typically have lower average rents, and an anchor tenant at Lethbridge Centre which has lower base rents. Excluding the anchor tenant, weighted average base rent was $17.14.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue increased 7% compared to 2013 as a result of the acquisition of two retail properties in Saskatchewan during the year, which generated $0.64 million in 2014 revenues (2013 - $nil).

During 2014, same-asset NOI was steady across our Northern and Southern Alberta portfolio. Saskatchewan and BC decreased due to higher average vacancy.

General & Administrative Expense

($000s)	Year Ended December 31 2014	2013	Change
Asset management fee	**1,123**	676	66%
Salaries and benefits	**—**	315	(100%)
Professional fees	**441**	232	90%
Public company costs	**216**	172	26%
Other	**354**	333	6%
	2,134	1,728	23%

The analysis of general & administrative components year over year is not meaningful due to the formation of the REIT and resulting change in cost structure in 2013. Professional fees and public company costs increased over 2013 and reflect the higher costs associated with the REIT being a stand-alone publicly traded entity for a full twelve month period. Increased professional fees were also driven by additional administrative infrastructure required to support the growth of the portfolio and continued capital market activity. Property acquisitions completed over the past twelve months drove the increase in asset management fee, which is charged at an annual rate of 0.25% of gross book value. Refer to note 22 of the consolidated financial statements for additional discussion on the management fee structure. Other expenses fluctuate from period to period due to the timing of costs incurred. During 2014 we reclassified costs related to tenant recoveries from operating expenses to general & administrative expense. We expect general & administrative expense to increase with portfolio growth and correlate with rental revenue at an approximate rate of 5%.

Finance Costs

($000s)	Year Ended December 31 2014	2013	Change
Interest on mortgages payable and revolving credit facility	**5,264**	5,586	(6%)
Interest on Class C LP Units	**3,971**	2,721	46%
Amortization of fair value adjustment on Class C LP Units	**(440)**	(293)	50%
Interest on convertible debenture	**151**	—	100%
Non-cash finance costs	**273**	108	153%
Finance costs before distributions	**9,219**	8,122	14%
Distributions on Class B LP Units	**6,993**	4,289	63%
Finance costs	**16,212**	12,411	31%

Finance costs for the year ended December 31, 2014 were $3.80 million or 31% higher compared to 2013. Financing of newly acquired properties during the year and higher leverage contributed to the increase in finance costs. Analysis of the components of finance costs is not meaningful due to the formation of the REIT and resulting conversion of certain mortgages into Class C LP Units. On December 3, 2014, we issued a convertible debenture for gross proceeds of $34.50 million, which pays a coupon of 5.50% annually.

Distributions made on Class B LP Units increased by $2.70 million or 63% as a result of the issuance of 5,085,080 Class B LP Units as part of the acquisitions from Melcor completed during 2014. The increase also reflects that distributions were paid in twelve months in 2014 compared to eight months in 2013.

Lower weighted average interest rates on Class C LP Units, the revolving credit facility and on new and renewed mortgages partially offset the increase in indebtedness during the year. As at December 31, 2014, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debenture was 3.98% based on period end balances (December 31, 2013 – 3.98%).

Income Taxes

As at December 31, 2014, the REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

In 2013 we recorded a deferred income tax recovery of $40.59 million related to the de-recognition of a deferred income tax liability as a result of qualifying for the REIT Exception at the IPO.

Funds from Operations & Adjusted Funds from Operations

Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-standard measures used in the real estate industry as a measure of operating performance of investment properties. We believe that AFFO is an important measure of economic performance and is indicative of the REIT's ability to pay distributions, while FFO is an important measure of operating performance and the performance of real estate properties.

($000s, except per unit amounts)	Year Ended December 31 2014	2013	Change
Net income for the year	**18,348**	62,719	
Add / (deduct)			
Fair value adjustment on investment properties	**(93)**	(16,953)	
Fair value adjustment on Class B LP Units	**(9,880)**	3,812	
Amortization of tenant incentives	**2,539**	2,297	
Distributions on Class B LP Units	**6,993**	4,289	
Deferred income tax recovery	**—**	(40,261)	
Funds From Operations (FFO)	**17,907**	15,903	13%
Add / (deduct)			
Straight-line rent adjustments	**(607)**	(397)	
Non-cash finance costs	**273**	168	
Net impact of amortization of fair value adjustment and interest subsidy [1]	**547**	432	
Normalized capital expenditures [2]	**(835)**	(729)	
Normalized tenant incentives and leasing commissions [2]	**(1,672)**	(1,461)	
Adjusted Funds from Operations (AFFO)	**15,613**	13,916	12%
FFO/Unit	**$0.87**	$0.85	2%
AFFO/Unit	**$0.76**	$0.75	1%

1. Adjustment includes the following: amortization of the fair value adjustment recognized on the Class C LP Unit liability; and usage of the interest rate subsidy provided by Melcor as part of the transfer of the Initial Properties.
2. Represents 3% and 6% of annual NOI for capital expenditures and tenant incentives and leasing commissions respectively. Amounts are net of usage of the capital expenditure subsidy provided by Melcor as part of the transfer of Initial Properties. Amounts presented in the comparative pre-acquisition period is based upon the respective percentage of annual NOI for comparative purposes.

Our convertible debenture can be converted into trust units at the holder's option and are considered a dilutive instrument. The following table calculates diluted FFO and diluted FFO/Unit:

	Year Ended December 31		
($000s, except per unit amounts)	2014	2013	Change
Funds From Operations (FFO)	17,907	15,903	13%
Interest on convertible debenture	151	—	
Non-cash finance costs	38	—	
Funds From Operations - Diluted (FFO - Diluted)	18,096	15,903	14%
FFO - Diluted/Unit	$0.87	$0.85	2%

Distributions

In order to continue to qualify for the 'REIT Exception', as provided under the SIFT rules, we must allocate substantially all taxable income. As such, we allocate monthly distributions to unitholders as determined and approved by the Board of Trustees. We made monthly distributions to unitholders at a rate of $0.05625 per unit, representing $0.675 per unit on an annualized basis. Distributions to unitholders during the year were $7.13 million (2013 - $4.11 million).

