Condensed Consolidated Interim Financial Statements of

FAM REAL ESTATE INVESTMENT TRUST

Three months and nine months ended September 30, 2013
(Unaudited)

FAM REAL ESTATE INVESTMENT TRUST

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

	Note	As at September 30, 2013	As at December 31, 2012
Assets			
Non-current assets:			
Investment properties	4	$ 263,016	$ 195,710
Interest rate swap asset	8	1,358	–
Restricted cash		1,595	1,310
Total non-current assets		265,969	197,020
Current assets:			
Prepaid expenses and other assets		1,247	157
Accounts receivable	7	574	644
Cash		1,867	5,264
Total current assets		3,688	6,065
Total assets		$ 269,657	$ 203,085
Liabilities and Unitholders' Equity			
Non-current liabilities:			
Mortgages payable	6	$ 127,090	$ 82,443
Provisions	7	450	635
Interest rate swap liabilities	8	800	850
Vendor take-back loan		8,817	8,610
Revolving credit facility	9	3,487	6,202
Class B LP Units	10	21,846	25,388
Warrants	11	160	706
Total non-current liabilities		162,650	124,834
Current liabilities:			
Mortgages payable	6	3,966	12,610
Accounts payable and other liabilities	17	4,709	1,777
Total current liabilities		8,675	14,387
Total liabilities		171,325	139,221
Unitholders' equity	12	98,332	63,864
Total liabilities and unitholders' equity		$ 269,657	$ 203,085

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

Approved by the Board of Trustees

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

FAM REAL ESTATE INVESTMENT TRUST

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

	Note	Three months ended September 30, 2013	Nine months ended September 30, 2013
Revenue from investment properties		$ 7,568	$ 20,250
Property operating expenses	17	(2,848)	(7,514)
Property operating income		4,720	12,736
General and administration	14 and 17	(574)	(2,074)
Finance costs, net	15	(2,203)	(4,318)
Fair value adjustments to financial instruments	16	2,139	4,122
Fair value adjustments to investment properties	4	(2,854)	2,009
Loss on disposal of investment property	5	–	(87)
Net income and comprehensive income		$ 1,228	$ 12,388

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

FAM REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
(in thousands of Canadian dollars, except for number of trust units)
(unaudited)

September 30, 2013	Note	Trust units	Retained earnings	Total
Unitholders' equity, beginning of period		$ 51,516	$ 12,348	$ 63,864
Issued on public offering, net of issue costs	12	21,571	–	21,571
Issued on private placement	12	4,000	–	4,000
Issued on exchange of Class B LP units	10	23	–	23
Distributions declared	13	–	(3,732)	(3,732)
Distributions reinvested in trust units		218	–	218
Net income and comprehensive income for the period		–	12,388	12,388
Unitholders' equity, end of period		$ 77,328	$ 21,004	$ 98,332

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

FAM REAL ESTATE INVESTMENT TRUST

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

	Note	Three months ended September 30, 2013	Nine months ended September 30, 2013
Operating activities:			
Net income		$ 1,228	$ 12,388
Adjustments for:			
Amortization of leasing expenses and straight-line rent, net	4	(149)	(357)
Finance costs, net	15	2,203	4,318
Fair value adjustments to financial instruments	16	(2,139)	(4,122)
Fair value adjustments to investment properties	4	2,854	(2,009)
Loss on disposal of investment property	5	–	87
Distributions on Class B LP units reinvested in trust units		(157)	(157)
		3,840	10,148
Change in non-cash working capital		1,107	333
Interest paid on mortgages payable		(1,414)	(3,963)
Interest paid on vendor take-back loan		(69)	(207)
Interest paid on revolving credit facility		(79)	(191)
Distributions on Class B LP units		(314)	(1,120)
Cash flows from operating activities		3,071	5,000
Investing activities:			
Acquisition of investment properties	5	(39,584)	(83,216)
Deposits on investment property		500	–
Capital expenditures		(262)	(333)
Direct leasing expenses		(717)	(839)
Proceeds from disposition of investment property		–	19,913
Cash flows used in investing activities		(40,063)	(64,475)
Financing activities:			
Proceeds from public offering	12	23,081	23,081
Proceeds from private placement	12	4,000	4,000
Transaction costs on public offering	12	(1,510)	(1,510)
Proceeds from mortgage financing		23,000	70,670
Mortgage principal payments		(1,804)	(32,828)
Transaction costs on mortgages and revolving credit facility		(320)	(980)
Defeasance costs		–	(598)
Repayment of revolving credit facility, net		(7,773)	(2,700)
Distributions paid on trust units		(1,242)	(3,114)
Proceeds from issuance of warrants	11	–	57
Cash flows from financing activities		37,432	56,078
Increase (decrease) in cash		440	(3,397)
Cash, beginning of period		1,427	5,264
Cash, end of period		$ 1,867	$ 1,867

