FAM Real Estate Investment Trust

FAMREIT.COM

Management's Discussion and Analysis of Results of Operations and Financial Condition For the three months ended March 31, 2014

Dated May 8, 2014

MESSAGE TO FELLOW UNITHOLDERS

Our results for the three months ended March 31, 2014 reflect the same challenges we experienced in the three months ended December 31, 2013, namely (i) office space turnover at Saskatchewan Place and (ii) unusually cold and long-lasting winter weather in Manitoba driving higher property operating costs which are not fully recoverable under some of our leases. The impact of these two factors on NOI in the three months ended March 31, 2014 is approximately $0.2 million ($0.02 per unit) over the three months ended March 31, 2013.

Notwithstanding these short-term issues on our results, our financial performance remains healthy with AFFO – Core of $0.20 per unit for the three months ended March 31, 2014, representing a 95% payout ratio, an interest coverage ratio of 2.7x, and a 52.6% indebtedness ratio which is well within our 50%-55% target operating range. Portfolio occupancy remains high at 97.9% as at March 31, 2014, compared to 98.2% at December 31, 2013 and 97.4% as at March 31, 2013. Based on our current outlook for leasing activity, we expect FAM REIT's occupancy to remain above 96% throughout 2014 with tenant retention in the range of approximately 90%, assuming no acquisitions, dispositions or redevelopment initiatives.

During the three months ended March 31, 2014, the most notable activity for FAM REIT was undertaking extensive due diligence related to the MTS Data Centre investment. This work led to the $16.0 million MTS Data Centre investment and $21.4 million equity financing we announced on April 22, 2014. We believe this transaction further advances our diversification and prudent financial management goals for the following reasons:

Diversification into an Attractive Subsector

- Increases pro-forma NOI by approximately 15%, improving the quality and reliability of our cash flow
- Enhances property type diversification while allowing FAM REIT to remain focused on Canada's large population centres
- Data centres have unique attributes including power, cooling, security, reliability, significant infrastructure investment by tenants which we believe create high tenant retention rates
- We view data centres as an underserved commercial real estate subsector, and believe demand will grow as businesses require comprehensive solutions for backup, storage, and cloud services

Prudent Financial Management

- 15 year MTS lease term enhances FAM REIT's lease profile, reducing vacancy risk and leasing costs
- The MTS Data Centre is well-capitalized with full project debt and equity financing in place
- Debt package includes a 15 year term fixed rate takeout mortgage at 205 bps over underlying GOC bond yields (approximately 4.7% today), with ability to lock-in fixed interest rate during construction period
- The $21.4 million equity financing (before overallotment option) will bring FAM REIT's indebtedness ratio down to 48% from 52% (50% upon full project completion) vs. our 50%-55% operating target

Our focus is on the long-term, with the strength of our financial position and liquidity affording us the opportunity to execute transactions such as the MTS Data Centre. We continue to be innovative in our approach to create value for our long-term unitholders on a risk-adjusted and leverage-neutral basis. I would like to thank our investors for their trust and continued support.

Sincerely yours,

Shant Poladian, CPA (US), CPA, CA
Chief Executive Officer

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Management's Discussion and Analysis of Results of Operations and Financial Condition

Section 1 OBJECTIVES

Basis of Presentation

This Management's Discussion and Analysis of Results of Operations and Financial Condition ("MD&A") for the three months ended March 31, 2014 has been prepared and includes material financial information as of May 8, 2014. This MD&A should be read in conjunction with the audited consolidated financial statements of FAM Real Estate Investment Trust ("FAM REIT" or the "REIT") for the year ended December 31, 2013 and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2014, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

All dollar amounts in this MD&A are in Canadian dollars.

Additional information relating to the REIT, including the REIT's annual information form for the year ended December 31, 2013 is available on SEDAR at www.sedar.com.

Forward-Looking Statements

Certain information herein constitutes "forward-looking statements" within the meaning of applicable securities legislation. Forward-looking statements include statements about management's expectations regarding objectives, plans, goals, strategies, future growth, operating results and performance, business prospects and opportunities of the REIT. Forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "might", "should", "seeks", "intends", "plans", "pro-forma", "estimates" or "anticipates"; or variations of such words; and phrases or statements that certain actions, events or results "may", "could" or "might" occur or be achieved; or the negative connotation thereof. Forward-looking statements are made based on reasonable assumptions, however, there is no assurance that the events or circumstances reflected in forward-looking statements will occur or be achieved. Forward-looking statements are based on numerous assumptions of factors that if untrue, could cause actual results to differ materially from those that are implied by such forward-looking statements. These factors include but are not limited to: general and local economic and real estate business conditions; the financial condition of tenants; occupancy rates; rental rates; the ability of the REIT to refinance maturing debt; the REIT's ability to source and complete accretive acquisitions; changes in government, environmental and tax regulations; inflation and interest rate fluctuations; the REIT's ability to obtain equity or debt financing for additional funding requirements; and adequacy of insurance.

Forward-looking statements are subject to risks and uncertainties, many of which are beyond the REIT's control. These risks and uncertainties include, but are not limited to: risks related to general and local financial conditions including available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to the REIT's properties; loss of key management and employees; governmental, environmental, taxation and other regulatory risks; litigation risks and other risks and factors described from time to time in the documents filed by the REIT with the securities regulators.

The REIT has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking statements. However, there may be other factors that could cause results to not be as anticipated, estimated or intended. Forward-looking statements are provided to inform readers about management's current expectations and plans and allow investors and others to better understand the REIT's operating environment. However, readers should not place undue reliance on forward-looking statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, or of the timing that such performance or results will be achieved. Forward-looking statements included in this MD&A are made as of May 8, 2014 and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities laws. Additional information about risks and uncertainties is contained in FAM REIT's annual information form for the year ended December 31, 2013 available on SEDAR at www.sedar.com.

Non-IFRS Financial Measures

The REIT has included certain non-IFRS financial measures throughout this MD&A. Management believes that in addition to conventional measures prepared in accordance with IFRS, investors in the real estate industry use these non-IFRS financial measures to evaluate the REIT's performance and ability to generate cash flows. Accordingly, these non-IFRS financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS. In addition, they do not have standardized meanings and may not be comparable to measures used by other issuers in the real estate industry or other industries. The non-IFRS financial measures included in this MD&A are as follows:

Net operating income ("NOI")

The REIT calculates net operating income as revenue from investment properties less property operating expenses.

Same property metrics

Same property metrics represent the operating results for the same properties over both reporting periods, and is intended to measure the period-over-period performance of the same asset base. These metrics adjust for the impact of properties that have been sold or acquired during the current period.

Earnings before interest, taxes, depreciation and amortization ("EBITDA")

The REIT calculates EBITDA as net income before income taxes, depreciation and amortization, fair value adjustments to investment properties and financial instruments, realized gains or losses on disposals of investment properties, and finance costs excluding interest income.

Funds From Operations ("FFO – As Reported") and Adjusted Funds From Operations ("AFFO – As Reported")

FFO and AFFO are commonly acceptable and meaningful indicators of financial performance for the commercial real estate industry. However, FFO and AFFO are not measures defined under IFRS.

The REIT calculates FFO – As Reported in accordance with the *Real Property Association of Canada ("REALpac") White Paper on FFO for IFRS* which was issued and revised in September 2010 and November 2012. Specifically, the REIT calculates FFO – As Reported as net income calculated in accordance with IFRS; adjusted for most non-cash expenses including: amortization of capitalized leasing costs; gains and losses on dispositions of investment properties; fair value adjustments to investment properties; fair value adjustments to Class B LP units and warrants which are puttable instruments classified as financial liabilities; and distributions on Class B LP units.

In calculating AFFO – As Reported, the REIT makes certain adjustments to FFO – As Reported for certain items including: amortization of straight-line rent; accretion on the vendor take-back loan; amortization of deferred transaction costs; fair value adjustments to interest rate swaps; capital expenditures (recoverable and non-recoverable) and capitalized leasing costs; derecognition and amortization of mark-to-market adjustments on mortgages refinanced or discharged; and the interest rate and capital expenditure subsidies (as described under "Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies" of this MD&A). The method applied by the REIT to calculate AFFO – As Reported may differ from methods applied by other issuers in the real estate industry and therefore may not be comparable with measures reported by such issuers.

FFO – Core and AFFO – Core

Management believes that the computation of FFO – As Reported and AFFO – As Reported includes certain items that are not indicative of the results provided by the REIT's operating portfolio and affect the comparability of the REIT's period-over-period performance. These items include, but are not limited to, non-recurring expenses such as defeasance costs related to the discharge of mortgages, aborted transaction costs, and Special Committee related expenses. Therefore, in addition to FFO – As Reported and AFFO – As Reported, management uses FFO – Core and AFFO – Core to normalize for such items. Management believes that FFO – Core and AFFO – Core are useful supplemental measures, however, these may not be comparable to the adjusted or modified FFO or AFFO of other REITs.

Debt to EBITDA leverage ratio

The REIT calculates its leverage ratio as the average debt outstanding divided by annualized EBITDA. Debt consists of mortgages payable, vendor take-back loan, and the revolving credit facility at face value, excluding deferred transaction costs. Debt to EBITDA leverage ratio is a widely used and meaningful metric for the assessment of creditworthiness and debt default probability. This metric indicates the number of years required for the REIT's unleveraged operating earnings (i.e. before depreciation, amortization, transaction costs, gains or losses, fair value adjustments, and taxes) to cover or repay all outstanding debts.

Indebtedness ratio (also referred to as Debt to Gross Book Value, or "Debt/GBV")

The REIT calculates its indebtedness ratio as total debt divided by total assets at period-end. The indebtedness ratio is a measure of the REIT's financial risk and determines the percentage of the REIT's assets financed by debt.

Interest coverage ratio

The REIT calculates the interest coverage ratio as EBITDA for the period divided by interest expensed during the period. Specifically, interest expense is computed as net finance costs adjusted for the interest rate subsidy and interest income, less non-cash items including gains and losses from interest rate swaps, de-recognition or amortization of mark-to-market adjustments on mortgages, amortization of deferred financing costs, accretion on the vendor take-back loan, distributions on Class B LP units, and defeasance costs. The interest coverage ratio is a measure of the REIT's ability to service its debt.

Debt service coverage ratio

The REIT calculates the debt service coverage ratio as EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects principal repayments and interest expensed during the period. Payments related to defeasance, prepayment penalties, or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a measure of the REIT's ability to meet annual interest and principal payments.

