Management's Discussion & Analysis

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March 10, 2014

The following Management's Discussion and Analysis ("MD&A") of Melcor Real Estate Investment Trust's (the "REIT" or "Melcor REIT") results should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2013. The discussion outlines strategies and provides analysis of the financial performance for fourth quarter and the full year. The analysis also provides a comparison to the REIT's forecast provided in its prospectus dated April 19, 2013.

The underlying financial statements in this MD&A, including 2012 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 10, 2014. Disclosure contained in this MD&A is current to March 10, 2014, unless otherwise indicated.

Non-Standard Measures

We refer to terms and measures which are not specifically defined in the CICA 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 are defined on page 35: "*Non-Standard Measures.*"

Financial Reporting: Reorganization and Recapitalization

The Offering and acquisition of the Initial Properties is accounted for as a reorganization and recapitalization using the continuity of interests method as Melcor Developments Ltd. ("Melcor") will retain control over the REIT. Under this method, the REIT records the assets acquired and liabilities assumed at their carrying amounts on the closing date of the transaction. The difference between the consideration given and the aggregate value of the net assets acquired is recorded as an adjustment to unitholders' equity. Refer to note 6 of the consolidated financial statements for details of the accounting treatment for the acquisition of the Initial Properties. This MD&A includes financial information for periods prior to the formation of the REIT, including the comparative periods. This information is based on the historical combined financial information for the Initial Properties as previously reported by Melcor. Note 19 of the consolidated financial statements contains statements of income and comprehensive income and cash flows for the periods separated by the activities of the REIT, and its predecessor, 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.

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.

Formation of Melcor 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 initial public offering ("Offering" or "IPO"). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN.

We initially issued 8,300,000 trust units at a price of $10.00 per unit for total gross proceeds of $83.00 million. The total proceeds received by the REIT, net of underwriters' fee was $78.02 million.

On May 1, 2013, the REIT used a portion of the proceeds of the IPO to indirectly acquire interests in a portfolio of 27 income-producing properties (the "Initial Properties") located in Western Canada, through a limited partnership (the "Partnership"). These Initial Properties are primarily retail, office and industrial assets with a total carrying value of $397.90 million. As partial consideration for the Initial Properties, Melcor received Class B LP Units of the Partnership and special voting units of the REIT. On May 10, 2013, the underwriters exercised their over-allotment option to purchase an additional 830,000 trust units from Melcor, at a price of $10.00 per unit, for gross proceeds of $8.30 million.

The over-allotment was fulfilled through conversion of the Class B LP Units owned by Melcor into trust units. Following closing of the over-allotment option, Melcor, through an affiliate, holds an approximate 51.1% effective interest in the REIT through ownership of all remaining 9,530,798 Class B LP Units of the Partnership and a corresponding number of special voting units of the REIT. The Class B LP Units are economically equivalent to, and exchangeable for, trust units.

The Partnership also assumed mortgages on certain properties totaling $92.36 million at April 30, 2013. Melcor retained the debt on certain properties (the "Retained Debt") with a fair value of $96.51 million at April 30, 2013. In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership. These units will receive priority distributions in an amount expected to be sufficient to cover the interest and principal on the Retained Debt, which Melcor will remain responsible for.

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 sedar.com and is available on request to all unitholders. At March 10, 2014, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

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 2014 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.

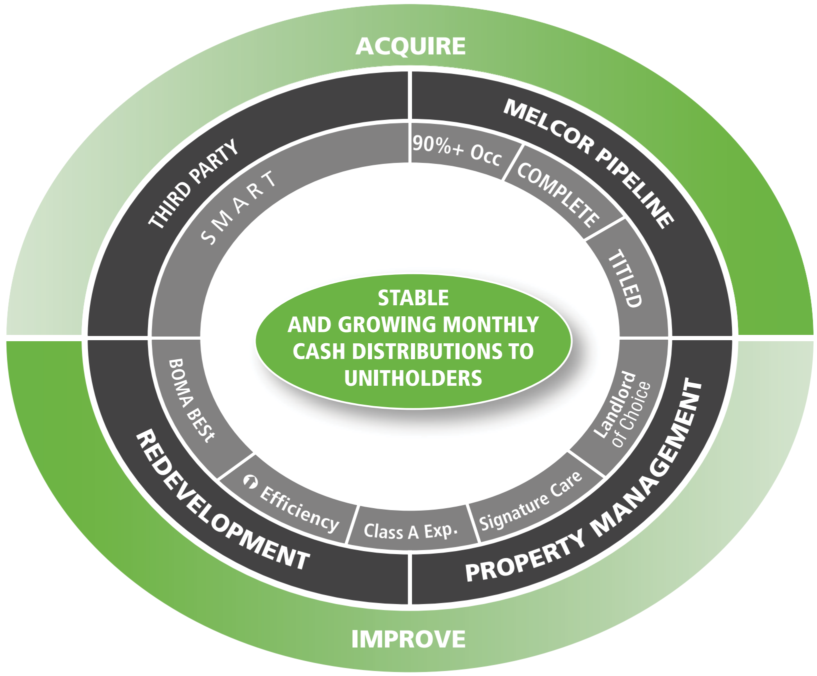
By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove 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 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 has an established and diversified portfolio focused on high-growth markets in Western Canada. We owned 29 income-producing office, retail and industrial properties representing 1.69 million square feet in gross leasable area (GLA) at December 31, 2013. These high-quality properties feature stable occupancy and a diversified tenant 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. ("Melcor") pursuant to the asset management and property management agreements entered into in connection 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. Melcor has a proven track record of doing both.



Acquire

Our acquisition growth strategy is focused on:

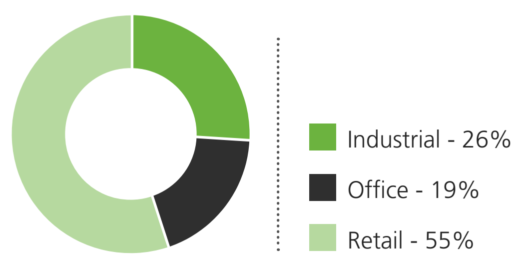
- Increasing penetration in existing geographic markets to exploit existing competitive advantage
- Expanding to adjacent geographic markets, and
- Diversifying our property portfolio.

