



**FAM Real Estate
Investment Trust**

FAMREIT.COM

**Management's Discussion and Analysis
of Results of Operations and Financial Condition
For the nine months ended September 30, 2014**

Dated November 5, 2014

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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 nine months ended September 30, 2014 has been prepared and includes material financial information as of November 5, 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 nine months ended September 30, 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 November 5, 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.

Same property net operating income on an accounting basis, which includes straight-line rent and amortization of leasing costs, highlights period-over-period differences driven by changes in occupancy, miscellaneous revenue, and property expenses.

Same property net operating income on a cash basis, which excludes straight-line rent and amortization of leasing costs, reflects the impact of contractual rental rate increases and the expiry of rent-free periods in the lease agreement.

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, share of net loss from equity accounted investment, 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 revised April 2014. 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; share of net income or loss from equity accounted investment; 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; de-recognition 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 and Net Debt to EBITDA leverage ratio

The REIT calculates its leverage ratio using two methods: 1) the average debt outstanding divided by annualized EBITDA and 2) the average debt outstanding net of cash at period end 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. These ratios are widely used and meaningful metrics

for the assessment of creditworthiness and debt default probability. The Debt to EBITDA leverage ratio 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. The Net Debt to EBITDA ratio takes into consideration the cash on hand to decrease debt.

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 November 5, 2014.

Financial Highlights and Key Performance Indicators

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
(\$000s unless otherwise noted and except per unit amounts)				
Revenue from investment properties	\$ 7,991	\$ 7,568	\$ 24,170	\$ 20,250
Net operating income	4,843	4,720	14,535	12,736
Same-property net operating income, cash basis	3,304	3,441	9,644	10,226
Net income and comprehensive income	4,652	1,228	2,426	12,388
Funds from operations – As Reported	2,587	2,418	5,850	7,786
Funds from operations – Core	2,940	2,519	8,468	6,578
FFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – As Reported	\$ 0.17	\$ 0.23	\$ 0.43	\$ 0.86
FFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – Core	\$ 0.19	\$ 0.24	\$ 0.63	\$ 0.73
Adjusted funds from operations – As Reported	2,357	1,529	6,654	4,560
Adjusted funds from operations – Core	2,541	1,529	7,176	5,485
AFFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – As Reported	\$ 0.16	\$ 0.15	\$ 0.49	\$ 0.50
AFFO per unit (basic and diluted ⁽¹⁾⁽³⁾) – Core	\$ 0.17	\$ 0.15	\$ 0.53	\$ 0.61
Distributions per unit ⁽²⁾	\$ 0.19	\$ 0.19	\$ 0.56	\$ 0.56
AFFO – Core pay-out ratio ⁽²⁾⁽³⁾	112%	127%	106%	92%
Cash distributions per unit ⁽²⁾	\$ 0.12	\$ 0.15	\$ 0.38	\$ 0.52
AFFO – Core pay-out ratio, net of DRIP ⁽³⁾⁽⁴⁾	71%	100%	72%	85%
Net operating income by asset class				
Industrial	\$ 1,315	\$ 1,445	\$ 4,150	\$ 4,341
Office	3,204	2,858	9,469	7,154
Retail	324	417	916	1,241
	\$ 4,843	\$ 4,720	\$ 14,535	\$ 12,736
Net operating income by geographic location				
Manitoba	\$ 1,940	\$ 1,851	\$ 5,459	\$ 5,817
Ontario	2,276	1,876	6,973	3,948
Saskatchewan	154	380	430	1,113
Alberta	339	491	1,279	1,466
Northwest Territories	134	122	394	392
	\$ 4,843	\$ 4,720	\$ 14,535	\$ 12,736
Interest coverage ratio (times)	3.0x	2.8x	2.8x	2.7x
Debt to EBITDA leverage ratio (times)	7.8x	8.4x	8.2x	8.6x
Net Debt to EBITDA leverage ratio (times)	7.4x	8.2x	7.9x	8.3x
Debt service coverage ratio (times)	1.8x	1.7x	1.7x	1.7x
Indebtedness ratio (%)*	47.2%	53.5%		
Weighted average mortgage interest rate*	4.7%	4.7%		
Same-property occupancy*	95.1%	98.2%		
Occupancy*				
Industrial	96.3%	100.0%		
Office	94.0%	96.0%		
Retail	90.7%	90.9%		
	94.8%	97.1%		
Square footage leased (sq. ft.)*	1,734,368	1,849,875		
Rentable square footage (sq. ft.)*	1,829,103	1,905,036		

* at period – end

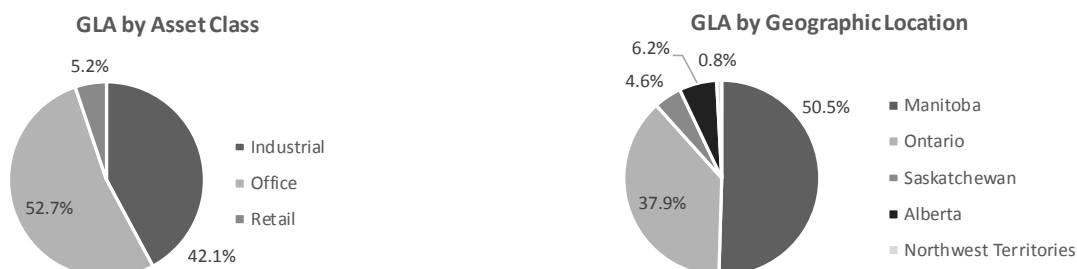
(1) The weighted average number of units outstanding used in the per unit calculations includes the weighted average of all REIT units and Class B LP units.

(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 28 of this MD&A. The reconciliation between AFFO – As Reported and AFFO – Core is on page 30 of this MD&A.

Financial and Operational Highlights

Nine Months Ended September 30, 2014



Portfolio Performance

Overall portfolio occupancy was 94.8% as at September 30, 2014, a decrease from 97.8% on a sequential basis as at June 30, 2014 and 97.1% on a year-over-year basis as at September 30, 2013.

On a sequential basis, the 300 bp overall portfolio occupancy decline was due to four factors (i) an early termination of an energy services tenant lease (28,000 sf) at a single-tenant industrial property in Brooks, Alberta (ii) an early termination of a furniture store tenant lease (9,000 sf) at a multi-tenant retail property in Cochrane, Alberta (iii) a negotiated early termination of a non-contiguous block of office space (7,000 sf) at a multi-tenant office property in Mississauga, Ontario, and (iv) a scheduled lease expiration of a charitable organization (7,000 sf) at a multi-tenant office property in Toronto, Ontario. Management believes the Brooks vacancy is likely to persist for a prolonged period, while the Cochrane, Mississauga and Toronto vacancies are anticipated to be transitional in nature, as discussed in more detail below.

Brooks, Alberta is a non-strategic tertiary market for FAM REIT and macro-economic fundamentals in this area have been challenging in recent years. Management's decision to terminate the lease and file a statement of claim against the tenant follows from the tenant's decision to cease paying rent at this location. This tenant physically vacated the Brooks property several years ago when they exited one of their lines of business, however they continue to operate their core business out of our Grande Prairie industrial property and pay rent in the normal course. We have preserved our ability to potentially recover losses from this tenant, while moving forward to consider all sale and/or lease opportunities in order to mitigate our downside exposure. While we have engaged in several sale and lease discussions over the past several months, we currently do not have any active negotiations underway. Despite the negative impact on FAM REIT's overall portfolio occupancy rate, the Brooks industrial property represents only 1% of FAM REIT's investment property portfolio IFRS value as at September 30, 2014.

Cochrane, Alberta is a vibrant and growing bedroom community located just 18km west of Calgary, and our small retail property is well-located at the heart of Cochrane's downtown. However, the furniture store anchor tenant unexpectedly closed during the third quarter and ceased paying rent before the scheduled expiration of its lease. We are in the process of negotiating a 10-year lease with a federal crown corporation, which would result in a relocation of their smaller store and fully absorb the space

previously occupied by the former furniture store. Management believes leasing interest is solid and that backfilling the smaller pending vacancy will occur relatively quickly.

In Mississauga, we executed a 56,000 sf one year lease extension with one of our tenants earlier in the year at The Promontory, pushing out their scheduled lease expiry to December 31, 2016. As part of this lease extension, we negotiated the right to terminate 7,000 sf of leased space which was non-contiguous to this tenant. However, this space was contiguous to another tenant at our property which had expansion requirements, and we subsequently re-leased this space block. The new lease will take effect during the fourth quarter of 2014 at a 12% net rental rate uplift over the terminated lease.