Distributions made during the year ended December 31, 2014 represent a payout ratio of approximately 89% of AFFO (2013 - 90% on an annualized basis, including pre-REIT formation). AFFO/Unit was negatively affected during the year by the time lag between capital raises and the deployment of funds on asset purchases. We generate sufficient cash flows from operations in order to sustain our current distribution rate for the foreseeable future. We use AFFO in evaluating our ability to continue to make distributions through operating activities. The most similar GAAP measure is cash flow from operations. Cash flow from operations for 2014 was $9.25 million, exceeding distributions by $2.12 million (2013 - May 1, 2013 to December 31, 2013 - $7.14 million, exceeding distributions by $3.03 million).

A reconciliation of cash flow from operations to AFFO is as follows:

	Year Ended December 31		
($000s)	2014	2013	Change
Cash flows from operations	9,252	10,502	(12)%
Distributions on Class B LP Units	6,993	4,289	
Changes in operating assets and liabilities (note 30)	888	590	
Interest subsidy	987	725	
Normalized capital expenditures	(835)	(729)	
Normalized tenant incentives and leasing commissions	(1,672)	(1,461)	
Adjusted Funds from Operations (AFFO)	15,613	13,916	12%

Fair Value of Investment Properties

We carry our investment properties at fair value in accordance with IFRS 13, Fair value measurement. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	At December 31	
	2014	2013
Number of properties	38	29
Total GLA (sf)	2,829,885	1,786,447
GLA (REIT owned %) (sf)	2,735,467	1,691,920
Fair value of portfolio ($000s)	644,288	440,349
Value per square foot	$236	$260
NOI ($000s)	28,581	25,295
Weighted average capitalization rate	6.49%	6.41%
Weighted average discount rate	6.77%	7.57%
Weighted average terminal cap rate	7.69%	6.69%

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2014 and 2013, resulting in fair value gains of $0.09 million (2013 - $16.95 million) on investment properties recorded to income during the year. Refer to note 27 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

A breakdown of our fair value adjustment on investment properties by geographic region are as follows:

	Year Ended December 31		
($000s)	2014	2013	Change
Northern Alberta	(3,787)	7,969	(148)%
Southern Alberta	2,955	6,178	(52)%
Saskatchewan & British Columbia	925	2,806	(67)%
	93	16,953	(99)%

Fair value losses in Northern Alberta were primarily due to an increase in capitalization rates on three Edmonton office properties. Fair value gains in Southern Alberta and Saskatchewan & British Columbia were primarily driven by newly acquired properties where appraised fair value exceeded purchase price. Decreased fair value adjustments compared to 2013 reflects increased stability in the portfolio.

Fair values are most sensitive to changes in capitalization rates.

(%)	December 31, 2014			December 31, 2013		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50	9.00	6.49	5.50	9.00	6.41
Terminal capitalization rate	5.75	9.25	6.77	5.75	9.25	6.69
Discount rate	6.50	10.00	7.69	6.50	10.00	7.57

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $43.83 million (2013 - $31.88 million) while a 50 basis points decrease (-0.5%) would increase it by $51.15 million (2013 - $37.28 million).

Liquidity & Capital Resources

We employ a range of strategies to fund operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses
- Meet debt service requirements
- Make distribution payments
- Fund capital projects, and
- Purchase investment properties.

Cash Flows

The following table summarizes cash flows from operating, investing and financing activities:

	Year Ended December 31		
($000s)	2014	2013	Change
Cash from operating activities	**9,252**	10,502	(1,250)
Cash used in investing activities	**(56,995)**	(34,867)	(22,128)
Cash from financing activities	**48,523**	29,608	18,915
Increase in cash and cash equivalents	**780**	5,243	(4,463)
Cash and cash equivalents, beginning of year	**5,932**	689	5,243
Cash and cash equivalents, end of year	**6,712**	5,932	780

Operating activities

Cash from operating activities was $1.25 million lower than 2013. This decrease is primarily due to distributions on Class B LP Units, which were $6.99 million during the year, compared to $4.29 million in 2013, and are included in finance costs.

Investing activities

In 2014 we invested $49.61 million in acquisitions of nine properties and additional phases of two exiting properties (2013 - $25.85 million on two property acquisitions).

We continue to invest in targeted and strategic value enhancing capital projects to improve the appeal of our investment properties to prospective and existing tenants.

Our capital asset enhancement program invested $4.44 million in strategic value-adding building improvement and asset enhancement projects in 2014 (2013 - $3.82 million). Capital spending in 2014 includes $0.64 million in development costs incurred on the construction of a commercial retail unit (CRU) on vacant land at one of our power centres (owned with joint arrangement partners). The majority of building improvement expenditures are recoverable from the tenants over 5-25 years. Normalized capital expenditures are calculated on a ten year horizon and account for annual fluctuations due to timing of capital programs.

Leasing activity on both new and renewed leases was strong during the year, driving $1.06 million in leasing fees paid under the Property Management Agreement (2013 - $0.79 million). Payments of tenant incentives correlates with lease activity, increasing $2.93 million over 2013. We used $2.04 million of restricted cash to partially fund 2014 investment activities. Timing of lease expiries impacts the level of spending on tenant incentives and leasing costs. Higher expenditures during the period reflects 17.6% of our portfolio GLA expiring in 2014, with 82.7% renewed during the year. In addition, we completed 116,524 sf in new leasing during the year.