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

- Acquiring properties via our proprietary pipeline: As Melcor develops and leases commercial properties, the REIT has a right to purchase each asset. 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 3.8 million square feet of GLA over the next 5-10 years. Under the development and opportunities agreement entered into at the IPO, the REIT also has the opportunity to participate in investment opportunities, joint ventures and mezzanine financing on Melcor projects.

Melcor currently has 590,000 square feet under development.

GLA Under Development



Construction continues on each of these projects; however, no properties met the REIT acquisition criteria (90%+ occupied, construction completed and titled) in 2013.

- Acquiring accretive income-producing properties: We actively seek strategic property acquisitions that fit our SMART investment criteria: properties that have a good Story, 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.

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 14.

Our Business: Vision, Goals & Strategy

SMART Acquisition Strategy

Story **M**arket **A**ccretive **R**ight Price **T**argeted	**Acquisition Targets** • Stable, accretive properties • Penetrate existing geographic markets • Expand into adjacent geographic 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 (broker preference for access to unmarketed opportunities) • Clustering of properties for efficient management & strong market knowledge

In 2013, we completed 2 external acquisitions, adding 123,042 sq. ft. of retail GLA to our portfolio for a total purchase price of $25.85 million. Early in 2014, we completed an additional external acquisition which added 67,610 sq. ft. of industrial GLA to our portfolio for $5.9 million. Each of these acquisitions was consistent with our acquisition growth strategy and helped to further diversify our portfolio.

In contemplating and completing strategic acquisitions, we use our proven due diligence process and ability to quickly execute on opportunities.

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 long-term 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 95% of service requests within 30 minutes during business hours. Our signature customer care program was enhanced and rebranded shortly after the REIT IPO. We added an online customer care portal and extended the program to our retail and industrial properties.

With 17.6% (297,298 sq. ft.) of total GLA expiring in 2014, we developed an early renewal strategy focused specifically on larger tenants. As a result of this program, over half of the GLA expiring in 2014 has already been renewed.

Asset Enhancement

Capital Expenditures Program 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	• Visible improvements (common areas upgrades, landscaping, improved comfort & aesthetics • Upgrades the help lease buildings & retain tenants • Driven by lease expiries/vacancy and need

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 improved 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.

Our Business: Vision, Goals & Strategy

Melcor invested over $17 million in asset preservation and enhancement over the past 5 years and we expect to invest a further $6 million over the coming 10 years based on 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 a third party 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 2 BOMA BESt certified Green & Responsible buildings at the end of December and we were pleased to receive BOMA BESt certification on a third building in January 2014. We continue to assess our buildings against the BOMA BESt standards.

Key Metrics

Metric	Target	2013
Debt/Gross Book Value	50-55%	51%
Tenant Retention	75%	75.5%
Occupancy	90%+	90.6%
Portfolio Diversification	40% Retail 40% Office 20% Industrial	36% Retail 60% Office 4% Industrial
Weighted Average Base Rent	$16.35+	$17.49
Customer Care On-time Response	95%+	95.3%

2013 Highlights & Key Performance Indicators

Metric	Year Ended December 31 2013	2012	Change
Non-Standard KPIs			
Net operating income (NOI)	25,295	24,060	5%
Funds from operations (FFO)	15,903	13,742	16%
Adjusted funds from operations (AFFO)	13,916	11,197	24%
Rental revenue	39,325	37,485	5%
Income before fair value adjustments and taxes	9,317	12,141	(23)%
Fair value adjustment on investment properties	16,953	30,163	(44)%
Distributions to unitholders	4,109	n/a	
Cash flows from operations	10,502	13,922	(25)%
Per Unit Metrics [1]			
Income - diluted	3.80	1.90	100%
FFO	0.85	0.74	16%
AFFO	0.75	0.60	24%
Distributions	0.45	n/a	
IFRS Measures			
Total assets ($000s)	454,743	396,845	14%
Equity ($000s)[2]	186,608	168,331	11%
Debt ($000s)[3]	215,601	180,002	20%
Weighted average interest rate on debt	3.98%	4.57%	(13%)
Debt to GBV ratio	51%	46%	11%
Finance costs coverage ratio[4]	2.96	2.60	14%
Debt service coverage ratio[5]	2.72	2.65	3%
Operational Highlights			
Number of properties	29	27	7%
Gross leasable area (GLA) sq. ft.	1,691,920	1,571,474	8%
Occupancy % (weighted by GLA)	90.6%	91.0%	—%
Retention % (weighted by GLA)	75.5%	77.0%	(2)%
Weighted average remaining lease term (years)	4.75	4.70	1%
Weighted average base rent (per sq. ft.)	$17.49	$16.35	7%

1. Calculated as if the trust units and Class B LP Units were outstanding during the entire current and comparative periods.
2. Calculated as the sum of trust units and Class B LP Units. Comparative period reflects the divisional surplus as reported by Melcor.
3. Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable and Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units.
4. Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units.
5. 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.

2013 Highlights

- We completed the successful IPO of Melcor REIT and acquired 27 income-producing properties representing 1.57 million sq. ft. from Melcor. The underwriters subsequently exercised their over allotment option, leaving 9,130,000 units outstanding and providing gross proceeds of $9.13 million to the REIT.
- We executed on the strategy set out in our prospectus (dated April 19, 2013) through our first eight-months of operations, leading to financial and operating results which exceeded forecast. These strategies include:.
  - **Focus on leasing programs and strong leasing activity**, which led to increased rental rates on new and renewed leases signed in 2013. In conjunction with higher rates on leases with escalating rent leases, this led to a 7% increase in weighted average base rent.
  - **Growth through acquisition**: we completed two acquisitions in the year, which diversified our portfolio and increased GLA by 8% since the IPO on May 1, 2013. With an additional acquisition subsequent to year-end, GLA has grown by 12% since the IPO.
  - **Asset enhancement**: we completed substantial redevelopment of two office properties, leading to significantly increased occupancy for these properties.