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

1. Organization

FAM Real Estate Investment Trust (the “Trust” or the “REIT”) is an unincorporated, open-ended real estate investment trust which was created pursuant to a Declaration of Trust dated August 27, 2012, as amended and restated on December 27, 2012, under the laws of the Province of Ontario and the applicable laws of Canada. The REIT’s trust units and trust unit purchase warrants are listed on the Toronto Stock Exchange (“TSX”) and traded under the symbols “F.UN” and “F.WT”, respectively. The registered office of the Trust is located at 2000-5000 Miller Road, Richmond, British Columbia, Canada.

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

2. Basis of preparation

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with *IAS 34, Interim Financial Reporting* (“IAS 34”) as issued by the International Accounting Standards Board (“IASB”). Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed. As a result, these condensed consolidated interim financial statements should be read in conjunction with the Trust’s audited consolidated financial statements for the period from the date of formation on August 27, 2012 to December 31, 2012 (“Annual Financial Statements”).

These financial statements were approved by the Board of Trustees and authorized for issue on November 7, 2013.

2. Basis of preparation (continued)

(b) Basis of measurement:

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

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

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

(c) Use of estimates and judgments:

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

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

(i) Business combinations:

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

2. Basis of preparation (continued)

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

(ii) Leases:

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

(iii) Income taxes:

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

(iv) Assets and liabilities held for sale:

The Trust makes judgments in determining whether certain non-current assets or group of assets and liabilities meet the specified criteria under IFRS for classification as held for sale. As at September 30, 2013, the Trust has determined that there were no assets or group of assets and liabilities that met the specified criteria.

2. Basis of preparation (continued)

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

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

(i) Valuation of investment properties:

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

3. Significant accounting policies

These condensed consolidated interim financial statements were prepared using the same accounting policies as set out in the Annual Financial Statements, with the exception of the changes in accounting policies described below.

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

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

3. Significant accounting policies (continued)

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. An entity's interest in a joint operation, which is an arrangement wherein the parties have rights to the assets and obligations for the liabilities, will be accounted for based on the entity's interest in those assets, liabilities, revenues and expenses. An entity's interest in a joint venture, which is an arrangement wherein the parties have rights to the net assets, will be accounted for using the equity method. The Trust has no interest in joint ventures as defined by IFRS 11. As at December 31, 2012, the Trust had an interest in a jointly controlled asset that was classified as a joint operation, and was sold in April 2013 (note 5). As a result, the adoption of IFRS 11 did not have a material impact on the Trust's condensed consolidated interim financial statements.

IFRS 12 requires enhanced disclosures about the nature of, and the risks associated with, an entity's interest in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. The application of IFRS 12 will result in additional disclosures in the annual consolidated financial statements as at and for the year ending December 31, 2013, in accordance with the transitional provisions of the standard.

IFRS 13 sets out a single framework for measuring fair value and the related disclosures about fair value measurements. IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. With the exception of the additional disclosures required for fair value measurements, the adoption of IFRS 13 did not have a material impact on the Trust's condensed consolidated interim financial statements.