Financing activities

On May 7, 2014 we received $18.75 million from the issuance of 1,900,000 trust units, net of transaction costs. On May 16, 2014, an additional 245,000 trust units were issued under the over-allotment option for net proceeds of $2.50 million. Proceeds were used to fund acquisitions and to reduce the amount outstanding under our revolving credit facility.

On December 3, 2014 we received $31.93 million from the issuance of a 5.50% convertible debenture, net of transaction costs. Funds were used to complete property acquisitions.

In the comparative period we issued 9,130,000 of trust units as part of the IPO, for proceeds of $74.41 million, net of transaction costs.

During 2014 we obtained mortgage financing on four recently acquired and previously unencumbered properties for proceeds of $19.01 million. Partial proceeds were used to repay the remaining amounts drawn under the revolving credit facility. In addition, we refinanced three mortgages on two properties for gross proceeds (including one held with joint arrangement partners) of $29.40 million. Proceeds were used to repay the outstanding principal balance of $21.83 million and for general trust purposes. Comparatively, in 2013, we recognized $55.00 million in proceeds on the renewal and refinancing of five properties and extinguished mortgages on four properties totaling a repayment of $13.95 million.

Cash flows from equity financings completed during the year and new mortgage financing allowed us to reduce our indebtedness under our revolving credit facility by $19.00 million (2013 - draw of $24.00 million to fund the acquisition of two properties).

We continued our monthly distribution of $0.05625 per unit for total annual distributions declared of $7.13 million to unitholders (2013 - $4.11 million).

During the comparative period, we recognized net distributions to Melcor of $7.45 million. Net distributions to Melcor represent the net financing received by Melcor prior to the formation of the REIT to fund operating and investing activities.

We are able to meet our capital needs through a number of sources, including cash generated from operations, short-term borrowings under our revolving credit facility, mortgage financings, and the issuance of trust units to purchase investment properties.

We believe that internally generated cash flows, supplemented by borrowings through our revolving credit facility and mortgage financings, where required, will be sufficient to cover our normal operating, debt service, distribution and capital expenditure requirements. We regularly review our credit facility limits and manage our capital requirements accordingly.

As at December 31, 2014 we had $6.71 million in cash, $2.95 million in restricted cash and additional available funds under our revolving credit facility. Available funds will enable us to capitalize on future acquisition opportunities as well as meet ongoing capital needs.

Capital Structure

We define capital as the total of trust units, Class B LP Units, Class C LP Units, mortgages payable, convertible debenture and amounts drawn under our revolving credit facility.

Pursuant to the DOT, the REIT may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV) (Degree of Leverage Ratio). Throughout the year, we were in compliance with the Degree of Leverage Ratio and had a ratio of 56% as at December 31, 2014 (50% excluding convertible debenture).

As at December 31, 2014, the REIT's total capitalization was $603.17 million and is comprised as follows:

($000s)	December 31, 2014
Revolving credit facility [1]	5,000
Mortgages payable [1]	215,675
Class C LP Units [2]	89,519
Indebtedness, excluding convertible debenture	**310,194**
Convertible debenture [3]	34,500
Indebtedness	**344,694**
Class B LP Units [4]	147,708
Trust units	114,145
Equity	**261,853**
Total capitalization	**606,547**
Gross book value (GBV) [5]	**619,987**
Debt to GBV, excluding convertible debenture (maximum threshold - 60%)	50%
Debt to GBV (maximum threshold - 65%)	56%

1. Debts are presented excluding unamortized transaction costs, discount on bankers acceptance, and fair value adjustment on mortgage.
2. Class C LP Units excluding unamortized fair value adjustment on Class C LP Units.
3. Convertible debenture is presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.
4. Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.
5. GBV is calculated as the cost of the total assets acquired in the Initial Properties and subsequent asset purchases.

We are also subject to financial covenants on our $25.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders' equity of $140.00 million. As at December 31, 2014, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 56%, interest coverage ratio of 1.67, and a net book value of unitholders equity of $288.27 million. We also have financial covenants on certain mortgages for investment properties. At December 31, 2014, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and ability to meet our financial covenants.

Indebtedness

Debt Repayment Schedule – the following table summarizes our contractual obligations and illustrates certain liquidity and capital resource requirements:

($000s)	Revolving Credit Facility	Mortgages Payable	Class C LP Units	Convertible Debenture	Total	% of Portfolio
Total	**5,000**	**215,675**	**89,519**	**34,500**	**344,694**	**100%**
2015	5,000	20,957	25,825	—	51,782	15%
2016	—	31,874	11,180	—	43,054	12%
2017	—	5,011	4,584	—	9,595	3%
2018	—	37,783	13,108	—	50,891	15%
2019	—	69,860	8,064	34,500	112,424	33%
Thereafter	—	50,190	26,758	—	76,948	22%

We ladder the renewal and maturity dates on our borrowings as part of our capital management strategy. This mitigates the concentration of interest rate and financing risk associated with refinancing in any particular period. In addition, we try to match the maturity of our debt portfolio with the weighted average remaining lease term on our properties.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debentures bear interest at fixed rates; our revolving credit facility bears interest at variable rates. The following table summarizes the interest rates and terms to maturity:

($000s)	Revolving Credit Facility	Mortgages Payable	Class C LP Units	Convertible Debenture	Total
Total	**5,000**	**215,675**	**89,519**	**34,500**	**344,694**
Fixed	—	215,675	89,519	34,500	339,694
Variable	5,000	—	—	—	5,000
Weighted average interest rate	3.52%	3.80%	3.84%	5.50%	3.98%
Weighted average term to maturity	0.33	5.22	3.90	5.00	4.78

The weighted average interest rate on our debts has remained steady since December 31, 2013. During 2014 we obtained mortgage financing on four recently acquired and previously unencumbered properties for $19.01 million at a weighted average interest rate of 3.45%. In addition, we refinanced three mortgages on two properties for gross proceeds (including one held within a jointly owned property) of $29.40 million at a weighted average interest rate of 3.53%. Proceeds were used to repay the outstanding principal balance of $21.83 million and for general trust purposes. We also assumed mortgages of $93.51 million as part of the Melcor acquisition and the purchase of White Oaks at a combined weighted average interest rate of 3.70%

During 2013 we refinanced six mortgages totaling $60.00 million and obtained financing of $7.00 million on a previously unencumbered property.