AFFO – Core pay-out ratio

The REIT calculates the AFFO – Core pay-out ratio as total distributions divided by AFFO – Core for the period. The AFFO – Core pay-out ratio is a measure of the REIT's ability to sustain its total distributions, when compared to its cash flow capacity. The REIT also calculates the AFFO – Core pay-out ratio, net of distributions reinvested in trust units ("AFFO – Core pay-out ratio, net of DRIP") as cash distributions divided by AFFO – Core for the period. The AFFO – Core pay-out ratio, net of DRIP reflects the actual amount of cash paid or payable after taking into account unitholders who have elected to take their distributions in the form of trust units instead of cash.

Review and Approval by the Board of Trustees

The Board of Trustees approved the contents of this MD&A on May 8, 2014.

Financial Highlights and Key Performance Indicators

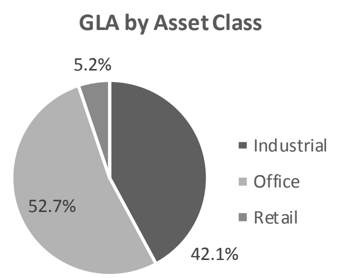
($000s unless otherwise noted and except per unit amounts)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Revenue from investment properties	**$ 8,207**	$ 6,081
Net operating income	**4,765**	3,886
Same-property net operating income	**3,205**	3,490
Net income (loss) and comprehensive income (loss)	**(354)**	6,998
Funds from operations – As Reported	**1,189**	2,489
Funds from operations – Core	**2,598**	1,978
FFO per unit (basic and diluted[(1)(3)]) – As Reported	**$ 0.10**	$ 0.30
FFO per unit (basic and diluted[(1)(3)]) – Core	**$ 0.22**	$ 0.24
Adjusted funds from operations – As Reported	**2,268**	1,910
Adjusted funds from operations – Core	**2,386**	1,910
AFFO per unit (basic and diluted[(1)(3)]) – As Reported	**$ 0.19**	$ 0.23
AFFO per unit (basic and diluted[(1)(3)]) – Core	**$ 0.20**	$ 0.23
Distributions per unit – basic and diluted[(1)(2)]	**$ 0.19**	$ 0.19
AFFO – Core pay-out ratio[(2)(3)]	**95%**	82%
Cash distributions per unit – basic and diluted[(1)(2)]	**$ 0.13**	$ 0.19
AFFO – Core pay-out ratio, net of DRIP[(2)(3)]	**65%**	82%
Net operating income by asset class		
Industrial	**$ 1,448**	$ 1,449
Office	**3,039**	2,040
Retail	**278**	397
	$ 4,765	$ 3,886
Net operating income by geographic location		
Manitoba	**$ 1,697**	$ 2,100
Ontario	**2,314**	811
Saskatchewan	**128**	348
Alberta	**497**	493
Northwest Territories	**129**	134
	$ 4,765	$ 3,886
Interest coverage ratio (times)	**2.7x**	2.8x
Debt to EBITDA leverage ratio (times)	**8.6x**	8.1x
Debt service coverage ratio (times)	**1.6x**	1.8x
Indebtedness ratio (%)*	**52.6%**	51.6%
Weighted average mortgage interest rate*	**4.7%**	5.1%
Same-property occupancy*	**97.8%**	98.4%
Occupancy*		
Industrial	**100.0%**	100.0%
Office	**96.0%**	96.5%
Retail	**100.0%**	90.4%
	97.9%	97.4%
Square footage leased (sq. ft.)*	**1,790,104**	1,616,126
Rentable square footage (sq. ft.)*	**1,829,096**	1,659,633

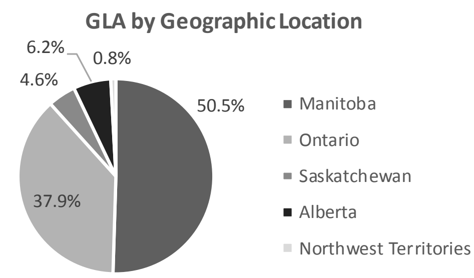
* at period – end

(1) The weighted average number of units outstanding used in the per unit calculations includes the weighted average of all REIT units and Class B LP units.
(2) Excludes distributions related to the four-day stub period from December 28, 2012 to December 31, 2012.
(3) The reconciliation between FFO – As Reported and FFO – Core is on page 26 of this MD&A. The reconciliation between AFFO – As Reported and AFFO – Core is on page 27 of this MD&A.

Financial and Operational Highlights

Three Months Ended March 31, 2014





Portfolio Performance

Overall portfolio occupancy was 97.9% as at March 31, 2014, compared to 98.2% on a sequential basis as at December 31, 2013 and 97.4% on a year-over-year basis as at March 31, 2013.

The sequential decrease in occupancy was due to office space turnover at Saskatchewan Place in downtown Regina. As noted in our fourth quarter 2013 MD&A, we expected modest additional turnover in Regina during 2014 as we work to optimize the long-term leasing profile and tenant mix through new leasing, relocations, early renewal and tenant expansion. Management expects this process will likely take a number of quarters to fully execute.

On a year-over-year basis, the overall portfolio occupancy gain was due to the lease up of vacant space in Toronto, Winnipeg, and Calgary, the acquisition of two fully leased properties (The Promontory and 1700 Ellice), the sale of Humboldt Mall in Humboldt, which was partly offset by the above noted turnover at Saskatchewan Place.

On a same-property basis, occupancy was 97.8% as at March 31, 2014, which was below the occupancy rate of 98.2% as at December 31, 2013 and 98.4% as at March 31, 2013 due to office space turnover in Regina, Saskatchewan.

The REIT achieved NOI of $4.8 million for the three months ended in March 31, 2014 compared to $3.9 million for the same period in 2013. The acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice generated $1.6 million of incremental NOI during the three months ended March 31, 2014. This increase was partially offset by the loss of NOI attributable to properties that were sold in 2013, including 220 Portage and Humboldt Mall, which contributed $0.4 million in NOI during the three months ended March 31, 2013.

Same property NOI for the three months ended March 31, 2014 was negatively impacted by two factors: (i) the office space turnover at Saskatchewan Place and (ii) higher property operating costs, due to the unusually cold and long-lasting winter weather in Manitoba, that are not fully recoverable from certain tenants under their respective lease arrangements. These higher property operating costs resulted from significant snow removal costs, utility expenses and repair costs on frozen waterlines. The impact of these two factors on same property NOI in the three months ended March 31, 2014 were approximately $0.2 million over the three months ended March 31, 2013.

Funds From Operations (As Reported and Core)

FFO – As Reported was $0.10 per unit for the three months ended March 31, 2014. After adjusting for the $0.11 per unit ($1.3 million) non-cash fair value loss on the interest rate swaps and the $0.01 per unit ($0.1 million) Special Committee related expenses, FFO – Core was $0.22 per unit.

FFO – As Reported was $0.30 per unit for the three months ended March 31, 2013. After adjusting for the $0.06 per unit ($0.5 million) de-recognition of non-cash mark-to-market adjustment on mortgages refinanced or discharged, FFO – Core was $0.24 per unit.

The decrease in FFO – Core of $0.02 per unit in the three months ended March 31, 2014 compared to the same period in 2013 was primarily due to the decline in same-property NOI as noted earlier.

Adjusted Funds From Operations (As Reported and Core)

AFFO – As Reported was $0.19 per unit for the three months ended March 31, 2014. After adjusting for $0.01 per unit ($0.1 million) of Special Committee related expenses AFFO – Core was $0.20 per unit. AFFO – As Reported and AFFO – Core was $0.23 per unit for the three months ended March 31, 2013.

The year-over-year decrease in AFFO – Core of $0.03 per unit was primarily due to the decline in same-property NOI as noted earlier.

Pay-out Ratio

The distribution payout ratio as a percentage of AFFO – Core was 95% for the three months ended March 31, 2014, which was higher than the 82% in the same period in 2013 due to a decrease in AFFO – Core on a per unit basis.

Net Income

For the three months ended March 31, 2014, the REIT incurred a net loss of $0.4 million compared to net income of $7.0 million for the same period in 2013. The difference was largely due to a $5.0 million decrease in non-cash fair value adjustments to investment properties, an unrealized non-cash fair value loss on interest rate swaps of $1.3 million, and the negative impact of $1.0 million in non-cash fair value adjustments to financial instruments. These decreases were partly offset by an increase in net operating income of $0.9 million.

Recent Developments

Investment in MTS Data Centre development

On April 22, 2014, the REIT entered into an unconditional agreement to invest $16.0 million in a fully pre-leased 64,000 sf data centre development in Winnipeg, Manitoba (the "MTS Data Centre"). The REIT's investment consists of two tranches:

- a $9.5 million investment to acquire a 50% equity ownership interest in a limited partnership that will own the MTS Data Centre ("Data Centre LP"); and
- a $6.5 million mezzanine loan (the "Mezzanine Loan") to the other 50% limited partner, an arms' length company to fund its partner's share of the incremental project equity.

At a 50% ownership interest, the REIT's $9.5 million equity investment is projected to generate, on a pro-forma basis, $2.9 million of NOI, $2.0 million of AFFO, and $1.2 million of free cash flow after deducting mortgage principal repayments in the first full year following rent commencement in mid-2015.

The Mezzanine Loan interest will accrue at a rate of 13.3% per annum. If the Mezzanine Loan is not repaid in full, it will be converted into an additional 30% equity ownership interest in Data Centre LP. If only a portion of the Mezzanine Loan is repaid, the equity ownership interest conversion will be pro-rated based on the amount outstanding. The Mezzanine Loan is repayable at any time on or before the earlier of (a) rent commencement under the tenant lease and (b) July 31, 2015.

The remaining 20% equity ownership interest held by the other limited partner is subject to a put-call option. The put-call option becomes effective if at least 50% of the Mezzanine Loan's face value ($3.25 million) is not repaid. Under the put-call option, the REIT will have the option to purchase the other limited partner's remaining equity interest at fair market value. Similarly, the other limited partner will have the option to obligate the REIT to purchase the limited partner's residual equity interest in Data Centre LP at fair market value.

The debt financing for the MTS Data Centre development (on a 100% ownership basis) consists of:

- a $37.0 million construction facility at bank prime rate plus 0.5%;
- a $37.0 million mortgage facility to take out the construction loan upon completion. The $37.0 million take out mortgage has a term of 15 years, a 17 year amortization period, and will bear interest at a fixed rate of interest using a spread of 2.05% over the interpolated Government of Canada bond yield; and
- a $2.0 million short term operating facility to be used solely to fund sales taxes during construction.