In Toronto, we incurred some transitional vacancy at 4211 Yonge St during the third quarter of 2014. This property is located in the North Yonge corridor, which is one of the GTA's fundamentally strongest suburban office nodes in terms of vacancy, asking rents, and limited new supply. In July 2014, we had a 7,000 sf charitable organization tenant move out at the end of their lease. This lease had an expiring net rent of \$11 psf, well below market asking net rents which are presently in the \$17-19 psf range. We are currently working through several tenant relocations and expansions. Accordingly, the recent vacancy provides us with flexibility to better accommodate our growing tenants and to pursue higher quality new tenancies.

On a year-over-year basis, the overall portfolio occupancy decline was due to the above noted vacancies and office turnover at Saskatchewan Place. The occupancy loss was partly offset by the acquisition of 1700 Ellice in Winnipeg, which was 100.0% occupied, and the sale of Humboldt Mall in Humboldt, which had an occupancy rate of 81.6%.

On a same-property basis, occupancy was 95.1% as at September 30, 2014, lower than the occupancy rate of 97.8% as at June 30, 2014 and the occupancy rate of 98.2% as at September 30, 2013. These were due to the above noted vacancies.

The REIT achieved NOI of \$4.8 million for the three months and \$14.5 million for the nine months ended September 30, 2014, compared to \$4.7 million and \$12.7 million for the same periods in 2013. The acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice generated NOI of \$1.5 million for the three months and \$4.8 million for the nine months ended September 30, 2014 compared to \$1.0 million for the three months and \$1.5 million for the nine months ended September 30, 2013.

These increases were partially offset by the loss of NOI attributable to properties that were sold in 2013, including 220 Portage and Humboldt Mall, which contributed NOI of \$0.1 million for the three months and \$0.7 million for nine months ended September 30, 2013.

In addition, same property NOI was impacted by the early lease termination at Brooks, Alberta and the office space turnover at Saskatchewan Place, resulting in lower NOI of \$0.3 million for the three months and \$0.6 million for the nine months ended September 30, 2014. Same property NOI for the nine months ended September 30, 2014 also had higher property operating costs of \$0.1 million due to the unusually cold and long-lasting winter weather in Manitoba, which were not fully recoverable from certain tenants under their respective lease arrangements. The higher property operating costs resulted from significant snow removal costs, utility expenses and repair costs on frozen waterlines that were incurred during the first quarter of 2014.

Funds From Operations (As Reported and Core)

FFO – As Reported was \$0.17 per unit for the three months ended September 30, 2014. After adjusting for the \$0.01 per unit (\$0.2 million) non-cash fair value loss on the interest rate swaps and the \$0.01 per unit (\$0.2 million) Special Committee related expenses, FFO – Core was \$0.19 per unit.

FFO – As Reported was \$0.23 per unit for the three months ended September 30, 2013. After adjusting for the \$0.01 per unit (\$0.1 million) fair value loss on the interest rate swaps, FFO – Core was \$0.24 per unit.

The decrease in FFO – Core of \$0.05 per unit for the three months ended September 30, 2014 over the three months ended September 30, 2013 is attributable to the following:

- The dilutive impact of the equity issue of \$0.02 per unit to fund development of the MTS Data Centre which is not generating any FFO contribution during the construction period;
- The dilutive impact of lower leverage arising from the equity issue that was used to repay the outstanding amounts on the revolving credit facility of \$0.02 per unit;
- The decline in same-property NOI of \$0.02 per unit (\$0.3 million), as noted earlier; and
- The decline in NOI related to the sale of Humboldt Mall of \$0.01 per unit (\$0.1 million).

These factors were slightly offset by the FFO generated from the Promontory of \$0.02 per unit (\$0.3 million) which is reflected for a full quarter in the current period as opposed to a stub period in the comparative period.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to FFO – Core will be approximately \$2.4 million, or \$0.16 per unit upon rent commencement which is slated for June 2015 (\$0.12 per unit after taking into account the issuance of 2,794,363 trust units and 2,316,748 Class B limited partnership units of a FAM REIT limited partnership in the proposed acquisition of properties as disclosed in the “Recent Developments” section of this MD&A).

Adjusted Funds From Operations (As Reported and Core)

AFFO – As Reported was \$0.16 per unit for the three months ended September 30, 2014. After adjusting for \$0.01 per unit (\$0.2 million) of Special Committee related expenses, AFFO – Core was \$0.17 per unit.

AFFO – As Reported and AFFO – Core were \$0.15 per unit for the three months ended September 30, 2013.

The increase in AFFO – Core of \$0.02 per unit for the three months ended September 30, 2014 over the three months ended September 30, 2013 was mainly due to lower leasing costs incurred in the third quarter of 2014.

The timing and magnitude of actual capital expenditures and leasing costs can vary significantly from quarter to quarter. Since FAM REIT does not utilize “normalized” reserves for capital expenditures and leasing costs in deriving AFFO, it is important to note that quarterly AFFO can be volatile.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to AFFO - Core will be approximately \$2.2 million, or \$0.15 per unit upon rent commencement which is slated for June 2015 (\$0.11 per unit after taking into account the issuance of 2,794,363 trust units and 2,316,748 Class B

limited partnership units of a FAM REIT limited partnership in the proposed acquisition of properties as disclosed in the “Recent Developments” section of this MD&A).

Pay-out Ratio

The distribution payout ratio as a percentage of AFFO – Core was 112% for the three months ended September 30, 2014, which was lower than the 127% for the same period in 2013.

The distribution payout ratio as a percentage of AFFO – Core was 106% for the nine months ended September 30, 2014, which was higher than the 92% for the same period in 2013.

On a pro-forma basis, if the MTS Data Centre was operational at the beginning of the year, AFFO – Core would have been 22% higher for the three months (+\$0.5 million) and 23% higher for the nine months (+\$1.6 million) ended September 30, 2014.

Net Income

Net income for the three months ended September 30, 2014 was \$4.7 million, ahead of \$1.2 million for the same period in 2013. The difference was primarily due to the \$1.0 million share of net income from the equity accounted investment and a favorable change in the fair value adjustments to financial instruments of \$0.4 million and investment properties of \$2.0 million.

Net income for the nine months ended September 30, 2014 was \$2.4 million, lower than \$12.4 million for the same period in 2013. The difference was largely due to a \$6.8 million decrease in non-cash fair value adjustments to investment properties, an unrealized non-cash fair value loss on interest rate swaps of \$3.5 million, and the negative impact of \$1.9 million in non-cash fair value adjustments to financial instruments. In addition, the three months ended September 30, 2013 was favorably impacted by the de-recognition of mark-to-market adjustments on mortgages of \$0.7 million. These decreases were partly offset by an increase in net operating income of \$1.8 million and an increase in share of net income from the equity accounted investment of \$0.9 million.

Recent Developments

Amended Management Agreement

On August 12, 2014, in connection with the announcement by Huntingdon that it has entered into a definitive agreement with Slate Capital Corp., an affiliate of Slate Properties Inc. (“Slate”) whereby Slate will purchase all of the issued and outstanding shares of Huntingdon pursuant to a plan of arrangement transaction (the “Huntingdon Transaction”), the REIT has entered into an amended and restated management agreement (the “Amended Management Agreement”) with Huntingdon that will become effective upon the completion of the Huntingdon Transaction. Upon completion of the Huntingdon Transaction, Slate will become the REIT’s manager and will assume Huntingdon’s responsibilities in its capacity as the REIT’s manager.

On November 4, 2014, the Huntingdon Transaction was completed and Slate has become the REIT’s manager.

Office Properties Purchase

On October 29, 2014, the REIT entered into an agreement to purchase a portfolio of seven office properties with an aggregate gross leasable area of approximately 1.1 million sf (the "Acquisition Properties") from Slate GTA Suburban Office Inc. ("Slate GTA") for \$190.0 million, before closing costs and subject to adjustment in accordance with the terms of the purchase agreement (the "Purchase Price"). The purchase of the Acquisition Properties is expected to be financed through a combination of (i) \$144.0 million in cash, which will be funded with proceeds of new mortgage debt, and (ii) the issuance to Slate GTA or its designee of 2,794,363 trust units and 2,316,748 Class B limited partnership units of a FAM REIT limited partnership (the "New Class B LP Units"), at a price of \$9.00 per unit.

The cash portion of the Purchase Price is expected to be funded pursuant to mortgages to be entered into upon completion of the purchase of the Acquisition Properties. The mortgages will be floating rate, first mortgage financing with a 24 month term, interest rate of 2.25% over the 90-day Canadian Bankers' Acceptance rate and secured by each of the Acquisition Properties. No acquisition fee will be paid to the REIT's manager in connection with the Acquisition Properties. Additional costs of approximately \$2.9 million are estimated to be incurred for this transaction.

