



**NOTICE OF SPECIAL MEETING OF UNITHOLDERS OF
MELCOR REAL ESTATE INVESTMENT TRUST**

to be held December 17, 2014

and

INFORMATION CIRCULAR

with respect to the proposed

ACQUISITION

of six commercial real estate properties from

MELCOR DEVELOPMENTS LTD.

These materials are important and require your immediate attention. They require holders of units of Melcor Real Estate Investment Trust (the "Unitholders") to make important decisions. The Board of Trustees of Melcor Real Estate Investment Trust recommends that Unitholders vote FOR the Melcor Acquisition as described in this Information Circular, at the special meeting of Unitholders.



November 20, 2014

Dear Unitholders,

We are pleased to invite you to join our Board of Trustees (the “**Board**”) and executive officers to attend the special meeting (the “**Meeting**”) of the unitholders (“**Unitholders**”) of Melcor Real Estate Investment Trust (the “**REIT**”). The meeting will be held on:

December 17, 2014
9:00 a.m. (Alberta Time)
Bryan & Company LLP, 2600 Manulife Place
10180-101st Street, Edmonton, Alberta

The REIT entered into an agreement on November 12, 2014 with Melcor Developments Ltd. (“**Melcor**”) and an affiliate for the acquisition (the “**Melcor Acquisition**”) of six commercial properties (the “**Melcor Acquisition Properties**”), for an aggregate purchase price of \$138.25 million, subject to certain customary adjustments.

In order to partially finance the Melcor Acquisition, the REIT has agreed to sell (the “**Offering**”), subject to regulatory approval and on a bought-deal basis, \$30 million aggregate principal amount of 5.50% extendible convertible unsecured subordinated debentures (the “**Debentures**”) to a syndicate of underwriters co-led by RBC Dominion Securities Inc. and CIBC World Markets Inc. On the closing of the Melcor Acquisition, the maturity date of the Debentures will automatically be extended to December 31, 2019 (the “**Final Maturity Date**”).

The REIT intends to satisfy: (i) approximately \$45.0 million of the purchase price by the issuance of 4,390,244 Class B LP Units of Melcor REIT Limited Partnership (the “**Partnership**”) to Melcor, each with an issue price equal to the \$10.25, (ii) approximately \$78.4 million of the purchase price by the assumption of certain mortgages registered against the Melcor Acquisition Properties; and (iii) approximately \$14.8 million of the purchase price by the net proceeds of the Offering.

The Board appointed a special committee of independent elected Trustees consisting of Larry Pollock (Chair), Brian Hunt, Patrick Kirby and Donald Lowry for the purposes of, among other things, considering the Melcor Acquisition, supervising the process to be carried out by the REIT and its professional advisors in connection with the Melcor Acquisition, determining whether the Melcor Acquisition is in the best interests of the REIT and, as the Special Committee may determine to be necessary or advisable, report and make recommendations to the Board with respect to the Melcor Acquisition.

The Special Committee was also responsible for supervising the preparation of independent appraisals of the Melcor Acquisition Properties and retained Altus Group Limited to prepare the same. The Special Committee also retained Trimaven Capital Advisors Inc. (“**Trimaven**”) to act as an independent financial advisor to the Special Committee in respect of the preparation and delivery to the Special Committee its opinion in respect to the Melcor Acquisition. Subject to the assumptions, limitations and qualifications and other matters contained in the Fairness Opinion, Trimaven has provided the Special Committee with its opinion that the consideration payable by the REIT pursuant to the Melcor Acquisition is fair, from a financial point of view, to Unitholders, other than Melcor and certain of its associates and affiliates.

Melcor, through an affiliate, currently holds an approximate 47.6% effective interest in the REIT through ownership of 10,225,634 Class B LP Units of the Partnership and 10,225,634 Special Voting Units of the REIT. Consequently, under applicable securities laws and the rules of the Toronto Stock Exchange, the Melcor Acquisition requires the approval of not less than a majority of votes cast by all of the Unitholders present in person or represented by proxy at the meeting who are not Melcor or certain of its associates or affiliates. The Melcor

Acquisition is subject to certain other conditions described in the accompanying information circular, including approval under the *Competition Act* (Canada).

The accompanying information circular provides a detailed description of the Melcor Acquisition, as well as information regarding REIT and the Melcor Acquisition Properties. Please give this material your careful consideration.

On behalf of REIT's Board and executive officers, we would like to thank you for your consideration of this important transaction. We look forward to seeing you at the Meeting, if you are unable to attend the Meeting in person we encourage you to vote by any of the means available to you, as described in the management information circular and the form of proxy.

Sincerely,

(Signed) "Andrew J. Melton"
Chairman

(Signed) "Donald Lowry"
Lead Trustee

**MELCOR REAL ESTATE INVESTMENT TRUST
NOTICE OF SPECIAL MEETING OF UNITHOLDERS
TO BE HELD DECEMBER 17, 2014**

NOTICE IS HEREBY GIVEN that a special meeting (the “**Meeting**”) of holders (the “**Unitholders**”) of trust units (the “**Units**”) and special voting units (“**Special Voting Units**”) of Melcor Real Estate Investment Trust (the “**REIT**”) will be held on December 17, 2014, at the offices of Bryan & Company LLP, 2600 Manulife Place, 10180-101st Street, Edmonton, Alberta, at 9:00 a.m. (Alberta Time) for the following purposes:

- 1) To consider, and if deemed advisable, approve a resolution (the “**Melcor Acquisition Resolution**”) in the form attached hereto as Appendix “A” to the management information circular (the “**Information Circular**”) which accompanies this notice approving the acquisition of six commercial properties from Melcor Developments Ltd. (“**Melcor**”) and an affiliate for an aggregate purchase price of \$138.25 million, and the issuance to Melcor of 4,390,244 Class B LP Units of Melcor REIT Limited Partnership in partial satisfaction of such purchase price, with such additions, deletions or modifications as the Board of Trustees, in its discretion, deems appropriate; and
- 2) To transact such other business as may properly come before the meeting or any adjournment thereof.

The Melcor Acquisition and the issuance of Class B LP Units to Melcor in connection therewith constitute a “related party transaction” pursuant to Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* and, accordingly, a special committee of the Board (the “Special Committee”) was formed to consider the Melcor Acquisition (including the issuance of Class B LP Units to Melcor). On November 12, 2014, the Special Committee unanimously recommended to the Board that they recommend that Unitholders vote FOR the Melcor Acquisition at the Meeting. The Trustees unanimously recommend that Unitholders vote FOR the Melcor Acquisition at the Meeting.

Only Unitholders of record at the close of business on November 17, 2014 (the “**Record Date**”) will be entitled to receive notice of, and vote at, the Meeting or any adjournment(s) thereof.

If you are unable to be present at the Meeting, **PLEASE DATE, SIGN AND RETURN THE ACCOMPANYING PROXY** in the enclosed envelope to the REIT’s registrar and transfer agent, Valiant Trust Company, Suite 310, 606 – 4th Street S.W. Calgary AB T2P 1T1, by not later than 9:00 a.m. (Alberta Time) on December 15, 2014 or, if the Meeting is adjourned or postponed, the second last business day preceding the day of adjournment or postponement thereof. The time limit for deposit of proxies may be waived or extended by the chairman of the Meeting at his discretion without notice.

Dated at the City of Edmonton, in the Province of Alberta, this 20th day of November, 2014.

**BY ORDER OF THE BOARD OF
TRUSTEES OF MELCOR REAL
ESTATE INVESTMENT TRUST**

(Signed) “*Darin Rayburn*”

Darin Rayburn

Chief Executive Officer

MANAGEMENT INFORMATION CIRCULAR

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MEANING OF CERTAIN REFERENCES

Certain terms used in this Circular are defined under “Glossary”. References to dollars or “\$” are to Canadian currency. Unless the context otherwise requires, all references in this Circular to the “REIT”:

- refer to the REIT and its subsidiary entities, including the Partnership, on a consolidated basis; and
- in the case of references to matters undertaken by a predecessor in interest to the REIT or its subsidiary entities, include each such predecessor in interest.

References to “management” in this Circular mean the persons acting in the capacities of the REIT’s Chief Executive Officer and Chief Financial Officer, as well as the persons employed by Melcor, in an executive officer capacity, to provide services pursuant to the Asset Management Agreement and Property Management Agreement. Any statements in this Circular made by or on behalf of management are made in such persons’ capacities as executive officers of the REIT, and not in their personal capacities.