The REIT has agreed to provide a guarantee for prompt payment to the lender for up to $18.5 million, or 50%, of the indebtedness outstanding under the construction facility. This guarantee is not personally binding on any trustee of the REIT or registered holder of the REIT's securities.

The 15-year lease for the MTS Data Centre is expected to commence in June 2015, following substantial completion of the development project. The MTS Data Centre is expected to generate approximately $5.8 million of annualized net operating income in the first year of the lease (on a 100% ownership basis), with periodic rent increases during the initial lease term. There are three consecutive five-year lease renewal options, as well as a $12.0 million purchase option at the end of the 15-year lease in favour of the tenant. The lease for the MTS Data Centre is a quadruple net lease whereby the tenant pays all realty taxes, operating costs, utilities, repairs and maintenance in respect of the building and equipment.

As at May 8, 2014, the REIT has funded $7.0 million of the $9.5 million equity interest in Data Centre LP. In addition, the Trust has funded $3.0 million of the $6.5 million Mezzanine Loan.

Equity offering and Huntingdon private placement

On April 22, 2014, in connection with the investment in Data Centre LP, The REIT announced that it has entered into an agreement to issue and sell to a syndicate of underwriters, on a bought deal basis, 1,700,000 trust units at a price of $8.85 per unit for gross proceeds of approximately $15.0 million (the "Offering"). The REIT has also granted the underwriters an over-allotment option to purchase up to an additional 255,000 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").

Concurrent with the closing of the Offering, the REIT will issue 723,164 trust units on a private placement basis to Huntingdon at a purchase price of $8.85 per trust unit for gross proceeds of $6.4 million, subject to any proportionate increase in trust units issued to Huntingdon to allow it to maintain its pro rata ownership interest in the REIT, in accordance with its pre-emptive right, in the event of a full or partial exercise of the Over-Allotment Option.

The Offering is expected to close on or about May 13, 2014 and is subject to customary conditions, including regulatory approval. The Offering is not conditional upon closing of MTS Data Centre acquisition. The private placement is expected to close concurrently with the closing of the Offering. The proceeds from the Offering and the private placement will be used to (i) fund the investment in Data Centre LP including the Mezzanine Loan and any additional amounts payable for closing costs, (ii) to repay amounts drawn on the REIT's revolving credit facility, and (iii) for general corporate purposes.

Section 2 BUSINESS OVERVIEW

Current Business Environment

Fundamentals

The Canadian commercial real estate industry has been buoyed over the past several years by healthy underlying property demand fundamentals, low vacancy rates across all major property sectors, and minimal new supply. More recently, new supply risks have emerged across major downtown Class A office markets including Toronto, Calgary and Vancouver. A diversified portfolio approach helps to manage downside risk associated with changing demand and supply fundamentals in any one particular asset class or market.

Valuations

Low interest rates and robust availability of debt and equity capital help to fuel an environment whereby Canadian commercial real estate prices have recently surpassed peak valuations achieved in 2007 immediately before the onset of the global financial crisis.

Institutional real estate investors, including pension funds and life insurance companies, continue to maintain and/or increase their allocations to commercial real estate. Recent property transactions indicate the highest quality assets are still trading at or near peak valuations. It is unclear at this point whether this is simply a late cycle phenomenon (as there remains excess capital chasing limited product availability) or whether valuations will ultimately be impacted as interest rates move higher.

Our interactions with various property market participants indicate that valuations of lesser quality assets are likely to be more negatively impacted by the recent market volatility. However, there is little transactional data to firmly support this assertion at this point in time. Rising yields and declining valuations for properties which are not directly targeted by major institutional investors and the largest REITs may create new growth opportunities for FAM REIT. The MTS Data Centre investment is one such opportunity which FAM REIT was able to identify and execute upon.

Market Volatility

A key risk of the current environment is a sudden spike in borrowing costs, either through widening credit spreads and/or rising interest rates. During the second quarter of 2013, long-term government bond yields exhibited significant volatility, with US 10-year treasury yields initially declining to generationally low levels approaching 1.6% in May 2013, subsequently spiking as high as 3.0% during the summer months of 2013 (currently at 2.6%). The catalyst was the US Federal Reserve communicating its plan to begin tapering its quantitative easing program. Government of Canada bond yields are highly correlated to US treasuries and followed the same path over this period.

Global capital markets initially interpreted the Federal Reserve’s message as a clear inflection point in monetary policy, triggering a sharp negative reaction in global fixed income markets and yield oriented equity securities, including REITs. The Federal Reserve’s tapering program is currently underway, and is expected to be fully unwound by the end of 2014. We expect this will continue to drive capital market volatility in the months ahead.

As a result, Canadian REITs, which had benefitted from a nearly uninterrupted bull market since early 2009, experienced its first major correction post the global financial crisis. In contrast, sectors which are more sensitive to economic growth significantly outperformed Canadian REITs, and the resulting sector rotation continues to drive investor fund flows out of REITs into other equities. To the extent that government bond yields further increase, we believe that the REIT sector remains vulnerable in the near term to further downward pressure on unit prices.

Risk Management

To protect against downside risk, we believe prudent property investors must carefully monitor debt levels and liquidity on a continuous basis, as the timing of macro shocks are either difficult or near impossible to accurately predict. In a period of rising interest rates and increased capital market volatility, we believe that strong liquidity, low leverage and the utilization of long-term fixed rate debt financing will best serve the interests of our unitholders.

Long Term Perspective

Despite what appears to be the start of a trend towards long-term government bond yields normalizing to pre-global financial crisis levels, we continue to believe that the global economy remains in a structurally low growth and low inflation environment. This will ultimately make it difficult for central banks to pursue very aggressive tightening monetary policies in the near to medium term, and we believe will ultimately put a ceiling on how high long-term government bond yields will rise.

Notwithstanding current market volatility, we believe income oriented investing remains a secular theme which is underpinned by aging demographic trends. The demographic shift drives a greater need for current income to support retirement living as opposed to long-term capital gains. This has been a major driving force in recent years, and this trend is likely to continue for the next two decades due to the aging boomer cohort. We believe aging demographics in developed countries will continue to drive income oriented investing. These are all positive long-term demand drivers for the Canadian REIT model.

Core Business and Objectives

FAM REIT's trust units and warrants are listed on the Toronto Stock Exchange ("TSX") and traded under the symbols "F.UN" and "F.WT", respectively.

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. On December 28, 2012, the REIT completed its initial public offering of offered units, which comprised of trust units and warrants, and acquired a portfolio of 27 income-producing office, industrial, and retail properties located in four provinces and one territory of Canada (the "Initial Properties"). The REIT had no operations prior to December 28, 2012.

The objectives of the REIT are to: (i) provide unitholders with stable and growing cash distributions from investments focused on office, industrial and retail properties initially in Canada, on a tax efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term trust unit value through active management; and (iii) expand the asset base of the REIT and increase the REIT's AFFO per trust unit, including through accretive acquisitions.

As stewards of capital for our unitholders, the true owners of the business which we manage on their behalf, we believe our job is to manage downside risk and build an "all weather" REIT, which is capable of successfully navigating through the full commercial real estate cycle.

The REIT is externally managed and operated by Huntingdon Capital Corp. ("Huntingdon"). Huntingdon's senior management team has a considerable track record in real estate ownership and management, debt and equity capital markets and corporate finance. Huntingdon's interests are aligned with the unitholders of the REIT through its sponsorship and as the REIT's largest unitholder.

Our Board of Trustees provides strong oversight and has extensive experience in all aspects of commercial real estate (transactional, operational, development and leasing), capital markets, securities law, risk management and financial accounting and reporting.

Portfolio

The REIT's properties are located in Alberta, Saskatchewan, Manitoba, Ontario and the Northwest Territories, and consist of a well-balanced mix of properties across the industrial, office and retail real estate asset classes. The diversity of properties is expected to reduce the REIT's exposure to negative trends that may arise within particular sectors, while increasing management's ability to capitalize on differential supply and demand characteristics that may exist across sectors. The composition of the portfolio of investment properties is set out in the following table:

Gross Leasable Area (sq. ft.)

				As at March 31, 2014		As at December 31, 2013	
	Industrial	**Office**	**Retail**	**Total**	**%**	Total	%
Manitoba	414,037	445,842	63,439	**923,318**	**50.5%**	922,796	50.5%
Ontario	258,960	433,663	-	**692,623**	**37.9%**	692,623	37.9%
Saskatchewan	-	84,243	-	**84,243**	**4.6%**	84,243	4.6%
Alberta	97,680	-	15,757	**113,437**	**6.2%**	113,437	6.2%
Northwest Territories	-	-	15,475	**15,475**	**0.8%**	15,475	0.8%
Total	**770,677**	**963,748**	**94,671**	**1,829,096**	**100.0%**	1,828,574	100.0%
Percentage (%)	**42.1%**	**52.7%**	**5.2%**	**100.0%**			
As at December 31, 2013							
Total	770,677	963,226	94,671	1,828,574			
Percentage (%)	42.1%	52.7%	5.2%	100.0%			

A summary of occupancy for the portfolio is set out in the following table:

Occupancy Rate (%)

			As at March 31, 2014		As at December 31, 2013
	Industrial	**Office**	**Retail**	**Total**	Total
Manitoba	100.0%	97.3%	100.0%	**98.7%**	98.7%
Ontario	100.0%	98.6%	-	**99.1%**	99.1%
Saskatchewan	-	75.2%	-	**75.2%**	82.0%
Alberta	100.0%	-	100.0%	**100.0%**	100.0%
Northwest Territories	-	-	100.0%	**100.0%**	100.0%
Total	**100.0%**	**96.0%**	**100.0%**	**97.9%**	98.2%
As at December 31, 2013	100.0%	96.5%	100.0%	98.2%	

Outlook

Despite the temporary impact of unusually cold weather and a prolonged winter negatively impacting our operating costs and NOI during the three months ended March 31, 2014, our portfolio continues to perform well.

Based on our current outlook of leasing activity, we expect FAM REIT's occupancy to remain above 96% throughout 2014 with tenant retention in the range of approximately 90%, assuming no acquisitions, dispositions or redevelopment initiatives.

FAM REIT is well positioned in the current environment. Post-closing of the $16.0 million MTS Data Centre investment and $21.4 million equity financing (excluding the overallotment option) in May 2014, FAM REIT's liquidity will be approximately $20.8 million, consisting of cash and unused revolver capacity.

On a pro-forma basis, the MTS Data Centre is expected to have a significant positive impact on FAM REIT's financial performance upon rent commencement in mid-2015. As outlined in the press release dated April 22, 2014, FAM REIT's $9.5 million equity investment is projected to generate, on a pro-forma basis, $2.9 million of NOI, $2.0 million of AFFO, and $1.2 million of free cash flow after deducting mortgage principal repayments in the first full year following rent commencement in mid-2015.