Recent accounting pronouncements

IFRS 9, *Financial Instruments* ("IFRS 9"), effective for annual periods beginning on or after January 1, 2015, replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. IFRS 9 will use a single approach to determine whether a financial asset is measured at amortized cost or fair value. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The Trust is currently evaluating the impact of IFRS 9 on its condensed consolidated interim financial statements.

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

4. Investment properties

	September 30, 2013	December 31, 2012
Balance, beginning of period	$ 195,710	$ –
Acquisition of the Initial Properties, net of capital expenditures subsidy of $2,991	–	182,961
Acquisition of investment properties (note 5)	83,841	–
Additions:		
Capital expenditures	333	–
Direct leasing expenses	839	–
Disposition of investment property (note 5)	(20,000)	–
Provisions	(73)	–
Fair value adjustments	2,009	12,752
Amortization of leasing expenses and straight-line rents included in revenue, net	357	(3)
Balance, end of period	$ 263,016	$ 195,710

On December 28, 2012 (the “Closing Date”), FAM Management Limited Partnership (“FAM LP”), a former wholly-owned subsidiary of Huntingdon Capital Corp. (“Huntingdon”) acquired the Initial Properties from Huntingdon and assumed the associated mortgages in exchange for Class A limited partnership units of FAM LP (“Class A LP Units”), Class B limited partnership units of FAM LP (“Class B LP Units”), a vendor take-back loan and promissory notes. Also on December 28, 2012, the Trust completed its initial public offering and used part of the proceeds from the IPO to acquire the Class A LP Units and promissory notes from Huntingdon. One of the promissory notes was subsequently exchanged into additional Class A LP Units of FAM LP and the other promissory note was repaid using funds from the Trust’s revolving credit facility on December 28, 2012. Huntingdon retained a 30% interest in FAM LP through ownership of all the Class B LP Units in FAM LP. The Class A LP Units were eliminated upon consolidation.

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

4. Investment properties (continued)

The transaction was accounted for as an asset acquisition with the final purchase price allocated as follows:

Net assets acquired:		
Investment properties, net of capital expenditures subsidy of $2,991	$	182,961
Non-cash working capital, net		799
Cash		399
Assumed mortgages including mark-to-market adjustment of $1,620 and net of transaction costs of $249		(95,053)
Provisions		(635)
Interest rate swap		(901)
	$	87,570

Purchase price:		
Cash	$	53,443
Vendor take-back loan		8,606
2,513,700 Class B LP Units (note 10)		25,137
Payable to Huntingdon		384
	$	87,570

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

Investment properties are measured at fair value at each reporting date. Generally, the Trust's investment properties are valued either internally by management or externally by qualified third party appraisers using a number of approaches including a discounted cash flow approach, a direct capitalization approach and a direct comparison approach. As at September 30, 2013, five of the Trust's 28 investment properties with an aggregate fair value of $21.0 million were appraised by qualified third party valuators. Each of the Trust's investment properties are subject to an external appraisal on a rotating schedule.

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

4. Investment properties (continued)

The Trust determined the fair value of each property based upon, among other things, rental income from current leases and assumptions about rental income from future leases reflecting market conditions at the reporting date, less estimated future cash outflows in respect of such leases. Valuations are most sensitive to changes in discount rates and capitalization rates. Under the direct capitalization approach, fair values were determined by capitalizing the estimated future net operating income at the market capitalization rates. Under the discounted cash flow approach, fair values were determined by discounting the expected future cash flows, generally over a term of 10 years using an appropriate discount rate and including a terminal value based on the application of a terminal capitalization rate. The key metrics used in the valuation of the Trust's investment properties are set out in the following table:

	September 30, 2013			December 31, 2012		
	Discount rate	Terminal cap rate	Capitalization rate	Discount rate	Terminal cap rate	Capitalization rate
Minimum	7.50%	6.75%	4.00%	7.50%	7.00%	4.00%
Maximum	10.00%	8.50%	9.00%	9.25%	8.50%	9.00%

As at September 30, 2013, an investment property with a fair value of $8.4 million (December 31, 2012 - $8.6 million) is situated on a ground lease expiring in 2036.