FORWARD-LOOKING STATEMENTS

This Circular contains “forward-looking information” as defined under applicable Canadian securities law (“forward-looking information” or “forward-looking statements”) which reflect management’s expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance, business prospects and opportunities of the REIT. Statements other than statements of historical fact contained in this Circular may be forward-looking information. The words “plans”, “expects”, “does not expect”, “scheduled”, “estimates”, “intends”, “anticipates”, “does not anticipate”, “projects”, “believes”, “outlooks” or variations of such words and phrases or statements to the effect that certain actions, events or results “may”, “will”, “could”, “would”, “should”, “might”, “occur”, “be achieved” or “continue” and similar expressions generally identify forward-looking statements. Some of the specific forward-looking statements in this Circular include, but are not limited to, statements with respect to: the closing of the Offering, the Melcor Acquisition and the Third Party Edmonton Acquisition and the expected closing dates thereof; the REIT’s intended use of proceeds of the Offering; the REIT’s pursuit of acquisition and investment opportunities; the issuance to Melcor of Class B LP Units in connection with the Melcor Acquisition; expectations regarding accretion to the REIT’s AFFO (as defined below) per Unit and the effect of the Melcor Acquisition and the Third Party Edmonton Acquisition on the REIT’s business, operations, capital expenditures, indebtedness and payout ratio; estimated tax deferral rates; and expectations, projections or other characterizations of future events or circumstances and the future economic performance of the REIT. The REIT has based these forward-looking statements on its current expectations about future events.

Forward-looking statements do not take into account the effect of transactions or other items announced or occurring after the statements are made. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

Although management of the REIT believes that the expectations reflected in such forward-looking information are reasonable, the REIT can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. The REIT’s estimates, beliefs and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this Circular as well as the following: (i) the REIT will be able to obtain financing on acceptable terms from financial institutions; (ii) the REIT’s future level of indebtedness and its future growth potential will remain consistent with its current expectations; (iii) there will be no changes to tax laws adversely affecting the REIT’s financing capability, operations, activities, structure or distributions; (iv) the REIT will be able to retain and attract the services, whether directly or indirectly, of qualified and knowledgeable personnel as it expands its portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on the operations of the REIT, including the REIT’s financing capability and asset values, will be consistent with current assumptions and expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting the REIT’s operations; (vii) conditions in the Western Canadian retail, office and industrial real estate markets (including, competition for acquisitions, demographic trends and industry trends) will be consistent with the current climate, including the continued strength

of leasing markets in the cities in which the REIT's properties are located; (viii) capital markets will provide the REIT with access to equity and/or debt financing on acceptable terms; and (ix) the completion of the acquisition of the Melcor Acquisition and the Third Party Edmonton Acquisition; together with assumption of the Assumed Mortgages and the Third Party Edmonton Mortgage on the terms described in this Circular.

The forward-looking information contained in this Circular is expressly qualified in its entirety by these cautionary statements. All forward-looking information in this Circular speaks as of the date of this Circular. The REIT does not undertake any obligation to update any such forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. A number of factors could cause actual results to differ materially from results discussed in the forward-looking statements, including, but not limited to, the factors discussed under "Risk Factors" in this Circular, relating to the Melcor Acquisition and the Third Party Edmonton Acquisition, and in the information incorporated by reference herein, including in the AIF and Annual MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by, such statements.

NON-IFRS MEASURES

Funds from operations ("FFO"), adjusted funds from operations ("AFFO") and net operating income ("NOI") are key measures of performance used by real estate businesses. However, such measures are not recognized under International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the Canadian Institute of Chartered Accountants in Part I of The Canadian Institute of Chartered Accountants Handbook - Accounting, as amended from time to time ("IFRS") and do not have standardized meanings prescribed by IFRS. Management believes that these terms are supplemental measures of a Canadian real estate investment trust's performance and the REIT believes they are relevant measures of the ability of the REIT to earn and distribute cash returns to investors in Units and to evaluate the REIT's performance. The IFRS measurement most directly comparable to FFO, AFFO and NOI is net income.

"FFO" is computed by the REIT in accordance with the current definitions of the Real Property Association of Canada and is defined by the REIT as net income in accordance with IFRS, excluding most non-cash expenses, namely: (i) fair value adjustments to investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (vi) deferred income tax expense.

"AFFO" is defined by the REIT as FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired; (ii) interest rate subsidy amounts received; (iii) amortization of deferred financing and leasing costs; (iv) accretion on decommissioning obligations; (v) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; and (vi) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by the REIT. Other adjustments may be made to AFFO as determined by the Trustees in their discretion.

"NOI" is defined by the REIT as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct property operating expenses.

FFO, AFFO and NOI should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of our performance. The REIT's method of calculating FFO, AFFO and NOI may differ from other issuers' methods and accordingly may not be comparable to measures used by other issuers.

DOCUMENTS INCORPORATED BY REFERENCE

Information has been incorporated by reference in this Circular from documents filed with securities commissions or similar authorities in Canada. Copies of the documents incorporated herein by reference may be obtained on request without charge from the Chief Financial Officer of Melcor Real Estate Investment Trust at 900,

10310 Jasper Avenue, Edmonton, Alberta, T5J 1Y8, Telephone 1-855-673-6931 and are also available electronically at www.sedar.com.

The following documents of the REIT, filed with the various securities commissions or similar authorities in each of the provinces and territories of Canada, are specifically incorporated into and form an integral part of this Circular:

- (a) the REIT's annual information form for the fiscal year ended December 31, 2013 (the "**AIF**");
- (b) the audited consolidated financial statements of the REIT as at December 31, 2013 and December 31, 2012 and for the years then ended, together with the notes thereto and the auditor's report thereon (the "**Annual Financial Statements**");
- (c) management's discussion and analysis of the financial condition and results of operation of the REIT for the fiscal year ended December 31, 2013 (the "**Annual MD&A**");
- (d) the notice of annual meeting and management information circular of the REIT dated March 10, 2014;
- (e) the unaudited consolidated financial statements of the REIT for the nine-month period ended September 30, 2014 (the "**Q3 Financial Statements**");
- (f) management's discussion and analysis of the financial condition and results of operation of the REIT for the nine-month period ended September 30, 2014 (the "**Q3 MD&A**"); and
- (g) a material change report with respect to the Offering and the Melcor Acquisition dated November 14, 2014.

Any documents of the type referred to above and any material change reports (excluding confidential reports), comparative interim financial statements, comparative annual financial statements and the auditors' report thereon, management's discussion and analysis of financial condition and results of operations, information circulars, annual information forms and business acquisition reports filed by the REIT with the securities commissions or similar authorities in the provinces of Canada subsequent to the date of this Circular and prior to the Meeting shall be deemed to be incorporated by reference in this Circular.

Any statement contained in this Circular or a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purposes of this Circular to the extent that a statement contained herein or in any other subsequently filed document which also is, or is deemed to be, incorporated by reference herein modifies or supersedes such statement. The modifying or superseding statement need not state that it has modified or superseded a prior statement or include any other information set forth in the document that it modifies or supersedes. The making of a modifying or superseding statement shall not be deemed an admission for any purposes that the modified or superseded statement, when made, constituted a misrepresentation, an untrue statement of a material fact or an omission to state a material fact that is required to be stated or that is necessary to make a statement not misleading in light of the circumstances in which it was made. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Circular.

GLOSSARY OF TERMS

The following terms used in this Circular have the meanings set forth below:

“**ABCA**” means the *Business Corporations Act* (Alberta), as amended.

“**AFFO**” means adjusted funds from operations as described under “Non-IFRS Measures”.

“**AIF**” means the REIT’s annual information form for the fiscal year ended December 31, 2013.

“**Annual Financial Statements**” means the audited consolidated financial statements of the REIT as at December 31, 2013 and December 31, 2012 for the years then ended, together with the notes thereto and the auditor’s reports thereon.

“**Annual MD&A**” means the REIT’s management’s discussion and analysis of the financial condition and results of operation for the fiscal year ended December 31, 2013.

“**Appraisals**” means the estimates of the market value of the Melcor Acquisition Properties as at September 30, 2014 provided by the Altus Group.

“**Altus Group**” means Altus Group Limited.

“**Asset Management Agreement**” means the agreement between the REIT and Melcor dated May 1, 2013 pursuant to which Melcor provides asset management services to the REIT, as described in the AIF.

“**Assumed Mortgages**” means those mortgages on certain of the Melcor Acquisition Properties to be assumed by the REIT as described under “Financing for the Acquisition - Assumed Mortgages”.