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the year. We calculate interest coverage as FFO plus finance costs for the period divided by finance costs expensed during the period, less distributions on Class B LP Units. We consider these measures to be useful in evaluating our ability to service our debts. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

($000s)	2014	2013
FFO	**17,907**	15,903
Principal repayments on Mortgages payable	**3,441**	3,653
Principle repayments on Class C LP Units	**3,059**	1,966
Debt service coverage ratio	**2.75**	2.83
FFO plus finance costs [1]	**27,126**	24,025
Finance costs [1]	**9,219**	8,122
Finance costs coverage ratio	**2.94**	2.96

1. Finance costs excluding finance expense recognized on Class B LP Unit distributions.

Equity

The REIT is authorized to issue an unlimited number of trust units and an unlimited number of special voting units. Each trust unit represents a holder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of the unitholders and to receive any distributions by the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit. Special voting units may only be issued in connection with securities exchangeable into trust units (including Class B LP Units).

Class B LP Units of the Partnership are economically equivalent to, and exchangeable into, trust units at the option of the holder, and therefore, are considered a dilutive instrument. The Class B LP Units are classified as financial liabilities in accordance with IAS 32, Financial Instruments – presentation, due to their puttable feature.

On May 7, 2014 the REIT completed the issuance of 1,900,000 trust units at a price of $10.65 per unit to a syndicate of underwriters, on a bought deal basis, for gross proceeds of $20.24 million. Subsequently, the underwriters exercised their over-allotment option to purchase an additional 245,000 trust units at a price of $10.65 for gross proceeds of $2.61 million. The issuance was qualified under a short form prospectus dated April 30, 2014.

On May 9, 2014 the REIT issued 694,836 Class B LP Units at a price of $10.65 per unit, or $7.40 million, to Melcor as partial consideration for the May 2014 Melcor Acquisition.

On December 3, 2014, we issued a 5.50% extendible convertible unsecured subordinated debenture (the Debentures) to the public for gross proceeds of $34,500, including $4,500 issued pursuant to the exercise of an over-allotment option. The Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 79.0514 trust units per one thousand principal amount of Debentures (the Conversion Price).

On December 18, 2014 the REIT issued 4,390,244 Class B LP Units at $10.25 per unit to Melcor as partial consideration for properties acquired from Melcor.

The following table summarizes the change in units during the year and the fully diluted number of units outstanding:

Issued and fully paid units ($000s)	December 31, 2014 Units	December 31, 2014 $ Amount	December 31, 2013 Units	December 31, 2013 $ Amount
Balance, beginning of year	9,130,000	91,300	—	—
Issuance of units - IPO	—	—	8,300,000	83,000
Issuance of units - over-allotment option	—	—	830,000	8,300
Issuance of units	2,145,000	22,844	—	—
Balance, end of year	11,275,000	114,144	9,130,000	91,300
Dilutive securities				
Class B LP Units	14,615,878	147,708	9,530,798	95,308
Convertible debenture	2,727,273	34,500	—	—
Diluted balance, end of year	28,618,151	296,352	18,660,798	186,608

Off Balance Sheet Arrangements

As at December 31, 2014, we had no off-balance-sheet arrangements.

Quarterly Results

	2014			
($000s except per unit amounts)	Q4	Q3	Q2	Q1
Revenue ($000s)	11,669	11,074	11,119	10,647
Net income ($000s)	9,481	2,693	5,296	878
Basic earnings per unit [1]	$0.88	$0.24	$0.52	$0.10
Annualized distribution rate	$0.675	$0.675	$0.675	$0.675
Period-end closing unit price	$9.46	$9.70	$10.29	$10.55
Annualized distribution yield on closing unit price (%) [2]	7.14%	6.96%	6.56%	6.40%

	2013			
($000s except per unit amounts)	Q4	Q3	Q2	Q1
Revenue ($000s)	10,070	9,794	9,773	9,688
Net income ($000s)	7,466	5,945	44,492	4,816
Basic earnings per unit [1]	$0.51	$0.65	$2.38	$0.26
Annualized distribution rate	$0.675	$0.675	$0.675	n/a
Period-end closing unit price	$10.40	$10.00	$10.10	n/a
Annualized distribution yield on closing unit price (%) [2]	6.49%	6.75%	6.68%	n/a

1. Calculated as if the trust units were outstanding during the entire comparative period.
2. Annualized distribution yield is calculated as the annualized distribution rate divided by the period-end closing unit price.

Fourth Quarter Results

Consolidated Revenue & Net Operating Income

	Three Months Ended December 31		
($000s)	2014	2013	Change
Base rent	**7,567**	6,434	18%
Recoveries	**4,426**	3,582	24%
Other	**315**	589	(47)%
Amortization of tenant incentives	**(780)**	(616)	27%
Straight-line rent adjustments	**141**	81	74%
Rental revenue	**11,669**	10,070	16%
Operating expenses	**2,359**	2,392	(1)%
Utilities and property taxes	**2,469**	1,982	25%
Direct operating expenses	**4,828**	4,374	10%
Net rental income	**6,841**	5,696	20%
NOI	**7,480**	6,231	20%
Same-asset NOI	**5,613**	5,319	6%
Operating margin	**59%**	57%	4%

Rental revenue for the fourth quarter was $11.67 million, an increase of $1.60 million over Q4-2013. Portfolio growth was the primary driver, contributing $1.81 million to revenues in Q4-2014 (Q4-2013 - $0.51 million). Recoveries were 24% higher than 2013, correlating with an increase in direct operating expenses. Recoveries are trued up to actual expenses in the fourth quarter each year, which can result in greater variance in the quarter.