The successful execution of these strategies contributed to:

- 5% growth in both Revenue and NOI over 2012
- FFO and AFFO 6% and 5% ahead of forecast, respectively

Other financial highlights include:

- **Fair value gains of $16.95 million** resulted in a 4% increase in the fair value of our portfolio over December 31, 2012.
- **Distributions of $0.05625 per trust unit** (as forecast) were paid in each of the REIT's eight months of operations.
- **Weighted average interest rate on our revolving credit facility, mortgages and Class C LP Units decreased by 59 basis points or 13%** as a result of lower average interest rates on the Class C LP Units achieved through refinancing prior to the IPO.

Acquisitions completed:

- Coast Home Centre, Q3-2013: a 59,725 sq. ft. retail property in Edmonton for $12.30 million excluding closing costs.
- Liberty Crossing, Q4-2013: a 63,317 sq. ft. retail property in Red Deer for $13.25 million excluding closing costs.
- LC Industrial, Q1-2014: a 67,610 sq. ft. industrial warehouse in Lethbridge for $5.93 million excluding closing costs.

Property Profile

At December 31, 2013 our portfolio includes interests in 29 income-producing properties located in Western Canada, made up of retail, office, and industrial properties, comprising 1,691,920 square feet of GLA and a land lease community.

The following table summarizes the composition of our properties at December 31, 2013 by property type:

	Number of Properties	GLA (sq. ft.) / Lots	% of Portfolio (GLA)	Fair value ($000s)	NOI ($000s)
Retail	9	608,234	35.9%	180,902	9,126
Office	17	1,018,713	60.2%	228,406	14,896
Industrial	2	64,973	3.8%	5,459	419
Land Lease Community	1	308 lots	n/a	14,350	854
	29	1,691,920	100%	429,117	25,295

Retail – our 9 retail properties include multi-building retail power centres and neighborhood shopping centres containing 608,234 sq. ft.

Office – our 17 office properties include low and medium-rise buildings located in strategic urban and suburban centres, containing 1,018,713 sq. ft.

Industrial – at December 31, we had two industrial properties with a total of 64,973 sq. ft. In Q1-2014 we completed the acquisition of an additional industrial property which more than doubled our industrial GLA to 132,583 sq. ft.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at December 31, 2013 (December 31, 2012 – 100%).

Portfolio Occupancy – Occupancy at year end was 90.6% compared to 91.0% at the end of the 2012. 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.

Consolidated Revenue & Net Operating Income

($000s unless noted)	Year Ended December 31 2013	2012	Change
Base rent	25,196	24,137	4%
Recoveries	14,457	14,441	—%
Other	1,572	905	74%
Amortization of tenant incentives	(2,297)	(2,447)	(6)%
Straight-line rent adjustment	397	449	(12)%
Rental revenue	39,325	37,485	5%
Operating expenses	8,009	7,889	2%
Utilities and property taxes	7,921	7,534	5%
Direct operating expenses	15,930	15,423	3%
Net rental income	23,395	22,062	6%
NOI	25,295	24,060	5%
Same asset NOI	22,457	21,969	2%
Operating margin	59%	59%	—%

Revenue

Rental revenue for the year ended December 31, 2013 increased $1.84 million or 5% over 2012. Base rent was 4% or $1.06 million higher than 2012; driven by higher average base rent (per sq. ft.) and the increase in GLA following two acquisitions. GLA grew by 8% or 120,446 over 2012 due to the acquisition of Coast Home Centre ("Coast") in Q3-2013 and Liberty Crossing ("Liberty") in Q4-2013.

Average base rent was $17.49 per sq. ft. in 2013 compared to $16.35 per sq. ft. in 2012. The increase is a result of increased rental rates on new and renewed leases signed in 2013, and higher rates on leases with rent rates that escalate over time.

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

	Year Ended December 31 2013	2012	Change
Average base rent (per sq. ft.)	$17.49	$16.35	7%
Weighted average remaining lease term	4.75	4.70	1%
GLA	1,691,920	1,571,474	8%
Occupancy %	90.6%	91.0%	—%
Retention %	75.5%	77.0%	(2)%

Recoveries are amounts recovered from tenants for direct operating expenses incurred during the year and include a nominal administrative charge. Direct operating expenses increased by 3% over 2012, but recoveries, which generally track with direct operating expenses, were comparable to 2012. This divergence is the result of slightly lower occupancy and non-recoverable expenses on certain properties. This was in-line with our forecast.

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

Non-cash adjustments related to amortization of tenant incentives and straight-line rent adjustment had a net positive impact on rental revenue during the year. Amortization of tenant incentives decreased as there were fewer new properties requiring tenant incentives compared to the prior year. 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 $0.51 million or 3% as a result of increased GLA following the acquisition of properties in Q3-2013 and Q4-2014. GLA has grown 8% since 2012 as a result of these acquisitions. Higher than anticipated snow removal costs due to heavy snow fall in Alberta in Q4-2013, and an increase of $0.39 million or 5% in property taxes due to higher appraised property values compared to 2012 also contributed to the increase in direct operating expenses.

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.

NOI and same asset NOI increased by $1.24 million and $0.49 million respectively compared to 2012. This growth is primarily a result of increased average base rent and other revenue. NOI also increased due to new property acquisitions in the year. The calculation of same asset NOI is as follows (refer to Non-Standard Measures for calculation of NOI and reconciliation to net income):

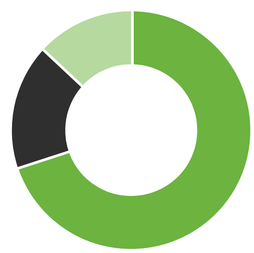
	Year Ended December 31		
($000s)	2013	2012	Change
Same asset NOI	22,457	21,969	2%
Acquisitions & Property Development	938	93	
NOI before adjustments	23,395	22,062	6%
Amortization of tenant incentives	2,297	2,447	
Straight-line rent adjustment	(397)	(449)	
NOI	25,295	24,060	5%

Regional Analysis

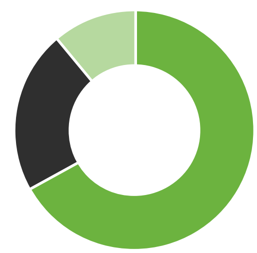
The following table summarizes the composition of our properties at December 31, 2013 by geographic region:

	Number of Properties	GLA (sq. ft.)	% of Portfolio (GLA)	Fair value ($000s)	NOI ($000s)
Northern Alberta	18	1,183,916	70.0%	289,000	16,441
Southern Alberta	6	282,639	16.7%	94,232	5,737
Saskatchewan & British Columbia	5	225,365	13.3%	45,885	3,117
	29	1,691,920	100.0%	429,117	25,295

GLA (Sq. Ft.)