The REIT understands that pursuant to the purchase of the Acquisition Properties, Slate will transfer the 2,794,363 trust units to Incore Equities Inc. ("Incore"), or will otherwise direct the REIT to issue and deliver the trust units directly to Incore as the designee of Slate GTA (the "Incore Transfer"). Accordingly, following the completion of the Huntingdon Transaction, the purchase of the Acquisition Properties, and the Incore Transfer, the effective interest of Slate and Incore will be approximately 34.4% and 13.8%, respectively.

The purchase of the Acquisition Properties is conditional upon, among other things, approval by a majority of unitholders (excluding votes cast by or on behalf of Huntingdon, Slate or their respective affiliates), and the REIT receiving acceptable third party financing to pay the cash portion of the Purchase Price.

A special meeting of unitholders will take place on December 5, 2014 to consider the approval of the purchase of the Acquisition Properties. Refer to the information circular dated October 29, 2014, filed on SEDAR for further details.

Investment in MTS Data Centre development

On April 22, 2014, the REIT entered into an agreement to invest in a fully pre-leased 64,000 sf data centre development in Winnipeg, Manitoba (the "MTS Data Centre"). The REIT acquired a 50% equity ownership interest in a limited partnership that will own the MTS Data Centre through a \$9.5 million investment.

In connection with the investment in the MTS Data Centre, the REIT issued a \$6.6 million mezzanine loan (the "Mezzanine Loan") at an interest rate of 13.3% to its 50% limited partner, an arms' length company to fund a portion of its required capital contribution.

The debt financing for the MTS Data Centre development (on a 100% ownership basis) presently consists of a \$37.0 million loan facility and a \$2.0 million short term operating facility to be used solely to fund sales taxes during construction. The loan facility will mature 15 years after the earlier of (i) the completion of the MTS Data Centre development and (ii) July 15, 2015. Subsequent to September 30, 2014, the existing lender has also approved a \$2.9 million short term credit facility which will be solely used to fund Manitoba retail sales tax, subject to the approval by the Board of Trustees of FAM REIT.

The limited partnership had cash on hand of approximately \$6.0 million at September 30, 2014 and no amounts were drawn on the loan facility.

The 15-year lease for the MTS Data Centre is expected to commence in June 2015, following substantial completion of the development project in May 2015. The MTS Data Centre is expected to generate approximately \$6.1 million of annualized net operating income in the first year of the lease (on a 100% ownership basis), with contractual rent increases of approximately 5.2% in years six and eleven. There are three consecutive five-year lease renewal options beyond the initial term, 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.

MTS Data Centre development progress update

Development is proceeding well with full construction permitting received and all key construction milestones on schedule. The building shell is expected to be complete in November 2014, and substantial completion is expected in May 2015. Building turnover to the tenant is slated for June 2015 upon commissioning.

All major project milestones remain on schedule. Site excavation, piling work, structural steel and foundation walls are all complete. Horizontal drilling and sewage pipe placement are complete. Exterior block walls are approximately 90% complete. Roofing is approximately 25% complete. Generator sets, UPS, Chillers and Electrical Main Switchboards have been ordered for delivery by early January, and procurement of final sub-contractors is underway. Manitoba Hydro has commenced work on the High Voltage Electrical Entrance.

On October 24, 2014, FAM REIT and its partner took advantage of recent market volatility, which resulted in a significant decline in government bond yields, and notified the lender to execute an early lock on the \$37 million loan. The fixed mortgage interest rate over the 15 year term has now been locked in at an attractive 4.38%, which is well below our initial underwriting assumption.

The estimated project budget has increased from \$53 million to \$54 million to account for the additional interest related to the project primarily as a result of the early rate lock on the full \$37 million (as this loan is now fully disbursed into the project account as of October 29, 2014), and a component of the Manitoba retail sales tax which is expected to be non-recoverable by the partnership.

Equity offering and Huntingdon private placement

On May 13, 2014, in connection with the investment in the MTS Data Centre, the REIT completed a public offering of 1,955,000 trust units, inclusive of 255,000 trust units issued pursuant to the full exercise of the over-allotment option at a price of \$8.85 per trust unit, for gross proceeds of approximately \$17.3 million (the "May 2014 Offering").

Concurrent with the closing of the May 2014 Offering, the REIT issued 831,639 trust units on a private placement basis to Huntingdon, at a purchase price of \$8.85 per trust unit for gross proceeds of \$7.4 million.

After deducting issuance costs of \$1.3 million, net proceeds of \$23.4 million from the May 2014 Offering and the private placement were used to (i) fund the investment in the MTS Data Centre including the Mezzanine Loan and any additional amounts payable for closing costs, (ii) to fully repay amounts drawn on the REIT's revolving credit facility, and (iii) for general corporate purposes.

Section 2 BUSINESS OVERVIEW

Current Business Environment

Fundamentals

Recently, new supply risks have emerged across major downtown Class A office markets including Toronto, Calgary and Vancouver. This new supply wave of Class A office product is anticipated to have a trickle-down effect on older downtown buildings as existing landlords compete with newer, more cost and environmentally efficient buildings. We expect older Class A building landlords will become more aggressive to retain tenancies through lower rents and higher lease incentives. As a result we expect downtown Class B/C product will ultimately face considerable challenges in the near to medium term.

After nearly two decades of strong demand fundamentals, the retail sector appears to be at an inflection point. A wave of US retailers recently expanding into Canada intensified the competitive landscape, with some falling significantly short of their sales productivity expectations. This has occurred during a period when Canadian consumers have stretched their balance sheets with record household debt levels. Further creating pressure is the rapid consumer adoption of e-commerce, with many box retailers once known to be “category killers” now struggling with declining demand.

In contrast, high energy prices (notwithstanding the recent oil market pullback), the strengthening US economy and a weaker Canadian dollar are positive demand drivers for the industrial sector. As industrial demand has outpaced new supply, the net impact is rising rents and declining vacancies, particularly in Western Canada. As online retail sales growth outpaces bricks and mortar retail activity, demand for distribution and warehouse space is expected to provide a tailwind for the industrial sector in the years ahead.

Technological innovation, proliferation of consumer and business requirements for secure, fast and reliable data usage, storage, backup and cloud based services is driving significant demand growth for high quality data centres. Social media, growth in smartphones/tablets, and the disruptive impact that technology is having on the shopping centre industry will drive further demand growth for data centres.

Valuations

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

In a low interest rate environment, 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 eventually 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 than core assets. 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 in the current environment is a sudden spike in borrowing costs, either through widening credit spreads and/or rising interest rates. Long-term government bond yields have 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 2.3%). 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 a similar path.

Global capital markets 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 expected to be fully unwound by the end of 2014. This has recently triggered another round of volatility and concerns that an abrupt withdrawal may fuel a significant global macro-economic slowdown and may lead to another round of quantitative easing by major central banks.

While some market participants are calling for a "new normal" environment where interest rates and economic growth remain lower for a longer period, we believe an eventual resumption of central bank rate hikes in developed countries is likely to emerge as economic growth gains traction. There are increasing signs of this, as the US economy has now recovered all the jobs lost during the 2007-2009 recession, and unemployment has recently fallen to 5.9% in September 2014, its lowest level since July 2008. It is also the longest stretch of monthly employment gains since the 1986 to 1990 period.

As further data points emerge to reinforce improving macro-economic growth, this is likely to continue driving significant volatility in the market valuation of yield oriented securities, including REITs, as a natural human-nature reaction to changes through the market cycle. Equity market and REIT sector volatility during the fall of 2014 is a good example of this.

Capital Raising

The total volume of equity issuance by Canadian REITs during the past year is at its lowest level since 2008. Not surprisingly, net money flows into dedicated funds which invest in REITs have turned negative since June 2013 with a small rebound in spring 2014 as long-term government bond yields moderated from levels observed several months earlier.

Larger cap REITs have benefited from an easing of selling pressure as mutual fund redemptions have moderated, while many small cap REITs have not seen meaningful new interest from mutual funds, as liquidity concerns continue to remain at the forefront of risks which investment managers are seeking to address. Without a reliable trend of positive inflows, managers typically need to hold most of their investments in larger, more liquid REITs to address the ongoing risk of fund redemptions.

Many of the larger cap REITs are aggressively accessing senior unsecured debt issuance in order to fund their capital requirements, instead of issuing equity. This is not a long-term sustainable trend as issuing more debt than equity to fund capital requirements will eventually increase the risk profile of the REIT industry.

Overall this has resulted in some of the most adverse fund raising conditions for small cap REITs since the onset of the global financial crisis. Small cap REITs with weak balance sheets and poor liquidity profiles are particularly vulnerable. We believe that strong sponsorship and access to capital will be key differentiating factors across the small cap REITs.

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 the possibility that we are in the early stages 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 tailwind 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.