FAM REIT's $6.5 million Mezzanine Loan at a 13.3% interest rate per annum to fund its partner's share of the incremental project equity provides an appropriate risk-adjusted return on our capital, de-risks the project's equity capital requirements, and allows the REIT to increase its ownership to 80% in the project in the event the loan is not repaid. In the event that at least 50% of the mezzanine loan is not repaid, the put-call feature provides the opportunity for the REIT to increase its ownership to 100%.

On February 20, 2014, FAM REIT announced that it has formed a Special Committee comprised of its Independent Trustees, Chaired by Gary Samuel, FAM REIT's Lead Independent Trustee in response to Huntingdon's initiation of a Strategic Review as announced on February 19, 2014.

The Special Committee's mandate is to evaluate the impact of the strategic review, and if advisable, to respond to such review. While Huntingdon undertakes its strategic review, FAM REIT expects to continue to carry on normal operations with Huntingdon acting as its manager. Please refer to the disclosures contained in FAM REIT's final prospectus dated May 5, 2014 for additional information.

Strategy

Internal Growth

The REIT's internal growth strategy includes the following:

- ***Maintaining strong tenant relationships and achieving high retention rates.*** The REIT will nurture its relationships with existing tenants by anticipating and adapting to their changing needs and being proactive with lease renewals.

- ***Maximizing rental income through leasing initiatives.*** Many of the REIT's properties are located in areas with low vacancy rates, limited new competitive supply, and in-place rents below economic replacement rents. These attributes should allow for high tenant retention rates, thereby minimizing leasing costs and allow the REIT to replace in-place rents with increased market rents as leases expire. Management also seeks to include contractual rent escalators in leases to further facilitate growth in rental income.

- ***Active management of operating costs and utilization of preventative maintenance programs.*** Site visits, inspections and preventive maintenance programs are utilized to ensure properties are well maintained and operating expenses are minimized. The geographic clustering of certain assets within the Initial Properties provides economies of scale in local markets, translating into stable and competitive operating expenses.

External Growth

The REIT's external growth strategy includes the following:

- ***Value creation focus.*** Value creation is the guiding principle to the REIT's overall acquisition program, and we evaluate this on a risk-adjusted total return basis. The concept of AFFO per unit "accretion" is measured on a leverage-neutral basis. Our analysis typically incorporates long-term fixed rate debt financing to ensure there is no financial benefit ascribed to lower interest rates on short term debt sources.

- ***Opportunistically divesting assets.*** Capital recycling is a key component of the overall growth strategy in order to continuously improve the overall risk-return profile of the portfolio and, where possible, to reduce FAM REIT's overall cost of capital.

- ***Multiple avenues to sourcing acquisitions.*** Acquisitions of commercial real estate properties are selected for strategic fit, organic growth and high grading the overall quality of the portfolio. The REIT is agnostic in terms of acquiring individual assets, property portfolios, or through mergers and acquisitions.

- ***Geographic expansion, increasing diversity and reducing the REIT's cost of capital.*** Management anticipates an expanded geographic footprint and increasing focus on primary markets will result in a reduction in the REIT's cost of capital which will facilitate further growth and reduce borrowing costs.

- ***Right of First Offer with Huntingdon.*** The REIT leverages its relationship with Huntingdon to access the industrial, office and retail properties owned or subsequently acquired by Huntingdon. The REIT expects Huntingdon to offer its assets to the REIT as properties become stabilized and suitable under the REIT’s investment criteria. The REIT has a right of first offer on properties to be sold by Huntingdon that meet the REIT’s investment criteria.

Section 3 REVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Summary of Selected Financial Information

($000s unless otherwise noted and except per unit amounts)		**Three months ended March 31, 2014**		Three months ended March 31, 2013
Revenue from investment properties	**$**	**8,207**	$	6,081
Property operating expenses		**(3,442)**		(2,195)
Net operating income	**$**	**4,765**	$	3,886
General and administration	**$**	**(532)**	$	(570)
Special Committee related expenses		**(118)**		-
Finance costs, net		**(3,512)**		(1,322)
Fair value adjustments to financial instruments		**(296)**		660
Fair value adjustments on investment properties		**(661)**		4,344
Net income (loss) and comprehensive income (loss)	**$**	**(354)**	$	6,998
Total assets*		**273,577**		207,194
Total debt[(1)]*		**143,774**		106,909

* At period-end

(1) Includes mortgages payable, vendor take-back loan, and amounts drawn under revolving credit facility at face value.

Review of Financial Results

Revenue from Investment Properties

Revenue from investment properties includes rent from tenants under lease agreements, straight-line rental income, percentage rents, property taxes and operating cost recoveries, and other incidental income.

Revenue from investment properties for the three months ended March 31, 2014 were $8.2 million, compared to $6.1 million in the same period in 2013. The growth in revenue from investment properties of $2.1 million, or 34%, was driven by incremental revenues from the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice, which were partially offset by the sale of 220 Portage and Humboldt Mall.

Property Operating Expenses

Property operating expenses consists of property taxes, property management fees, and other expenses such as common area costs, utilities, and insurance. The majority of the REIT’s operating expenses are recoverable from tenants in accordance with the terms of the tenants’ lease agreements. Operating cost recoveries are included in revenue from investment properties and amounted to $3.0 million for the three months ended March 31, 2014, and $1.9 million for the three months ended March 31, 2013.

Property operating expenses for the three months ended March 31, 2014 were $3.4 million, compared to $2.2 million in the same period in 2013. The increase in property operating expenses of $1.2 million, or 54%, was primarily due to incremental expenses from the acquisitions of 4211 Yonge, The Promontory and 1700 Ellice, as well as higher snow removal and utility costs triggered by adverse winter conditions in Manitoba. This increase was slightly offset by the sale of 220 Portage and Humboldt Mall.

General and administration

General and administration expenses are primarily comprised of asset management fees, professional fees, trustee fees, and other reporting fees.

General and administration expenses for the three months ended March 31, 2014 were relatively consistent with the same period in 2013.

Special Committee related expenses

In February 2014, the REIT established a Special Committee to assess the implications of Huntingdon's strategic review on the REIT. Special Committee related expenses include legal and trustee fees, which totaled $0.1 million for the three months ended March 31, 2014.

Finance costs, net

Finance costs primarily consist of mortgage interest expense, distributions to unitholders of Class B LP units, defeasance costs, interest on both the vendor take-back loan and the revolving credit facility, non-cash accretion expense, the de-recognition or amortization of the mark-to-market adjustment on mortgages, and gains or losses on interest rate swaps.

Finance costs for the three months ended March 31, 2014 were $3.5 million compared to $1.3 million in the same period in 2013. The increase in finance costs of $1.2 million was primarily due to the unrealized fair value loss on interest rate swaps of $1.3 million. In addition, finance costs during the three months ended March 31, 2013 were favourably impacted by the de-recognition of mark-to-market adjustments on mortgages of $0.5 million.

Fair value adjustments to financial instruments

The Class B LP units issued to Huntingdon on December 28, 2012, as partial consideration for the acquisition of the Initial Properties, are exchangeable into trust units of the REIT on a one-for-one basis at the option of Huntingdon. Under IFRS, the Class B LP units are considered puttable financial instruments to the REIT, and are recognized in the consolidated financial statements as financial liabilities measured at fair value through profit or loss. The fair value is re-measured at the end of each reporting period. During the three months ended March 31, 2014, the REIT recognized a $0.3 million unrealized fair value loss. The fair value per unit increased slightly from $8.69 at December 31, 2013 to $8.80 at March 31, 2014. During the three months ended March 31, 2013, the REIT recognized a $0.4 million unrealized fair value gain representing a decrease in the fair value per unit from $10.10 to $9.95 for the period from December 31, 2012 to March 31, 2013.

Under IFRS, the trust unit purchase warrants issued on December 28, 2012 in connection with the REIT's IPO are considered puttable instruments to the REIT, and are recognized in the consolidated financial statements as financial liabilities measured at fair value through profit or loss. The fair value is re-measured at the end of each reporting period. During the three months ended March 31, 2014, the fair value adjustment to warrants were nominal. The fair value per warrant decreased from $0.04 at December 31, 2013 to $0.02 at March 31, 2014. During the three months ended March 31, 2013, the

REIT recognized a $0.3 million unrealized fair value gain on the warrants representing a decrease in the fair value per warrant from $0.48 to $0.30 for the period from December 31, 2012 to March 31, 2013.

Fair value adjustments to investment properties

In accordance with IFRS, the REIT measures its investment properties at fair value at the end of each reporting period. The fair values of investment properties are determined either internally by management or externally by nationally-recognized qualified third party appraisers using a number of approaches including the discounted cash flow and direct capitalization approaches.

During the three months ended March 31, 2014, the REIT recognized a net fair value loss of $0.7 million primarily due to updated valuation assumptions on certain properties and leasing costs.

During the three months ended March 31, 2013, The REIT recognized a net fair value gain of $4.3 million. This was primarily related to the gain associated with the uplift in valuation from the April 2013 sale of 220 Portage, slightly offset by a reduction in estimated fair value of two tertiary market properties due to changes in valuation assumptions.

Income taxes

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under the Income Tax Act (Canada), so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to unitholders. It therefore has not recognized any current or deferred income taxes in its consolidated financial statements for the three months ended March 31, 2014 and 2013.

