Consolidated Financial Statements of

FAM REAL ESTATE INVESTMENT TRUST

Year ended December 31, 2013 and for the period from the date of formation on August 27, 2012 to December 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Unitholders of FAM Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of FAM Real Estate Investment Trust which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, the consolidated statements of income and comprehensive income, changes in unitholders' equity, and cash flows for the year ended December 31, 2013 and the period from the date of formation on August 27, 2012 to December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of FAM Real Estate Investment Trust as at December 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2013 and the period from the date of formation on August 27, 2012 to December 31, 2012 in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 6, 2014

Winnipeg, Canada

FAM REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position
(in thousands of Canadian dollars)

As at December 31, 2013 and 2012

	Note	2013	2012
Assets			
Non-current assets:			
Investment properties	5	$ 265,367	$ 195,710
Interest rate swap asset	10	1,505	–
Restricted cash		1,494	1,310
Total non-current assets		268,366	197,020
Current assets:			
Prepaid expenses and other assets		325	157
Accounts receivable	9	789	644
Cash		1,785	5,264
Total current assets		2,899	6,065
Total assets		$ 271,265	$ 203,085
Liabilities and Unitholders' Equity			
Non-current liabilities:			
Mortgages payable	8	$ 126,063	$ 82,443
Provisions	9	602	635
Interest rate swap liabilities	10	569	850
Vendor take-back loan	11	–	8,610
Revolving credit facility	12	–	6,202
Class B LP units	13	25,871	25,388
Warrants	14	64	706
Total non-current liabilities		153,169	124,834
Current liabilities:			
Mortgages payable	8	3,995	12,610
Vendor take-back loan	11	8,889	–
Revolving credit facility	12	1,659	–
Accounts payable and other liabilities	21	4,407	1,777
Total current liabilities		18,950	14,387
Total liabilities		172,119	139,221
Unitholders' equity	16	99,146	63,864
Total liabilities and unitholders' equity		$ 271,265	$ 203,085

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

Approved by the Board of Trustees

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

FAM REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2013 and for the period from the date of formation on August 27, 2012 to December 31, 2012

	Note	2013	2012
Revenue from investment properties		$ 28,478	$ 234
Property operating expenses	21	(10,919)	(84)
Property operating income		17,559	150
General and administration	18 and 21	(2,425)	(92)
Finance costs, net	19	(6,169)	(20)
Fair value adjustments to financial instruments	20	4,193	(442)
Fair value adjustments to investment properties	5	1,232	12,752
Loss on disposal of investment properties	6	(175)	–
Net income and comprehensive income		$ 14,215	$ 12,348

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

FAM REAL ESTATE INVESTMENT TRUST

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

Year ended December 31, 2013 and for the period from the date of formation on August 27, 2012 to December 31, 2012

2013	Note	Trust units	Retained earnings	Total
Unitholders' equity, beginning of year		$ 51,516	$ 12,348	$ 63,864
Issued on public offering, net of issue costs	16	21,609	–	21,609
Issued on private placement	16	4,000	–	4,000
Issued on exchange of Class B LP units	13	23	–	23
Distributions declared	17	–	(5,410)	(5,410)
Distributions reinvested in trust units	17	845	–	845
Net income and comprehensive income for the year		–	14,215	14,215
Unitholders' equity, end of year		$ 77,993	$ 21,153	$ 99,146

2012	Note	Trust units	Retained earnings	Total
Issued on initial public offering, net of issue costs	16	$ 51,516	$ –	$ 51,516
Net income and comprehensive income for the period		–	12,348	12,348
Unitholders' equity, end of period		$ 51,516	$ 12,348	$ 63,864

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

FAM REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Cash Flows
(in thousands of Canadian dollars)

Year ended December 31, 2013 and for the period from the date of formation on August 27, 2012 to December 31, 2012

	Note	2013	2012
Operating activities:			
Net income		$ 14,215	$ 12,348
Items not affecting cash:			
Amortization of leasing expenses and straight-line rent, net	5	(475)	3
Finance costs, net	19	6,169	20
Fair value adjustments to financial instruments	20	(4,193)	442
Fair value adjustments to investment properties	5	(1,232)	(12,752)
Loss on disposal of investment properties	6	175	–
Distributions on Class B LP units reinvested in trust units	17	(628)	–
Change in non-cash working capital		1,214	14
Interest paid on mortgages payable		(5,494)	–
Interest paid on vendor take-back loan		(275)	–
Interest paid on revolving credit facility		(247)	–
Distributions on Class B LP units	17	(1,120)	–
Cash flows from operating activities		8,109	75
Investing activities:			
Acquisition of investment properties, net of cash acquired	4, 6	(83,231)	(53,044)
Capital expenditures	5	(581)	–
Direct leasing expenses	5	(1,221)	–
Proceeds from disposition of investment property		21,675	–
Cash flows used in investing activities		(63,358)	(53,044)
Financing activities:			
Proceeds from public offering	16	23,081	58,800
Proceeds from private placement	16	4,000	
Transaction costs on public offering	16	(1,472)	(6,769)
Proceeds from mortgage financing		70,670	–
Mortgage principal payments		(33,799)	–
Transaction costs on mortgages and revolving credit facility		(987)	(98)
Defeasance costs		(598)	–
(Repayment) draw down of revolving credit facility		(4,550)	6,300
Distributions paid on trust units	17	(4,632)	–
Proceeds from issuance of warrants	14	57	–
Cash flows from financing activities		51,770	58,233
Increase (decrease) in cash		(3,479)	5,264
Cash, beginning of period		5,264	–
Cash, end of period		$ 1,785	$ 5,264

The accompanying notes form an integral part of these consolidated 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 Trust completed its initial public offering ("IPO") of offered units, raising gross proceeds of $58.8 million (note 16). 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") (note 4). The Trust had no operations prior to December 28, 2012.

2. Basis of preparation

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") which include International Accounting Standards ("IAS") and interpretations issued by the IFRS Interpretations Committee and the former Standing Interpretations Committee ("SIC"). These consolidated financial statements were approved by the Board of Trustees and authorized for issue on March 6, 2014.