Fair Value



The following table details key financial and operational metrics for each of our geographic regions for the year ended December 31, 2013:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2013	2012	2013	2012	2013	2012
Year ended December 31 ($000s)						
Rental revenue	25,531	24,663	8,246	7,451	5,548	5,371
NOI	16,441	15,966	5,737	4,979	3,117	3,115
As at December 31						
Average base rent (per sq. ft.)	$17.19	$16.52	$23.22	$21.12	$12.88	$11.68
Occupancy %	90.0%	89.5%	98.4%	96.8%	86.8%	88.6%

Higher rental revenue in Northern Alberta is a result of new properties and higher average base rent per sq. ft. in the region. The Initial Properties included a retail commercial unit ("CRU") which was completed by Melcor in late 2012 and therefore the prior year comparative did not fully reflect the annual impact of this CRU on rental revenue. We also increased GLA with the acquisitions of two properties in Northern Alberta in Q3 and Q4.

G&A Expense | Finance Costs

Increased rental revenue in Southern Alberta is due to higher average base rent and increased occupancy. Rental revenue in Saskatchewan and BC increased slightly due to increased average base rent, offset by a slight decline in occupancy.

General & Administrative Expense

	Year Ended December 31		
($000s)	2013	2012	Change
Asset management fee	676	—	100%
Salaries and benefits	315	1,073	(71%)
Professional fees	232	47	394%
Public company costs	172	—	100%
Other	333	249	34%
	1,728	1,369	26%

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. The increase in general & administrative expenses in 2013 is consistent with our forecast and reflects the higher costs associated with the REIT being a stand-alone publicly traded entity . Refer to note 21 of the consolidated financial statements for additional discussion on the management fee structure.

Finance Costs

	Year Ended December 31		
($000s)	2013	2012	Change
Interest on mortgages payable and revolving credit facility	5,586	8,575	(35%)
Interest on Class C LP Units	2,721	—	100%
Amortization of fair value adjustment on Class C LP Units	(293)	—	(100%)
Amortization of deferred financing costs	108	—	100%
Finance costs before distributions	8,122	8,575	(5%)
Distributions on Class B LP Units	4,289	—	100%
Finance costs	12,411	8,575	45%

Finance costs for the year ended December 31, 2013 were $3.84 million or 45% higher compared to the same period in the prior year. 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. As part of the IPO, Melcor retained the debt on certain Initial Properties (the "Retained Debt") with a fair value at April 30, 2013 of $96.51 million. Distributions made on Class B LP Units, issued to Melcor as part of the IPO, are classified as finance costs as the units are accounted for as a financial liability measured at fair value through profit and loss. Distributions on Class B LP Units are equivalent to those declared on trust units, as approved by the Board of Trustees.

Finance costs before distributions on Class B LP Units were 5% lower during the year ended December 31, 2013 compared to 2012. The decrease is consistent with the financial forecast and reflects the lower weighted average interest rates on the Class C LP Units. As at December 31, 2013 the weighted average interest rate on our revolving credit facility, mortgages payable and Class C LP Units was 3.98% based on period end balances (December 31, 2012 – 4.57%). Distributions on Class B LP Units are lower than forecast due to the conversion of 830,000 units to fulfill the underwriters' over-allotment option.

Income Taxes

As at December 31, 2013, 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.

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. The IFRS measurement most directly comparable to FFO and AFFO is net income.

	Year Ended December 31		
($000s, except per unit amounts)	2013	2012	Change
Net income for the period	62,719	35,490	
Add / (deduct)			
Fair value gain on investment properties	(16,953)	(30,163)	
Fair value loss on Class B LP Units	3,812	—	
Amortization of tenant incentives	2,297	2,447	
Distributions on Class B LP Units	4,289	—	
Deferred income taxes	(40,261)	5,968	
Funds From Operations (FFO)	15,903	13,742	16%
Add / (deduct)			
Straight-line rent adjustment	(397)	(449)	
Amortization of deferred financing costs	108	—	
Accretion on decommissioning obligation	60	60	
Net impact of amortization of fair value adjustment and interest subsidy [1]	432	—	
Normalized capital expenditures [2]	(729)	(722)	
Normalized tenant incentives and leasing commissions [2]	(1,461)	(1,434)	
Adjusted Funds from Operations (AFFO)	13,916	11,197	24%
FFO/Unit	0.85	0.74	16%
AFFO/Unit	0.75	0.60	24%

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 and pre-acquisition periods are based upon the respective percentages of annual NOI for comparative purposes.

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. Our initial distribution rate represents approximately 93% of AFFO for the 12 months ended March 31, 2014 based on our financial forecast. Distributions to unitholders for the year (commencing on the formation of the REIT in May 2013) were $4.11 million (2012 - $nil).

Fair Value of Investment Properties

We carry our investment properties at fair value in accordance with IAS 40, Investment property. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	December 31	
	2013	2012
Number of properties	29	27
Total GLA (sq. ft)	1,786,447	1,667,440
GLA (REIT owned %)	1,691,920	1,571,474
Fair value of portfolio ($000s)	440,349	393,461
Value per square foot	$260	$250
NOI ($000s)	25,295	24,060
Weighted average capitalization rate	6.41%	6.48%
Weighted average discount rate	7.57%	7.59%
Weighted average terminal cap rate	6.69%	6.72%

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013 and 2012 which resulted in fair value gains of $16.95 million (2012 - $30.16 million) on investment properties recorded to income during the year. Refer to Note 26 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 geographical region are as follows:

	Year Ended December 31		
($000s)	2013	2012	Change
Northern Alberta	7,969	24,287	(67)%
Southern Alberta	7,683	5,060	52%
Saskatchewan & British Columbia	1,301	816	59%
	16,953	30,163	(44)%

Fair value gains in the current year were primarily the result of a decrease in capitalization rates on certain retail and office properties and increased leasing activity.