General & Administrative Expense

	Three Months Ended December 31		
($000s)	2014	2013	Change
Asset management fee	**299**	257	16%
Professional fees	**125**	27	363%
Public company costs	**71**	76	(7)%
Other	**157**	99	59%
	652	459	42%

Increased professional fees were driven by additional administrative infrastructure required to support the growth of the portfolio and continued capital market activity. Property acquisitions completed in 2014 drove the increase in asset management fee which is charged at an annual rate of 0.25% of gross book value. Other expenses fluctuate from period to period due to the timing of costs incurred. During 2014 we reclassified costs related to tenant recoveries from operating expenses to general & administrative expense.

Finance Costs

	Three Months Ended December 31		
($000s)	2014	2013	Change
Interest on mortgages payable and revolving credit facility	**1,431**	1,169	22%
Interest on Class C LP Units	**980**	1,014	(3)%
Amortization of fair value adjustment on Class C LP Units	**(110)**	(110)	—%
Interest on convertible debenture	**151**	—	100%
Non-cash finance costs	**113**	72	57%
Finance costs before distributions	**2,565**	2,145	20%
Distributions on Class B LP Units	**1,973**	1,608	23%
Finance costs	**4,538**	3,753	21%

Finance costs for the fourth quarter were $4.54 million or 21% higher than Q4-2013. Increased interest on mortgages and our revolving credit facility comprised $0.26 million of the increase. This was driven by financing of new property acquisitions, offset by lower interest rates on new and renewed mortgages. On December 3, 2014, we issued a convertible debenture which pays a coupon of 5.50% annually. Distributions on Class B LP Units increased by $0.37 million or 23% as a result of issuance of 5,085,080 Class B LP Units as part of the acquisitions completed during 2014.

Funds from Operations & Adjusted Funds from Operations

	Three Months Ended December 31		
($000s, except per unit amounts)	2014	2013	Change
Net income for the period	**9,481**	7,466	
Add / (deduct)			
Fair value adjustment on investment properties	**(3,196)**	(9,488)	
Fair value adjustment on Class B LP Units	**(4,616)**	3,521	
Amortization of tenant incentives	**780**	616	
Distributions on Class B LP Units	**1,973**	1,608	
Funds From Operations (FFO)	**4,422**	3,723	19%
Straight-line rent adjustments	**(141)**	(81)	
Non-cash finance costs	**113**	92	
Net impact of amortization of fair value adjustment and interest subsidy [1]	**123**	157	
Normalized capital expenditures [2]	**(223)**	(182)	
Normalized tenant incentives and leasing commissions [2]	**(448)**	(360)	
Adjusted Funds from Operations (AFFO)	**3,846**	3,349	15%
FFO/Unit	**0.20**	0.20	—%
AFFO/Unit	**0.17**	0.18	(6)%

1. Adjustment includes the following: amortization of the fair value adjustment recognized on the Class C LP Unit liability; and usage of the interest rate subsidy provided by Melcor as part of the transfer of the Initial Properties.
2. Represents 3% and 6% of annual NOI for capital expenditures and tenant incentives and leasing commissions respectively, net of the capital expenditure subsidy provided by Melcor.

Funds from operations (FFO) and Adjusted funds from operations (AFFO) for the fourth quarter were 19% and 15% higher than the comparative period. The increase was primarily driven by property acquisitions completed during 2014.

Distributions to unitholders for the fourth quarter were $1.90 million (2013 - $1.54 million).

A reconciliation of cash flow from operations to AFFO is as follows:

	Three Months Ended December 31		
($000s, except per unit amounts)	2014	2013	Change
Cash flows from operations	**2,541**	1,595	59%
Distributions on Class B LP Units	**1,973**	1,608	
Changes in operating assets and liabilities (note 3o)	**(230)**	421	
Interest subsidy	**233**	267	
Normalized capital expenditures	**(223)**	(182)	
Normalized tenant incentives and leasing commissions	**(448)**	(360)	
Adjusted Funds from Operations (AFFO)	**3,846**	3,349	15%

The section titled Outlook contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 11.

Outlook

We own a high quality portfolio of income-producing assets. Alberta, our main market, has undergone dramatic changes in economic outlook over the past few months as a result of lower oil prices. Despite this, we continue to see good leasing activity and have not seen a slow down in interest or in our near-term ability to renew and sign new leases. We will continue to seek out suitable acquisitions to expand our asset base as conditions allow.

We will also continue to improve existing assets through asset enhancement programs and efficient and effective property management. Our disciplined approach helps to ensure that our assets remain profitable over the long term while at the same time achieving our objective of providing stable and growing monthly cash distributions to unitholders.

With new downtown office inventory coming online in the next few years in Edmonton and Calgary, we are continuing to proactively renew leases and seek out new tenants for existing vacancies. We also continue to focus on our signature care program to ensure we remain the landlord of choice for our tenants.

With a strong, diversified portfolio, focus on property management and client relationships, and a solid pipeline of over 6 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

Occupancy at year end was 92.4% compared to 90.6% at the end of the 2013. Our tenants include a diversified mix of national, regional and local businesses operating in a variety of industries. This diversified tenant base helps mitigate our exposure to negative trends occurring in any one sector.