“**BCA Report**” has the meaning ascribed to it under “The Melcor Acquisition Properties - Assessment of the Melcor Acquisition Properties - Building Condition Assessments”.

“**Bridge Leases**” means, collectively, the bridge lease agreements to be entered into on Closing between the REIT, as lessor, and Melcor, as lessee, as described under “The Melcor Acquisition Properties - Head and Bridge Leases - Bridge Leases”.

“**capitalization rate**” is defined as NOI divided by purchase price, in each case, of the applicable asset or assets.

“**CDS**” means CDS Clearing and Depository Services Inc.

“**Change of Control**” means the acquisition by any person, or group of persons acting jointly or in concert, of voting control or direction over an aggregate of 66 2/3% or more of the outstanding Units (on a fully-diluted basis).

“**Class B LP Unit**” means the Class B limited partnership units of the Partnership.

“**Class B LP Unit Issue Price**” means \$10.25 per Class B LP Unit.

“**Class C LP Unit**” means the Class C limited partnership units of the Partnership.

“**Competition Act**” means the *Competition Act* (Canada).

“**Conversion Price**” means \$12.65 per Unit.

“**CRU**” means commercial retail unit.

“**Current Market Price**” means the volume weighted-average trading price of the Units on the TSX for the 20 consecutive trading days ending five trading days preceding the date of the applicable event.

“**Deadline**” means 5:00 p.m. (Edmonton time) on January 15, 2015.

“**Debentures**” means 5.50% extendible convertible unsecured subordinated debentures of the REIT as described under “Financing of the Melcor Acquisition - The Offering”.

“Debenture Trustee” means Valiant Trust Company.

“Debenture Holder” means a holder of Debentures.

“Declaration of Trust” means the declaration of trust of the REIT dated as of January 25, 2013 as amended and restated on May 1, 2013 as it may be further amended from time to time.

“Development and Opportunities Agreement” means the development and opportunities agreement among the REIT and Melcor dated May 1, 2013.

“Distribution Date” means, in respect of a calendar month, on or about the 15th day of the following calendar month or such other dates as the Trustees so determine in their discretion.

“Environmental Reports” means the Phase I ESA Reports and the Phase II ESA Reports.

“Event of Default” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Event of Default”.

“Exchange Agreement” means the exchange agreement among the REIT, the Partnership and Melcor dated May 1, 2013.

“Final Maturity Date” has the meaning ascribed to it under “Financing of the Melcor Acquisition - The Offering”.

“Fairness Opinion” means the opinion of Trimaven, subject to the assumptions, limitations and qualifications and other matters contained in the full text of the fairness opinion set forth in Appendix “B” that the consideration payable by the REIT pursuant to the Melcor Acquisition is fair, from a financial point of view, to Unitholders, other than Melcor and certain of its associates and affiliates.

“FFO” means funds from operations as described under “Non-IFRS Measures”.

“GAAP” means Canadian generally accepted accounting principles for publicly accountable enterprises as defined by the Accounting Standards Board of The Canadian Institute of Chartered Accountants, as amended from time to time, which for fiscal years beginning on or after January 1, 2011, is IFRS.

“GLA” means gross leasable area.

“Global Debenture Certificates” means one or more Debenture certificates registered in the name of CDS or its nominee and held by, or on behalf of, CDS, as depositary of the Debenture certificates.

“Gross Book Value” means the acquisition costs of the REIT’s assets plus accumulated amortization on property, plant and equipment.

“Head Lease Premises” has the meaning ascribed to it under “The Melcor Acquisition Properties - Head and Bridge Leases - Head Leases”.

“Head Leases” means, collectively, the head lease agreements to be entered into on Closing between the REIT, as lessor, and Melcor, as lessee, as described under “The Melcor Acquisition Properties - Head and Bridge Leases - Head Leases”.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the Canadian Institute of Chartered Accountants in Part I of The Canadian Institute of Chartered Accountants Handbook-Accounting, as amended from time to time.

“Indebtedness” means (without duplication) on a consolidated basis:

- (i) any obligation of the REIT for borrowed money other than the impact of any net discount or premium on Indebtedness at the time assumed from vendors of properties at rates of interest less or greater than, respectively, fair value and any undrawn amounts under any acquisition or operating facility;

- (ii) any obligation of the REIT (other than the impact of any net discount or premium on Indebtedness at the time assumed from vendors of properties at rates of interest less or greater than, respectively, fair value and any undrawn amounts under any acquisition or operating facility) incurred in connection with the acquisition of property, assets or businesses other than the amount of future income tax liability arising out of indirect acquisitions;
- (iii) any obligation of the REIT issued or assumed as the deferred purchase price of property;
- (iv) any capital lease obligation of the REIT;
- (v) the Class C LP Units representing the Retained Debt; and
- (vi) any obligation of the type referred to in subsections (i) through (iv) of another person, the payment of which the REIT has guaranteed or for which the REIT is responsible for or liable, other than such an obligation in connection with a property that has been disposed of by the REIT for which the purchaser has assumed such obligation and provided the REIT with an indemnity or similar arrangement therefor;

“Indenture” means the trust indenture to be entered into between the REIT and the Debenture Trustee which will create and govern the Debentures, as described under “Financing for the Acquisition - Offering”.

“Initial Maturity Date” means the date upon which a Termination Event occurs, being the initial maturity date of the Debentures .

“Initial Properties” means the interests in a portfolio of 27 income producing properties, comprised of 26 retail, office and industrial properties and one land lease community, which were indirectly acquired by the REIT concurrently with the completion of the IPO.

“Interest Payment Date” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Overview”.

“IPO” means the initial public offering of the REIT that was completed on May 1, 2013.

“Lead Underwriters” means RBC Dominion Securities Inc. and CIBC World Markets Inc.

“Limited Partnership Agreement” means the amended and restated limited partnership agreement of the Partnership dated May 1, 2013.

“May 2014 Melcor Properties” means Kingsview Market Phase Three and Market Mall, which the REIT acquired from Melcor on May 7, 2014.

“Maturity Date” means the Initial Maturity Date or, if the Melcor Acquisition Closing occurs before the occurrence of a Termination Event, the Final Maturity Date.

“Meeting” means the special meeting of Unitholders of record as of November 17, 2014 for the purpose of approving the Melcor Acquisition, expected to be held on December 17, 2014.

“meeting materials” means collectively, the Notice of Special Meeting, the Circular and the form of proxy.

“Melcor” means Melcor Developments Ltd., an ABCA corporation, and where the context requires, together with its affiliates.

“Melcor Acquisition” means the acquisition by the REIT of the Melcor Acquisition Properties pursuant to the Melcor Acquisition Agreement.

“Melcor Acquisition Agreement” has the meaning ascribed to it under “Business of the Meeting - Overview”.

“Melcor Acquisition Closing” means the closing of the Melcor Acquisition.

“Melcor Acquisition Properties” means those commercial properties described in “The Melcor Acquisition Properties”.

“Melcor Acquisition Resolution” means the special resolution which will be considered by the Unitholders to approve the Melcor Acquisition and the issuance of Class B LP Units to Melcor in connection therewith, the full text of which is set out in Appendix “A” to this Information Circular;

“MI 61-101” means Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions*.

“New Lease” has the meaning ascribed to it under “The Melcor Acquisition Properties - Head and Bridge Leases - Head Leases”.

“New Lease Revenues” means the total revenues arising from a New Tenant pursuant to a New Lease, including without limitation basic rent, operating cost and realty tax recoveries and any other applicable common area contributions.

“New Tenant” has the meaning ascribed to it under “The Melcor Acquisition Properties - Head and Bridge Leases - Head Leases”.

“NI 54-101” means National Instrument 54-101 – *Communication with Beneficial Owners of Securities of a Reporting Issuer*.

“NOI” means net operating income as described under “Non-IFRS Measures”.

“Non-Residents” means : (i) non-residents of Canada and (ii) partnerships that are not Canadian partnerships or (iii) a combination of non-residents and such partnerships, all within the meaning of the Tax Act.

“Offering” means the offering, on a bought-deal basis, of \$30 million aggregate principal amount of 5.50% Debentures as described under “Financing of the Melcor Acquisition - The Offering”.

“Over-Allotment Option” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Over-Allotment Option”.

“Partnership” means Melcor REIT Limited Partnership, a limited partnership formed under the laws of the Province of Alberta.