Fair values are most sensitive to changes in capitalization rates.

	December 31, 2013			December 31, 2012		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.41%	5.50%	9.00%	6.48%
Terminal capitalization rate	5.75%	9.25%	6.69%	5.75%	9.25%	6.72%
Discount rate	6.50%	10.00%	7.57%	6.50%	10.00%	7.59%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $31.88 million (2012 - $28.10 million) while a 50 basis points decrease (-0.5%) would increase it by $37.28 million (2012 - $32.79 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)	**2013**	**2012**	**Change**
Cash from operating activities	10,502	13,922	(3,420)
Cash used in investing activities	(34,867)	(12,921)	(21,946)
Cash from financing activities	29,608	(1,185)	30,793
Increase (decrease) in cash and cash equivalents	5,243	(184)	5,427
Cash and cash equivalents, beginning of year	689	873	(184)
Cash and cash equivalents, end of year	5,932	689	5,243

Operating activities

Cash from operating activities was $3.42 million lower than 2012. This decrease is primarily due to distributions on Class B LP Units, which were $4.29 million during the year, and are included in finance costs. Changes in operating assets and liabilities also negatively affected cash flow from operating activities due to lower payables and higher prepaids compared to 2012.

Investing activities

In 2013 we invested $25.85 million with the acquisitions of Coast and Liberty. Spending on property improvement and development decreased as we completed some multi-year asset enhancement and redevelopment activities on certain properties in 2013. 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. We also invested $2.05 million in tenant incentives during the year, a decrease of $0.58 million over the comparative period. The decrease is due to timing differences between the signing of leases and actual completion of improvement work.

At IPO we received $4.58 million in investment subsidies from Melcor. The subsidies are presented as restricted cash in the statement of financial position as the usage of the funds is restricted to capital expenditures, environmental remediation costs and tenant incentive payments. In 2013 we recognized the subsidies received, net of amounts drawn for these purposes.

Financing activities

During 2013 we drew $24.00 million on our revolving credit facility to fund the acquisition of Coast and Liberty and to meet day-to-day cash flow needs. In addition, we made principal repayments of $5.85 million on our mortgages payable and Class C LP Units. During 2013 we refinanced six mortgages for total proceeds of $60.00 million, we obtained new financing on one property for total proceeds of $7.00 million and we repaid outstanding mortgages on four properties totaling $12.72 million.

We paid $4.11 million in distributions to unitholders during the year ended December 31, 2013.

On May 1, 2013 we received $74.41 million from the issuance of 8,300,000 of trust units, net of transaction costs, as part of the completion of the IPO. The proceeds from the IPO were used to purchase the Initial Properties from Melcor for cash consideration of $66.02 million.

At IPO we received $3.60 million in interest payment subsidies from Melcor. These subsidies are presented as restricted cash in the statement of financial position as the usage of the funds is restricted to interest payments. During the period we recognized the subsidies received, net of amounts drawn for this purpose.

We recognized $7.45 million cash flows in net distributions to Melcor during the year, compared to net distributions of $16.34 million in 2012. Net distributions to Melcor represents the net financing funded/received by Melcor prior to the formation of the REIT to fund operating and investing activities.

Liquidity & Capital Resources

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, 2013 we had $5.93 million in cash and cash equivalents, $5.97 million in restricted cash and $1.00 million in available funds under our revolving credit facility. Subsequent to year-end we received $10.90 million in proceeds from funding of two mortgages on previously unencumbered properties. Part of the proceeds were used to repay $5.50 million of amounts drawn under the revolving credit facility.

Capital Structure

We define capital as the total of trust units, Class B LP Units, Class C LP Units, mortgages payable, 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% of Gross Book Value ("GBV") ("Degree of Leverage Ratio") (65% including any convertible debentures). At December 31, 2013, and throughout the period, we were in compliance with the Degree of Leverage Ratio and had a ratio of 51% as at December 31, 2013.

As at December 31, 2013, the REIT's total capitalization was $402.21 million and is comprised as follows:

($000s)	December 31, 2013
Revolving credit facility [1]	24,000
Mortgages payable [1]	99,023
Class C LP Units [2]	92,578
Indebtedness	215,601
Class B LP Units [3]	95,308
Trust units	91,300
Equity	186,608
Total capitalization	402,209
Gross book value (GBV) [4]	425,162
Debt to GBV	51%
Maximum threshold [5]	60%

1. Debts are presented excluding unamortized transaction costs.
2. Class C LP Units excluding unamortized fair value adjustment on Class C LP Units.
3. Class B LP Units are classified as equity for purposes of this calculation and are included at their book value of $10.00 per unit.
4. GBV is calculated as the cost of the total assets acquired in the Initial Properties and on the purchase of Coast Home Centre and Liberty Crossing.
5. As prescribed by the operating policies in the DOT (65% including any convertible debentures).

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, 2013, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 51%, interest coverage ratio of 1.71, and a net book value of unitholders equity of $220.72 million. We also have financial covenants on certain mortgages for investment properties. At December 31, 2013, 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	Total	% of Portfolio
Total	**24,000**	**99,023**	**92,578**	**215,601**	**100%**
2014	—	19,911	3,059	22,970	11%
2015	24,000	22,126	25,825	71,951	33%
2016	—	13,822	11,180	25,002	12%
2017	—	1,516	4,584	6,100	3%
2018	—	34,080	13,108	47,188	22%
Thereafter	—	7,568	34,822	42,390	19%

We ladder the renewal and maturity dates on our borrowings as part of our capital management strategy to mitigate the concentration of interest rate and financing risk associated with refinancing in any particular period.