Over the next 12 months, five mortgages on four properties (two of which are held with joint arrangement partners) are up for renewal. These mortgages have an outstanding principal balance of $14.90 million (at REIT % interest) and a weighted average interest rate of 4.86% as at December 31, 2014. We expect to be able to refinance these mortgages at lower interest rates based on comparable recent refinancings.

In addition, we have two properties encumbered by Class C LP Units where the underlying mortgages held by Melcor are up for renewal in the next twelve months. At maturity the value of the Class C LP Units will be $23.05 million, representing 2,304,469 Class C LP Units, with a weighted average interest rate of 4.00%. Subsequent to year-end we obtained mortgage financing on one property for $3.11 million at a fixed rate of 2.48%. We expect to be able to obtain new mortgage financing on the remaining property, proceeds of which will be used to redeem the Class C LP Unit liability to Melcor.

Our revolving credit facility matures May 1, 2015. Under the terms of the agreement we may request a one year extension to be granted at the discretion of the lenders. We expect to be able to renew or extend the facility.

Business Environment & Risks

We are exposed to various risks and uncertainties, many of which are beyond our control. The following risk factors could materially impact our financial condition, results of operations, cash flows and the value of our trust units. We take steps to mitigate these risks; however, there is no assurance that the steps taken will avoid future loss.

General Risks

We are subject to market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as general inflation and interest rate fluctuations, population growth and migration, financing and economic environments, job creation and employment patterns, consumer confidence, government policies, regulations and taxation, and availability of credit and financing.

Real Estate Risk

Real estate investments are subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets. As a result, the REIT may not be able to rebalance its portfolio in response to changing economic or investment conditions.

Other real property risks include:

- The value of the property and any improvements made to it
- Rollover of leases and the ability to rent unleased suites
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations and
- Geographic concentration.

Cash available for distribution will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms.

Concentration of Properties and Tenants

Of the total GLA, 86.60% is located in Alberta. Consequently, the market value of the REIT's properties, the income generated by the REIT and the REIT's performance are particularly sensitive to changes the real estate markets in Alberta and economic conditions in Alberta generally. The factors impacting on the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

Adverse changes in the economic conditions in Alberta may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of units. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, the REIT endeavors to achieve a diverse mix of tenants representing a variety of industries, as well as a mix of regional, local and national tenants.

Competitive Conditions

The real estate market is highly competitive, with a large number of well-financed companies operating in the same markets as the REIT. We may compete for real property acquisitions with individuals, corporations, institutions and other entities, which may increase the purchase price and reduce the yield of an acquired property. The REIT's rights under the Development and Opportunities Agreement entered into with Melcor helps to mitigate competition risk.

We also compete with other developers, managers and property owners in attracting tenants. Some of our competitors are better capitalized or financially stronger, and would be in a better position to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition. The REIT focuses on providing exceptional customer care and building solid relationships with our clients to increase the likelihood that they will renew leases.

Fixed Costs

The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution. Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments (including those associated with the Retained Debt), insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property (including those associated with the Retained Debt), losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the landlord's exercise of remedies. Costs may also be incurred in making improvements or repairs to property required by a new tenant and income may be lost as a result of any prolonged delay in attracting suitable tenants to the vacant space.

The timing and amount of capital expenditures by the REIT will indirectly affect the amount of cash available for distribution to unitholders. Distributions may be reduced, or even eliminated, at times when the REIT deems it necessary to make significant capital or other expenditures.

Financing

We require access to capital to maintain our properties and fund our growth strategy. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing will be subject to a number of factors, including general market conditions, the market's perception of our growth potential, our current and expected future earnings, our cash flow and cash distributions, and cash interest payments and the market price of our units.

We use debt and other forms of leverage in the ordinary course of business to execute on our strategy.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

- Cash flow may be insufficient to meet required payments of principal and interest
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors
- The fair market value of our assets
- Liquidity in the debt markets
- A high level of debt will reduce the amount of funds available for the payment of distributions to unitholders and interest payments on our debentures
- Financial, competitive, business and other factors, including factors beyond our control and
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the applicable indebtedness even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to use available liquidity, which would reduce our ability to pursue new investment opportunities. Alternately we may be required to dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

The liabilities of the REIT have fixed and floating interest rate components resulting in an exposure to interest rate fluctuations. These fluctuations in interest rates will have an impact on the earnings of the REIT. As a result of increased interest rates, the REIT's financial results and condition or operating results could be materially adversely affected.

The REIT may implement hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders should current variable interest rates increase. However, to the extent that the REIT fails to adequately manage these risks, its financial results, and its ability to pay distributions to unitholders and interest payments on debt and future financings may be adversely affected. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties.

We may enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against the REIT.

Lease Maturity Risk

We are subject to lease maturity risk as there is no assurance that we will be able to renew or replace expiring leases at similar terms. We manage our lease maturity risk by pro-actively engaging tenants whose leases are expiring for early identification of potential vacancy risk. In addition, where possible we ladder maturity dates to minimize exposure in any particular period and to maintain a diversified portfolio.

The following table illustrates the number of leases maturing over the next five years and beyond.

Year of Maturity	Number of Leases	Renewal GLA (sf)	% of GLA	Average Base Rent Expiring Per Annum
2015	104	322,473	11.8%	$12.49
2016	75	172,161	6.3%	$14.52
2017	92	274,705	10.0%	$16.78
2018	58	309,053	11.3%	$15.33
2019	66	300,155	11.0%	$14.85
Thereafter	175	1,149,859	42.0%	$15.88
Vacant Space	—	207,061	7.6%	—
	570	**2,735,467**		**$15.25**

The following table illustrates the 2015 maturities by portfolio type and geographic area:

(sf)	Northern AB	Southern AB	BC & SK	Total
Retail	61,808	1,593	4,083	67,484
Office	125,764	31,960	48,260	205,984
Industrial	—	49,005	—	49,005
	187,572	82,558	52,343	322,473

Credit Risk

We are subject to credit risk as our tenants may not be able to fulfill their financial obligations on current balances and contracted future rents. We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

The following table illustrates the ten largest tenants for the portfolio, as measured by their percentage contribution to the total contracted future minimum lease payment for 2015 and corresponding areas leased by each tenant.