(b) Basis of measurement:

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

2. Basis of preparation (continued)

(c) Use of estimates and judgments:

The preparation of these consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the year 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 determined that the acquisition of the Initial Properties on December 28, 2012 constituted an asset acquisition.

(ii) Leases:

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

(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.

2. Basis of preparation (continued)

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

(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 December 31, 2013, the Trust has determined that there were no assets or group of assets and liabilities that met the specified criteria.

The key estimates and assumptions made by management about the future and other major sources of estimation uncertainty at the date of the consolidated 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.

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

3. Significant accounting policies

The significant accounting policies set out below have been applied consistently in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Trust and the subsidiaries summarized below. All intercompany transactions have been eliminated upon consolidation.

	2013	2012
FAM Management LP	100%	100%
FAM GPCO Inc.	100%	100%
FAM Property Inc.	–	49%
4211 Yonge Street G.P. Inc.	100%	–
4211 Yonge Street Limited Partnership	100%	–

(i) Subsidiaries:

A subsidiary is an entity over which the Trust has control. Control exists when the Trust 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 its returns. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of a subsidiary are changed when necessary to align them with the policies applied by the Trust in these consolidated financial statements.

(ii) Joint arrangements:

A joint arrangement is a contractual arrangement in which the Trust has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements' returns. The Trust classifies joint arrangements as either joint operations or joint ventures.

The Trust's interest in a joint operation, which is an arrangement wherein the parties have rights to the assets and obligations for the liabilities, is accounted for based on the Trust's interest in those assets liabilities, revenues and expenses. The Trust's interest in the joint operation was sold in April 2013.

3. Significant accounting policies (continued)

(b) Business combinations:

When a set of assets acquired and liabilities assumed by the Trust constitutes a business and the Trust obtains control over the business, the acquisition method is used to account for the business combination. The consideration transferred in a business combination is calculated as the fair values of the assets transferred, equity instruments issued and liabilities incurred to former owners of the acquiree. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Non-controlling interests, if any, are recorded at their proportionate share of the fair value of identifiable net assets acquired or at fair value on initial recognition. The excess of the consideration transferred and non-controlling interests in the acquiree over the fair values of the identifiable net assets acquired is recorded as goodwill. If the consideration transferred and non-controlling interests in the acquiree is less than the fair value of the identifiable net assets acquired, the difference is recognized immediately in profit or loss as a bargain purchase gain.

Transaction costs, other than those associated with the issuance of debt or equity securities, that the Trust incurs in connection with a business combination are expensed as incurred.

(c) Investment properties:

Investment properties include land and buildings held primarily to earn rental income or for capital appreciation or for both, rather than for administrative purposes, for use in the production or supply of goods and services or for sale in the ordinary course of business. Investment properties are measured initially at cost. A property acquisition is accounted for as a business combination using the acquisition method if the assets acquired and liabilities assumed constitute a business, and the Trust obtains control of the business.

Subsequent to initial recognition, investment properties are measured at fair value, determined based on available market evidence at the date of the consolidated statement of financial position. Changes in fair value are recorded in profit or loss in the period in which they arise. The carrying amount of investment properties includes straight-line rent receivable and direct leasing expenses such as tenant improvements and inducements and initial direct leasing costs.

3. Significant accounting policies (continued)

(c) Investment properties (continued):

Initial direct leasing costs include leasing commissions, payments to tenants, and legal fees directly attributable to negotiating and arranging a lease. Payments to tenants that are spent on leasehold improvements are referred to as tenant improvements. All other payments to tenants are referred to as tenant inducements. Both tenant improvements and tenant inducements are amortized on a straight-line basis over the term of a lease as a reduction of revenue.

An investment property held under an operating lease that meets the definition of an investment property is recognized in the Trust's consolidated statements of financial position and measured at fair value.

Gains or losses from the disposal of investment properties are determined as the difference between the net disposal proceeds and the recorded fair value of the investment properties and are recognized in profit or loss in the period of disposal.

(d) Restricted cash:

Restricted cash includes amounts held in reserve for capital improvements and holdbacks as required by a mortgages and tenant leases.

(e) Provisions:

A provision is recognized if, as a result of a past event, the Trust has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. A provision is determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

A provision for site remediation in respect of contaminated land, and the related expenses, is recognized when the contamination becomes known.

3. Significant accounting policies (continued)

(e) Provisions (continued):

A provision for decommissioning including site restoration and related expenses is recognized and measured as the present value of estimated future expenditures determined in accordance with local conditions and discounted using a risk-free interest rate with a corresponding amount added to the carrying amount of the related investment property. The provision is accreted over time to reflect the unwinding of the discount. The provision is remeasured at the end of each reporting period to reflect changes in estimates and circumstances, including estimates of future cash flows and risk-free interest rate. All changes to the provision for decommissioning are included in the carrying amount of the related investment property.

(f) Financial instruments:

(i) The Trust's financial assets and liabilities are classified as follows:

Description	Classification	Measurement subsequent to initial recognition
Cash	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and other liabilities	Other financial liabilities	Amortized cost
Interest rate swap asset and liabilities	FVTPL	Fair value
Warrants	FVTPL	Fair value
Class B LP units	FVTPL	Fair value
Revolving credit facility	Other financial liabilities	Amortized cost
Vendor take-back loan	Other financial liabilities	Amortized cost
Mortgages payable	Other financial liabilities	Amortized cost

The Trust designated the Class B limited partnership units ("Class B LP units") of FAM Management Limited Partnership ("FAM LP"), a limited partnership subsidiary of the Trust, as financial liabilities as fair value through profit or loss on initial recognition.