Debt Analysis – our mortgages payable and Class C LP Units bear interest at fixed rates; the following table summarizes the interest rates and terms to maturity:

($000s)	Revolving Credit Facility	Mortgages Payable	Class C LP Units	Total
Total	**24,000**	**99,023**	**92,578**	**215,601**
Fixed	—	99,023	92,578	191,601
Variable	24,000	—	—	24,000
Weighted average interest rate	3.65%	4.20%	3.84%	3.98%
Weighted average term to maturity	1.33	2.96	4.89	3.61

The weighted average interest rate on our debts was reduced by 13% as we renew facilities under more favorable interest rates. During 2013 we refinanced six mortgages totaling $60.00 million and obtained financing of $7.00 million on a previously unencumbered property. The weighted average interest rate on new and renewed financings during the year was 3.66%.

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 period. 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)	December 31, 2013
FFO	15,903
Principal repayments on Mortgages payable	3,881
Principle repayments on Class C LP Units	1,966
Debt service coverage ratio	**2.72**
FFO plus finance costs	24,025
Finance costs [1]	8,122
Finance costs coverage ratio	**2.96**

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

Credit Facility - On April 20, 2013, we entered into a revolving term facility credit agreement with two major Canadian chartered banks. Under the terms of the agreement the REIT has an available credit limit based on the carrying values of specific investment properties, as calculated quarterly, up to a maximum of $25.00 million for general corporate purposes. The agreement also provides the REIT with $5.00 million in available letters of credit which bear interest at 2.25%. As at December 31, 2013 we had an available credit limit of $25.00 million of which $24.00 million was drawn; and posted letters of credit of $nil. The facility matures on May 1, 2015, with a one year extension period at the discretion of the lenders.

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.

The following table summarizes the change in units for the period May 1, 2013 to December 31, 2013 and the fully diluted number of Units outstanding at December 31, 2013:

Issued and fully paid units ($000s)	Units	$ Amount
Balance, May 1, 2013	—	—
Issuance of Units - IPO	8,300,000	83,000
Issuance of Units - over-allotment option	830,000	8,300
Balance, December 31, 2013	**9,130,000**	**91,300**
Dilutive securities		
Class B LP Units [1]	9,530,798	95,308
Diluted balance, December 31, 2013	**18,660,798**	**186,608**

1. A corresponding number of special voting units are held by Melcor through an affiliate.

Off Balance Sheet Arrangements

As at December 31, 2013, we had no off-balance-sheet arrangements.

Quarterly Results

($000s except per unit amounts)	2013 Q4	Q3	Q2	Q1
Revenue	10,070	9,794	9,773	9,688
Net income	7,466	5,945	44,492	4,816
Income per unit [1]	$0.51	$0.65	$2.38	$0.26

($000s except per unit amounts)	2012 Q4	Q3	Q2	Q1
Revenue	10,566	9,195	9,002	8,722
Net income	12,822	6,731	13,362	2,575
Income per unit [1]	$0.68	$0.36	$0.72	$0.14

1. Calculated as if the trust units were outstanding during the entire period.

Fourth Quarter Results

Consolidated Revenue & Net Operating Income

	Three Months Ended December 31		
($000s)	2013	2012	Change
Base rent	6,434	6,198	4%
Recoveries	3,582	4,214	(15)%
Other	589	250	136%
Amortization of tenant incentives	(616)	(545)	13%
Straight-line rent adjustment	81	449	(82)%
Rental revenue	10,070	10,566	(5)%
Operating expenses	2,392	2,921	(18)%
Utilities and property taxes	1,982	1,625	22%
Direct operating expenses	4,374	4,546	(4)%
Net rental income	5,696	6,020	(5)%
NOI	6,231	6,116	2%
Same asset NOI	5,172	5,984	(14)%
Operating margin	57%	57%	—%

Rental revenue for the fourth quarter was $10.07 million, with strong growth in base rent, up 4% over Q4-2012. Recoveries were 15% lower in 2013, due to a larger budget to actual variance in 2012. Recoveries are trued up to actual expenses in the fourth quarter each year.

General & Administrative Expense

	Three Months Ended December 31		
($000s)	2013	2012	Change
Asset management fee	257	—	100%
Salaries and benefits	—	(7)	(100%)
Professional fees	27	3	800%
Public company costs	76	—	100%
Other	99	108	(8)%
	459	104	341%

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. The increase in general and administrative expenses in 2013 is consistent with forecast and reflects higher costs associated with the REIT being a stand alone publicly traded entity.

Finance Costs

	Three Months Ended December 31		
($000s)	2013	2012	Change
Interest on mortgages payable and revolving credit facility	1,169	2,170	(46%)
Interest on Class C LP Units	1,014	—	100%
Amortization of fair value adjustment on Class C LP Units	(110)	—	(100%)
Amortization of deferred financing costs	72	—	100%
Finance costs before distributions	2,145	2,170	(1%)
Distributions on Class B LP Units	1,608	—	100%
Finance costs	3,753	2,170	73%

Finance costs for the fourth quarter were $3.75 million or 73% higher compared Q4-2012. 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. Finance costs before distributions on Class B LP Units were 1% lower during the period compared to Q4-2012. The decrease reflects the lower weighted average interest rates on the Class C LP Units.

Funds from Operations & Adjusted Funds from Operations

	Three Months Ended December 31		
($000s, except per unit amounts)	2013	2012	Change
Net income for the period	7,466	12,822	
Add / (deduct)	—	—	
Fair value gain on investment properties	(9,488)	(11,371)	
Fair value loss on Class B LP Units	3,521	—	
Amortization of tenant incentives	616	545	
Distributions on Class B LP Units	1,608	—	
Deferred income taxes	—	3,619	
Funds From Operations (FFO)	3,723	5,615	(34)%
Add / (deduct)			
Straight-line rent adjustment	(81)	(449)	
Amortization of deferred financing costs	72	—	
Accretion on decommissioning obligation	20	20	
Net impact of amortization of fair value adjustment and interest subsidy [1]	157	—	
Normalized capital expenditures [2]	(182)	(180)	
Normalized tenant incentives and leasing commissions [2]	(365)	(361)	
Adjusted Funds from Operations (AFFO)	3,344	4,645	(28)%
FFO/Unit	0.20	0.30	(34)%
AFFO/Unit	0.18	0.25	(28)%

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 and pre-acquisition periods are based upon the respective percentages of annual NOI for comparative purposes.