Segmented Information

The REIT invests in three property asset classes and currently operates in five geographic locations. Management measures the performance of the REIT on a combined basis of financial and operating results by asset class and geographic location as follows:

Net operating income

($000s except percentages)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Revenue from investment properties	**$ 8,207**	$ 6,081
Property operating expenses	**(3,442)**	(2,195)
Net operating income	**4,765**	3,886
Margin (%)	**58.1%**	63.9%

The following table summarizes NOI by asset class and geographic location:

Net Operating Income ($000s except percentages)
Three months ended March 31, 2014

	Industrial	Office	Retail	Total	Percentage (%)
Manitoba	$ 580	$ 1,037	$ 80	1,697	35.6%
Ontario	440	1,874	-	2,314	48.6%
Saskatchewan	-	128	-	128	2.7%
Alberta	428	-	69	497	10.4%
Northwest Territories	-	-	129	129	2.7%
	$ 1,448	$ 3,039	$ 278	$ 4,765	100.0%
Percentage (%)	30.4%	63.8%	5.8%	100.0%	

Net Operating Income ($000s except percentages)
Three months ended March 31, 2013

	Industrial	Office	Retail	Total	Percentage (%)
Manitoba	$ 586	$ 1,394	$ 120	$ 2,100	54.0%
Ontario	435	376	-	811	20.9%
Saskatchewan	-	270	78	348	9.0%
Alberta	428	-	65	493	12.7%
Northwest Territories	-	-	134	134	3.4%
	$ 1,449	$ 2,040	$ 397	$ 3,886	100.0%
Percentage (%)	37.3%	52.5%	10.2%	100.0%	

Industrial Properties

The actual results of operations for the three months ended March 31, 2014 are set out below:

(stated in $000s, unless otherwise noted)		**Three months ended March 31, 2014**		Three months ended March 31, 2013
# of properties (period-end)		***11***		*11*
Owned GLA (000s of sf) (period-end)		***771***		*771*
Occupancy rate (%) (period-end)		***100.0%***		*100.0%*
Revenue from investment properties	**$**	**1,942**	$	1,934
Property operating expenses		**(494)**		(485)
Net operating income	**$**	**1,448**	$	1,449
Margin %		**74.6%**		74.9%

Net operating income for industrial properties was $1.4 million for the three months ended March 31, 2014, consistent with the same period in 2013.

Office Properties

The actual results of operations for the three months ended March 31, 2014 are set out below:

(stated in $000s, unless otherwise noted)		**Three months ended March 31, 2014**		Three months ended March 31, 2013
# of properties (period-end)		***14***		*12*
Owned GLA (000s of sf) (period-end)		***964***		*688*
Occupancy rate (%) (period-end)		***96.5%***		*96.5%*
Revenue from investment properties	**$**	**5,807**	$	3,488
Property operating expenses		**(2,750)**		(1,448)
Net operating income	**$**	**3,057**	$	2,040
Margin %		**52.6%**		58.5%

Net operating income for office properties for the three months ended March 31, 2014 was $3.1 million, compared to $2.0 million in the same period in 2013. The growth in net operating income of $1.1 million, or 55%, was driven by incremental NOI related to the acquisitions of 4211 Yonge, The Promontory and 1700 Ellice. These increases were partially offset by the disposition of 220 Portage, as well as a decrease in same property net operating income related to office space turnover at Saskatchewan Place and higher property operating costs in Manitoba due to the unusually cold and long-lasting winter weather.

Retail Properties

The actual results of operations for the three months ended March 31, 2014 are set out below:

(stated in $000s, unless otherwise noted)		**Three months ended March 31, 2014**		Three months ended March 31, 2013
# of properties (period-end)		***3***		*4*
Owned GLA (000s of sf) (period-end)		***95***		*201*
Occupancy rate (%) (period-end)		***100.0%***		*90.4%*
Revenue from investment properties	**$**	**471**	$	659
Property operating expenses		**(193)**		(262)
Net operating income	**$**	**278**	$	397
Margin %		**59.0%**		60.2%

Net operating income for retail properties was $0.3 million for the three months ended March 31, 2014 compared to $0.4 million in the same period in 2013. The decline in net operating income of $0.1 million was due to the sale of Humboldt Mall. Same property net operating income for the three months ended March 31, 2014 was relatively consistent with the same period in 2013.

Same Property Analysis

The comparative net operating income results on a same property and sequential basis are as follows:

									For the three months ended:	
($000s)		**Q1 2014**		Q4 2013		Q3 2013		Q2 2013		Q1 2013
Industrial	**$**	**1,448**	$	1,448	$	1,445	$	1,447	$	1,449
Office		**1,479**		1,599		1,807		1,704		1,723
Retail		**278**		285		316		327		318
Total	**$**	**3,205**	$	3,332	$	3,568	$	3,478	$	3,490

On a same property basis, the results for the three months ended March 31, 2014 were lower compared to the prior quarters. This was primarily due to the decrease in occupancy at Saskatchewan Place resulting from tenant turnover. We continue to work on optimizing the long-term leasing profile and tenant mix through new leasing, relocations, early renewal and tenant expansion at Saskatchewan Place. In addition, adverse winter weather conditions in Manitoba resulted in higher snow removal and utility costs during the three months ended March 31, 2014 and the three months ended December 31, 2013, which were not fully recoverable from tenants under their respective lease arrangements.

Funds From Operations (As Reported and Core)

FFO is a supplemental non-IFRS financial measure of operating performance widely used in the Canadian real estate industry. FFO is not defined under IFRS and should not be used as a substitute to net income, cash flow from operations, or any other operating or liquidity measure prescribed under IFRS. Instead, FFO has been included to provide readers and investors of the REIT with additional information to improve their understanding of the operating results of the REIT. FFO when compared period over period reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and

property taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS.
The REIT calculates FFO – As Reported in accordance with *the REALpac White Paper on Funds from Operations* and FFO – Core as described in the "Non-IFRS Measures" section of this MD&A. The reconciliation of FFO – As Reported and FFO – Core to net income is as follows:

($000s unless otherwise noted and except per unit amounts)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Net income (loss)	**$ (354)**	$ 6,998
Add (deduct):		
Amortization of leasing costs	**28**	3
Distributions on Class B LP units	**558**	492
Fair value adjustments to financial instruments	**296**	(660)
Fair value adjustments to investment properties	**661**	(4,344)
Funds from operations – As Reported	**$ 1,189**	$ 2,489
Add (deduct):		
Fair value loss (gain) on interest rate swaps	**1,291**	(32)
De-recognition of mark-to-market adjustment on mortgages refinanced or discharged	**-**	(479)
Special Committee related expenses	**118**	-
Funds from operations – Core	**$ 2,598**	$ 1,978
Weighted average number of units outstanding (000s)(1):		
Basic and diluted	**11,993**	8,394
Per unit (basic and diluted)		
FFO per unit – As Reported	**$ 0.10**	$ 0.30
FFO per unit – Core	**$ 0.22**	$ 0.24

(1) The basic and diluted weighted average number of units outstanding includes the weighted average of all REIT units and Class B LP units.

FFO – As Reported was $0.10 per unit for the three months ended March 31, 2014. After adjusting for the $0.11 per unit ($1.3 million) non-cash fair value loss on the interest rate swaps and the $0.01 per unit ($0.1 million) Special Committee related expenses, FFO – Core was $0.22 per unit.

FFO – As Reported was $0.30 per unit for the three months ended March 31, 2013. After adjusting for the $0.06 per unit ($0.5 million) non-cash de-recognition of mark-to-market adjustment on mortgages refinanced or discharged, FFO – Core was $0.24 per unit.

The decrease in FFO – Core of $0.02 per unit in the three months ended March 31, 2014 compared to the same period in 2013 was due to lower same-property NOI resulting from the adverse weather impact on operating costs and turnover vacancy at Saskatchewan Place.

Adjusted Funds from Operations (As Reported and Core)

The operations of a real estate business require capital expenditures to both maintain and increase the occupancy and rental revenue streams of existing properties. These expenditures include replacements and major repairs of component parts of the underlying properties (for example: roofing, heating, ventilating and air conditioning equipment, paving) referred to as capital expenditures. In addition to capital expenditures, leasing costs including leasing commissions, tenant improvements and inducements, are fundamental to the operating activities of a real estate business. AFFO is a widely used non-IFRS financial measure in the Canadian real estate industry to indicate available cash flow after capital expenditures and leasing costs. AFFO is not defined under IFRS and the method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and, as a result, may not be comparable with measures used by such other issuers.

In calculating AFFO – As Reported and Core, the REIT makes certain adjustments to FFO – As Reported for other non-cash items as described in the "Non-IFRS Measures" section of this MD&A.

The reconciliation of AFFO – As Reported and Core to the REIT's FFO – As Reported is as follows:

($000s unless otherwise noted and except per unit amounts)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Funds from operations – As Reported	**$ 1,189**	$ 2,489
Add (deduct):		
Interest rate subsidy[(1)]	**97**	170
Accretion on vendor take-back loan	**72**	67
Amortization of deferred transaction costs	**59**	47
De-recognition of mark-to-market adjustments on mortgages refinanced or discharged	**-**	(479)
Amortization of mark-to-market adjustments on mortgages	**(56)**	(117)
Amortization of straight-line rent	**(120)**	(99)
Capital expenditures	**(51)**	(59)
Leasing costs	**(213)**	(77)
Fair value loss (gain) on interest rate swaps	**1,291**	(32)
Adjusted funds from operations – As Reported	**$ 2,268**	$ 1,910
Add:		
Special Committee related expenses	**118**	-
Adjusted funds from operations – Core	**$ 2,386**	$ 1,910
Weighted average number of units outstanding (000s)[(2)]:		
Basic and diluted	**11,993**	8,394
Per unit (basic and diluted)		
AFFO per unit – As Reported	**$ 0.19**	$ 0.23
AFFO per unit – Core	**$ 0.20**	$ 0.23

(1) The interest rate subsidy is described in further detail under "Section 4 – Financial Condition, Interest Rate and Capital Expenditures Subsidies" of this MD&A.
(2) The basic and diluted weighted average number of units outstanding includes the weighted average of all REIT units and Class B LP units.

AFFO – As Reported was $0.19 per unit for the three months ended March 31, 2014. After adjusting for $0.01 per unit ($0.1 million) of Special Committee related expenses AFFO – Core was $0.20 per unit.

AFFO – As Reported and AFFO – Core was $0.23 per unit for the three months ended March 31, 2013.

The decrease in AFFO – Core of $0.03 per unit was due to lower same-property NOI resulting from the adverse weather impact on operating costs, higher leasing costs and turnover vacancy at Saskatchewan Place.

Leasing costs and maintenance capital expenditures can vary from period to period depending on various factors including the lease expiry profile of the REIT's properties, tenant quality, asset type, local market conditions, seasonality and other building requirements. There is often a delay between lease commencement and the expenditures on leasing costs and maintenance capital expenditures due to the timing of the installation of tenant improvements and the required inspections and certifications. As a result, AFFO can experience volatility when comparing period-over-period results.

Leasing costs and capital expenditures for the three months ended March 31, 2014 and 2013 were as follows:

($000s unless otherwise noted)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Tenant improvements and leasing commissions		
New leasing	**$ 94**	$ -
Renewals		
Office	**100**	60
Industrial	**4**	-
Retail	**15**	17
	213	77
Recoverable capital expenditures		
Major maintenance items	**34**	49
Recurring capital expenditures	**11**	10
	45	59
Non-recoverable capital expenditures	**6**	-
Total	**$ 264**	$ 136

Leasing costs for new tenants were $0.1 million for the three months ended March 31, 2014 compared to $nil in the same period of 2013. Renewal related leasing costs were $0.1 million for the three months ended March 31, 2014 and 2013.