3. Significant accounting policies (continued)

(f) Financial instruments (continued):

(ii) Measurement - initial recognition:

All financial assets and financial liabilities recognized are initially measured at fair value. Transaction costs attributable to financial assets and liabilities classified as fair value through profit or loss ("FVTPL") are expensed as incurred. Transaction costs attributable to all other financial assets and liabilities are added to the carrying amount of the financial asset and liability. Measurement - subsequent to initial recognition:

Subsequent to initial recognition, measurement of financial assets and financial liabilities depends on the classification of the assets and liabilities as follows:

Non-derivative financial assets:

The Trust's non-derivative financial assets are classified as FVTPL, or as loans and receivables.

Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in profit or loss.

Financial assets classified as loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. A provision for impairment is established for an account receivable when there is objective evidence that collection will not be possible under the original terms of the contract. Indicators of impairment include delinquency and significant financial difficulty of a tenant. The carrying amount of the asset is reduced through an allowance account, or directly when the Trust determines that collection is not possible, and the amount of the loss is recognized in the consolidated statements of income and comprehensive income within property operating expenses. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed in the subsequent period to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment loss not been previously recognized. Trade receivables that are less than three months past due are not considered impaired unless there is evidence that collection is not possible.

3. Significant accounting policies (continued)

(f) Financial instruments (continued):

(iii) Measurement - subsequent to initial recognition:

The Trust derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any rights and obligations created or retained by the Trust in a transfer of financial assets are recognized as separate assets or liabilities.

Non-derivative financial liabilities:

The Trust classifies non-derivative financial liabilities as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL are measured at fair value, with changes in fair value recognized in profit or loss. Other financial liabilities are measured at amortized cost using the effective interest method. Financial liabilities are classified as FVTPL when the financial liability is either held for trading or it is designated as FVTPL.

Derivative financial assets and liabilities:

Derivative financial instruments are classified as FVTPL and are measured at fair value with changes in fair value recognized in profit or loss.

The Trust enters into interest rate swaps to reduce the impact of certain mortgages payable with fluctuating interest rates. The swaps are derivative financial instruments that require a periodic exchange of payments with counterparties without the exchange of the notional amount on which the payments are based. The recorded interest expense on the underlying mortgages payable reflects payments made and received under the interest rate swaps. These swaps are not designated as hedging instruments that qualify for hedge accounting under IFRS.

3. Significant accounting policies (continued)

(f) Financial instruments (continued):

(iv) Compound financial instruments:

Components of a financial instrument that contains both a financial liability and an equity component are recognized separately. The carrying amount assigned to the equity component on initial recognition is the residual amount after deducting the fair value of the financial liability from the fair value of the financial instrument as a whole.

Transaction costs relating to the issuance of compound instruments are allocated to the liability and equity components in proportion to the allocation of proceeds.

(g) Class B LP units:

The Class B LP units of FAM LP are exchangeable into trust units of the REIT at the option of the holder. The trust units of the REIT are puttable instruments (note 3(i)) and, therefore, the Class B LP units meet the definition of a financial liability under IAS 32, *Financial Instruments - Presentation* (''IAS 32''). The Class B LP units are designated as FVTPL. The fair value of the Class B LP units is remeasured at the end of each reporting period with changes in fair value recorded in profit or loss. Distributions paid on the Class B LP units are recorded as finance costs. Upon exchange into trust units of the REIT, the carrying amount of the liability representing the fair value of the Class B LP units on exchange date is reclassified to unitholders' equity.

(h) Trust unit purchase warrants (the "Warrants"):

Each whole Warrant entitles the holder to purchase one trust unit of the REIT upon exercise. As the trust units of the REIT are puttable instruments (note 3(i)), the Warrants meet the definition of a financial liability under IAS 32. The Warrants are derivatives and therefore classified as FVTPL. The fair value of the Warrants is remeasured at the end of each reporting period with changes in fair value recorded in profit or loss.

Upon exercise, the carrying amount of the liability representing the fair value of the Warrants on exercise date is reclassified to unitholders' equity.

3. Significant accounting policies (continued)

(i) Trust units:

The REIT’s trust units are redeemable at the option of the holder and, therefore, are considered puttable instruments. In accordance with IAS 32, puttable instruments are classified as financial liabilities, except where certain conditions are met; in which case, the puttable instruments are classified as equity. The Trust has determined that it has met the conditions set out in IAS 32 that permit instruments that otherwise meet the definition of a financial liability to be classified as equity based on the features of the trust units and other relevant facts and circumstances. Accordingly, the REIT`s trust units are classified and accounted for as equity.

Distributions on trust units are recorded in retained earnings in the period they are approved.

(j) Revenue recognition:

Revenue from investment properties includes rents from tenants under lease agreements, percentage rents, property tax and operating cost recoveries and other incidental income, and is recognized over the term of the underlying leases.

Rental revenue from investment properties with contractual rent increases are recognized on a straight-line basis over the term of the respective leases.

(k) Leases:

Leases where the Trust, as the lessor, does not transfer substantially all the risks and rewards of ownership of its investment properties are classified as operating leases. Ground leases where the Trust, as the lessee, does not assume substantially all the risks and rewards of ownership are classified as operating leases. Leases that transfer substantially all the risks and rewards of ownership of an asset are classified as finance leases. Payments made and received under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received and granted are recognized as an integral part of total lease expense over the term of the lease.

3. Significant accounting policies (continued)

(l) Finance costs:

Finance costs comprise interest expense on borrowings, gains or losses on interest rate swaps, amortization or derecognition of mark-to-market adjustment on assumption of mortgages, amortization of transactions cost, accretion expense, distributions on Class B LP units, and defeasance costs.

Transaction costs associated with financial liabilities measured at amortized cost such as mortgages payable are netted against the carrying amount of the related debt instrument and amortized using the effective interest method over the term of the related debt.

(m) Income taxes:

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust that meets prescribed conditions is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided its taxable income is fully distributed to unitholders. The REIT intends to distribute all of its taxable income to unitholders and therefore has not recognized any current or deferred income taxes in these consolidated financial statements.

(n) New standards applicable in future periods:

Standards issued, but not yet effective, up to the date of issuance of these consolidated financial statements that are applicable to the Trust are described below. The Trust intends to apply these standards when they become effective.