Funds from operations (FFO) and Adjusted funds from operations (AFFO) for the fourth quarter were 34% and 28% lower than the comparative period. The decrease was due to lower NOI and higher general & administrative costs during the period. Year over year analysis is not meaningful due to the formation of the REIT and resulting change in cost structure.

Distributions to unitholders for the fourth quarter were $0.51 million (2012 - $nil).

Outlook

We have a solid portfolio of income-producing assets in high growth regions and we continue to actively seek out suitable acquisitions to expand our asset base. 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 growing monthly cash distributions to unitholders .

Subsequent to year-end we obtained mortgage financing on two previously unencumbered properties for total proceeds of $10.90 million. The mortgages are amortized over a 20 and 25 year period, with a 5 year term and bear interest at a weighted average fixed rate of 3.54%. Part of the proceeds were used to repay $5.50 million of amounts drawn under the revolving credit facility.

We have two mortgages on one property which will come up for renewal in the next year. These mortgages have an outstanding principal balance of $17.42 million and a weighted average interest rate of 4.53% as at December 31, 2013. We expect to be able to refinance this mortgage with our lenders at lower interest rates based upon comparable recent refinancings.

Management anticipates that commercial real estate fundamentals will remain healthy in Western Canada, with stable to slightly increasing occupancy rates. We see continued stability in activity levels in all our markets and anticipate growth in both rental renewals and rental rates as leases renew.

Forecast

The following details our results for the fourth quarter and for the nine-months ended December 31, 2013 against our financial forecast covering the period from April 1, 2013 to December 31, 2013, as provided in our prospectus dated April 19, 2013.

	Three Months Ended December 31, 2013			Nine Months Ended December 31, 2013		
($000s, except per unit amounts)	Actual	Forecast	Change	Actual	Forecast	Change
Rental revenue	10,070	9,556	5%	29,637	28,544	4%
Direct operating expenses	(4,374)	(3,944)	11%	(12,088)	(12,025)	1%
Net rental income	5,696	5,612	1%	17,549	16,519	6%
General and administrative expenses	(459)	(397)	16%	(1,334)	(1,190)	12%
Income before finance costs	5,237	5,215	—%	16,215	15,329	6%
Interest income	15	8	88%	55	24	129%
Interest expense						
Interest expense on mortgages debt	(1,241)	(1,033)	20%	(3,653)	(3,131)	17%
Distribution on Class C LP Units	(904)	(901)	—%	(2,428)	(2,727)	(11)%
Distribution on Class B LP Units	(1,608)	(1,747)	(8)%	(4,289)	(5,239)	(18)%
Net finance costs	(3,738)	(3,673)	2%	(10,315)	(11,073)	(7)%
Net income and comprehensive income	1,504	1,542	(2)%	5,900	4,256	39%
Add / (deduct):						
Amortization of tenant improvements	616	652	(6)%	1,719	1,788	(4)%
Distribution on Class B LP Units	1,608	1,747	(8)%	4,289	5,239	(18)%
Funds from Operations (FFO)	3,723	3,941	(6)%	11,908	11,283	6%
Add / (deduct):						
Straight-line rent adjustment	(81)	(52)	56%	(315)	(155)	103%
Deferred financing costs	72	19	279%	108	57	89%
Net impact of mark to market adjustment and interest subsidy	157	157	—%	432	487	(11)%
Normalized capital expenditures	(182)	(182)	—%	(547)	(547)	—%
Normalized tenant inducements and leasing commissions	(365)	(365)	—%	(1,096)	(1,096)	—%
Adjusted funds from operations (AFFO)	3,324	3,518	(6)%	10,490	10,029	5%
FFO	0.20	0.21	(6)%	0.64	0.60	6%
AFFO	0.18	0.19	(6)%	0.56	0.54	5%
Net Operating Income (NOI)	6,231	6,212	- %	18,953	18,152	4%

Our financial results for the nine-month period reflect the execution of our strategic objectives. We finished the year ahead of forecast on all key indicators. Strong leasing activity throughout 2013 and three successful property acquisitions (one subsequent to year end), position us for continued growth in 2014.

Net rental income for the three and nine-months ended December 31, 2013 was 1% and 6% ahead of forecast respectively. Higher rental revenues are due to improved leasing conditions, strong lease renewals and the acquisition completed in the third quarter. The acquired property contributed $0.27 million in base rent during the nine-month period. Direct operating expenses for the nine-month period are consistent with forecast.

Direct operating expenses in Q4 were 11% higher than forecast due to variations in the actual timing of expenditures.

Compared to forecast, general & administrative expense was $0.06 million and $0.14 million higher for the three and nine-months ended December 31, 2013. The variation from forecast is due to annual fees for audit, tax and property appraisal services being expensed in post-formation earnings (eight month period) versus the forecast 12 month period. We expect general & administrative expense to be in the range of 3 - 4% of revenue going forward.

Net finance costs were 2% higher and 7% lower than forecast for the three and nine-month periods respectively. Distribution on Class B LP Units are lower than forecast due to the conversion of

830,000 units to fulfill the underwriters' over-allotment option. Interest on mortgages payable and Class C LP Units was 17% higher during the nine-month period due to the forecast period including conversion of the mortgages to Class C LP Units at April 1, 2013, compared to the actual conversion which occurred on May 1, 2013. Higher interest expense on mortgage debt in the fourth quarter reflects the higher balance outstanding under the revolving credit facility which was used to fund property acquisitions during the period.

At December 31, 2013 we reviewed and re-assessed the accuracy of our financial forecast for the remaining three months of the forecast period in accordance with National Instrument 51-102 and OSC Staff Notice 51-721. We examined our results to date against our financial forecast, as detailed above; in conjunction with our expected financial results for the remaining three months of the forecast period. Included in our analysis is the financial impact of the acquisition of Coast Home Centre in Q3-2013, Liberty Crossing in Q4-2013 and LC Industrial in Q1-2014 on our portfolio as a whole. We examined the percentage impact on key metrics (Revenue, NOI, FFO, and AFFO) and concluded that the incremental impact of the properties purchase on our key metrics meet the materiality threshold to require re-forecasting for the remaining three months. Management did not identify any other key variables with significant variances for Q1 2014 which would require re-forecasting.