As at September 30, 2013, investment properties with an aggregate fair value of $258.5 million (December 31, 2012 - $191.2 million) were pledged as security for outstanding mortgages and the revolving credit facility.

The capital expenditures subsidy received in connection with the acquisition of the Initial Properties has been recorded as a contra to investment properties and will be reduced as the subsidy is utilized. As at September 30, 2013, the capital expenditures subsidy was $3.0 million (December 31, 2012 - $3.0 million).

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

5. Acquisition and disposition of investment properties

(a) Investment property acquisitions

During the nine months ended September 30, 2013, the Trust completed the following asset acquisitions from third parties:

	4211 Yonge Street, Toronto, Ontario (“4211 Yonge”)	2655 and 2695 North Sheridan Way Mississauga, Ontario (“The Promontory”)
Property type	Office	Office
Acquisition date	May 1, 2013	August 14, 2013
Net assets acquired:		
Investment property	$ 43,918	$ 39,923
Working capital items, net	(286)	(339)
	$ 43,632	$ 39,584
Total consideration:		
Cash paid	43,632	39,584
	$ 43,632	$ 39,584

The financing for the 4211 Yonge acquisition consisted of a $25.0 million mortgage payable, approximately $13.5 million of net cash proceeds from the disposition of a co-owned investment property (note 5b), with the remaining balance funded from the Trust’s existing liquidity. The Trust incurred $0.8 million in transaction costs related to the acquisition of 4211 Yonge, which included a $0.4 million acquisition fee payable to Huntingdon (note 17).

The financing for The Promontory acquisition consisted of a $23.0 million mortgage payable, with the balance funded from the August 2013 equity offering (note 12). The Trust incurred $1.1 million in transaction costs related to the acquisition of The Promontory, which included a $0.4 million acquisition fee payable to Huntingdon (note 17).

(b) Disposition of 220 Portage Avenue, Winnipeg, Manitoba (“220 Portage”)

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

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

6. Mortgages payable

Mortgages payable comprise the following:

	September 30, 2013	December 31, 2012
Mortgages payable	$ 131,524	$ 93,682
Mark-to-market adjustment arising on acquisition of the Initial Properties	607	1,620
Transaction costs	(1,075)	(249)
	131,056	95,053
Less: current portion	(3,966)	(12,610)
	$ 127,090	$ 82,443
Range of interest rates (%)	3.68 – 6.15	3.75 – 6.35
Weighted average contractual interest rate (%)	4.72	5.30
Range of terms to maturity (years)	1.50 – 11.35	0.38 – 17.77
Weighted average term to maturity (years)	6.42	4.40

The mortgages payable are secured by mortgage charges registered against the title of specific investment properties, assignment of book debts, assignment of rents and repayment guarantees. Huntingdon has provided guarantees on mortgages with a principal balance of $27.2 million at September 30, 2013 (December 31, 2012 - $24.0 million). The Trust is required to maintain quarterly and annual debt service, interest service, and loan to value ratios for certain mortgages. As at September 30, 2013 and December 31, 2012, the Trust was compliant with all financial covenants.

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

6. Mortgages payable (continued)

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

	For the periods ending December 31,
2013 (remaining three months)	$ 970
2014	3,995
2015	18,055
2016	14,081
2017	10,084
Thereafter	84,339

The mark-to-market adjustment arising on acquisition of the Initial Properties is amortized using the effective interest method. During the three months and nine months ended September 30, 2013, the Trust recorded amortization of $0.1 million and $0.3 million, respectively, related to the mark-to-market adjustment. In addition, the Trust derecognized $nil and $0.7 million during the three months and nine months ended September 30, 2013, respectively, of the mark-to-market adjustment as a result of certain mortgages being refinanced or repaid. These adjustments have been recorded in finance costs (note 15).