IFRS 9, *Financial Instruments* ("IFRS 9") replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The mandatory effective date of IFRS 9 is not yet determined. The Trust is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

3. Significant accounting policies (continued)

(n) New standards applicable in future periods (continued):

IFRIC 21, *Levies*, provides guidance on accounting for levies in accordance with the requirements of IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*. The interpretation defines a levy as an outflow from an entity imposed by a government in accordance with legislation, and clarifies when a liability for a levy should be recognized. Realty taxes payable by the Trust may be considered levies. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014 and is to be applied retrospectively. The Trust is currently evaluating the impact of IFRIC 21 on its consolidated financial statements.

(o) Change in accounting policy:

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 an impact on the Trust’s consolidated financial statements.

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. An entity’s interest in a joint operation, which is an arrangement wherein the parties have rights to the assets and obligations for the liabilities, will be accounted for based on the entity’s interest in those assets, liabilities, revenues and expenses. An entity’s interest in a joint venture, which is an arrangement wherein the parties have rights to the net assets, will be accounted for using the equity method. The Trust has no interest in joint ventures as defined by IFRS 11. As at December 31, 2012, the Trust had an interest in a joint arrangement that was classified as a joint operation, and was sold in April 2013 (note 6). As a result, the adoption of IFRS 11 did not have an impact on the Trust’s consolidated financial statements.

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

3. Significant accounting policies (continued)

(o) Change in accounting policy (continued):

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

4. Acquisition of Initial Properties

On December 28, 2012 (the "Closing Date"), 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 IPO (note 16) 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 (note 12) on December 28, 2012. 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. Acquisition of Initial 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 (note 5)	$	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 (note 8)		(95,053)
Provisions (note 9)		(635)
Interest rate swap (note 10)		(901)
	$	87,570

Purchase price:		
Cash	$	53,443
Vendor take-back loan (note 11)		8,606
2,513,700 Class B LP units (note 13)		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) relating to the Initial Properties to achieve a blended cash interest rate of 4.5% for the five year period to December 2017, representing the market interest rate on similar debt at December 28, 2012. 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. The amounts retained for both the interest rate and capital expenditures subsidies can be utilized by the Trust for operational matters but must be ultimately replenished to fund the required interest payments and capital expenditures.

The capital expenditures subsidy of $3.0 million received has been recorded as a contra account to investment properties and will be reduced as the subsidy is utilized. Mortgages assumed were recorded at their aggregate fair value of $95.3 million on initial recognition resulting in a mark-to-market adjustment of $1.6 million which will be amortized using the effective interest method over the remaining terms of the mortgages assumed (note 8).

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

4. Acquisition of Initial Properties (continued)

Included in provisions assumed is $0.3 million related to environmental work required on some of the Initial Properties for which the Trust will be reimbursed by Huntingdon in accordance with the acquisition agreement (note 9).

5. Investment properties

		2013		2012
Balance, beginning of period	$	195,710	$	–
Acquisition of the Initial Properties, net of capital expenditures subsidy of $2,991 (note 4)		–		182,961
Acquisition of investment properties (note 6)		87,896		–
Additions:				
Capital expenditures		581		–
Direct leasing expenses		1,221		–
Disposition of investment properties (note 6)		(21,850)		–
Provisions		102		–
Fair value adjustments		1,232		12,752
Amortization of leasing expenses and straight-line rents included in revenue, net		475		(3)
Balance, end of period	$	265,367	$	195,710

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 December 31, 2013, four of the Trust's 28 investment properties with an aggregate fair value of $46.3 million were appraised by qualified third party valuators. The fair values of the remaining investment properties amounting to $221.8 million were based on internal and external appraisals completed during the year on a rotational basis.

As at December 31, 2012, one of the investment properties with fair value of $0.3 million was internally valued. The fair values of the remaining investment properties amounting to $198.4 million were based on values externally determined by qualified third party appraisers as at September 30, 2012. Management performed a review of the assumptions and inputs used in the valuations as at September 30, 2012 and determined that the fair values of the properties as at December 31, 2012 approximates the fair values as at September 30, 2012. 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)

5. Investment properties (continued)

The Trust's investment properties consist of income-producing properties that operate in different regions across Canada and compete in different asset classes including office, retail, and industrial. 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.

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

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

	December 31, 2013			December 31, 2012		
	Discount rate	Terminal cap rate	Capitalization rate	Discount rate	Terminal cap rate	Capitalization rate
Industrial:						
Minimum	7.75%	7.25%	7.25%	7.50%	7.00%	N/A
Maximum	10.00%	8.50%	7.50%	9.25%	8.50%	N/A
Weighted average	8.57%	7.78%	7.42%	8.39%	7.59%	N/A
Office (including parking lots):						
Minimum	7.25%	6.75%	4.00%	8.00%	7.25%	4.00%
Maximum	8.50%	8.00%	7.50%	9.00%	8.50%	4.00%
Weighted average	7.81%	7.17%	6.67%	8.21%	7.54%	4.00%
Retail:						
Minimum	8.50%	7.75%	7.75%	8.50%	7.50%	8.50%
Maximum	8.75%	7.75%	8.50%	8.50%	8.00%	9.00%
Weighted average	8.59%	7.75%	8.12%	8.50%	7.83%	8.62%

If the discount rate was to increase by 25 basis points ("bps"), the value of investment properties would decrease by $4.2 million. If the discount rate was to decrease by 25 bps, the value of investment properties would increase by $4.5 million.

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

5. Investment properties (continued)

As at December 31, 2013, an investment property with a fair value of $8.2 million (2012 - $8.6 million) was situated on a ground lease expiring in 2036.

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

During the year ended December 31, 2013, the Trust derecognized $0.3 million of the capital expenditures subsidy in connection with the sale of Humboldt Mall, which was recorded as a gain in fair value adjustments to investment properties. As at December 31, 2013, the capital expenditures subsidy was $2.7 million (2012 - $3.0 million).