“payout ratio” is defined as distributions of the REIT (including distributions on the Class B LP Units) divided by AFFO.

“Phase I ESA Reports” has the meaning ascribed to it under “The Melcor Acquisition Properties - Assessment of the Melcor Acquisition Properties - Environmental Site Assessments”.

“Phase II ESA Reports” has the meaning ascribed to it under “The Melcor Acquisition Properties - Assessment of the Melcor Acquisition Properties - Environmental Site Assessments”.

“Pre-Offering Changes in Capitalization” has the meaning ascribed to it under “Consolidated Capitalization of the REIT”.

“Property Management Agreement” means the agreement between the REIT and Melcor dated May 1, 2013 pursuant to which Melcor provides property management services to the REIT, as described in the AIF.

“Put Date” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Put Right upon a Change of Control”.

“Put Price” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Put Right upon a Change of Control”.

“Put Right” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Put Right upon a Change of Control”.

“Q3 Financial Statements” means the unaudited consolidated financial statements of the REIT for the six-month period ended September 30, 2014;

“Q3 MD&A” means the REIT’s management’s discussion and analysis of the financial condition and results of operation for the nine-month period ended September 30, 2014.

“Record Date” means November 17, 2014, being the date determined by the REIT for determining the Unitholders entitled to receive notice of, and to attend and to vote at, the Meeting.

“RECs” means recognized environmental conditions.

“REIT” means Melcor Real Estate Investment Trust, and references in this Circular to the “REIT” should be interpreted as described under “Meaning of Certain References”.

“Revolving Credit Facility” means the secured revolving credit facility made available by Royal Bank of Canada and Canadian Imperial Bank of Commerce pursuant to a revolving term facility credit agreement between, among others, the Partnership, Royal Bank of Canada and Canadian Imperial Bank of Commerce dated April 20, 2013, as subsequently amended.

“Senior Indebtedness” of the REIT will be defined in the Indenture as the principal of and the interest and premium (or any other amounts payable thereunder), if any, on: (i) all indebtedness, liabilities and obligations of the REIT, or of others for payment of which the REIT is responsible or liable, whether outstanding on the date of the Indenture or thereafter created, incurred, assumed or guaranteed in connection with the acquisition of any businesses, properties or other assets or for monies borrowed or raised by whatever means; and (ii) renewals, extensions, restructurings, refinancings and refundings of any such indebtedness, liabilities or obligations, unless in each case it is provided by the terms of the instrument creating or evidencing such indebtedness, liabilities or obligations that such indebtedness, liabilities or obligations are not superior in right of payment to debentures issued under the Indenture which by their terms are subordinated, which for greater certainty includes the Debentures.

“Special Committee” means the special committee of independent elected Trustees consisting of Larry Pollock (Chair), Brian Hunt, Patrick Kirby and Donald Lowry formed for the purposes of, among other things, considering the Melcor Acquisition.

“Special Voting Units” means special voting units in the capital of the REIT, and **“Special Voting Unit”** means any one of them.

“Subject Debentures” has the meaning ascribed to it under “Financing for the Acquisition - Offering - Limitation on Non-Resident Ownership”.

“Tax Act” means the Income Tax Act (Canada).

“Termination Event” means the earliest to occur of any of: (i) the completion of the Melcor Acquisition not occurring on or before the Deadline; (ii) the REIT delivering to the Lead Underwriters, on behalf of the Underwriters, a notice, executed by the REIT, declaring that the Melcor Acquisition Agreement has been terminated or that the REIT will not be proceeding with the Melcor Acquisition; or (iii) the REIT formally announcing to the public by way of a press release that it does not intend to proceed with the Melcor Acquisition.

“Third Party Edmonton Acquisition” has the meaning ascribed to it in “General Information Regarding the Meeting - Other Pending Acquisitions”.

“Third Party Edmonton Complex” has the meaning ascribed to it in “General Information Regarding the Meeting - Other Pending Acquisitions”.

“Third Party Edmonton Mortgage” has the meaning ascribed to it in “General Information Regarding the Meeting - Other Pending Acquisitions”.

“Trimaven” means Trimaven Capital Advisors Inc., the independent financial advisor appointed by the Special Committee.

“Trustees” means the trustees from time to time of the REIT, and **“Trustee”** means any one of them.

“TSX” means the Toronto Stock Exchange.

“Underwriters” means, collectively RBC Dominion Securities Inc., CIBC World Markets Inc., TD Securities Inc., Desjardins Securities Inc., National Bank Financial Inc., Scotia Capital Inc., Canaccord Genuity Corp., Laurentian Bank Securities Inc. and Raymond James Ltd.

“Unitholders” means holders of Voting Units and, for certainty, includes **“Holders”**, and **“Unitholder”** means any one of them.

“Units” means trust units in the capital of the REIT, other than Special Voting Units, and **“Unit”** means any one of them.

“Voting Units” means, collectively, the Units (including the Units issued on the conversion, redemption or maturity of the Debentures) and the Special Voting Units, and **“Voting Unit”** means any one of them.

GENERAL INFORMATION REGARDING THE MEETING

Introduction

This information circular (the “**Circular**”) is furnished in connection with the solicitation of proxies by the management of the REIT for use at the Meeting to be held on December 17, 2014, at the offices of Bryan & Company LLP, 2600 Manulife Place, 10180-101st Street, Edmonton, Alberta, at 9:00 a.m. (Alberta Time) and any adjournment or postponement thereof for the purposes set forth in the accompanying Notice of Special Meeting.

The REIT has fixed the Record Date as the close of business on November 17, 2014 for determining Unitholders who will be entitled to receive notice of, and vote at, the Meeting or any adjournment(s) thereof. Information contained herein is given as of November 20, 2014 unless otherwise indicated.

This solicitation is made on behalf of management of the REIT. The costs incurred in the preparation and mailing of the form of proxy, Notice of Special Meeting and Circular will be borne by the REIT. In addition to the use of mail, proxies may be solicited personally, by telephone, or by other means of communication by the Trustees and management of the REIT, who will be not be remunerated therefor. The REIT is not relying on the notice-and-access provisions of securities laws for delivery to either registered or non-registered Unitholders. The REIT does not intend to pay for intermediaries to forward proxy-related materials and a voting instruction form to objecting beneficial owners of Units. Accordingly, objecting beneficial owners of Units will not receive these materials unless their intermediary assumes the cost of delivery.

Registered Unitholders

Holders of Units

A holder of Units is a registered Unitholder if shown on the Record Date on the list of holders of Units kept by Valiant Trust Company, as registrar and transfer agent of the REIT, in which case a Unit certificate will have been issued to the Unitholder which indicates the Unitholder’s name and the number of Units owned by the Unitholder. Registered holders of Units will receive with this Circular a form of proxy from Valiant Trust Company representing the Units held by such holder.

Holders of Class B LP Units

Holders of Class B LP Units shown on the Record Date on the list of holders of Class B LP Units kept by Valiant Trust Company, as registrar and transfer agent of the REIT, will receive with this Circular a form of proxy from Valiant Trust Company representing the Special Voting Units held by such holder of Class B LP Units. Holders of Class B LP Units have automatically been issued Special Voting Units which entitle such holder to one Special Voting Unit per Class B LP Unit held. The Special Voting Units are entitled to one vote per Special Voting Unit at any meeting of the Unitholders. Special Voting Units are evidenced only by the certificates representing the Class B LP Units to which they relate. Holders of Special Voting Units will receive with this Circular a form of proxy from Valiant Trust Company representing the Special Voting Units held by such holder.

Appointment of Proxy

A form of proxy is enclosed and, whether or not you expect to attend the Meeting, please exercise your right to vote. Unitholders who have voted by proxy may still attend the Meeting. Please complete and return the form of proxy in the envelope provided. The form of proxy must be executed by the registered Unitholder or the attorney of such Unitholder, duly authorized in writing. Proxies to be used at the Meeting must be deposited with the REIT’s transfer agent, Valiant Trust Company, in the envelope provided or otherwise, by mail or hand delivery to Valiant Trust Company, Suite 310, 606 – 4th Street S.W. Calgary AB T2P 1T1, by not later than 9:00 a.m. (Alberta Time) on December 15, 2014 or, if the Meeting is adjourned or postponed, the second last business day preceding the day of any adjournment or postponement thereof. The limit for deposit of proxies may be waived or extended by the chairman of the Meeting at his discretion without notice.