Portfolio

The REIT's properties are located in Alberta, Saskatchewan, Manitoba, Ontario and the Northwest Territories, and consist of properties across the industrial, office and retail real estate asset classes. The composition of the portfolio of investment properties is set out in the following table:

	Gross Leasable Area (sq. ft.)					As at December 31, 2013	
	Industrial	Office	Retail	As at September 30, 2014 Total	%	Total	%
Manitoba	414,037	445,842	63,439	923,318	50.5%	922,796	50.5%
Ontario	258,960	433,656	-	692,616	37.9%	692,623	37.9%
Saskatchewan	-	84,243	-	84,243	4.6%	84,243	4.6%
Alberta	97,680	-	15,771	113,451	6.2%	113,437	6.2%
Northwest Territories	-	-	15,475	15,475	0.8%	15,475	0.8%
Total	770,677	963,741	94,685	1,829,103	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 December 31, 2013
	Industrial	Office	Retail	As at September 30, 2014 Total	Total
Manitoba	100.0%	97.3%	100.0%	98.7%	98.7%
Ontario	100.0%	94.8%	-	96.8%	99.1%
Saskatchewan	-	72.6%	-	72.6%	82.0%
Alberta	70.9%	-	43.9%	67.2%	100.0%
Northwest Territories	-	-	100.0%	100.0%	100.0%
Total	96.3%	94.0%	90.7%	94.8%	98.2%
As at December 31, 2013					
	100.0%	96.5%	100.0%	98.2%	

Outlook

FAM REIT's operating performance during the three months ended September 30, 2014 was negatively impacted by four vacancies, three of which are expected to be temporary in nature for reasons outlined earlier.

During the fourth quarter of 2014, we continued to work on further de-risking our leasing profile. In particular, we received a commitment for a 25-year lease renewal with the Province of Manitoba for 74,000 sf at our 114 Garry St, Winnipeg property, which is conditional on obtaining final approval from the provincial authority (expected before year end 2014). This deal entails a significant redevelopment of the property over a two year period, and the new rental rate structure was negotiated to take into account the total capital requirement which we currently estimate to be in the range of approximately \$10 million. Given the 25-year lease term and high credit quality covenant, we expect that there will be several attractive debt financing options to fund the capital investment.

We are aggressively focused on improving the quality and reliability of our cash flow, and the occupancy issues we faced during the third quarter serve as important reminders of our need to remain disciplined about managing our risk profile. Our strong financial position and liquidity allow us to navigate short term issues while remaining focused on long term value creation.

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 June 2015. As noted earlier, on an annualized basis, the incremental year one contribution from the MTS Data Centre to AFFO – Core will be approximately \$2.2 million, or \$0.15 per unit upon rent commencement (\$0.11 per unit after taking into account the issuance of 2,794,363 trust units and 2,316,748 New Class B LP Units in the proposed acquisition of properties, as disclosed in the "Recent Developments" section of this MD&A.

In addition to the embedded growth in AFFO from the MTS Data Centre, FAM REIT's 47.2% indebtedness ratio and approximately \$20 million of available liquidity provide significant dry powder to fund growth and downside protection in the event of adverse capital market conditions.

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.

The Special Committee has unanimously resolved that the purchase of the Acquisition Properties, as disclosed in the "Recent Developments" section of this MD&A, is in the best interests of the FAM REIT and its unitholders.

In accordance with an advisory agreement previously entered into by the Special Committee, upon completion of the Huntingdon Transaction, the REIT has committed to pay advisory fees of \$1.2 million, reduced by work fees already accrued or paid of \$0.2 million.

Section 3 REVIEW OF FINANCIAL AND OPERATIONAL RESULTS

Summary of Selected Financial Information

(\$000s unless otherwise noted)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue from investment properties	\$ 7,991	\$ 7,568	\$ 24,170	\$ 20,250
Property operating expenses	(3,148)	(2,848)	(9,635)	(7,514)
Net operating income	\$ 4,843	\$ 4,720	\$ 14,535	\$ 12,736
General and administration	\$ (487)	\$ (574)	\$ (1,539)	\$ (2,074)
Special Committee related expenses	(184)	-	(522)	-
Finance costs, net	(2,180)	(2,203)	(8,421)	(4,318)
Share of net income from equity accounted investment	1,033	-	924	-
Fair value adjustments to financial instruments	2,509	2,139	2,219	4,122
Fair value adjustments on investment properties	(882)	(2,854)	(4,770)	2,009
Loss on disposal of investment property	-	-	-	(87)
Net income and comprehensive income	\$ 4,652	\$ 1,228	\$ 2,426	\$ 12,388
Total assets*	289,500	269,657		
Total debt ^{(1)*}	136,757	144,304		

* 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.

For the three months ended September 30, 2014, revenue from investment properties was \$8.0 million compared to \$7.6 million for the same period in 2013. For the nine months ended September 30, 2014, revenue from investment properties was \$24.2 million compared to \$20.3 million for the same period in 2013. The growth in revenue from investment properties of 5.3% for the three months and 19.1% for the nine months ended September 30, 2014 was driven by incremental revenues from the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice. These were partially offset by the early lease termination at a single-tenant industrial property at Brooks, Alberta, office space turnover at Saskatchewan Place, and the dispositions of 220 Portage and Humboldt Mall.

Property Operating Expenses

Property operating expenses consist 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 \$2.9 million for the

three months and \$8.7 million for the nine months ended September 30, 2014, compared to \$2.7 million and \$6.8 million for the same periods in 2013.

For the three months ended September 30, 2014, property operating expenses were \$3.1 million compared to \$2.8 million for the same period in 2013. For the nine months ended September 30, 2014, property operating expenses were \$9.6 million compared to \$7.5 million for the same period in 2013. The increase in property operating expenses of \$0.3 million for the three months and \$2.1 million for the nine months ended September 30, 2014 was primarily due to incremental expenses from the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice. 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.

For the three months ended September 30, 2014, general and administration expenses were relatively consistent with the same period in 2013. General and administration expenses decreased by \$0.5 million during the nine months ended September 30, 2014, primarily due to aborted transaction costs of \$0.3 million and post-closing IPO costs of \$0.2 million that were incurred during the prior period.

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, financial advisory and trustee fees, which totaled \$0.2 million for the three months and \$0.5 million for the nine months ended September 30, 2014.

As at September 30, 2014, the Special Committee was evaluating the potential purchase of the Acquisition Properties from Slate GTA, as disclosed in the "Recent Developments" section of this MD&A. As at September 30, 2014, approximately \$0.4 million has been deferred and is included in prepaid expenses and other assets.

Share of net income from equity accounted investment

During the three months and nine months ended September 30, 2014, the REIT recorded income of \$1.0 million and \$0.9 million, respectively, from its equity accounted investment in the Data Centre. The equity income was largely driven by a fair value adjustment to its investment property under development.

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.

For the three months ended September 30, 2014, finance costs were \$2.2 million and consistent with the same period in 2013. For the nine months ended September 30, 2014, finance costs were \$8.4 million compared to \$4.3 million in the same period in 2013. The increase in finance costs of \$4.1 million was primarily due to the fluctuations in fair value adjustments related to interest rate swaps of \$3.5 million. In addition, finance costs during the prior period were favorably impacted by the de-recognition of mark-to-market adjustments on mortgages of \$0.7 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 based on the quoted closing price of the trust units into which they are exchangeable.

During the three months ended September 30, 2014, the REIT recognized a \$2.5 million unrealized fair value gain related to the Class B LP units, representing a decrease in the fair value per unit from \$8.79 at June 30, 2014 to \$7.95 at September 30, 2014. During the three months ended September 30, 2013, the REIT recognized a \$2.0 million unrealized fair value gain representing a decrease in the fair value per unit from \$9.50 at June 30, 2013 to \$8.70 at September 30, 2013.

During the nine months ended September 30, 2014, the REIT recognized a \$2.2 million unrealized fair value gain representing a decrease in the fair value per unit from \$8.58 at December 31, 2013 to \$7.95 at September 30, 2014. During the nine months ended September 30, 2013, the REIT recognized a \$3.5 million unrealized fair value gain representing a decrease in the fair value per unit from \$10.10 at December 31, 2012 to \$8.70 at September 30, 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 based on the quoted closing price of the warrants.

During the three months ended September 30, 2014, the fair value adjustment to warrants were nominal. The fair value per warrant decreased from \$0.035 at June 30, 2014 to \$0.03 at September 30, 2014. During the three months ended September 30, 2013, the REIT recognized a \$0.1 million unrealized fair value gain representing a decrease in the fair value per warrant from \$0.18 at June 30, 2013 to \$0.10 at September 30, 2013.