6. Acquisitions and dispositions of investment properties

(a) Investment property acquisitions

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

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

The financing for the 4211 Yonge acquisition consisted of a $25.0 million mortgage payable, approximately $13.5 million of net cash proceeds from the disposition of a co-owned investment property (note 6(b)), 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 21).

6. Acquisitions and dispositions of investment properties (continued)

(a) Investment property acquisitions (continued)

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 16). 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 21).

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

(b) Investment property dispositions

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

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

7. Joint operation

As at December 31, 2012, the Trust had a 50% interest in 220 Portage, a joint arrangement that was classified as a joint operation. On April 30, 2013, the Trust sold 220 Portage. The Trust recorded its 50% share of the related assets, liabilities, revenues and expenses of 220 Portage in accordance with IFRS 11 until the property was sold.

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

8. Mortgages payable

Mortgages payable at December 31, 2013 and 2012 comprise the following:

	2013	2012
Mortgages payable	$ 130,554	$ 93,682
Mark-to-market adjustment arising on acquisition of the Initial Properties (note 4)	552	1,620
Transaction costs	(1,048)	(249)
	130,058	95,053
Less: current portion	(3,995)	(12,610)
	$ 126,063	$ 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)	1.25 – 11.10	0.38 – 17.77
Weighted average term to maturity (years)	6.17	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 $26.9 million at December 31, 2013 (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 December 31, 2013 and 2012, the Trust was compliant with all financial covenants.

Future principal payments, excluding amortization of mark-to-market adjustments and transaction costs, on mortgages payable at December 31, 2013 are as follows:

2014	$ 3,995
2015	18,055
2016	14,081
2017	10,084
2018	21,227
Thereafter	63,112

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

8. Mortgages payable (continued)

The mark-to-market adjustment arising on acquisition of the Initial Properties is amortized using the effective interest method. During the year ended December 31, 2013, the Trust recorded amortization of $0.3 million related to the mark-to-market adjustment. In addition, the Trust derecognized $0.7 million during the year 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 19). As at December 31, 2013, the mark-to-market adjustment was $0.6 million (2012 - $1.6 million).

9. Provisions

		2013		2012
Balance, beginning of period	$	635	$	–
Assumed on acquisition of the Initial Properties (note 4)		–		635
Environmental provision		476		–
Environmental expenditures		(611)		–
Accretion and revision of estimates		102		–
Balance, end of period	$	602	$	635

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. The provision for decommissioning recognized as at December 31, 2013 of $0.4 million (2012 - $0.3 million) has been calculated using a risk-free discount rate of 3.2% (2012 – 1.4%) and assuming a 2.0% (2012 – 2.0%) inflation growth. As at December 31, 2013, the Trust also recognized a $0.2 million provision (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 December 31, 2013, the amount receivable from Huntingdon of $0.2 million is included in accounts receivable (2012 - $0.3 million).

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

10. Interest rate swaps

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

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.

The following tables summarize the interest rate swap agreements outstanding during the year ended December 31, 2013 and for the period from the date of formation on August 27, 2012 to December 31, 2012:

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

Notional amount at December 31, 2012	Effective interest rate	Maturity date	Unrealized gain for the period ended December 31, 2012	Cumulative unrealized loss at December 31, 2012
$ 4,320	5.89%	1-Feb-25	$ 51	$ 850

11. Vendor take-back loan

As partial consideration for the acquisition of the Initial Properties (note 4), the Trust entered into a vendor take-back loan agreement with Huntingdon. The unsecured loan has a face value of $9.2 million (2012 - $9.2 million), bearing interest at 3.0% per annum payable quarterly, with the principal due in full on December 28, 2014.

On initial recognition, the loan was measured at its fair value of $8.6 million using a market interest rate for debt with similar terms and credit risks of 6.5%. The loan is measured at amortized cost at the end of each reporting period and accreted to its face value using an annual effective interest rate of 6.5%. Accretion expense has been recorded in finance costs (note 19).

12. Revolving credit facility

In connection with the acquisition of the Initial Properties (note 4), the Trust entered into an $8.0 million revolving credit facility with a bank bearing interest at prime plus 1.5% per annum and a standby fee of 0.6% charged quarterly in arrears based on the average daily undrawn amount. In June 2013, the Trust increased its revolving credit facility limit from $8.0 million to $14.0 million. The revolving credit facility expires on November 30, 2014 and is secured by two of the Initial Properties. The amount available for drawdown under the revolving credit facility is computed based on the 12 month trailing cash flows and the appraised values of the secured properties, up to a maximum of $14.0 million.

As at December 31, 2013, the Trust had $1.8 million (2012 - $6.3 million) outstanding on the revolving credit facility and unamortized transaction costs of $0.1 million (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 December 31, 2013 and 2012, the Trust was compliant with all financial covenants under the revolving credit facility.

In February 2014, the Trust increased its revolving credit facility limit from $14.0 million to $17.0 million. The expiry date has been extended to November 30, 2015, and is secured by four investment properties.

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13. Class B LP units

	2013		2012	
	Units	Amount	Units	Amount
Balance, beginning of period	2,513,700	$ 25,388	–	$ –
Issued in connection with the acquisition of the Initial Properties (note 4)	–	–	2,513,700	25,137
Issued in connection with the acquisition of investment property (note 6)	466,094	4,000	–	–
Exchanged for trust units	(2,662)	(23)	–	–
Fair value adjustment	–	(3,494)	–	251
Balance, end of period	2,977,132	$ 25,871	2,513,700	$ 25,388

Pursuant to the acquisition of the Initial Properties from Huntingdon (note 4), 2,513,700 Class B LP units of FAM LP were issued to Huntingdon. The Class B LP units are exchangeable into trust units of the REIT on a one-for-one basis subject to anti-dilution adjustments. Each Class B LP unit is accompanied by one special voting unit of the REIT providing the same voting rights in the REIT as the trust units of the REIT. The special voting units are not transferable separately from the Class B LP units to which they are attached and will be automatically redeemed and cancelled upon exchange of the attached Class B LP units into trust units. The holders of the Class B LP units are also entitled to distributions of cash from FAM LP equal to the cash distributions paid to holders of trust units by the REIT. Huntingdon has agreed to retain all of its Class B LP units for a minimum of six months following the Closing date and thereafter to retain 1,678,740 Class B LP units for a minimum of 24 months following the Closing Date, subject to dilution and customary exceptions.