Distributions

The REIT's Board of Trustees has full discretion with respect to the timing and extent of distributions, including the adoption, amendment or revocation of any distribution policy. In determining the amount of monthly cash distributions paid to unitholders, the Board of Trustees applies discretionary judgment to forward-looking cash flow information, including forecasts and budgets. As net income calculated in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt of or the payment of cash, the Board of Trustees considers AFFO when establishing cash distributions to unitholders, as well as other factors. The excess of AFFO over cash distributions represents a measure of operating cash flow retained in the business.

It is the REIT's intention to make distributions to unitholders at least equal to the amount of net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for current income taxes.

On March 21, 2013, the Trust implemented a distribution reinvestment plan (the "DRIP"). The DRIP came into effect with the distribution of $0.0625 per trust unit that was payable on May 15, 2013 to unitholders of record on April 30, 2013. Eligible unitholders, which include holders of Class B LP units, that elect to participate in the DRIP will have their cash distributions used to purchase trust units of the REIT and will also receive a "bonus distribution" of units equal in value to 3% of each distribution.

The REIT may initially issue up to 295,000 trust units of the REIT under the DRIP. The distributions declared during the three months ended March 31, 2014 resulted in 84,927 trust units issued or issuable under the DRIP. The REIT 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 REIT's Board of Trustees, (b) the approval of any stock exchange upon which the trust units trade, and (c) public disclosure of such increase.

As at March 31, 2014, there were 215,243 trust units cumulatively issued or issuable under the DRIP.

On April 3, 2014, the REIT received approval from the TSX to reserve an additional 250,000 trusts units of the REIT pursuant to the DRIP.

During the three months ended March 31, 2014 and 2013, the REIT declared monthly distributions of $0.0625 per unit. The distributions were paid on or about the 15th day of the month following declaration.

The following table summarizes the distribution payments for the three months ended March 31, 2014 and 2013:

	Three months ended March 31, 2014		Three months ended March 31, 2013	
($000s unless otherwise noted)	**Trust units**	**Class B LP units**	Trust units	Class B LP units
Cash distributions				
Paid	**$ 1,010**	**$ –**	$ 783	$ 335
Payable at period end	**505**	**–**	368	157
	1,515	**–**	1,151	492
Distributions reinvested in trust units				
Issued	**117**	**372**	–	–
Payable at period end	**61**	**186**	–	–
	178	**558**	–	–
	$ 1,693	**$ 558**	$ 1,151	$ 492

As at March 31, 2014, approximately 32.8% of the total trust units and Class B LP units outstanding were subscribed to the REIT's DRIP.

The REIT expects that distributions for the year ending December 31, 2014 will represent an approximate 100% return of capital, assuming no dispositions of investment properties.

The following table reconciles AFFO – As Reported to cash flow from operating activities reported in the consolidated financial statements of the REIT for the three months ended March 31, 2014 and 2013. It also illustrates that the REIT had sufficient cash flow capacity to sustain its distributions:

($000s)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Cash flow from operating activities	**$ 2,666**	$ 2,403
Add (deduct):		
Changes in non-cash working capital	**(837)**	(872)
Leasing costs	**(213)**	(77)
Capital expenditures	**(51)**	(59)
Distributions on Class B LP units paid in cash	**-**	335
Distributions on Class B LP units reinvested in trust units	**558**	-
Interest rate subsidy	**97**	170
Interest income accrued	**48**	-
Other	-	10
Adjusted funds from operations – As Reported	**$ 2,268**	$ 1,910

The table below illustrates that the REIT has sufficient cash flow capacity, based on AFFO – Core, to sustain its cash distributions:

($000s)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Adjusted funds from operations – As Reported	**$ 2,268**	$ 1,910
Add:		
Special Committee related expenses	**118**	-
Adjusted funds from operations – Core	**$ 2,386**	$ 1,910
Total distributions paid or payable in cash – trust units and Class B LP units	**1,515**	1,643
Less: distributions related to four day stub-period from December 28 - 31, 2012	-	(69)
Distributions paid or payable in cash, excluding four day stub-period	**$ 1,515**	$ 1,574
Excess of AFFO - Core over cash distributions	**$ 871**	$ 336

Summary of Selected Quarterly Information

($000s unless otherwise noted, except per unit amounts)	**Q1 2014**	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012[1]
Revenues from investment properties	**$ 8,207**	$ 8,228	$ 7,568	$ 6,601	$ 6,081	$ 234
Net income (loss) and comprehensive income (loss)	**(354)**	1,827	1,228	4,162	6,998	12,348
Per Unit						
- Basic[2]	**$ (0.04)**	$ 0.20	$ 0.16	$ 0.71	$ 1.19	$ 2.10
- Diluted	**$ (0.04)**	$ 0.20	$ (0.03)	$ 0.42	$ 0.85	$ 1.50

(1) Basic and diluted net income for the three months ended December 31, 2012 was based on the four day period from December 28, 2012, the IPO date, to December 31, 2012.

(2) The weighted average number of basic units reflects the REIT units, and excludes the Class B LP units.

The financial results for the three months ended December 31, 2012 reflected the operations of the Initial Properties from December 28, 2012, the date of acquisition, which included $12.8 million in unrealized net fair value adjustments to its investment properties.

The growing trend in revenues from investment properties is largely due to the 4211 Yonge acquisition in May 2013, The Promontory acquisition in August 2013, and 1700 Ellice acquisition in December 2013. The incremental revenues from these acquisitions were partially offset by the dispositions of 220 Portage in April 2013 and the Humboldt Mall in December 2013.

Net income (loss) and comprehensive income (loss) for each of the periods in the table above reflect fluctuations arising from fair value adjustments on investment properties, Class B LP units, warrants, and interest rate swaps.

Section 4 FINANCIAL CONDITION

Liquidity and Capital Resources

The principal liquidity needs of the REIT 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.

Cash flows from operating the REIT’s property portfolio, available funding under the REIT’s revolving credit facility and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon rental occupancy levels, rental rates, collection of rents, recoveries of operating costs and operating costs.

Debt Strategy

The REIT’s obligations with respect to debt repayments, redemption of outstanding trust units which are puttable at the option of the unitholders and funding requirements for future investment property acquisitions will be primarily funded by refinancing the REIT’s maturing debt, financing unencumbered properties, or future issuances of trust units and debentures.

The REIT’s overall borrowing policy is to obtain secured mortgage financing on a primarily fixed rate basis, with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to (i) achieve and maintain staggered debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period and (ii) fix rates and extend loan terms when borrowing conditions are favourable; and floating rate secured short-term, construction and/or revolving debt. The fixed rate mortgages are expected to be comprised primarily of first charge mortgages. Subject to market conditions and the growth of the REIT, management currently intends to maintain total indebtedness at approximately 50% - 55% of the REIT’s gross book value (“GBV”). The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. If this strategy is unsuccessful, mortgage principal repayments would be funded by operating cash flows, additional draws under the REIT's revolving credit facility, financing of unencumbered income-producing properties or by issuances of equity or debt securities. As at March 31, 2014, the REIT's unencumbered income-producing properties had a fair value of $4.1 million.

In accordance with the Declaration of Trust dated August 27, 2012, which was amended and restated on December 27, 2012 ("DOT"), the REIT may not incur or assume any indebtedness if, after giving effect to the incurring or assumption of such indebtedness, the total indebtedness of the REIT would exceed 65% of the GBV of the REIT's assets. As at March 31, 2014, the REIT's Debt to GBV was 52.6%.

Interest rates and debt maturities are reviewed regularly by the REIT's Board of Trustees to ensure the appropriate debt management strategies are implemented.

Leverage and Interest Coverage Ratios

($000s unless otherwise noted)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Weighted average:		
Mortgages payable	**$ 130,065**	$ 94,795
Vendor take-back loan	**9,180**	9,180
Revolving credit facility	**3,406**	3,905
Weighted average amount of indebtedness	**$ 142,651**	$ 107,880

($000s unless otherwise noted)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
EBITDA	**$ 4,163**	$ 3,316
Debt to EBITDA leverage ratio (times)	**8.6x**	8.1x
Interest expense	**$ 1,539**	$ 1,184
Interest coverage ratio (times)	**2.7x**	2.8x
Debt service requirements:		
Interest expense	**$ 1,539**	$ 1,184
Principal repayments	**986**	703
Total debt service requirements	**$ 2,525**	1,887
Debt service coverage ratio (times)	**1.6x**	1.8x

There was an overall increase in EBITDA during the current quarter related to the investment property acquisitions. However, EBITDA on a same property basis was negatively impacted by the office space turnover at Saskatchewan Place and higher property operating costs related to the unusually cold and long-lasting winter weather in Manitoba. As a result, the REIT's leverage and interest coverage ratios for the three months ended March 31, 2014 have decreased when compared to the same metrics in the prior period.

Mortgage Repayment Schedule

There is a risk that lenders will not refinance maturing debt on terms and conditions acceptable to the REIT 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 REIT staggers the maturity dates of the REIT's mortgage portfolio over a number of years.

The following table outlines the REIT's annual principal payments and mortgage maturity schedule, together with the annual weighted average interest rates:

For the periods ending December 31,	Annual Principal Payments ($000s)	Principal Repayments on Maturity ($000s)	Total ($000s)	Percentage (%)	Weighted Average Contractual Interest Rate (%)(1)(2)
2014 (remaining nine months)	$ 3,010	$ -	$ 3,010	2.3%	4.7%
2015	4,103	13,952	18,055	13.9%	4.6%
2016	3,457	10,624	14,081	10.9%	4.5%
2017	3,334	6,750	10,084	7.8%	4.4%
2018	2,553	18,674	21,227	16.4%	4.3%
Thereafter	9,885	53,227	63,112	48.7%	4.3% (3)
	$ 26,342	**$ 103,227**	**$ 129,569**	**100.0%**	

(1) Pursuant to the acquisition agreement with Huntingdon, the total purchase price payable for the Initial Properties acquired on December 28, 2012 was reduced by $1.9 million in respect of an interest rate subsidy. The interest rate subsidy will be used to subsidize the REIT's mortgage interest payments to achieve an annual blended cash interest rate of 4.5% for the years 2013 to 2017.
(2) Includes payments under interest rate swaps.
(3) Represents the weighted average interest rate as at December 31, 2018.