During the nine months ended September 30, 2014, the fair value adjustment to warrants were nominal. The fair value per warrant decreased from \$0.04 at December 31, 2013 to \$0.03 at September 30, 2014. During the nine months ended September 30, 2013, the REIT recognized a \$0.6 million unrealized fair value gain representing a decrease in the fair value per warrant from \$0.48 at December 31, 2012 to \$0.10 at September 30, 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.

The fair value loss of \$0.9 million during the three months ended September 30, 2014 reflect changes in leasing assumptions for certain properties in Manitoba. The fair value loss of \$4.8 million during the nine months ended September 30, 2014 was driven by the single-tenant industrial property in Brooks, Alberta, whose lease was early terminated, as well as changes in leasing assumptions for certain properties in Manitoba. The Brooks, Alberta property is in a tertiary market with limited industrial user demand.

The fair value loss of \$2.9 million during the three months ended September 30, 2013 was due to the increase in discount and capitalization rates for certain properties, write-off of acquisition costs of \$1.1 million related to the Promontory, as well as a \$1.0 million of capital expenditures and leasing costs. The fair value gain of \$2.0 million during the nine months ended September 30, 2013 reflects the gain associated with the sale of 220 Portage, partially offset by the write-off of acquisition costs of \$1.9 million related to both The Promontory and 4211 Yonge, capital expenditures and leasing costs of \$1.2 million, and the increase in discount and capitalization rates for certain properties.

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 and nine months ended September 30, 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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenue from investment properties	\$ 7,991	\$ 7,568	\$ 24,170	\$ 20,250
Property operating expenses	(3,148)	(2,848)	(9,635)	(7,514)
Net operating income	4,843	4,720	14,535	12,736
Margin (%)	60.6%	62.4%	60.1%	62.9%

The following table summarizes NOI by asset class and geographic location for the three months and nine months ended September 30, 2014:

(\$000s except percentages)	Net Operating Income				
	Three months ended September 30, 2014				
	Industrial	Office	Retail	Total	Percentage (%)
Manitoba	\$ 576	\$ 1,220	\$ 144	\$ 1,940	40.0%
Ontario	446	1,830	-	2,276	47.0%
Saskatchewan	-	154	-	154	3.2%
Alberta	293	-	46	339	7.0%
Northwest Territories	-	-	134	134	2.8%
	\$ 1,315	\$ 3,204	\$ 324	\$ 4,843	100.0%
Percentage (%)	27.1%	66.2%	6.7%	100.0%	

(\$000s except percentages)	Net Operating Income				
	Nine months ended September 30, 2014				
	Industrial	Office	Retail	Total	Percentage (%)
Manitoba	\$ 1,730	\$ 3,389	\$ 340	\$ 5,459	37.5%
Ontario	1,323	5,650	-	6,973	48.0%
Saskatchewan	-	430	-	430	3.0%
Alberta	1,097	-	182	1,279	8.8%
Northwest Territories	-	-	394	394	2.7%
	\$ 4,150	\$ 9,469	\$ 916	\$ 14,535	100.0%
Percentage (%)	28.6%	65.1%	6.3%	100.0%	

The following table summarizes NOI by asset class and geographic location for the three months and nine months ended September 30, 2013:

Net Operating Income						
Three months ended September 30, 2013						
(\$000s except percentages)	Industrial	Office	Retail	Total	Percentage (%)	
Manitoba	\$ 561	\$ 1,161	\$ 129	\$ 1,851	39.2%	
Ontario	458	1,418	-	1,876	39.7%	
Saskatchewan	-	279	101	380	8.1%	
Alberta	426	-	65	491	10.4%	
Northwest Territories	-	-	122	122	2.6%	
	\$ 1,445	\$ 2,858	\$ 417	\$ 4,720	100.0%	
Percentage (%)	30.6%	60.6%	8.8%	100.0%		

Net Operating Income						
Nine months ended September 30, 2013						
(\$000s except percentages)	Industrial	Office	Retail	Total	Percentage (%)	
Manitoba	\$ 1,736	\$ 3,701	\$ 380	\$ 5,817	45.7%	
Ontario	1,329	2,619	-	3,948	31.0%	
Saskatchewan	-	834	279	1,113	8.7%	
Alberta	1,276	-	190	1,466	11.5%	
Northwest Territories	-	-	392	392	3.1%	
	\$ 4,341	\$ 7,154	\$ 1,241	\$ 12,736	100.0%	
Percentage (%)	34.1%	56.2%	9.7%	100.0%		

Industrial Properties

The actual results of operations for the three months and nine months ended September 30, 2014 are set out below:

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
(stated in \$000s, unless otherwise noted)				
<i># of properties (period-end)</i>			11	11
<i>Owned GLA (000s of sf) (period-end)</i>			771	771
<i>Occupancy rate (%) (period-end)</i>			96.3%	100.0%
Revenue from investment properties	\$ 1,861	\$ 1,926	\$ 5,745	\$ 5,775
Property operating expenses	(546)	(481)	(1,595)	(1,434)
Net operating income	\$ 1,315	\$ 1,445	\$ 4,150	\$ 4,341
Margin %	70.7%	75.0%	72.2%	75.2%

Net operating income for industrial properties decreased by \$0.1 million for the three months and \$0.2 million for the nine months ended September 30, 2014 compared to the same periods in 2013. These decreases were due to the early lease termination of a single-tenant industrial property at Brooks, Alberta.

Office Properties

The actual results of operations for the three months and nine months ended September 30, 2014 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
# of properties (period-end)			14	13
Owned GLA (000s of sf) (period-end)			964	934
Occupancy rate (%) (period-end)			94.0%	96.0%
Revenue from investment properties	\$ 5,663	\$ 4,996	\$ 17,032	\$ 12,512
Property operating expenses	(2,459)	(2,138)	(7,563)	(5,358)
Net operating income	\$ 3,204	\$ 2,858	\$ 9,469	\$ 7,154
Margin %	56.6%	57.2%	55.6%	57.2%

Net operating income for office properties increased by \$0.3 million for the three months and \$2.3 million for the nine months ended September 30, 2014, when compared to the same periods in 2013. The growth in net operating income for both periods were driven by incremental NOI related to the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice in 2013. These were partly offset by a decrease in same property net operating income related to office space turnover at Saskatchewan Place and the disposition of 220 Portage in April 2013.

Retail Properties

The actual results of operations for the three months and nine months ended September 30, 2014 are set out below:

(stated in \$000s, unless otherwise noted)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
# of properties (period-end)			3	4
Owned GLA (000s of sf) (period-end)			95	201
Occupancy rate (%) (period-end)			90.7%	90.9%
Revenue from investment properties	\$ 467	\$ 646	\$ 1,393	\$ 1,963
Property operating expenses	(143)	(229)	(477)	(722)
Net operating income	\$ 324	\$ 417	\$ 916	\$ 1,241
Margin %	69.4%	64.6%	65.8%	63.2%

Net operating income for retail properties decreased by \$0.1 million for the three months and \$0.3 million for the nine months ended September 30, 2014 compared to the same periods in 2013. These declines were due to the sale of Humboldt Mall in December 2013. Same property net operating income for the three months and nine months ended September 30, 2014 were relatively consistent with the same periods in 2013.

Same Property Analysis

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

Net Operating Income, Accounting Basis

	For the three months ended:						
(\$000s)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Industrial	\$1,315	\$1,387	\$1,448	\$1,448	\$1,445	\$1,447	\$1,449
Office	1,655	1,550	1,479	1,599	1,807	1,704	1,723
Retail	324	314	278	285	316	327	318
Total	\$3,294	\$3,251	\$3,205	\$3,332	\$3,568	\$3,478	\$3,490

Net Operating Income, Cash Basis

	For the three months ended:						
(\$000s)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013
Industrial	\$1,259	\$1,317	\$1,366	\$1,367	\$1,364	\$1,370	\$1,372
Office	1,648	1,589	1,476	1,579	1,766	1,695	1,709
Retail	336	315	277	284	311	325	314
Total	\$3,243	\$3,221	\$3,119	\$3,230	\$3,441	\$3,390	\$3,395

On a same property basis, net operating income on cash basis for the three months ended September 30, 2014 improved compared to the first two quarters in 2014. This improvement resulted from more moderate weather following the harsh winter which contributed to higher operating costs. The 2014 results, in comparison to each of the quarters in 2013, were negatively impacted primarily the early lease termination at Brooks, Alberta and the tenant turnover at Saskatchewan Place.