During the year ended December 31, 2013, FAM LP issued 466,094 Class B LP units to Huntingdon in connection with the acquisition of 1700 Ellice (note 6).

The Class B LP units are designated as financial liabilities as at FVTPL and re-measured at the end of each reporting period by reference to the closing market price of the trust units into which they are exchangeable.

During the year ended December 31, 2013, the Trust declared distributions of $1.9 million (2012 – $nil) on the Class B LP units which were recorded as finance costs (note 19).

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14. Warrants

	2013			2012		
	Warrants		Amount	Warrants		Amount
Balance, beginning of period	1,470,000	$	706	–	$	–
Issued	128,550		57	1,470,000		515
Fair value adjustment	–		(699)	–		191
Balance, end of period	1,598,550	$	64	1,470,000	$	706

On December 28, 2012, the Trust completed its IPO of offered units, raising gross proceeds of $58.8 million from the issuance of 5,880,000 trust units and 1,470,000 Warrants (note 16). On January 29, 2013, the underwriters of the Trust's IPO exercised their over-allotment option and purchased 128,550 Warrants at a price of $0.44 per warrant. Each whole Warrant entitles the holder to acquire one trust unit of the REIT at an exercise price of $10.50 per trust unit at any time until December 28, 2015. The fair value of the Warrants on initial recognition was measured based on the opening quoted market price of the Warrants. The Warrants are classified as financial liabilities as at FVTPL and remeasured at the end of each reporting period by reference to the closing market price of the Warrants.

As at December 31, 2013, the Trust has 1,598,550 warrants issued and outstanding (2012 – 1,470,000).

15. Income taxes

The Income Tax Act (Canada) contains legislations affecting the tax treatment of specified investment flow-through ("SIFT") trusts which include publicly-listed income trusts (the "SIFT Rules"). Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and the SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital are generally not subject to tax.

The SIFT Rules do not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). Instead, a real estate investment trust that meets the REIT Conditions is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. The Trust has reviewed the SIFT Rules and has assessed their application to the Trust's assets and revenues. While there are uncertainties in the interpretation and application of the SIFT Rules, the Trust believes that it has met the REIT Conditions for the year ended December 31, 2013 and for the period from August 27, 2012 to December 31, 2012 and accordingly is not subject to

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15. Income taxes (continued)

current income taxes. The Trust intends to continue to meet the REIT Conditions and to distribute all its taxable income to its unitholders. Accordingly, the Trust has not recognized any deferred income tax assets or liabilities at December 31, 2013 or December 31, 2012.

16. Unitholders' equity

a) Trust units:

The Trust is authorized to issue an unlimited number of trust units. Each trust unit represents a proportionate undivided beneficial interest and voting right in the Trust and entitles the holder to an equal participation in distributions of the Trust. The trust units are redeemable at the option of the holder at any time.

The Trust is also authorized to create and issue an unlimited number of preferred units, in one or more classes comprised of unlimited series, having terms and conditions as may be determined by the Board of Trustees from time to time. There were no preferred units created or issued during the year ended December 31, 2013 and for the period from August 27, 2012 to December 31, 2012.

The following table summarizes the change in trust units during the year ended December 31, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012:

	2013		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	–	(1,472)	–	(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	101,788	845	–	–
Outstanding, end of period	8,974,482	$ 77,993	5,880,000	$ 51,516

16. Unitholders' equity (continued)

a) Trust units (continued):

On December 28, 2012, the Trust completed its IPO of offered units, raising gross proceeds of $58.8 million from the issuance of 5,880,000 offered units. Each offered unit consisted of one trust unit and one quarter of a Warrant. The difference between gross proceeds of $58.8 million and the fair value of the Warrants on initial recognition (note 14) was allocated to the trust units. Total underwriters' fees and other offering costs of $6.8 million attributable to the issuance of trust units are recorded as a reduction in unitholders' equity.

On August 2, 2013, in connection with the acquisition of The Promontory (note 6), 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.

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

On March 21, 2013, the Trust implemented a distribution reinvestment plan (the "DRIP"). The DRIP came into effect with the distribution of $0.0625 per trust unit that was payable on May 15, 2013 to unitholders of record on April 30, 2013.

Eligible unitholders, which include holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT and will also receive a "bonus distribution" of trust units equal in value to 3% of each distribution.

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

16. Unitholders' equity (continued)

b) Distribution reinvestment plan (continued)

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.

17. 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 year ended December 31, 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 year ended December 31, 2013:

	Trust units	Class B LP units
Cash distributions		
Paid	$ 4,632	$ 1,120
Payable at year end	505	–
	5,137	1,120
Distributions reinvested in trust units		
Issued	$ 217	$ 628
Payable at year end	56	186
	273	814
	$ 5,410	$ 1,934

During the year ended December 31, 2013, there were 130,316 trust units issued or issuable under the DRIP.

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18. General and administration

General and administration expenses for the year ended December 31, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012 are comprised of the following:

	2013	2012
Professional fees	$ 685	$ 79
Asset management fees	712	6
Trustee fees	321	7
Other	707	–
	$ 2,425	$ 92

19. Finance costs, net

Net finance costs for the year ended December 31, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012 are comprised of the following:

	2013	2012
Mortgage interest	$ 5,494	$ 54
Defeasance costs	598	–
Distributions on Class B LP units (note 17)	1,934	–
Accretion on vendor take-back loan	279	–
Interest on vendor take-back loan	275	6
Interest on revolving credit facility	247	–
Amortization of deferred transaction costs	196	11
Amortization of mark-to-market adjustment on mortgages (note 8)	(343)	–
Derecognition of mark-to-market adjustment on mortgages (note 8)	(725)	–
Gain on interest rate swaps (note 10)	(1,786)	(51)
	$ 6,169	$ 20

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20. Fair value adjustments to financial instruments

During the year ended December 31, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012, the Trust recognized the following fair value gains (losses) on financial instruments:

	2013	2012
Class B LP units (note 13)	$ 3,494	$ (251)
Warrants (note 14)	699	(191)
	$ 4,193	$ (442)

21. Related party transactions

In addition to information disclosed elsewhere in these consolidated financial statements, related party transactions during the years ended December 31, 2013 and 2012 are summarized below.