Rank	Tenant (Operating Name)	% of Total Minimum Rent	Lease GLA (sf)	% of Total GLA	Remaining Term (yrs)	Locations	Credit Rating (S&P/Moody's/DBRS)
1	Alberta Health Services	4.9%	144,723	5.3%	7	4	---
2	Government of Alberta	4.7%	109,652	4.0%	6	5	AAA /Aaa/ AAA
3	Royal Bank of Canada	3.8%	60,515	2.2%	5	5	AA-/Aa3/ AA
4	Melcor Developments Ltd.	3.4%	71,821	2.6%	2	11	---
5	Shoppers Drug Mart	3.0%	44,228	1.6%	12	3	BBB+/-/ BBB
6	BasinTek LLC	2.4%	88,699	3.2%	9	1	---
7	Fountain Tire Ltd.	2.3%	30,514	1.1%	14	1	---
8	TD Bank	1.7%	25,675	0.9%	7	4	AA-/Aa1/ AA
9	The Brick Warehouse LP	1.2%	33,664	1.2%	3	1	---
10	Select Engineering Consultants Ltd.	1.1%	23,432	0.9%	12	1	---

Significant Ownership by Melcor

Melcor holds a 56.5% effective interest in the REIT, where each Class B LP Unit is attached to a Special Voting Unit of the REIT. Melcor also holds all of the Class C LP Units of the Partnership.

The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that entitles Melcor to distributions, in priority to distributions to holders of the Class A LP Units and Class B LP Units in an amount, if paid, that is expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt.

In addition, the DOT grants Melcor the right to nominate certain Trustees of the REIT based on Melcor's direct and indirect ownership interest in the REIT. For so long as Melcor maintains a significant effective interest in the REIT, Melcor will have the ability to exercise certain influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, and may have the ability to prevent certain fundamental transactions. As a result, Melcor has the ability to influence many matters affecting the REIT.

Accordingly, the units may be less liquid and trade at a relative discount compared to such units in circumstances where Melcor did not have the ability to influence or determine matters affecting the REIT. Additionally, Melcor's significant effective interest in the REIT may discourage transactions involving a change of control of the REIT, including transactions in which an investor, as a holder of the units, might otherwise receive a premium for its units over the then-current market price.

Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). If Melcor exchanges some or all of its Class B LP Units for units and subsequently sells such units in the public market, the market price of the units may decrease. Moreover, the perception in the public market that these sales will occur could also produce such an effect.

Dependence on Melcor

The REIT is dependent on Melcor for management, administrative and operations services relating to the REIT's business. The Asset Management Agreement has a term of 5 years, with automatic 5 year renewals, and may at times in the future not reflect current market terms for duties and responsibilities of Melcor. There is a risk that, because of the term and termination provisions of the Asset Management Agreement, termination of the Asset Management Agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT.

Should Melcor terminate the Asset Management Agreement or the Property Management Agreement, the REIT may be required to engage the services of an external asset manager and/or property manager. The REIT may be unable to engage an asset manager and/or property manager on acceptable terms, in which case the REIT's operations and cash available for distribution may be materially adversely affected. Alternatively, it may be able to engage an asset manager and/or property manager on acceptable terms or it may elect to internalize its external management structure, but the process undertaken to engage such manager(s) or to internalize management could be costly and time-consuming and may divert the attention of management and key personnel away from the REIT's business operations, which could materially adversely affect its financial condition.

Additionally, the Development and Opportunities Agreement provides that, subject to certain exceptions, the REIT will not engage a party other than Melcor or its affiliates to perform any of the services to be performed by Melcor pursuant to the Asset Management Agreement.

While the Trustees have oversight responsibility with respect to the services provided by Melcor pursuant to the Asset Management Agreement and the Property Management Agreement, the services provided by Melcor under such agreements will not be performed by employees of the REIT or the Partnership, but by Melcor directly, and through entities to which it may subcontract its duties. Further, the foregoing arrangements are subject to limited termination rights in favour of the REIT. As a result, Melcor directly, and indirectly through entities to which it may subcontract, has the ability to influence many matters affecting the REIT and the performance of its properties now and in the foreseeable future.

While the Melcor name and trade-mark and related marks and designs will be licensed to the REIT by Melcor under a non-exclusive, royalty-free trademark license agreement, such license will not be on a perpetual basis and may be terminated by Melcor at any time on 30 days' notice following the date of termination of the Asset Management Agreement. Termination of the license would require the REIT to rebrand its business, which could be costly and time-consuming and may divert attention of management and key personnel from the REIT's business operations, which could materially adversely affect its financial condition.

Potential Conflicts of Interest with Melcor

Melcor's continuing businesses may lead to conflicts of interest between Melcor and the REIT. The REIT may not be able to resolve any such conflicts, and, even if it does, the resolution may be less favourable to the REIT than if it were dealing with a party that was not a holder of a significant interest in the REIT. The agreements that the REIT entered into with Melcor on Closing may be amended upon agreement between the parties, subject to applicable law and approval of the Independent Trustees. As a result of Melcor's significant holdings in the REIT, the REIT may not have the leverage to negotiate any required amendments to these agreements on terms as favourable to the REIT as those the REIT could secure with a party that was not a significant holder of units.

Taxation Matters

Although we currently meet the requirements of the REIT Exception, there can be no assurance that the REIT will be able to qualify for the REIT Exception to not to be subject to the tax imposed by the SIFT Rules in future years.