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net income	\$ 4,652	\$ 1,228	\$ 2,426	\$ 12,388
Add (deduct):				
Amortization of leasing costs	36	4	122	8
Loss on disposition of investment property	-	-	-	87
Distributions on Class B LP units	559	471	1,675	1,434
Share of net income from equity accounted equity accounted investment	(1,033)	-	(924)	-
Fair value adjustments to financial instruments	(2,509)	(2,139)	(2,219)	(4,122)
Fair value adjustments to investment properties	882	2,854	4,770	(2,009)
Funds from operations – As Reported	\$ 2,587	\$ 2,418	\$ 5,850	\$ 7,786
Add (deduct):				
Fair value adjustments to interest rate swaps	169	103	2,096	(1,408)
De-recognition of mark-to-market adjustment on mortgages refinanced or discharged	-	(2)	-	(725)
Special Committee related expenses	184	-	522	-
Defeasance costs	-	-	-	598
Aborted transaction costs	-	-	-	327
Funds from operations – Core	\$ 2,940	\$ 2,519	\$ 8,468	\$ 6,578
Weighted average number of units outstanding (000s) ⁽¹⁾ :				
Basic and diluted	14,973	10,318	13,516	9,042
Per unit (basic and diluted)				
FFO per unit – As Reported	\$ 0.17	\$ 0.23	\$ 0.43	\$ 0.86
FFO per unit – Core	\$ 0.19	\$ 0.24	\$ 0.63	\$ 0.73

(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 \$0.17 per unit for the three months ended September 30, 2014. After adjusting for the \$0.01 per unit (\$0.2 million) non-cash fair value loss on the interest rate swaps and the \$0.01 per unit (\$0.2 million) Special Committee related expenses, FFO – Core was \$0.19 per unit.

FFO – As Reported was \$0.23 per unit for the three months ended September 30, 2013. After adjusting for the \$0.01 per unit (\$0.1 million) fair value loss on interest rate swaps, FFO – Core was \$0.24 per unit.

FFO – As Reported was \$0.43 per unit for the nine months ended September 30, 2014. After adjusting for the \$0.16 per unit (\$2.1 million) non-cash fair value loss on the interest rate swaps and the \$0.04 per unit (\$0.5 million) Special Committee related expenses, FFO – Core was \$0.63 per unit.

FFO – As Reported was \$0.86 per unit for the nine months ended September 30, 2013. After adjusting for the \$0.16 per unit (\$1.4 million) fair value gain on interest rate swaps, \$0.08 per unit (\$0.7 million) de-recognition of non-cash mark-to-market adjustment on mortgages refinanced or discharged, \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, FFO – Core was \$0.73 per unit.

The decrease in FFO – Core of \$0.05 per unit for the three months ended September 30, 2014 over the three months ended September 30, 2013 is attributable to the following:

- The dilutive impact of the equity issue of \$0.02 per unit to fund development of the MTS Data Centre which is not generating any FFO contribution during the construction period;
- The dilutive impact of lower leverage arising from the equity issue that was used to repay the outstanding amounts on the revolving credit facility of \$0.02 per unit;
- The decline in same-property NOI of \$0.02 per unit (\$0.3 million), as noted earlier; and
- The decline in NOI related to the sale of Humboldt Mall of \$0.01 per unit (\$0.1 million).

These factors were slightly offset by the FFO generated from the Promontory of \$0.02 per unit (\$0.3 million) which is reflected for a full quarter in the current period as opposed to a stub period in the comparative period.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to FFO – Core will be approximately \$2.4 million, or \$0.16 per unit upon rent commencement which is slated for June 2015 (\$0.12 per unit after taking into account the issuance of 2,794,363 trust units and 2,316,748 New Class B LP Units in the proposed acquisition of properties as disclosed in the “Recent Developments” section of this MD&A).

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Funds from operations – As Reported	\$ 2,587	\$ 2,418	\$ 5,850	\$ 7,786
Add (deduct):				
Interest rate subsidy ⁽¹⁾	116	73	307	386
Accretion on vendor take-back loan	73	71	217	207
Amortization of deferred transaction costs	63	56	189	139
De-recognition of mark-to-market adjustments on mortgages refinanced or discharged	-	(2)	-	(725)
Amortization of mark-to-market adjustments on mortgages	(55)	(58)	(166)	(288)
Amortization of straight-line rent	(82)	(153)	(369)	(365)
Capital expenditures	(318)	(262)	(731)	(333)
Leasing costs	(196)	(717)	(739)	(839)
Fair value adjustments to interest rate swaps	169	103	2,096	(1,408)
Adjusted funds from operations – As Reported	\$ 2,357	\$ 1,529	\$ 6,654	\$ 4,560
Add:				
Special Committee related expenses	184	-	522	-
Defeasance costs	-	-	-	598
Aborted transaction costs	-	-	-	327
Adjusted funds from operations – Core	\$ 2,541	\$ 1,529	\$ 7,176	\$ 5,485
Weighted average number of units outstanding (000s) ⁽²⁾ :				
Basic and diluted	14,973	10,318	13,516	9,042
Per unit (basic and diluted)				
AFFO per unit – As Reported	\$ 0.16	\$ 0.15	\$ 0.49	\$ 0.50
AFFO per unit – Core	\$ 0.17	\$ 0.15	\$ 0.53	\$ 0.61

(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.

For the three months ended September 30, 2014, AFFO – As Reported was \$0.16 per unit. After adjusting for \$0.01 per unit (\$0.2 million) of Special Committee related expenses, AFFO – Core was \$0.17 per unit.

For the three months ended September 30, 2013, AFFO – As Reported and AFFO – Core were \$0.15 per unit.

For the nine months ended September 30, 2014, AFFO – As Reported was \$0.49 per unit. After adjusting for \$0.04 per unit (\$0.5 million) of Special Committee related expenses, AFFO – Core was \$0.53 per unit.

For the nine months ended September 30, 2013, AFFO – As Reported was \$0.50 per unit. After adjusting for \$0.07 per unit (\$0.6 million) defeasance costs, and \$0.04 per unit (\$0.3 million) aborted transaction costs, AFFO – Core was \$0.61 per unit.

The increase in AFFO – Core of \$0.02 per unit for the three months ended September 30, 2014 over the three months ended September 30, 2013 was mainly attributed to lower leasing costs incurred in the third quarter of 2014.

The timing and magnitude of actual capital expenditures and leasing costs can vary significantly from quarter to quarter. Since FAM REIT does not utilize “normalized” reserves for capital expenditures and leasing costs in deriving AFFO, it is important to note that quarterly AFFO can be volatile.

On an annualized basis, the incremental year one contribution from the MTS Data Centre to AFFO - Core will be approximately \$2.2 million, or \$0.15 per unit upon rent commencement which is slated for June 2015 (\$0.11 per unit after taking into account the issuance of 2,794,363 trust units and 2,316,748 New Class B LP Units in the proposed acquisition of properties as disclosed in the “Recent Developments” section of this MD&A).

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 (net of tenant improvement payables) for the three months and nine months ended September 30, 2014 and 2013 were as follows:

(\$000s unless otherwise noted)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Tenant improvements and leasing commissions				
New leasing	\$ 2	\$ 525	\$ 96	\$ 531
Renewals				
Office	127	192	474	281
Industrial	65	-	146	17
Retail	2	-	23	10
	196	717	739	839
Recoverable capital expenditures				
Major maintenance items	151	196	433	202
Recurring capital expenditures	167	66	291	131
	318	262	724	333
Non-recoverable capital expenditures				
	-	-	7	-
Total	\$ 514	\$ 979	\$ 1,470	\$ 1,172

Leasing costs for new tenants were minimal for the three months and \$0.1 million for the nine months ended September 30, 2014. Leasing costs related to existing or renewing tenants were \$0.2 million for the three months and \$0.7 million for the nine months ended September 30, 2014.

Recoverable capital expenditures were \$0.3 million for the three months and \$0.7 million for the nine months ended September 30, 2014. These costs were primarily attributable to a roof replacement at one industrial property and elevator upgrades at one office property, HVAC replacements, as well as fire panel and security access upgrades.

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. 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. 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.

The distributions declared during the nine months ended September 30, 2014 resulted in 304,747 trust units issued or issuable under the DRIP. As at September 30, 2014, there were 435,063 trust units cumulatively issued or issuable under the DRIP.

During the nine months ended September 30, 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 and nine months ended September 30, 2014 and 2013:

(\$000s)	Three months ended September 30, 2014		Nine months ended September 30, 2014	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 1,869	\$ –	\$ 5,135	\$ –
Distributions reinvested in trust units	383	559	868	1,675
Distributions declared	\$ 2,252	\$ 559	\$ 6,003	\$ 1,675
Less: distributions payable, end of period	(753)	(186)	(753)	(186)
Plus: distributions payable, beginning of period	746	186	561	186
Distributions paid or settled	\$ 2,245	\$ 559	\$ 5,811	\$ 1,675

(\$000s)	Three months ended September 30, 2013		Nine months ended September 30, 2013	
	Trust units	Class B LP units	Trust units	Class B LP units
Cash distributions	\$ 1,387	\$ 157	\$ 3,621	\$ 1,120
Distributions reinvested in trust units	92	314	111	314
Distributions declared	\$ 1,479	\$ 471	\$ 3,732	\$ 1,434
Less: distributions payable, end of period	(556)	(157)	(556)	(186)
Plus: distributions payable, beginning of period	368	157	–	–
Distributions paid or settled	\$ 1,291	\$ 471	\$ 3,176	\$ 1,277

As at September 30, 2014, approximately 33.6% 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 and nine months ended September 30, 2014 and 2013.