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 December 31, 2013, Huntingdon held an approximate 29% interest in the Trust through the ownership of 2,977,132 Class B LP units (note 13) and 515,160 trust units (note 16). As at December 31, 2012, Huntingdon held an approximate 30% interest in the Trust through the ownership of 2,513,700 Class B LP units.

The Management Agreement has an initial term of ten years and is renewable for further five year terms. Subject to termination provisions, Huntingdon will automatically be re-engaged at the expiration of each term.

In exchange for services received, the Trust will pay Huntingdon the following:

- an annual base management fee equal to 0.3% of the gross book value of the assets of the Trust and its consolidated subsidiaries, less the amount of any restricted cash;
- a property management fee equal to 3.0% of the Trust's annual gross revenues received;

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

21. Related party transactions (continued)

- reimbursement for all out-of-pocket property operating costs and expenses incurred by Huntingdon directly attributable to the management of the Trust's properties, excluding any mark-up or profit component for Huntingdon. The reimbursements will include landlord reimbursements and recoveries as well as property administration fees allowable under the tenants leases relating to assets or resources of Huntingdon that are directly attributable to the management of the Trust's properties, including those related to employment expenses of property-related personnel and expenses related to on-site offices; and exclude corporate-level general and administrative expenses incurred by Huntingdon;

- a leasing fee equal to 5.0% of the base rent for all new leases and 2.0% of base rent for all renewals of existing leases and expansion of leased premises;

- an acquisition fee equal to (i) 1.0% of the purchase price on the first $100 million of properties acquired in each fiscal year; (ii) 0.75% of the purchase price on the next $100 million of properties acquired in each fiscal year; and (iii) 0.50% of the purchase price on properties in excess of $200 million acquired in each fiscal year; provided that no acquisition fee will be payable in respect of the Initial Properties or any properties owned by Huntingdon or any of its subsidiaries at the Closing date if such properties are subsequently acquired by the Trust;

- a financing fee equal to 0.25% of the principal amount and associated costs of any debt financing or refinancing, including any increase or refinancing of the revolving credit facility; and

- a construction management fee equal to 5.0% of all costs incurred on any construction activity undertaken by the Trust. Construction activities include all tenant and building improvements undertaken by the Trust but exclude maintenance capital expenditures.

During the year ended December 31, 2013 and the period from the date of formation of August 27, 2012 to December 31, 2012, the Trust incurred the following costs in connection with the Management Agreement:

	2013	2012
Property management fees	$ 752	$ –
Asset management fees	712	–
Leasing, financing, and construction management fees	472	–
Acquisition fees	823	–
	$ 2,759	$ –

21. Related party transactions (continued)

Property administration fees are allowable under certain 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 $0.8 million for the year ended December 31, 2013 (2012 - $nil). 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 December 31, 2013, included in accounts payable and other liabilities is an amount owing to Huntingdon of $0.2 million (2012 - $0.4 million).

22. Fair values

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

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

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

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

22. Fair values (continued)

The following tables summarize the fair value measurements recognized on the consolidated statement of financial position or disclosed in the Trust's consolidated financial statements, categorized by fair value hierarchy:

			Fair value	
December 31, 2013	Carrying amount	Level 1	Level 2	Level 3
Recorded at fair value:				
Investment properties (note 5)	$ 265,367	$ –	$ –	$ 265,367
Interest rate swap asset (note 10)	1,505	–	1,505	–
Interest rate swap liabilities (note 10)	(569)	–	(569)	–
Class B LP units (note 13)	(25,871)	–	(25,871)	–
Warrants (note 14)	(64)	(64)	–	–
Fair values disclosed:				
Mortgages (note 8)	(130,058)	–	–	(133,465)
Vendor take-back loan (note 11)	(8,889)	–	–	(8,973)

			Fair value	
December 31, 2012	Carrying amount	Level 1	Level 2	Level 3
Recorded at fair value:				
Investment properties (note 5)	$ 195,710	$ –	$ –	$ 195,710
Interest rate swap liability (note 10)	(850)	–	(850)	–
Class B LP units (note 13)	(25,388)	–	(25,388)	–
Warrants (note 14)	(706)	(706)	–	–
Fair values disclosed:				
Mortgages (note 8)	(95,053)	–	–	(95,302)
Vendor take-back loan (note 11)	(8,610)	–	–	(8,610)

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 year ended December 31, 2013 and the period from the date of formation on August 27, 2012 to December 31, 2012, there were no transfers between the levels of the fair value hierarchy.

23. Risk management

In the normal course of business, the Trust is exposed to financial risks that arise from its financial instruments. The mandate of the Trust's Board of Trustees includes identifying and managing the Trust's risk exposure. Other than the use of interest rate swaps related to its floating rate mortgages payable, the Trust does not use hedging transactions to manage risk. As a part of the overall operation of the Trust, management takes steps to avoid undue concentrations of risks. The following describes the types of risks that the Trust is exposed to and its objectives and policies for managing those risk exposures:

Liquidity risk:

Liquidity risk is the risk that the Trust will encounter difficulty in meetings its debt and other financial obligations as they mature.

The principal liquidity needs of the Trust arise from working capital requirements; debt servicing and repayment obligations, which include mortgages payable, amounts drawn on the revolving credit facility and a vendor take-back loan; distributions to unitholders; obligations to redeem outstanding puttable trust units at the option of the unitholders; planned funding of maintenance capital expenditures and leasing costs; and future investment property acquisition funding requirements.