7. Provisions

	September 30, 2013	December 31, 2012
Balance, beginning of period	$ 635	$ –
Assumed on acquisition of the Initial Properties (note 4)	–	635
Environmental provision	225	–
Environmental expenditures	(337)	–
Accretion and revision of estimates	(73)	–
Balance, end of period	$ 450	$ 635

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

7. Provisions (continued)

In accordance with the terms of a certain ground lease expiring in 2036, the lessor has the option of requiring the Trust to restore a certain land parcel when the lease expires, or is not renewed, and the ground parcel reverts to the lessor. As at September 30, 2013, the provision for decommissioning was $0.2 million (December 31, 2012 - $0.3 million).

As at September 30, 2013, the Trust also recognized a $0.2 million provision (December 31, 2012 - $0.3 million) related to environmental work required on certain of the Initial Properties for which the Trust will be reimbursed by Huntingdon in accordance with the acquisition agreement. As at September 30, 2013, the amount receivable from Huntingdon of $0.2 million is included in accounts receivable (December 31, 2012 - $0.3 million).

8. Interest rate swaps

On December 28, 2012, the Trust acquired an interest rate swap as part of the acquisition of the Initial Properties. During the nine months ended September 30, 2013, the Trust entered into interest rate swaps as part of the mortgage financing related to 4211 Yonge and The Promontory. These interest rate swaps entitle the Trust to receive interest at floating rates and pay interest at a fixed rate.

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. As at September 30, 2013, the Trust had the following interest rate swap agreements:

Notional amount	Effective interest rate	Maturity date	Cumulative unrealized loss (gain) at September 30, 2013
$ 4,173	5.89%	1-Feb-25	$ 592
22,959	4.60%	14-Aug-23	208
24,795	3.68%	1-May-23	(1,358)

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

9. Revolving credit facility

The Trust has a revolving credit facility that expires on November 30, 2014 and is secured by two of the Initial Properties. The revolving credit facility bears interest at prime plus 1.5% per annum and a standby fee of 0.6% charged quarterly in arrears based on the average daily undrawn amount.

In June 2013, the Trust increased its revolving credit facility from $8.0 million to $14.0 million. As at September 30, 2013, the Trust had $3.6 million (December 31, 2012 - $6.3 million) outstanding on the revolving credit facility and unamortized transaction costs of $0.1 million (December 31, 2012 - $0.1 million).

The Trust is required under the revolving credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity balance at all times. As at September 30, 2013 and December 31, 2012, the Trust was compliant with all financial covenants under the revolving credit facility.

10. Class B LP Units

The Class B LP Units are exchangeable into trust units of the REIT on a one-for-one basis subject to anti-dilution adjustments. As at September 30, 2013, the Class B LP units were re-measured based on the quoted closing price of the trust units into which they are exchangeable. The change in Class B LP units during the nine months ended September 30, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012 were as follows:

	September 30, 2013	December 31, 2012
Balance, beginning of period	$ 25,388	$ –
2,513,700 units issued in connection with the acquisition of the Initial Properties	–	25,137
Exchange of 2,662 Class B LP units to trust units	(23)	–
Fair value adjustment	(3,519)	251
Balance, end of period	$ 21,846	$ 25,388

During the three months and nine months ended September 30, 2013, the Trust declared distributions of $0.5 million and $1.4 million on the Class B LP units, respectively, which were recorded as finance costs (notes 13 and 15).