The persons named in the enclosed form of proxy (the “**Management Proxyholders**”) are Trustees or executive officers of the REIT. **A Unitholder may appoint a proxyholder (who is not required to be a Unitholder), other than the Management Proxyholders, to attend and act on such Unitholder’s behalf at the**

Meeting, either by inserting such other desired proxyholder's name in the blank space provided on the form of proxy or by substituting another proper form of proxy.

Revocation of Proxy

A registered Unitholder who has given a proxy pursuant to this solicitation may revoke it as to any matter on which a vote has not already been cast pursuant to its authority by an instrument in writing executed by the Unitholder or by the attorney of such Unitholder authorized in writing or, if the registered Unitholder is a corporation, by a duly authorized officer or attorney thereof, and deposited either at the head office of the REIT not later than 9:00 a.m. (Alberta Time) on December 15, 2014 or, if the Meeting is adjourned or postponed, the second last business day preceding any adjournment or postponement thereof at which the form of proxy is to be used or with the chairman of the Meeting on the day of the Meeting or any adjournment or postponement thereof, or in any other manner permitted by law.

Non-Registered Unitholders

A holder of Units is a non-registered (or beneficial) Unitholder (a “**Non-Registered Unitholder**”) if the Unitholder's Units are registered either:

- (a) in the name of an intermediary (an “**Intermediary**”) that the Non-Registered Unitholder deals with in respect of the Units, such as, among others, banks, trust companies, securities dealers or brokers and trustees or administrators of self-administered registered retirement savings plans, registered retirement income funds, registered education savings plans, registered disability savings plans, tax-free savings accounts (as such terms are used in the Tax Act and the regulations thereunder, as amended from time to time) and similar plans; or
- (b) in the name of a clearing agency (such as CDS & Co.) of which the Intermediary is a participant.

Non-Objecting Beneficial Owners

These meeting materials are being sent to both registered and Non-Registered Unitholders. If you are a Non-Registered Unitholder, and the REIT or its agent has sent these materials directly to you, your name and address and information about your holdings of securities have been obtained in accordance with applicable securities regulatory requirements from the Intermediary holding securities on your behalf. By choosing to send these materials to you directly, the REIT (and not the Intermediary holding on your behalf) has assumed responsibility for: (i) delivering these materials to you, and (ii) executing your voting instructions. Please return your voting instructions as specified in the request for voting instructions or form of proxy delivered to you.

Appointment of Proxy

In accordance with the requirements of NI 54-101, the REIT has distributed copies of the meeting materials to the clearing agencies and Intermediaries for onward distribution to Non-Registered Unitholders. Intermediaries must forward the meeting materials to each Non-Registered Unitholder (unless the Non-Registered Unitholder has waived the right to receive such materials), and often use a service company (such as Broadridge Financial Solutions Inc., Canada), to permit the Non-Registered Unitholder to direct the voting of the Units held by the Intermediary on behalf of the Non-Registered Unitholder. Generally, Non-Registered Unitholders who have not waived the right to receive meeting materials will either:

- (a) be given a proxy which has already been signed by the Intermediary (typically by a facsimile, stamped signature) which is restricted as to the number of Units beneficially owned by the Non-Registered Unitholder but which is otherwise uncompleted. This form of proxy need not be signed by the Non-Registered Unitholder. In this case, the Non-Registered Unitholder who wishes to submit a proxy should otherwise properly complete the form of proxy and deposit it with Valiant Trust Company, as described above under “General Information Regarding the Meeting – Registered Unitholders”; or
- (b) more typically, be given a voting instruction form which must be completed and signed by the Non-Registered Unitholder in accordance with the directions on the voting instruction form. Non-

Registered Unitholders should submit voting instruction forms to Intermediaries in sufficient time to ensure that their votes are received from the Intermediaries by the REIT.

The purpose of these procedures is to permit Non-Registered Unitholders to direct the voting of the Units they beneficially own. Should a Non-Registered Unitholder who receives either a proxy or a voting instruction form wish to attend and vote at the Meeting in person (or have another person attend and vote on behalf of the Non-Registered Unitholder), the Non-Registered Unitholder should strike out the names of the persons named in the form of proxy and insert their own (or such other person's) name in the blank space provided in the form of proxy or, in the case of a voting instruction form, follow the corresponding instructions on the form, to appoint themselves as proxy holders, and deposit the form of proxy or submit the voting instruction form in the appropriate manner noted above. **A Non-Registered Unitholder may appoint a proxyholder (who is not required to be a Unitholder), to attend and act on such Non-Registered Unitholder's behalf at the Meeting. Non-Registered Unitholders should carefully follow the instructions on the form of proxy or voting instruction form that they receive from their Intermediary in order to vote the Units that are held through that Intermediary.**

Revocation of Proxy

A Non-Registered Unitholder giving a proxy may revoke the proxy by contacting his or her Intermediary in respect of such proxy and complying with any applicable requirements imposed by such Intermediary. An Intermediary may not be able to revoke a proxy if it receives insufficient notice of revocation.

Voting of Units

The persons named in the enclosed form of proxy are Trustees and/or executive officers of the REIT and have indicated their willingness to represent as proxy the Unitholder who appoints them. The Voting Units represented by proxies will be voted or withheld from voting in accordance with the instructions of the Unitholder on any ballot that may be called for and, if the Unitholder specifies a choice with respect to any matter to be acted upon at the Meeting, Voting Units represented by properly executed proxies will be voted accordingly.

If no choice is specified by a Unitholder with respect to any matter to be acted upon at the Meeting, the Voting Units represented by such Unitholder's proxy or voting instruction form will be voted by the persons named in the enclosed form of proxy FOR the Melcor Acquisition Resolution as described in this Circular.

The REIT's registrar and transfer agent, Valiant Trust Company, will serve as independent scrutineer at the Meeting, and will tabulate all votes at the Meeting.

Exercise of Discretion by Proxies

The enclosed form of proxy confers discretionary authority upon the persons named therein with respect to amendments to matters identified in the Notice of Special Meeting and with respect to such other matters as may properly come before the Meeting or any adjournment or postponement thereof. At the date of this Circular, the Trustees and Management of the REIT are not aware of any amendments or other matters to come before the Meeting other than the matters referred to in the Notice of Special. With respect to amendments to matters identified in the Notice of Special Meeting or other matters that may properly come before the Meeting or any adjournment or postponement thereof, Voting Units represented by properly executed proxies will be voted by the persons so designated in their discretion.

Voting at Meeting and Quorum

Unless otherwise required by law or the Declaration of Trust, any matter coming before the Meeting or any adjournment or postponement thereof shall be decided by the majority of the votes duly cast in respect of the matter by Unitholders entitled to vote thereon. However, the Melcor Acquisition Resolution must be approved by the affirmative vote of a majority of votes cast by Unitholders in person or represented by proxy at the Meeting who are not Melcor or certain of its associates or affiliates. See "Melcor Acquisition Resolution".

The Board has fixed November 17, 2014 as the Record Date for the purpose of determining which Unitholders are entitled to receive the Notice of Special and vote at the Meeting or any adjournment or postponement thereof, either in person or by proxy. No person acquiring Voting Units after that date shall, in respect

of such Voting Units, be entitled to receive the Notice and vote at the Meeting or any adjournment or postponement thereof.

As of the Record Date, the REIT had 11,275,000 outstanding Units, each carrying the right to one vote per Unit at the Meeting, and 10,225,634 outstanding Special Voting Units, each carrying the right to one vote per Special Voting Unit at the Meeting. The Units are listed on the TSX under the symbol “MR.UN”.

A quorum for the transaction of business at the Meeting is at least two (2) persons present in person or represented by proxy, each being a Unitholder entitled to vote or their appointed proxy, and representing in the aggregate no less than ten (10%) percent of the REIT’s outstanding Voting Units.

Principal Holders of Voting Units

To the knowledge of the Trustees and management of the REIT, as of the Record Date, no person or company beneficially owned, or controlled or directed, directly or indirectly, Voting Units carrying 10% or more of the votes attached to the outstanding Voting Units, other than Melcor, which, through an affiliate, owned 10,225,634 Special Voting Units, representing approximately 47.6% of the outstanding Voting Units.