The liquidity needs of the Trust are funded by cash flows from operating the Trust's investment property portfolio and available credit facilities, with the exception of debt repayment obligations, investment property acquisition funding requirements and obligations to redeem puttable trust units. These are funded by refinancing the Trust's maturing debt, financing unencumbered properties, or future issuances of trust units and debentures. The particular features and quality of the underlying assets being financed and the debt market parameters existing at the time will affect the success of this strategy.

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the Trust or on any terms at all. The risk associated with the refinancing of maturing debt is mitigated by matching debt maturities with lease renewals to optimize the value of the assets with the leverage to achieve the best value for pricing. In addition, the Trust staggers the maturity dates of the Trust's mortgage portfolio over a number of years.

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

23. Risk management (continued)

The following table summarizes the estimated contractual maturities of the Trust's financial liabilities excluding the interest rate swap liabilities as at December 31, 2013:

	Total	Less than 1 year	1 – 3 years	4 - 5 years	After 5 years
Accounts payable and other liabilities [a]	$ 3,941	$ 3,941	$ –	$ –	$ –
Mortgages payable -principal and interest [a]	162,451	10,027	42,521	38,332	71,571
Vendor take-back loan -principal and interest [a]	9,452	9,452	–	–	–
Revolving credit facility [b]	1,750	1,750	–	–	–
Total	$ 177,594	$ 25,170	$ 42,521	$ 38,332	$ 71,571

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

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

Interest rate risk:

Interest rate risk is the risk that changes in market interest rates may have an effect on the cash flows or fair values of the Trust's financial instruments.

Interest rate cash flow risk is minimized by the Trust by having the majority of its mortgages on fixed term arrangements. In addition, the maturity dates of mortgages are staggered over a number of years to reduce the exposure in any one year. The Trust also utilizes interest rate swaps to fix interest rates on a portion of its floating rate mortgages (note 10).

At December 31, 2013 and 2012, excluding the mortgages associated with interest rate swaps, the Trust had no floating rate mortgages.

At December 31, 2013, the Trust had $1.8 million outstanding on the revolving credit facility (2012 - $6.3 million). Had the floating interest rates increased or decreased by 100 bps, the increase or decrease, respectively, on finance costs for the years ended December 31, 2013 and 2012 would have been nominal.

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

23. Risk management (continued)

Credit risk:

Credit risk is the risk that the Trust incurs a loss as a result of a counterparty not fulfilling its financial obligation. Credit risk is associated with the Trust's cash, restricted cash and accounts receivable. The Trust controls risks by avoiding undue concentration of assets in any geographic location, in any industry or with any specific tenants. This risk is further mitigated by signing long-term leases with tenants who have investment-grade credit ratings and investing cash and cash equivalents in large financial institutions with strong credit ratings. The Trust has credit policies to address credit risk, which are applied during lease negotiations and may include the analysis of the financial position of the debtor, review of credit limits and review of credit history and credit performance.

An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information. At December 31, 2013 and 2012, there was no allowance for doubtful accounts or any other impairment provisions recognized in the consolidated financial statements.

24. Capital management

The capital structure of the Trust at December 31, 2013 and 2012 is comprised of the following:

	2013	2012
Mortgages payable	$ 130,058	$ 95,053
Vendor take-back loan	8,889	8,610
Revolving credit facility	1,659	6,202
Class B LP units	25,871	25,388
Warrants	64	706
Unitholders' equity	99,146	63,864
	$ 265,687	$ 199,823

The Trust manages its capital in order to safeguard its ability to continue as a going concern, ensure that returns are provided to unitholders, and ensure an appropriate balance of risks and returns.

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24. Capital management (continued)

The Trust's overall capital management strategy addresses the following considerations:

- The equity component of acquired investment properties is primarily funded from the proceeds of trust units or debt.
- Mortgage financing is arranged to optimize the leveraged returns from the investment property portfolio.
- The Trust will generally endeavour to obtain a fixed rate of interest on mortgage financing.
- Mortgage due dates are structured to reflect the nature of the leases and the properties being financed and debt maturity dates will be staggered, to the extent practicable, in order to manage refinancing risk.

The Trust monitors capital from time to time using a variety of measures which are applicable to the real estate industry. Monitoring procedures are typically performed as a part of the overall management of operations and are performed with the goal of enhancing the ability of the Trust to access capital and/or reduce the cost of capital.

In order to maintain or adjust the capital structure, the Trust may issue trust units, debentures or mortgage debt; adjust the amount of distributions paid to unitholders, return capital to unitholders, or reduce debt.

25. Supplementary cash flow information

The Trust had the following non-cash transactions during the year ended December 31, 2013 and the period from the date of formation on August 27, 2012 to December 31, 2012:

	2013	2012
Class B LP units issued (notes 4 and 6)	$ 4,000	$ 25,137
Vendor take-back loan (note 4)	–	8,606
Mortgages payable assumed, including mark-to-market adjustment (note 4)	–	95,302
DRIP (note 17)	1,087	–

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

26. Operating leases

Leases as lessee:

The Trust leases land from a local airport authority in Western Canada. This lease contains rights of renewals and of first refusal, and expires in 2036. The agreement provides for the recalculation of lease payments every 5 years to reflect market rentals.

During the year ended December 31, 2013, approximately $0.4 million was recognized as an expense in the consolidated statement of income and comprehensive income in respect of such operating lease. The expense recognized in 2012 was nominal.

Future minimum operating lease payments under the lease as at December 31, 2013, using current established rates, are as follows:

Not later than 1 year	$	366
Later than 1 year and not later than 5 years		1,464
Later than 5 years		6,427

Leases as lessor:

The Trust leases its investment properties to tenants under operating leases. The future minimum rental receipts under non-cancellable tenant leases as at December 31, 2013 are as follows:

Not later than 1 year	$	17,526
Later than 1 year and not later than 5 years		50,644
Later than 5 years		37,724