Total Debt Repayments

The following table outlines the principal repayment schedule for the REIT's total debt with fixed repayment terms:

		For the periods ending December 31,					
($000s)	**Total**	**2014(1)**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Mortgages payable	$ 129,569	$ 3,010	$ 18,055	$ 14,081	$ 10,084	$ 21,227	$ 63,112
Vendor take-back loan	9,180	9,180	-	-	-	-	-
Revolving credit facility	5,025	-	5,025	-	-	-	-
	$ 143,774	**$ 12,190**	**$ 23,080**	**$ 14,081**	**$ 10,084**	**$ 21,227**	**$ 63,112**

(1) For the remaining nine months of 2014.

As at December 31, 2013, the REIT had a $14.0 million revolving credit facility that expires on November 30, 2014 and is secured by two investment 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 February 2014, the REIT increased its revolving credit facility limit from $14.0 million to $17.0 million. The expiry date has been extended from November 30, 2014 to November 30, 2015 and is secured by four investment properties. The amended revolving credit facility bears interest at prime plus 1.25% per annum and a standby fee of 0.5% charged quarterly in arrears based on the average daily undrawn amount.

The amount available for drawdown under the revolving credit facility is computed on the 12 month trailing net operating income and the appraised values of the secured properties, up to a maximum of $17.0 million. As at March 31, 2014, the REIT had drawn $5.0 million on the revolving credit facility.

As at May 8, 2014, the REIT has $12.5 million drawn on its revolving credit facility.

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

Interest rate swaps

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

The interest rate swap is 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. At March 31, 2014, the REIT had the following interest rate swap agreements:

Notional amount	Effective interest rate	Maturity date	Unrealized loss for the three months ended March 31, 2014	Cumulative unrealized loss (gain) at March 31, 2014
$ 4,043	5.89%	1-Feb-25	$ 52	$ 610
22,710	4.60%	14-Aug-23	599	610
24,484	3.68%	1-May-23	640	(865)

Financial Condition

The REIT’s primary sources of capital are cash generated from operating, financing and investing activities. Management expects to meet all of the REIT’s obligations through current cash and cash equivalents, cash flows from operations and refinancing of mortgages.

The following table provides an overview of the REIT's cash flows from operating, financing and investing activities for the three months ended March 31, 2014 and 2013.

($000s)	**Three months ended March 31, 2014**	Three months ended March 31, 2013
Net change in cash related to:		
Operating	**$ 2,666**	$ 2,403
Investing	**(3,264)**	(1,886)
Financing	**666**	(3,125)
Increase (decrease) in cash	**$ 68**	$ (2,608)

The increase in net cash flow for the three months ended March 31, 2014 compared to the same period in 2013 was the result of the following factors:

- Operating - cash flows from operating activities increased mainly due to additional net operating income attributable to the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice. This was partially offset by the sale of 220 Portage and Humboldt Mall, additional mortgage interest expense associated with the acquired properties and Special Committee related expenses incurred during the period.

- Investing - cash flows used in investing activities for the three months ended in March 31, 2014 were primarily associated with the issuance of a $3.0 million note receivable related to the development of an investment property in Winnipeg, Manitoba. Cash flows used in investing activities for the three months ended March 31, 2013 were primarily related to a $1.8 million deposit paid on the acquisition of 4211 Yonge Street.

- Financing - cash flows from financing for the three months ended March 31, 2014 were largely due to the drawdown from the revolving credit facility of $3.3 million, offset by mortgage principal payments of $1.0 million and distributions paid on trust units of $1.5 million. Cash flows used in financing for the three months ended March 31, 2013 were primarily due to repayments on the revolving credit facility of $5.6 million and distributions paid on trust units of $0.8 million. These were partially offset by net proceeds on mortgages refinanced of $3.3 million.

Unitholders' Equity

The REIT is authorized to issue an unlimited number of trust units. Each trust unit represents a proportionate undivided beneficial interest and voting right in the REIT and entitles the holder to an equal participation in distributions of the REIT. The trust units are redeemable at the option of the holder at any time. The trust units are traded on the TSX with a closing ask price of $8.80 as at March 31, 2014.

The REIT 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 three months ended March 31, 2014.

As at March 31, 2014, the total number of trust units outstanding was 9,059,385. As at May 8, 2014, the total number of trust units outstanding was 9,087,937.

Potential trust units:

Number of Units

	March 31, 2014	December 31, 2013
Class B LP Units	**2,977,132**	2,977,132
Warrants	**1,598,550**	1,598,550
	4,575,682	4,575,682

As partial consideration for the acquisition of the Initial Properties from Huntingdon, FAM LP issued 2,513,700 Class B LP Units of FAM LP 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 and is 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 twelve months following the closing date of the acquisition and thereafter to retain 1,678,740 Class B LP Units for a minimum of 24 months following the closing date, subject to dilution exceptions. The Class B LP Units are recognized in the REIT's consolidated financial statements as financial liabilities measured at fair value through profit and loss. 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 will be reclassified to unitholders' equity. During the three months ended March 31, 2014, there were no Class B LP units exchanged for the REIT's trust units.

As at March 31, 2014 and May 8, 2014, the total number of Class B LP units outstanding was 2,977,132.

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 warrants are recognized in the consolidated financial statements of the REIT as financial liabilities measured at fair value through profit or loss. Upon exercise, the carrying amount of the liability representing the fair value of the warrants on exercise date will be reclassified to unitholders' equity. The warrants are traded on the TSX with a closing ask price of $0.02 as at March 31, 2014.

As at March 31, 2014 and May 8, 2014, the total number of warrants outstanding was 1,598,550.

The REIT previously disclosed its intended use the proceeds from its public offering of trust units for gross proceeds of approximately $23.1 million completed on August 2, 2013 and the concurrent private placement of trust units for gross proceeds of approximately $4.0 million, which was to partially fund the acquisition of The Promontory with the balance used to repay bank indebtedness and to repay existing bank indebtedness, respectively. There were no variances with respect to the REIT's actual use of such proceeds from such financings.

Interest Rate and Capital Expenditures Subsidies

On December 28, 2012, in connection with the acquisition of the Initial Properties, the total purchase price payable by the REIT 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 REIT'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 the five year period to December 2017, representing the market interest rate on similar debt. The remaining $3.0 million retained will be used to subsidize capital expenditures on the Initial Properties in excess of the normalized maintenance capital expenditure level of $675,000 on an annual basis for the five year period to December 2017. 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.

The amounts retained for both the interest rate and capital expenditures subsidies can be utilized by the REIT for operational matters but must be ultimately replenished to fund the required interest payments and capital expenditures. The table below summarizes the movements related to the interest rate subsidy for the three months ended March 31, 2014:

($000s)		**Three months ended March 31, 2014**		Twelve months ended December 31, 2013
Balance, beginning of period	**$**	**1,271**	$	1,874
Amortization of interest rate subsidy		**(97)**		(503)
Subsidy written-off		-		(100)
Balance, end of period	**$**	**1,174**	$	1,271

The interest rate subsidy of $0.1 million was utilized during the three months ended March 31, 2014 to reflect the blended interest rate of 4.5% on the mortgages payable related to the Initial Properties.

The table below summarizes the movements related to the capital expenditures subsidy for the three months ended March 31, 2014:

($000s)		**Three months ended March 31, 2014**		Twelve months ended December 31, 2013
Balance, beginning of period	**$**	**2,736**	$	2,991
Subsidy written-off		-		(255)
Balance, end of period	**$**	**2,736**	$	2,736

Related Party Transactions

The REIT has a management agreement with Huntingdon (the "Management Agreement") as disclosed in the Annual Financial Statements. During the three months ended March 31, 2014, the REIT incurred the following costs in connection with the Management Agreement:

($000s)		**Three months ended March 31, 2014**		Three months ended March 31, 2013
Property management fees	**$**	**230**	$	152
Asset management fees		**202**		151
Leasing, financing, and construction management fees		**43**		36
	$	**475**	$	339

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 REIT's properties. Property administration fees were $0.3 million for the three months ended March 31, 2014 and $0.1 million for the same period in 2013. These fees are recovered from the tenants by the REIT and payable by the REIT to Huntingdon under the terms of the Management Agreement. As at March 31, 2014, included in accounts payable is $0.2 million due to Huntingdon (December 31, 2013 - $0.2 million).

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

Section 5 Significant Accounting Policies, Critical Judgments and Key Estimates

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

Recent accounting pronouncements

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

The preparation of these 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. Estimates are based on historical experience and on various assumptions that are reasonable under the circumstances. Actual results could differ from the estimated amounts.

Critical Judgments

The critical judgments made by management, 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:

Business combinations

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

Leases

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

Income taxes

The REIT 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.

Assets and liabilities held for sale

The REIT 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 March 31, 2014, the REIT has determined that there were no assets or group of assets and liabilities that met the specified criteria.

Key Estimates

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 and liabilities within the next financial year are as follows:

Valuation of investment properties

The fair values of investment properties are determined either by management using recognized valuation techniques or externally 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, property operations, and capitalization and discount rates based on market data within the applicable market segment and geographic location. 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.

Section 6 Risks and Uncertainties

For a full list and explanation of the REIT's risks and uncertainties, please refer to the REIT's Annual Information Form for the year ended March 31, 2014, available on SEDAR at www.sedar.com.

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

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty in meetings its debt and other financial obligations as they mature. Refer to the discussion under "Section 4 – Financial Condition on Liquidity and Capital Resources" of the REIT.

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 REIT's financial instruments. The Canadian economy in recent years has been in a low interest rate environment. A reversal of this trend, however, could significantly affect the REIT's ability to meet its financial obligations. Interest rate cash flow risk is minimized by the REIT 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 REIT also utilizes interest rate swaps to fix interest rates on its floating rate mortgages. As at March 31, 2014, the REIT had three interest rate swaps outstanding with a notional amount of $51.2 million.

As at March 31, 2014, excluding the mortgages associated with interest rate swaps, the REIT had no floating rate mortgages.

The REIT 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 March 31, 2014, the REIT is compliant with all financial covenants under the revolving credit facility.

Credit risk

Credit risk is the risk that the REIT incurs a loss as a result of a counterparty not fulfilling its financial obligation. Credit risk is associated with the REIT's cash, restricted cash and accounts receivable. The REIT 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 in large financial institutions with strong credit ratings. The REIT has credit policies to address credit risk which are applied during lease negotiations and may include an analysis of the financial position of the debtor; and a review of credit limits, credit history and credit performance. In the event of a tenant default, delays or limitations in enforcing rights of the lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of the REIT's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the REIT. An allowance for doubtful accounts or other impairment provisions are established based upon factors surrounding credit risk, historical trends and other information. As at March 31, 2014, the allowance for doubtful accounts or any other impairment provisions recognized in the REIT's consolidated financial statements was nominal.