	Three Months Ended March 31, 2014		
($000s, except per unit amounts)	Prospectus Forecast	Acquisition Forecast	Revised Forecast
Rental revenue	9,631	753	10,384
Direct operating expenses	(4,059)	(208)	(4,267)
Net rental income	5,572	545	6,117
General and administrative expenses	(397)	(20)	(417)
Income before finance costs	5,175	525	5,700
Interest income	9	—	9
Interest expense			
Interest expense on mortgages debt	(1,011)	(174)	(1,185)
Distribution on Class C LP Units	(893)	—	(893)
Distribution on Class B LP Units	(1,747)	—	(1,747)
Net finance costs	(3,642)	(174)	(3,816)
Net income and comprehensive income	1,533	351	1,884
Add / (deduct):			
Amortization of tenant improvements	670	—	670
Distribution on Class B LP Units	1,747	—	1,747
Funds from Operations (FFO)	3,950	351	4,301

	Three Months Ended March 31, 2014		
($000s, except per unit amounts)	Prospectus Forecast	Acquisition Forecast	Revised Forecast
Add / (deduct):			
Straight-line rent adjustment	(49)	(15)	(64)
Deferred financing costs	19	—	19
Net impact of mark to market adjustment and interest subsidy	143	—	143
Normalized capital expenditures	(182)	(19)	(201)
Normalized tenant inducements and leasing commissions	(365)	(38)	(403)
Adjusted funds from operations (AFFO)	3,516	279	3,795
FFO	0.21	0.02	0.23
AFFO	0.19	0.01	0.20
Net Operating Income (NOI)	6,193	530	6,723

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; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; extreme weather events; and availability of credit and financing.

Credit Risk

We are subject to credit risk as our tenants may not be able to fulfil 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 2014 and corresponding areas leased by each tenant.

Rank	Tenant (Operating Name)	% of Total Minimum Rent	Lease GLA (sq. ft.)	% of Total GLA	Remaining Term (yrs)	Locations	Credit Rating (S&P/Moody's/ DBRS)
1	Royal Bank of Canada	7.2%	72,296	4.3%	2	4	AA-/ Aa3/ AA
2	Government of Alberta	2.9%	45,690	2.7%	4	2	AAA / Aaa/ AAA
3	Shoppers Drug Mart	2.9%	26,726	1.6%	12	2	BBB+/-/ BBB
4	Melcor Developments Ltd.	1.4%	23579	1.4%	4	1	---
5	Rexall Drugs	1.4%	11,827	0.7%	11	1	---
6	TD Bank	1.4%	9491	0.6%	5	2	AA-/ Aa1/ AA
7	RONA	1.2%	52,170	3.1%	12	1	BB+/-/ BB High
8	Peavey Industries	1.2%	24,264	1.4%	12	1	---
9	Enbridge Pipelines	1.2%	20,484	1.2%	5	1	A-/ Baa1/A
10	Government of Saskatchewan	1.1%	17,436	1.0%	10	1	AAA/ Aa1/ AA

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 (sq. ft.)	% of GLA	Average Base Rent Expiring Per Annum
2014	89	297,298	17.6%	$15.02
2015	59	155,674	9.2%	$13.75
2016	49	137,883	8.1%	$14.74
2017	69	187,618	11.1%	$17.53
2018	48	256,782	15.2%	$18.17
Thereafter	117	495,322	29.3%	$23.10
Vacant Space	—	161,343	9.5%	—
	431	1,691,920		$18.32

Industry 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.

Financing

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;
- Financial, competitive, business and other factors, including factors beyond our control;
- 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.

Competitive Conditions

The real estate market is highly competitive, with a large number of well-financed companies operating in the same markets as Melcor 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.

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.

Geographic Concentration

Of the total GLA, 86.7% is located in Alberta. Consequently, the market value of 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.

Significant Ownership by Melcor

Melcor holds a 51.1% 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 entitle 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 Declaration of Trust 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.

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.

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.

Other Financial Information

Joint Arrangements

We record only our share of the assets, liabilities, revenue and expenses of our joint arrangements. In 2013, we had three joint arrangement. 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)	31-Dec-13	31-Dec-12	31-Dec-13	31-Dec-12
Revenue	3,741	3,526	7,482	7,052
Earnings	4,138	4,484	8,276	8,968
Assets	48,712	45,476	97,424	90,952
Liabilities	22,472	21,747	44,944	43,494

Related Party Transactions

Please refer to note 21 to the consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Please refer to note 27 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 and 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, 2013. 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 are 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 1992 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, 2013.

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, 2013, 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 CICA 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)	2013	2012	Change
Net income for the period	7,466	12,822	
Income tax (recovery) expense		2,301	
Net finance costs	3,738	2,164	
Fair value loss on Class B LP Units	3,521	—	
Fair value adjustment on investment properties	(9,488)	(11,371)	
General and administrative expenses	459	104	
Amortization of tenant incentives	616	545	
Straight-line rent adjustment	(81)	(449)	
NOI	6,231	6,116	2%

	Year Ended December 31		
($000s)	2013	2012	Change
Net income for the period	62,719	35,490	
Income tax (recovery) expense	(40,261)	6,814	
Net finance costs	12,350	8,552	
Fair value (gain) loss on Class B LP Units	3,812	—	
Fair value adjustment on investment properties	(16,953)	(30,163)	
General and administrative expenses	1,728	1,369	
Amortization of tenant incentives	2,297	2,447	
Straight-line rent adjustment	(397)	(449)	
NOI	25,295	24,060	5%

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 to 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; (vi) deferred income tax expense; and (vii) non-recurring current income taxes on formation of the REIT, 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) amortization of deferred financing and leasing 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 mortgages payable and Class C LP Units, less unamortized fair value adjustment; 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.