To the knowledge of the Trustees and management of the REIT, as of the Record Date, the number of Units beneficially owned, or controlled or directed, directly or indirectly, by the Trustees and executive officers of the REIT is as follows:

Trustee or Executive Officer	Units beneficially owned, or controlled or directed
Brian Baker, Trustee	5,000
Brian Hunt, Trustee	40,000
Patrick Kirby, Trustee	11,600
Donald Lowry, Trustee	32,000
Andrew J. Melton, Trustee	62,800
Larry Pollock, Trustee	50,000
Ralph B. Young, Trustee	19,800
Darin Rayburn, Chief Executive Officer	42,271
Jonathan Chia, Chief Financial Officer	4,500

Other Pending Acquisitions

The REIT has entered into an agreement to acquire (the “**Third Party Edmonton Acquisition**”) an office and retail complex in Edmonton, Alberta (the “**Third Party Edmonton Complex**”), containing approximately 160,000 square feet of GLA, from a third party vendor for a purchase price of approximately \$31.4 million (excluding transaction costs). In accordance with the requirements of the Declaration of Trust and as part of its acquisition due diligence, the REIT obtained a building condition assessment report, a Phase II environmental site assessment report and an appraisal with respect to the Third Party Edmonton Complex.

Utilizing the Revolving Credit Facility, the REIT has made certain cash deposits in respect of the Third Party Edmonton Acquisition and the balance of the purchase price is to be satisfied by: (i) the assumption of an existing mortgage (the “**Third Party Edmonton Mortgage**”) in an anticipated principal amount of approximately \$15.1 million, which such mortgage has been securitized; and (ii) the balance in cash funded by an additional draw on the Revolving Credit Facility. All conditions, other than customary closing conditions, with respect to the acquisition of Third Party Edmonton Complex have been satisfied or waived other than obtaining the mortgagee’s consent to the assignment and assumption of the Third Party Edmonton Mortgage. Subject to obtaining such consent, the Third Party Edmonton Complex acquisition is expected to close in Q4 2014. Neither the closing of the Offering nor the Melcor Acquisition is conditional on the closing of the Third Party Edmonton Acquisition.

Unitholder approval is not required, nor is it being sought, with respect to the Third Party Edmonton Acquisition.

Recent Mortgage Financings

On October 31, 2014 the REIT obtained new mortgage financing in the amount of \$21.65 million. Approximately \$17.14 million of the proceeds of such new mortgage financing were used to pay out two existing

mortgages. Such new mortgage has an interest rate of 3.568% and a maturity date of October 2024. The prior mortgages had a weighted average interest rate of approximately 3.569% after an interest rate subsidy paid by Melcor in connection with the IPO. No interest rate subsidy will be payable in connection with such new mortgage.

Information Contained in this Information Circular

No person has been authorized to give information or to make any representations in connection with the Melcor Acquisition other than those contained in this Information Circular and, if given or made, any such information or representations should not be relied upon in making a decision as to how to vote on the Melcor Acquisition Resolution or be considered to have been authorized by the REIT.

This Circular does not constitute an offer to buy, or a solicitation of any offer to sell, any securities, or the solicitation of a proxy, by any person in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such an offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such an offer or solicitation.

This Circular and the transactions contemplated by the Melcor Acquisition Agreement have not been approved or disapproved by any securities regulatory authority nor has any securities regulatory authority passed upon the fairness or merits of such transactions or upon the accuracy or adequacy of the information contained in this Information Circular. Any representation to the contrary is a criminal offence.

BUSINESS OF THE MEETING

Overview

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust under, and governed by, the laws of the Province of Alberta. The principal, registered and head office of the REIT is located at 900, 10310 Jasper Avenue, Edmonton, Alberta, T5J 1Y8.

The REIT owns a portfolio of interests in 32 income producing properties located in Western Canada, comprised primarily of retail, office and industrial properties, and with approximately 1.84 million owned square feet of GLA. The objectives of the REIT are to: (i) generate stable and growing cash distributions on a tax-efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term Unit value through active asset and property management; and (iii) expand the asset base of the REIT and increase AFFO per Unit primarily through acquisitions and improvement of its properties and through targeted and strategically deployed capital expenditures.

Pursuant to the Asset Management Agreement and the Property Management Agreement, Melcor externally manages, administers and operates the REIT and its properties.

On November 12, 2014, the REIT entered into an agreement (the “**Melcor Acquisition Agreement**”) to acquire six commercial properties (the “**Melcor Acquisition Properties**”) from Melcor for an aggregate purchase price of approximately \$138.25 million, subject to certain customary adjustments. Pursuant to the Development and Opportunities Agreement entered into in connection with the IPO, Melcor granted the REIT certain preferential rights to acquire additional properties from Melcor. The Melcor Acquisition Properties were offered by Melcor to the REIT pursuant to the Development and Opportunities Agreement.

The REIT intends to satisfy: (i) approximately \$45.0 million of the purchase price by the issuance of 4,390,244 Class B LP Units to Melcor, each with an issue price equal to the Class B LP Unit Issue Price, (ii) approximately \$78.4 million of the purchase price by the assumption of the Assumed Mortgages; and (iii) approximately \$14.8 million of the purchase price by the net proceeds of the Offering. The REIT intends to use the balance of the net proceeds of the Offering of approximately \$12.7 million (or approximately \$17.0 million if the Over-Allotment Option is exercised in full) to reduce the indebtedness under the Revolving Credit Facility, which such amount will then be available to be drawn on by the REIT, as required, for future acquisitions and general trust purposes. See “The Melcor Acquisition Properties - Assumed Mortgages”.

The closing of the transactions contemplated by the Melcor Acquisition Agreement are subject to the satisfaction of certain conditions including lender consents, completion of the Offering, Unitholder approval,

Competition Act approval, OSC relief and TSX approval. Completion of the Melcor Acquisition is expected to occur on or before December 18, 2014. See “Transaction Approvals”.

Melcor currently holds an approximate 47.6% effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership. Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one Unit and has attached a Special Voting Unit, providing for voting rights in the REIT. As a result of the foregoing relationships, the Melcor Acquisition and the issuance of Class B LP Units in connection therewith constitute a “related party transaction” under MI 61-10. Pursuant to MI 61-101, the REIT was required to obtain, at its own expense, the Appraisals as a formal valuation of the Melcor Acquisition Properties by a qualified valuator who is independent of the REIT. See “Background and Recommendations - Independent Appraisals”. The REIT is also required, pursuant to MI 61-101, to obtain approval of the Melcor Acquisition Resolution by a majority of votes cast by all of the Unitholders present in person or represented by proxy at the Meeting who are not Melcor or certain of its associates or affiliates of Melcor. See “Melcor Acquisition Resolution”.

The Special Committee, which is comprised of independent elected Trustees, was established for the purposes of considering the Melcor Acquisition, supervising the process to be carried out by the REIT and its professional advisors in connection with the Melcor Acquisition, determining whether the Melcor Acquisition is in the best interests of the REIT and, as the Special Committee may determine to be necessary or advisable, report and make recommendations to the Board with respect to the Melcor Acquisition.

On November 12, 2014 the Special Committee unanimously recommended to the Board that they recommend that Unitholders vote FOR the Melcor Acquisition Resolution. Based on the recommendation of the Special Committee and other factors, the Board unanimously recommends that Unitholders vote FOR the Melcor Acquisition at the Meeting.

Melcor Acquisition Agreement

The Melcor Acquisition Agreement contains representations, warranties and conditions typical of those contained in acquisition agreements negotiated between sophisticated purchasers and vendors acting at arm’s length, certain of which will be qualified as to knowledge and materiality and subject to reasonable exceptions, relating to Melcor and the Melcor Acquisition Properties from Melcor in favour of the REIT and the Partnership (including, among other things, representations and warranties as to organization and status, power and authorization, compliance with laws, title to the Melcor Acquisition Properties, condition of tangible assets, financial information, outstanding indebtedness and guarantees, outstanding liens, absence of undisclosed liabilities, material agreements, accuracy of rent rolls, tax matters, environmental matters and employment matters). Such representations and warranties will survive for a period of 18 months from completion of the Melcor Acquisition; provided, however, that representations regarding organization and status, and power and authorization shall survive indefinitely, and representations regarding tax matters and environmental matters shall survive for the applicable limitation periods.

The indemnity (the “**Indemnity Agreement**”) provided to the REIT and the Partnership pursuant to the Melcor Acquisition Agreement is subject to a limit of approximately \$14.8 million, being the cash portion of the purchase price for the Melcor Acquisition Properties. The Partnership will indemnify Melcor with respect to obligations to pay the Assumed Mortgages after closing of the Melcor Acquisitions.