Lease Rollover Risk

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. In addition, the terms of any subsequent leases may be less favourable than the existing lease terms. The REIT's ability to re-lease vacant space upon their lease expiry is affected by many factors. The failure to lease vacant space on a timely basis or at all could have a material adverse effect on the REIT's financial condition and results of operations.

To mitigate lease rollover risk, the REIT attempts to stagger its lease expiry profile so that the REIT is not faced with disproportionate amounts of space expiring in any one year. Management further mitigates this risk by maintaining a diversified portfolio of properties both by asset class and geographic location.

The following tables summarizes the weighted average remaining lease term by asset class and geographic location:

Weighted Average Remaining Lease Term (years)
As at March 31, 2014

	Industrial	Office	Retail	Weighted average remaining lease term by province
Manitoba	3.7	3.8	8.6	4.1
Ontario	12.1	3.4	-	6.7
Saskatchewan	-	0.9	-	0.9
Alberta	9.6	-	1.6	8.5
Northwest Territories	-	-	2.1	2.1
Weighted average remaining lease term by asset class	**7.3**	**3.4**	**6.4**	**5.2**

The following table outlines the expiries of tenant leases, by square footage, with respect to the REIT's property portfolio as at March 31, 2014:

Lease Expiries by Asset Class

	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	Total
Industrial								
Sq. ft. (000s)	-	136	-	50	89	36	460	**771**
Sq. ft. (%)	-	17.7%	-	6.5%	11.5%	4.7%	59.6%	**100.0%**
Office								
Sq. ft. (000s)	18	106	174	183	45	182	216	**924**
Sq. ft. (%)	1.9%	11.5%	18.8%	19.8%	4.9%	19.7%	23.4%	**100.0%**
Retail								
Sq. ft. (000s)	-	-	-	23	3	1	68	**95**
Sq. ft. (%)	-	-	-	24.2%	3.2%	1.0%	71.6%	**100.0%**
Total Sq.ft. (000s)	**18**	**242**	**174**	**256**	**137**	**219**	**744**	**1,790**

Lease Expiries by Geographic Location (sq. ft. in 000s)

	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	Total
Manitoba	12	210	46	100	107	97	338	910
Ontario	4	18	80	133	27	85	340	687
Saskatchewan	2	14	48	-	-	-	-	64
Alberta	-	-	-	10	-	37	66	113
Northwest Territories	-	-	-	13	3	-	-	16
Total Sq.ft. (000s)	**18**	**242**	**174**	**256**	**137**	**219**	**744**	**1,790**
Percentage (%)	**1.0%**	**13.5%**	**9.7%**	**14.3%**	**7.7%**	**12.2%**	**41.6%**	**100.0%**

Environmental Risks

The REIT is subject to various federal, provincial and municipal laws relating to environmental matters, primarily dealing with costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the REIT's ability to sell or finance affected assets, and potentially result in claims against the REIT. Management is not aware of any material non-compliance with environmental laws or regulations with respect to the REIT's properties or of any pending or threatened investigations, actions, or claims against the REIT relating to environmental matters.

Land Leases

The REIT has one single tenant property that is situated on land leased from the Winnipeg Airport Authority in Winnipeg, Manitoba. There can be no assurance that the Winnipeg Airport Authority will renew the ground lease upon expiry in 2036. If the ground lease is not renewed, or if the REIT defaults under the ground lease, the REIT would be unable to operate the building situated on the leased land and may be required to relocate the tenant to comparable space. Under this circumstance, the REIT may seek to acquire the replacement property. There can be no assurance that such property will be available for acquisition on favourable terms to the REIT or that any such acquired property will generate anticipated operating results. If the REIT is unable to provide alternative suitable space for its tenant, including construction of new buildings, the REIT would lose its tenant.

Income taxes

The REIT is a mutual fund trust and real estate investment trust pursuant to the Income Tax Act (Canada). Under the Income Tax Act (Canada), so long as the REIT meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”), the REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the period. Management intends to operate the REIT in a manner that enables the REIT to continue to meet the REIT Conditions and to distribute all of its taxable income to its unitholders in order to avoid paying income taxes. In the event that the REIT fails to meet the REIT Conditions or to distribute the required amount of income to its unitholders, the REIT will be subject to current taxes at the combined Canadian federal and provincial tax rate. The applicable combined Canadian federal and provincial tax rate as at March 31, 2014 was 45.0%. As at March 31, 2014, the REIT has satisfied the REIT Conditions and is not liable to pay Canadian income taxes.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of properties will compete with the REIT in seeking tenants. Some of the properties located in the same markets as the REIT’s properties are newer, better located, less levered or have stronger tenant profiles than the REIT’s properties. Some owners with properties located in the same markets as the REIT’s properties may be better capitalized and may be stronger financially and hence better able to withstand an economic downturn. Competition from developers, managers and owners in the markets in which the REIT operates could have a negative effect on the REIT’s ability to lease space, rental rates charged, or concessions granted, which could have an adverse effect on the REIT’s financial condition and results of operation and decrease the amount of cash available for distribution to unitholders.

Competition for acquisitions of real properties can be intense and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that the REIT may be prepared to accept. Increases in the availability of funds from investors and interests in real property investments, or a decrease in interest rates may increase competition, thereby increasing the prices paid by the REIT for property acquisitions and reducing the yield on the investments.

Current Economic Environment

Continued concerns and uncertainties surrounding inflation, deflation or stagflation, and the systemic impact of increased unemployment, volatile energy costs, geopolitical issues, the availability and cost of credit, the Canadian mortgage market and a softening commercial real estate market can contribute to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect the REIT’s ability to maintain occupancy rates and generate revenues, thereby reducing its operating income and net earnings. If these economic conditions continue, the REIT’s tenants and operators may be unable to meet their rental payments and other obligations due to the REIT, which could have a material adverse effect on the REIT’s financial position.

Section 7 Disclosure Controls and Procedures and Internal Controls Over Financial Reporting

The REIT's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109").

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the REIT's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The REIT has adopted the *Internal Control – Integrated Framework (1992)* published by the Committee of Sponsoring Organizations of the Treadway Commission for the design of its ICFR for the three months ended March 31, 2014.

As required by NI 52-109, the REIT's CEO and CFO have evaluated the effectiveness of the REIT's DC&P and ICFR. Based on such evaluations, they have concluded that the design and operation of the REIT's DC&P and ICFR, as applicable, are adequately designed and effective, as at March 31, 2014. No changes were made in the REIT's design of ICFR during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Appendix A – Property Table as at March 31, 2014

A summary of details of the REIT's property portfolio as at March 31, 2014 is set out in the table below.

Asset Class	Property Name	City, Province	Year Built / Renovated / Expanded	GLA (sq. ft.)	Occupancy
INDUSTRIAL					
1.	35 Martin Way	Brooks, AB	2005	28,400	100.0%
2.	5404 36th Street SE	Calgary, AB	1980	36,000	100.0%
3.	7001 96th Street	Grande Prairie, AB	1980	33,280	100.0%
4.	891 – 895 Century Street	Winnipeg, MB	1961 / 1968	51,841	100.0%
5.	110 Lowson Crescent	Winnipeg, MB	1996	60,903	100.0%
6.	130 Lowson Crescent	Winnipeg, MB	1999	25,672	100.0%
7.	119 – 130 Plymouth Street	Winnipeg, MB	1977 / 1999	43,364	100.0%
8.	1271 Sargent Avenue	Winnipeg, MB	1981 / 1984	40,893	100.0%
9.	1855 Sargent Avenue	Winnipeg, MB	1953 / 1998	77,500	100.0%
10.	1935 Sargent Avenue (1)	Winnipeg, MB	1962 / 1997	113,864	100.0%
11.	505 Industrial Drive	Milton, ON	1987 / 1991	258,960	100.0%
TOTAL – INDUSTRIAL				**770,677**	**100.0%**
OFFICE					
12.	Saskatchewan Place	Regina, SK	1985	84,243	75.2%
13.	280 Broadway Avenue (2)	Winnipeg, MB	1957	115,354	96.7%
14.	585 Century Street (3)	Winnipeg, MB	1959	9,680	100.0%
15.	220 Cree Crescent	Winnipeg, MB	1980	18,000	100.0%
16.	1680 Ellice Avenue (3)	Winnipeg, MB	1980	29,843	89.8%
17.	1700 Ellice Avenue (3)	Winnipeg, MB	1956/1959(6)	30,268	100.0%
18.	1030 – 1040 Empress Street	Winnipeg, MB	1956 / 1983	33,478	100.0%
19.	114 Garry Street	Winnipeg, MB	1950 / 1995	74,248	100.0%
20.	1336 – 1340 Sargent Avenue	Winnipeg, MB	1950 / 1995	42,092	100.0%
21	895 Waverley Street	Winnipeg, MB	1991	34,364	100.0%
22.	1000 Waverley Street	Winnipeg, MB	1966 / 1998	58,515	91.2%
23.	4211 Yonge Street (4)	Toronto, ON	1982	170,732	96.4%
24.	1189 Colonel Sam Drive	Oshawa, ON	2001	103,179	100.0%
25.	The Promontory (5)	Mississauga	1987/1989	159,752	100.0%
TOTAL – OFFICE				**963,748**	**96.0%**
RETAIL					
26.	125 – 185 First Street	Cochrane, AB	1998	15,757	100.0%
27.	Flin Flon Wal-Mart	Flin Flon, MB	2002	63,439	100.0%
28.	Airport Road Shopping Centre	Yellowknife, NWT	1982 / 2003(7)	15,475	100.0%
TOTAL – RETAIL				**94,671**	**100.0%**
TOTAL PROPERTIES				**1,829,096**	**97.9%**

Notes:

(1) Leasehold interest with ground lease expiring in 2036.

(2) Includes a seven-storey office building at 280 Broadway Avenue, a three-storey multi-family residential building located at 70 Smith Street and two parking lots located at 286 Broadway Avenue and 68 Smith Street; excludes occupancy from the residential tenants at 70 Smith Street.

(3) 1680 Ellice Avenue, 1700 Ellice Avenue and 585 Century Street comprise the Century Business Park.

(4) The REIT acquired 4211 Yonge Street on May 1, 2013.

(5) The REIT acquired The Promontory on August 14, 2013.

(6) The REIT acquired 1700 Ellice Avenue on December 20, 2013.

(7) The Airport Road Shopping Centre consists of two buildings. 307 Old Airport Road was originally built in 1993 and subsequently renovated in 2003. 309 Old Airport Road was originally built in 1982 and subsequently renovated in 2001.