(\$000s)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Cash flow from operating activities	\$ 2,365	\$ 3,071	\$ 7,943	\$ 5,000
Add (deduct):				
Changes in non-cash working capital	(395)	(1,107)	(2,267)	(333)
Leasing costs	(196)	(717)	(739)	(839)
Capital expenditures	(318)	(262)	(731)	(333)
Distributions on Class B LP units paid in cash	-	314	-	1,120
Distributions on Class B LP units reinvested in trust units	559	157	1,675	157
Interest rate subsidy ⁽¹⁾	116	73	307	386
Defeasance costs	-	-	-	(598)
Interest income accrued	226	-	466	-
Other	-	-	-	-
Adjusted funds from operations – As Reported	\$ 2,357	\$ 1,529	\$ 6,654	\$ 4,560

(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.

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Adjusted funds from operations – As Reported	\$ 2,357	\$ 1,529	\$ 6,654	\$ 4,560
Add:				
Special Committee related expenses	184	-	522	-
Defeasance costs	-	-	-	598
Aborted transaction costs	-	-	-	327
Adjusted funds from operations – Core	\$ 2,541	\$ 1,529	\$ 7,176	\$ 5,485
Total distributions paid or payable in cash – trust units and Class B LP units	1,869	1,544	5,135	4,741
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	\$ 1,869	\$ 1,544	\$ 5,135	\$ 4,672
Excess of AFFO - Core over cash distributions	\$ 672	\$ (15)	\$ 2,041	\$ 813

Summary of Selected Quarterly Information

(\$000s unless otherwise noted, except per unit amount)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012 ⁽¹⁾
Revenues from investment properties	\$7,991	\$7,972	\$8,207	\$8,228	7,568	\$6,601	\$6,081	\$234
Net income (loss) and comprehensive Income (loss)	4,652	(1,872)	(354)	1,827	1,228	4,162	6,998	12,348
Per Unit								
- Basic ⁽²⁾	\$0.39	\$(0.18)	\$(0.04)	\$0.20	\$0.16	\$0.71	\$1.19	\$2.10
- Diluted	\$0.18	\$(0.18)	\$(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 was largely driven by 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. The third quarter of 2014, however, was negatively impacted by the early lease termination at a single-tenant industrial property at Brooks, Alberta and the office space turnover in Saskatchewan Place.

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 September 30, 2014, the REIT's unencumbered income-producing properties had a fair value of \$2.5 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 September 30, 2014, the REIT's indebtedness ratio was 47.2%.

Indebtedness Ratios

(\$000s unless otherwise noted)	As at September 30, 2014	As at September 30, 2013
Mortgages payable	\$ 127,577	\$ 131,524
Vendor take-back loan	9,180	9,180
Revolving credit facility	-	3,600
Total debt at period end	\$ 136,757	\$ 144,304
Total assets at period end	289,500	269,657
Indebtedness ratio	47.2%	53.5%

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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Weighted average:				
Mortgages payable	\$ 128,077	\$ 124,472	\$ 129,072	\$ 108,198
Vendor take-back loan	9,180	9,180	9,180	9,180
Revolving credit facility	-	5,979	2,801	4,861
Weighted average amount of indebtedness	\$ 137,257	\$ 139,631	\$ 141,053	\$ 122,239
Deduct: Weighted average amount of cash	(6,239)	(3,804)	(4,885)	(3,713)
Weighted average amount of indebtedness, net of cash	\$ 131,018	\$ 135,827	\$ 136,168	\$ 118,526

(\$000s unless otherwise noted)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
EBITDA	\$ 4,398	\$ 4,146	\$ 12,940	\$ 10,662
Debt to EBITDA leverage ratio (times)	7.8x	8.4x	8.2x	8.6x
Net Debt to EBITDA leverage ratio (times)	7.4x	8.2x	7.9x	8.3x
Interest expense	\$ 1,481	\$ 1,497	\$ 4,569	\$ 4,001
Interest coverage ratio (times)	3.0x	2.8x	2.8x	2.7x
Debt service requirements:				
Interest expense	\$ 1,481	\$ 1,497	\$ 4,569	\$ 4,001
Principal repayments	1,002	883	2,977	2,369
Total debt service requirements	\$ 2,483	\$ 2,380	\$ 7,546	\$ 6,370
Debt service coverage ratio (times)	1.8x	1.7x	1.7x	1.7x

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 three months)	\$ 1,018	\$ -	\$ 1,018	0.8%	4.7%
2015	4,103	13,952	18,055	14.2%	4.6%
2016	3,457	10,624	14,081	11.0%	4.5%
2017	3,334	6,750	10,084	7.9%	4.4%
2018	2,553	18,674	21,227	16.6%	4.3%
Thereafter	9,885	53,227	63,112	49.5%	4.3% ⁽³⁾
	\$ 24,350	\$ 103,227	\$ 127,577	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:

(\$000s)	Total	For the periods ending December 31,					
		2014 ⁽¹⁾	2015	2016	2017	2018	Thereafter
Mortgages payable	\$ 127,577	\$ 1,018	\$ 18,055	\$ 14,081	\$ 10,084	\$ 21,227	\$ 63,112
Vendor take-back loan	9,180	9,180	-	-	-	-	-
	\$ 136,757	\$ 10,198	\$ 18,055	\$ 14,081	\$ 10,084	\$ 21,227	\$ 63,112

(1) For the remaining three months of 2014.

As at December 31, 2013, the REIT had a \$14.0 million revolving credit facility that expired on November 30, 2014 and was secured by two investment properties. The interest rate was 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 September 30, 2014, the REIT did not have an outstanding balance on the revolving credit facility, and was compliant with all financial covenants.

As at November 5, 2014, the REIT had \$nil 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.

Interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. At September 30, 2014, the REIT had the following interest rate swap agreements:

Notional amount	Effective interest rate	Maturity date	Unrealized loss for the nine months ended September 30, 2014	Cumulative unrealized loss (gain) at September 30, 2014
\$ 3,909	5.89%	1-Feb-25	\$ 40	\$ 598
22,454	4.60%	14-Aug-23	968	979
24,166	3.68%	1-May-23	1,088	(417)

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 and nine months ended September 30, 2014 and 2013.

(\$000s)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Net change in cash related to:				
Operating	\$ 2,365	\$ 3,071	\$ 7,943	\$ 5,000
Investing	(514)	(40,063)	(17,566)	(64,475)
Financing	(2,876)	37,432	13,545	56,078
Increase (decrease) in cash	\$ (1,025)	\$ 440	\$ 3,922	\$ (3,397)

The increase (decrease) in net cash flow for the three months and nine months ended September 30, 2014 compared to the same period in 2013 was the result of the following factors:

- Operating – cash flows for the three months ended September 30, 2014 decreased when compared to the same period in 2013, mainly due to timing of cash receipts and settlement of payables. Cash flows from operating activities for the nine months ended September 30, 2014 increased when compared to the same periods in 2013. These were mainly attributed to higher net operating income arising from the acquisitions of 4211 Yonge, The Promontory, and 1700 Ellice, offset by the sale of 220 Portage and Humboldt Mall. In addition, the distributions related to the Class B LP units that were settled in cash in the prior periods are reinvested into trust units under the DRIP in the current periods.
- Investing – cash flows used in investing activities for the three months ended September 30, 2014 were related to capital expenditures and leasing costs. Cash flows used in investing activities for the three months ended September 30, 2013 were primarily related to the acquisition of The Promontory. Cash flows used in investing activities for the nine months ended September 30, 2014 were primarily related to the investment in the Data Centre, the issuance of a note receivable to the other 50% limited partner of the Data Centre investment, as well as capital expenditures and leasing costs. Cash flows for the nine months ended September 30, 2013 were mainly related to the acquisitions of 4211 Yonge and the Promontory, as well as the disposition of 220 Portage.
- Financing – cash flows used in financing activities for the three months ended September 30, 2014 were related to distributions on the trust units and mortgage principal payments. Cash flows from financing for the nine months ended September 30, 2014 were largely related to net proceeds on the issuance of trust units in May 2014, offset by repayments on the revolving credit facility, mortgage principal payments, and distributions paid on trust units. Cash flows from financing for the three months and nine months ended September 30, 2013 were primarily from the net proceeds on the issuance of trust units in August 2013 and net proceeds from mortgage financing related to asset acquisitions, offset by repayments on the revolving credit facility, mortgage principal payments, and distributions paid on trust units.