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

11. Warrants

Each warrant entitles the holder to acquire one trust unit of the REIT at an exercise price of $10.50 per trust unit at any time until December 28, 2015. As at September 30, 2013, the warrants were re-measured based on the quoted closing price of the warrants. The change in warrants during the nine months ended September 30, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012 were as follows:

	September 30, 2013	December 31, 2012
Balance, beginning of period	$ 706	$ –
Issued	57	515
Fair value adjustment	(603)	191
Balance, end of period	$ 160	$ 706

On January 29, 2013, the underwriters of the REIT's initial public offering exercised their over-allotment option and purchased 128,550 warrants at a price of $0.44 per warrant. Each warrant will entitle the holder to purchase one trust unit at price of $10.50. As at September 30, 2013, the REIT has 1,598,550 warrants issued and outstanding (December 31, 2012 – 1,470,000).

12. Unitholders' equity

The change in trust units during the nine months ended September 30, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012 were as follows:

	September 30, 2013		December 31, 2012	
	Units	Amount	Units	Amount
Balance, beginning of period	5,880,000	$ 51,516	–	$ –
Issued on public offering	2,564,500	23,081	5,880,000	58,285
Issue costs	–	(1,510)	–	(6,769)
Issued on private placement	425,532	4,000	–	–
Issued on exchange of Class B LP units to trust units	2,662	23	–	–
Distributions reinvested in trust units	26,081	218	–	–
Outstanding, end of period	8,898,775	$ 77,328	5,880,000	$ 51,516

12. Unitholders' equity (continued)

a) Issuance of trust units

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

Concurrent with the closing of the Offering, the Trust issued 425,532 trust units in a private placement to Huntingdon, the manager of the Trust, at a purchase price of $9.40 per trust unit for gross proceeds of $4.0 million. Following closing of the private placement, the Offering, and the exercise of the Over-Allotment Option exercised by the underwriters, Huntingdon had an approximate 26% interest in the Trust assuming the exchange of all Class B LP units held by Huntingdon.

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

b) Distribution reinvestment plan (the "DRIP")

On March 21, 2013, the Trust implemented the DRIP, which came into effect with the distribution of $0.0625 per trust unit payable on May 15, 2013 to unitholders of record on April 30, 2013.

Eligible unitholders, which include holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT and will also receive a "bonus distribution" of units equal in value to 3.0% of each distribution.

The Trust may initially issue up to 295,000 trust units of the Trust under the DRIP. The Trust may increase the number of trust units available to be issued under the DRIP at any time in its discretion subject to (a) the approval of the Trust's board of trustees, (b) the approval of any stock exchange upon which the trust units trade, and (c) public disclosure of such increase.

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

13. Distributions

Pursuant to the Declaration of Trust, the income of the Trust is distributed on dates and in amounts as determined by the Trustees. During the nine months ended September 30, 2013, the Trust declared monthly distributions of $0.0625 per unit, with the exception of January 2013. The Trust announced a cash distribution of $0.0707 for the month of January 2013 to include distributions related to the four day stub-period from December 28, 2012 to December 31, 2012. The distributions were paid on or about the 15th day of the month following declaration.

The following table summarizes the distribution payments for the three months and nine months ended September 30, 2013:

	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions				
Paid	$ 880	$ 157	$ 3,114	$ 1,120
Payable at period end	507	–	507	–
	$ 1,387	$ 157	$ 3,621	$ 1,120
Distributions reinvested in trust units				
Issued	$ 43	$ 157	$ 61	$ 157
Payable at period end	49	157	50	157
	$ 92	$ 314	$ 111	$ 314
	$ 1,479	$ 471	$ 3,732	$ 1,434

During the nine months ended September 30, 2013, there were 50,879 trust units issued or issuable under the DRIP.