The SIFT Rules may have an adverse impact on the REIT and the unitholders, on the value of the units and on the ability of the REIT to undertake financings and acquisitions and if the SIFT Rules were to apply, the distributable cash of the REIT may be materially reduced. The effect of the SIFT Rules on the market for the units is uncertain.

If certain tax proposals released on September 16, 2004 are enacted as proposed (the "September 16th Tax Proposals"), the REIT would cease to qualify as a "mutual fund trust" for purposes of the Tax Act if, at any time after 2004, the fair market value of all units held by non-residents, partnerships that are not Canadian partnerships or any combination of the foregoing is more than 50% of the fair market value of all issued and outstanding units unless not more than 10% (based on fair market value) of the REIT's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. Restrictions on the ownership of units are intended to limit the number of units held by non-residents, such that non-residents, partnerships that are not Canadian partnerships or any combination of the foregoing may not own units representing more than 50% of the fair market value of all units. The September 16th Tax Proposals were not included in budget implementation and technical amendment bills including Bill C-52 of the First Session of the Thirty-Ninth Parliament, which received Royal Assent on June 22, 2007, Bill C-45 and Bill C-48 of the First Session of the Forty-First Parliament, 60-61 Elizabeth II, 2011-2012.

Environmental Risk

The REIT is subject to various requirements (including federal, provincial and municipal laws) relating to the protection of the environment.

Under these requirements, the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties.

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment prior to acquiring a property. Where a Phase I environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental investigations. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of units.

Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of units.

Subject to the obligations of Melcor described above, the REIT will bear the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against the REIT. The remediation of any contamination and the related additional measures the REIT would have to undertake could have a materially adverse effect and could involve considerable additional costs that the REIT may have to bear. The REIT will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

The REIT employs a rigorous due diligence process, including obtaining a Phase I environmental site assessment, prior to acquiring property to mitigate its exposure to these potential issues.

Joint Arrangements

Some of our properties are jointly owned. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, the REIT may not have sole control of major decisions relating to these assets, such as: decisions relating to the sale of the assets and businesses, timing and amount of distributions of cash from such entities to the REIT and its joint arrangement partners, and capital expenditures.

Other Financial Information

Joint Arrangements

We record only our share of the assets, liabilities, revenue and expenses of our joint arrangements. In 2014, we had three joint arrangements (2013 - three). Refer to note 22 to the consolidated financial statements for additional information. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to the REIT:

	Joint arrangement activity at JV%		Joint arrangement activity at 100%	
($000s)	2014	2013	2014	2013
Revenue	**3,867**	3,741	**7,734**	7,482
Earnings	**1,586**	4,138	**3,172**	8,276
Assets	**52,389**	48,712	**104,778**	97,424
Liabilities	**24,612**	22,472	**49,224**	44,944

Related Party Transactions

Please refer to note 22 to the consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Please refer to note 28 to the consolidated financial statements for information pertaining to subsequent events.

Critical Accounting Estimates

The discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, we make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. We have discussed the development, selection and application of our key accounting policies, and the critical accounting estimates and assumptions they involve, with the Audit Committee and the Board of Trustees.

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 4 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies

Refer to note 5 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Internal Control over Financial Reporting & Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2014. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to the REIT and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting 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. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework (COSO 2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2014.

There has been no change in the REIT's disclosure controls and procedures of internal control over financial reporting during the year ended December 31, 2014, that materially affected, or is reasonably likely to materially affect, the REIT's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the REIT's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in the REIT's reports.

Non-standard Measures

Throughout this MD&A, we refer to terms that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below.

Calculations

We use the following calculations in measuring our performance.

Net operating income (NOI): NOI is defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

	Three Months Ended December 31		
($000s)	2014	2013	Change
Net income for the period	**9,481**	7,466	
Income tax (recovery) expense	**—**	—	
Net finance costs	**4,520**	3,738	
Fair value loss on Class B LP Units	**(4,616)**	3,521	
Fair value adjustment on investment properties	**(3,196)**	(9,488)	
General and administrative expenses	**652**	459	
Amortization of tenant incentives	**780**	616	
Straight-line rent adjustment	**(141)**	(81)	
NOI	**7,480**	6,231	20%

	Year Ended December 31		
($000s)	2014	2013	Change
Net income for the period	**18,348**	62,719	
Income tax (recovery) expense	**—**	(40,261)	
Net finance costs	**16,140**	12,350	
Fair value (gain) loss on Class B LP Units	**(9,880)**	3,812	
Fair value adjustment on investment properties	**(93)**	(16,953)	
General and administrative expenses	**2,134**	1,728	
Amortization of tenant incentives	**2,539**	2,297	
Straight-line rent adjustment	**(607)**	(397)	
NOI	**28,581**	25,295	13%

Same-asset NOI: this measure compares the NOI, less amortization on tenant incentives, plus straight-line rent adjustment, on assets that have been owned for the entire current and comparative period.

Funds from operations (FFO): FFO is defined as net income in accordance with IFRS, excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (vi) deferred income tax expense, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

Adjusted funds from operations (AFFO): AFFO is defined as FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired; (ii) interest rate subsidy amounts received; (iii) non-cash finance costs; (iv) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; (v) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to AFFO as determined by the Board in its discretion.

Operating margin: is calculated as net rental income divided by rental revenue.

Debt to Gross Book Value: is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units and convertible debenture, excluding unamortized discount and transaction costs divided by the total asset value assumed on acquisition of the Initial Properties plus total assets acquired from third parties subsequently.

Finance costs coverage ratio: is calculated as FFO plus finance costs for the period divided by finance costs expensed during the period, less distributions on Class B LP Units.

Debt service coverage ratio: is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period.

Payout ratio: is calculated as per unit distributions divided by per unit AFFO.