Melcor will also indemnify the REIT and the Partnership for a period of seven years with respect to any damages incurred or losses suffered by the REIT or the Partnership relating to environmental matters at four of the Melcor Acquisition Properties and indefinitely at two of the Melcor Acquisition Properties. See “The Melcor Acquisition Properties - Assessment of the Melcor Acquisition Properties - Environmental Site Assessments”.

There can be no assurance of recovery by the REIT or the Partnership from Melcor for any breach of the representations and warranties provided by it under the Melcor Acquisition Agreement or the Indemnity Agreement, as there can be no assurance that its assets will be sufficient to satisfy such obligations.

The Melcor Acquisition Agreement is a material contract of the REIT and will be available electronically on the System for Electronic Document Recovery and Retrieval at www.sedar.com under the REIT’s issuer profile. Unitholders should refer to the terms of the Melcor Acquisition Agreement for a complete description of the conditions, representations, warranties and indemnities being provided in favour of the REIT and the Partnership, and related limitations on enforcement of such indemnities.

Transaction Approvals

Competition Act Approval

The Melcor Acquisition is subject to pre-merger notification requirements under the Competition Act. Each of Melcor and the REIT have agreed to use commercially reasonable efforts to secure the required approval under the Competition Act as soon as reasonably possible, provided that the REIT shall not be obliged to enter into any form of settlement, undertaking or agreement with the Commissioner of Competition and the REIT shall not be required to divest or hold separate any of the Melcor Acquisition Properties or take any other action with respect to any of its subsidiaries, affiliates, business, assets or properties.

Lender Approvals

The REIT has commenced the process of obtaining formal approval from the lenders in respect of the Assumed Mortgages. The REIT expects to receive such approvals and assume such mortgages on terms that are substantially the same, in all material respects, as the existing terms of such mortgages. See “Financing for the Acquisition - Assumed Mortgages”.

Unitholder Approval

The Melcor Acquisition constitutes a “related party transaction” under MI 61-101. Pursuant to MI 61-101, the REIT is required to obtain approval of the Melcor Acquisition and the issuance of Class B LP Units in connection therewith by a majority vote of Units held by unitholders unrelated to Melcor. See “Melcor Acquisition Resolution”.

OSC Relief

The REIT has applied to the Ontario Securities Commission for exemptive relief from the requirement under MI 61-101 to obtain a formal valuation of the Class B LP Units issuable to Melcor in partial satisfaction of the purchase price of the Melcor Acquisition Properties. See “Background and Recommendations - Valuation Requirements”.

TSX Approval

The REIT is required to obtain approval of the Melcor Acquisition and the issuance of the Class B LP Units to Melcor as partial satisfaction of the purchase price for the Melcor Acquisition Properties from a majority vote of Units held by unitholders unrelated to Melcor pursuant to section 611(b) of the TSX Company Manual as: the consideration to Melcor in connection with the Melcor Acquisition, together with the consideration to Melcor in connection with the acquisition of the May 2014 Melcor Properties, exceeds 10% of the market capitalization of the REIT.

Further, it is a condition of closing of the Melcor Acquisition that the TSX shall have conditionally approved the issuance of: (i) the Class B LP Units to Melcor as partial satisfaction of the purchase price for the Melcor Acquisition Properties, and (ii) the Units issuable on exchange of such Class B LP Units.

Melcor currently holds an approximate 47.6% effective interest in the REIT through ownership of 10,225,634 Class B LP Units of the Partnership. Melcor has, with respect to the Offering, waived the pre-emptive right, granted pursuant to the Exchange Agreement, to maintain its *pro rata* ownership in the REIT. On the closing of the Melcor Acquisition, it is expected that Melcor will hold an approximate 56.5% effective interest in the REIT, on an undiluted basis, through ownership of 14,615,878 Class B LP Units of the Partnership. The Melcor Acquisition and the issuance of the additional 4,390,244 Class B LP Units to Melcor, which represents 20.4% of the outstanding Units and Class B LP Units, will not materially affect the control of the REIT.

BACKGROUND AND RECOMMENDATIONS

Background to the Melcor Acquisition

As the Melcor Acquisition and the issuance Class B LP Units to Melcor in connection therewith constitute a “related party transaction” under MI 61-101, on August 5, 2014 the board of trustees of the REIT (the “**Board**”) appointed a special committee of independent elected Trustees consisting of Larry Pollock (Chair), Brian Hunt, Patrick Kirby and Donald Lowry for the purposes of, among other things, considering the Melcor Acquisition, supervising the process to be carried out by the REIT and its professional advisors in connection with the Melcor Acquisition, determining whether the Melcor Acquisition is in the best interests of the REIT and, as the Special Committee may determine to be necessary or advisable, report and make recommendations to the Board with respect to the Melcor Acquisition.

The Special Committee was also responsible for supervising the preparation of the Appraisals and retained Altus Group to prepare the same. The Special Committee also retained Trimaven to act as an independent financial advisor to the Special Committee to prepare and deliver to the Special Committee the Fairness Opinion.

The Special Committee met to consider the Melcor Acquisition on nine occasions between August 5, 2014 and November 12, 2014.

Recommendation of the Special Committee

Trimaven has provided the Special Committee with its Fairness Opinion, a copy of which is attached as Appendix “B”. Trimaven concluded, in the Fairness Opinion, that the consideration payable by the REIT pursuant to the Melcor Acquisition is fair, from a financial point of view, to Unitholders, other than Melcor and certain of its associates and affiliates. The Fairness Opinion is subject to a number of assumptions and limitations. In addition, Altus Group prepared the Appraisals. The Special Committee also met with senior management of the REIT as well as its legal and tax advisors in order to consider various aspects of the Melcor Acquisition.

After giving consideration to, among other things, the terms of the Melcor Acquisition Agreement, the Appraisals, the Fairness Opinion, the Environmental Reports, the BCA Reports and other financial, market and detailed property-related information deemed appropriate and sufficient for such purposes, the Special Committee advised the Board on November 12, 2014 that in its unanimous view the Melcor Acquisition is fair, from a financial point of view, to Unitholders (other than Melcor and certain of its associates and affiliates), and the Melcor Acquisition, including the issuance of Class B LP Units to Melcor in connection therewith, is in the best interests of the REIT, and unanimously recommended that the Board authorize the REIT to enter into the Melcor Acquisition Agreement and that the Board recommend to Unitholders that they vote in favour of the Melcor Acquisition. The Board has unanimously resolved to recommend that Unitholders vote in favour of the Melcor Acquisition at the Unitholder Meeting. In arriving at its conclusions and recommendations, the Special Committee reviewed and considered all aspects of the Melcor Acquisition including the financial, legal and tax implications of the Melcor Acquisition and the anticipated benefits to the REIT and its Unitholders. The conclusions and recommendations of the Special Committee are based upon the following factors, among others:

- the Melcor Acquisition is consistent with the growth strategy of the REIT as disclosed in its public disclosure documents;
- the Melcor Acquisition expands the REIT’s asset base;
- the Melcor Acquisition is expected to be accretive to the REIT’s FFO and AFFO per Unit on an annualized basis;
- the purchase price of the Melcor Acquisition Properties;
- the geographic locations and the quality of the Melcor Acquisition Properties are complimentary to the REIT’s existing properties;
- Trimaven concluded in its Fairness Opinion that, based upon and subject to the assumptions, qualifications, limitations and other considerations set forth therein and such other matters considered relevant by Trimaven, as of November 12, 2014, the consideration payable by the REIT pursuant to the

Melcor Acquisition is fair, from a financial point of view, to Unitholders, other than Melcor and its associates and affiliates;

- Altus Group estimated the current market value of the Melcor Acquisition Properties as at September 30, 2014 to be \$146.5 million; and
- the requirement under MI 61-101 and the rules of the TSX that the Melcor Acquisition, including the issuance of Class B LP Units to Melcor in connection therewith, must be approved by the affirmative vote of a majority of votes cast by Unitholders present in person or represented by proxy at the Meeting who are not Melcor or certain of its associates or affiliates.

Recommendation of the Board

The Board, based on the recommendation of the Special Committee and the factors referred to above unanimously: (i) resolved that the Melcor Acquisition is in the best interests of the REIT and its Unitholders; (ii) approved the Melcor Acquisition Agreement, the Offering and all other documents as may be necessary to complete the Melcor Acquisition and the Offering; and (iii) resolved to recommend that Unitholders vote FOR the Melcor Acquisition at the Meeting.

The Trustees unanimously recommend that Unitholders vote FOR the Melcor Acquisition Resolution at the Meeting.