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

14. General and administration

General and administration expenses for the three months and nine months ended September 30, 2013 were comprised of the following:

	Three months ended September 30, 2013	Nine months ended September 30, 2013
Professional fees	$ 215	$ 612
Asset management fees	185	512
Trustee fees	72	246
General and administration	102	704
	$ 574	$ 2,074

15. Finance costs, net

Net finance costs for the three months and nine months ended September 30, 2013 were comprised of the following:

	Three months ended September 30, 2013	Nine months ended September 30, 2013
Mortgage interest	$ 1,414	$ 3,963
Defeasance costs	–	598
Distributions on Class B LP Units (note 13)	471	1,434
Accretion on vendor take-back loan	71	207
Interest on vendor take-back loan	69	207
Interest on revolving credit facility	79	191
Amortization of deferred transaction costs	56	139
Amortization of mark-to-market adjustment on mortgages (note 6)	(58)	(288)
Derecognition of mark-to-market adjustment on mortgages refinanced or discharged (note 6)	(2)	(725)
Loss (gain) on interest rate swaps (note 8)	103	(1,408)
	$ 2,203	$ 4,318

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

16. Fair value adjustments to financial instruments

During the three months and nine months ended September 30, 2013, the Trust recognized the following fair value gains to financial instruments:

	Three months ended September 30, 2013	Nine months ended September 30, 2013
Class B LP Units (note 10)	$ 2,011	$ 3,519
Warrants (note 11)	128	603
	$ 2,139	$ 4,122

17. Related party transactions

On December 28, 2012, the Trust entered into a management agreement (the “Management Agreement”) with Huntingdon, whereby Huntingdon will provide the Trust with strategic and administrative, property management, leasing, acquisition and disposition, financing and construction management services necessary to manage the day-to-day operations of the Trust and its assets. Huntingdon will provide such services using its own employees, including the provision of key personnel to serve as the Chief Executive Officer and Chief Financial Officer of the Trust. As at September 30, 2013, Huntingdon held an approximate 26% percent interest in the Trust through the ownership of 2,511,038 Class B LP Units (note 10) and 447,694 trust units.

During the three months and nine months ended September 30, 2013, the Trust incurred the following costs in connection with the Management Agreement:

	Three months ended September 30, 2013	Nine months ended September 30, 2013
Property management fees	$ 209	$ 530
Asset management fees	185	512
Leasing, financing, and construction management fees	161	281
Acquisition fees	390	823
	$ 945	$ 2,146

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

17. Related party transactions (continued)

Property administration fees are allowable under the tenants' leases relating to assets or resources of Huntingdon that are directly attributable to the management of the Trust's properties. Property administration fees were $0.2 million for the three months and $0.5 million for the nine months ended September 30, 2013. These fees are recovered from the tenants by the Trust and payable by the Trust to Huntingdon under the terms of the Management Agreement.

As at September 30, 2013, included in accounts payable and other liabilities is an amount owing to Huntingdon of $0.2 million (December 31, 2012 - $0.4 million).

18. Financial risk management

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

19. Capital management

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

20. Fair values

The fair values of the Trust's cash, restricted cash, accounts receivable and accounts payable and other liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. The fair value of the Trust's revolving credit facility approximates its carrying value since the revolving credit facility bears interest at floating market interest rates.

The following financial instruments are measured at amortized cost, and their fair values are based on discounted future cash flows using discount rates that reflect current market conditions for instruments with similar terms and risks:

	September 30, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Mortgages payable	$ 131,056	$ 134,454	$ 95,302	$ 95,302
Vendor take-back loan	8,817	8,827	8,610	8,610

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

20. Fair values (continued)

The Trust uses various methods in estimating the fair values of assets and liabilities recognized and measured at fair value in its consolidated financial statements. The following categories in the fair value hierarchy reflect the significance of inputs used in determining fair values.

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

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

	Level 1	Level 2	Level 3
Investment properties (note 4)	$ –	$ –	$ 263,016
Interest rate swap asset (note 8)	–	1,358	–
Interest rate swap liabilities (note 8)	–	(800)	
Class B LP Units (note 10)	–	(21,846)	–
Warrants (note 11)	(160)	–	–

Transfers between the levels of the fair value hierarchy are deemed to have occurred as of the date of the event or change in circumstances that caused the transfer. During the nine months ended September 30, 2013, there were no transfers between the levels of the fair value hierarchy.