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 \$7.95 as at September 30, 2014.

On May 13, 2014, the REIT completed a public offering of 1,955,000 trust units and the issuance of 831,639 trust units to Huntingdon on a private placement basis at a purchase price of \$8.85 per trust unit. After deducting issuance costs of \$1.3 million, net proceeds of \$23.4 million from the May 2014 Offering and private placement were used (i) to fund the investment in the Data Centre including the Mezzanine Loan and any additional amounts payable for closing costs, (ii) to fully repay amounts drawn on the REIT's revolving credit facility, and (iii) for general corporate purposes.

On August 2, 2013, the REIT completed a public offering of 2,564,500 trust units at a purchase price of \$9.00 per trust unit. Concurrent with the August 2013 Offering, the REIT issued 425,532 trust units in a private placement to Huntingdon at a purchase price of \$9.40 per trust unit. After deducting issuance costs of \$1.5 million, net proceeds of \$25.6 million from the August 2013 Offering and private placement were used to (i) partially fund the acquisition of the Promontory, (ii) to repay amounts drawn on the revolving credit facility.

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 nine months ended September 30, 2014.

As at September 30, 2014, the total number of trust units outstanding was 12,052,611. As at November 5, 2014, the total number of trust units outstanding was 12,094,396.

Potential trust units:

	Number of Units	
	September 30, 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 September 30, 2014, there were no Class B LP units exchanged for the REIT's trust units.

As at September 30, 2014 and November 5, 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 \$0.03 as at September 30, 2014.

As at September 30, 2014 and November 5, 2014, the total number of warrants outstanding was 1,598,550.

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 nine months ended September 30, 2014:

(\$000s)	Nine months ended September 30, 2014	Twelve months ended December 31, 2013
Balance, beginning of period	\$ 1,271	\$ 1,874
Amortization of interest rate subsidy	(307)	(503)
Subsidy written-off	-	(100)
Balance, end of period	\$ 964	\$ 1,271

The interest rate subsidy of \$0.3 million was utilized during the nine months ended September 30, 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 nine months ended September 30, 2014:

(\$000s)	Nine months ended September 30, 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 and nine months ended September 30, 2014, the REIT incurred the following costs in connection with the Management Agreement:

(\$000s)	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Property management fees	\$ 232	\$ 209	\$ 686	\$ 530
Asset management fees	212	185	618	512
Leasing, financing, and construction management fees	143	161	314	281
Acquisition fees	-	390	95	823
	\$ 587	\$ 945	\$ 1,713	\$ 2,146

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. For the three months ended September 30, 2014, property administration fees were \$0.3 million, relatively consistent with \$0.2 million for the same period in 2013. For the nine months ended September 30, 2014, property administration fees were \$0.8 million, compared to \$0.5 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 September 30, 2014, included in accounts payable is \$0.6 million due to Huntingdon (December 31, 2013 - \$0.4 million).

As at September 30, 2014, the Trust has recognized an amount receivable from Huntingdon of \$0.2 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.

As at November •, 2014, Slate has replaced Huntingdon as the REIT’s manager, as disclosed in the “Recent Developments” section of this MD&A.

Section 5 SIGNIFICANT ACCOUNTING POLICIES, CRITICAL JUDGMENTS AND KEY ESTIMATES

Significant Accounting Policies

The condensed consolidated interim financial statements were prepared using the same accounting policies as set out in the audited consolidated financial statements for the year ended December 31, 2013, with the exception of the new application of IFRS 11, Joint Arrangements, in the current period related to the equity accounted investment and the adoption of IFRIC 21, Levies (“IFRIC 21”) described below.

A joint arrangement is a contractual arrangement in which the REIT has joint control, established by contracts requiring unanimous consent for decisions about the activities that significantly affect the arrangements’ returns. The REIT classifies joint arrangements as either joint operations or joint ventures. As at September 30, 2014, the REIT has no joint operations, and one joint venture. The REIT’s interest in a joint venture, which is an arrangement wherein the parties have rights to the net assets, is accounted for using the equity method.

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 mandatory 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.

Lease incentives

Lease incentives such as rent-free periods and lessee or lessor owned improvements may be provided to lessees to enter into an operating lease. Lease incentives that do not provide benefits beyond the initial lease term are included in the carrying amount of investment properties and are amortized as a reduction of rental revenue on a straight-line basis over the term of the lease. This assessment requires the consideration of several factors, including whether the incentives enhance the value of the property, uniqueness of the improvements, and tenant discretion in use of funds.

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 September 30, 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, including the investment property under development held by the equity-accounted investee, are determined by management using recognized valuation techniques with a portion of fair values supported by externally 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 geographical location. In addition, critical estimates for the investment property under development also include the exercise of the purchase option by the tenant and the stage of completion. Valuations are most sensitive to changes in discount rates and capitalization rates. Changes to the estimates and assumptions used by management or to local and general economic conditions can result in a significant change to the valuation of investment properties, which will be recognized as fair value adjustments during the periods the changes occur.

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 December 31, 2013, available on SEDAR.

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 meeting 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 September 30, 2014, the REIT had three interest rate swaps outstanding with a notional amount of \$50.5 million.

As at September 30, 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 September 30, 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 September 30, 2014, the allowance for doubtful accounts or any other impairment provisions recognized in the REIT's consolidated financial statements was \$0.1 million.

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)					Weighted average remaining lease term by province
As at September 30, 2014					
	Industrial	Office	Retail		
Manitoba	6.2	3.3	8.1	4.9	
Ontario	11.6	3.2	-	6.4	
Saskatchewan	-	1.1	-	1.1	
Alberta	7.8	-	4.0	7.4	
Northwest Territories	-	-	1.6	1.6	
Weighted average remaining lease term by asset class	8.2	3.1	6.6	5.5	

The following table outlines the expiries of tenant leases, by square footage, with respect to the REIT's property portfolio as at September 30, 2014:

Lease Expiries by Asset Class								
	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	Total
Industrial								
Sq. ft. (000s)	-	13	-	50	89	36	554	742
Sq. ft. (%)	-	1.8%	-	6.7%	12.0%	4.9%	74.6%	100.0%
Office								
Sq. ft. (000s)	10	90	110	217	45	196	238	906
Sq. ft. (%)	1.1%	9.9%	12.1%	24.0%	5.0%	21.6%	26.3%	100.0%
Retail								
Sq. ft. (000s)	-	-	-	14	3	1	68	86
Sq. ft. (%)	-	-	-	16.3%	3.5%	1.1%	79.1%	100.0%
Total Sq.ft. (000s)	10	103	110	281	137	233	860	1,734

Lease Expiries by Geographic Location (sq. ft. in 000s)								
	Month-to-month	2014	2015	2016	2017	2018	2019 and beyond	Total
Manitoba	-	87	47	85	107	111	473	910
Ontario	4	15	20	182	23	85	343	672
Saskatchewan	6	1	43	-	4	-	6	60
Alberta	-	-	-	1	-	37	38	76
Northwest Territories	-	-	-	13	3	-	-	16
Total Sq.ft. (000s)	10	103	110	281	137	233	860	1,734
Percentage (%)	0.6%	5.9%	6.3%	16.2%	7.9%	13.5%	49.6%	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 September 30, 2014 was 45.0%. As at September 30, 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 nine months ended September 30, 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 September 30, 2014. No changes were made in the REIT's design of ICFR during the nine months ended September 30, 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 September 30, 2014

A summary of details of the REIT's property portfolio as at September 30, 2014 is set out in the table below.

Asset Class	Property Name	City, Province	Year Built / Renovated / Expanded	(sq. ft.)	GLA Occupancy
INDUSTRIAL					
1.	35 Martin Way	Brooks, AB	2005	28,400	0.0%
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 Lawson Crescent	Winnipeg, MB	1996	60,903	100.0%
6.	130 Lawson 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	96.3%
OFFICE					
12.	Saskatchewan Place	Regina, SK	1985	84,243	72.6%
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	170,725	90.9%
24.	1189 Colonel Sam Drive	Oshawa, ON	2001	103,179	100.0%
25.	The Promontory ⁽⁵⁾	Mississauga, ON	1987/1989	159,752	95.7%
TOTAL – OFFICE				963,741	94.0%
RETAIL					
26.	125 – 185 First Street	Cochrane, AB	1998	15,771	43.9%
27.	Flin Flon Wal-Mart	Flin Flon, MB	2002	63,439	100.0%
28.	Airport Road Shopping Centre	Yellowknife, NWT	2001 / 2003 ⁽⁷⁾	15,475	100.0%
TOTAL – RETAIL				94,685	90.7%
TOTAL PROPERTIES				1,829,103	94.8%

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.