Unitholders should consider the Melcor Acquisition carefully and come to their own conclusion as to whether or not to vote in favour. The foregoing discussion of the information and factors reviewed by the Board and Special Committee is not, and is not intended to be, exhaustive or in order of significance. In view of the wide variety of factors considered, neither the Board nor the Special Committee found it practicable to, and therefore did not, quantify or otherwise assign relative weight to specific factors in making its determination. The conclusions and recommendations of the Board and Special Committee were made after consideration of all relevant factors, including the ones noted above, in light of the collective knowledge of the members thereof of the operations, financial condition and prospects of the REIT and was also based upon the advice of its advisors.

Fairness Opinion

Overview

By letter agreement dated August 18, 2014, the Special Committee retained Trimaven to act as financial advisor to the Special Committee and to provide the Fairness Opinion. In retaining Trimaven, the Special Committee, based in part on representations made to it by Trimaven, concluded that Trimaven was independent and qualified to provide the Fairness Opinion.

Pursuant to the terms of the engagement letter, the REIT agreed to pay a fixed fee to Trimaven as compensation for its services to be fully paid upon substantial completion of its work and notice to the Special Committee that it is in position to deliver the Fairness Opinion, irrespective of its conclusion. Pursuant to the terms of the engagement letter, the REIT agreed to reimburse Trimaven for all reasonable out-of-pocket expenses incurred by it and to indemnify Trimaven in respect of certain liabilities that might arise out of the engagement.

The Fairness Opinion is the opinion of Trimaven and the form and content therein has been reviewed and approved for release by a group of managing directors of Trimaven, each of whom is experienced in mergers and acquisitions, divestiture, valuation, fairness opinion and other capital markets matters.

Credentials of Trimaven

Trimaven is an independently owned real estate investment bank that provides clients with specialized advice in mergers and acquisitions, special situations, shareholder activism, corporate finance, valuations, private equity and asset/portfolio advisory. Trimaven's principals have over forty years of combined experience as corporate owners, managers and advisors in the real estate sector.

Independence of Trimaven

Neither Trimaven nor any of its affiliated entities (as such term is defined for the purposes of the MI 61-101) is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of the REIT, Melcor or any of their respective associates or affiliates (collectively the “**Interested Parties**”). Trimaven is not acting as an advisor to the REIT, Melcor or any other Interested Party in connection with any matter other than acting as financial advisor to the Special Committee hereunder.

Trimaven has not participated in any underwriting involving the REIT, Melcor or any other Interested Party during the 24 month period preceding the date Trimaven was first contacted in respect of the Fairness Opinion. Further, other than the preparation and delivery of the Fairness Opinion, Trimaven has not been engaged to provide any financial advisory services involving the REIT.

Trimaven does not have a material financial interest in the completion of the Melcor Acquisition and the fees paid to Trimaven in connection with its engagement do not give Trimaven any financial incentive in respect of the conclusions reached in the Fairness Opinion or the outcome of the Melcor Acquisition.

Trimaven does not, nor do any of its affiliates, act as traders or dealers of public market securities, either as principal or agent. Notwithstanding the foregoing, Trimaven, and any of its affiliates, may in the future have positions in the securities of the REIT or any other Interested Parties, and, from time to time, may execute transactions on behalf of such entities or other clients for which it may receive compensation. Trimaven and its affiliates may, in the future, conduct research on securities and may, in the ordinary course of its business, provide research reports and investment advice to its clients on investment matters, including matters with respect to the REIT, or any other Interested Parties. As of the date hereof, Trimaven does not conduct research on securities and does not provide research reports on investment matters, including in respect of any of the Interested Parties.

There are no understandings, agreements or commitments between Trimaven and the REIT, Melcor or any other Interested Party with respect to any future financial advisory or investment banking business. Trimaven and its affiliates may in the future, in the ordinary course of its business, perform financial advisory or investment banking services for the REIT, Melcor or any other Interested Party.

Trimaven is of the view that it is “independent” (as that term is described in MI 61-101) of all Interested Parties.

Conclusion

As more fully described in Schedule “B”, in rendering the Fairness Opinion, Trimaven relied, without independent verification, on financial and other information that was obtained by Trimaven from public sources, senior management of the REIT, and their respective representatives and advisors. Trimaven relied on a representation letter from senior management of the REIT that this information was complete, accurate and fairly presented. Based upon and subject to the assumptions, limitations and other considerations set forth in the Fairness Opinion and such other matters considered relevant by Trimaven, Trimaven is of the opinion that, as at November 12, 2014, the consideration payable by the REIT pursuant to the Melcor Acquisition is fair, from a financial point of view, to the Unitholders other than Melcor and certain of its associates and affiliates.

The summary of the Fairness Opinion described in this Circular is qualified in its entirety by reference to the full text of the Fairness Opinion. Unitholders are urged to read the Fairness Opinion carefully in its entirety. The full text of the Fairness Opinion describes the scope of review, assumptions made, procedures followed, matters considered and limitations on the review undertaken by Trimaven. The Fairness Opinion is attached as Appendix “B” and forms part of this Circular. The Fairness Opinion is directed only to the fairness, from a financial point of view, in respect of the consideration payable pursuant to the Melcor Acquisition to the Unitholders, other than Melcor and certain of its associates and affiliates. The Fairness Opinion does not address the relative merits of the Melcor Acquisition as compared to other business strategies or transactions that might be available to the REIT or the underlying business decision of the REIT to effect the Melcor Acquisition. The Fairness Opinion does not constitute a recommendation by Trimaven to any Unitholder as to how such Unitholder should vote or act with respect to any matters relating to the Melcor Acquisition.

Valuation Requirements

Overview

The Melcor Acquisition constitutes a “related party transaction” under MI 61-101. Pursuant to MI 61-101, the REIT was required to obtain, at its own expense, the Appraisals as a formal valuation of the Melcor Acquisition Properties by a qualified valuator who is independent of the REIT.

In addition, the provisions of MI 61-101 would have required the REIT to obtain a formal valuation of the Class B LP Units to be issued to the Vendors as partial consideration for the Melcor Acquisition. MI 61-101 provides a number of exemptions from the formal valuation requirements including in circumstances where non-cash consideration payable in connection with the related party transaction consists of securities of a reporting issuer. Although the Class B LP Units to be issued to Melcor as partial satisfaction of the purchase price for the Melcor Acquisition Properties are not securities of a reporting issuer, they are, as a result of the rights, privileges and restrictions attaching to such Class B LP Units and the various material agreements relating to and governing the Class B LP Units, equivalent to the Units (which are securities of a reporting issuer) in all material respects. As a result of such equivalency, the REIT has applied to the Ontario Securities Commission for exemptive relief from the requirement to obtain a formal valuation of the Class B LP Units to be issued to Melcor in connection with the Melcor Acquisition.

In compliance with the conditions of such expected exemptive relief, the REIT represents that it has no knowledge of any material information concerning the REIT and the Partnership, or concerning the securities of the REIT and the Partnership, that has not been generally disclosed. Furthermore, Melcor has confirmed to the REIT that it has no knowledge of any material information concerning the REIT and the Partnership or securities of the REIT and the Partnership that has not been generally disclosed.

By engagement agreement dated August 12, 2014, the Special Committee retained Altus Group to provide an independent estimate of the market value of each of the Melcor Acquisition Properties as at September 30, 2014. In retaining Altus Group, the Special Committee, based in part on representations made to it by Altus Group, concluded that Altus Group was independent and qualified to provide the Appraisals. Pursuant to the terms of the engagement agreement, the REIT agreed to pay a fixed fee to Altus Group as compensation for its services. Pursuant to the terms of the engagement agreement, the REIT agreed to reimburse Appraiser for certain out-of-pocket expenses incurred by it.

Credentials of Altus Group

Altus Group’s Research, Valuation & Advisory group is an independent real estate advisory practices in Canada, with over 40 years of experience in providing public and private sector clients with advisory services in the fields of valuation and appraisal, legal support, decision making support, financial due diligence, targeted research, market information and perspective, tenant satisfaction studies, industry benchmark reporting, and presentation materials.

Independence of Altus Group

Neither Altus Group nor any of its affiliated entities (as such term is defined for the purposes of the MI 61-101) is an insider, associate or affiliate (as those terms are defined in the *Securities Act* (Ontario)) of the REIT, Melcor or any of their respective associates or affiliates (collectively the “**Interested Parties**”). Altus Group is not acting as an advisor to the REIT, Melcor or any other Interested Party in connection with the Melcor Acquisition other than acting as an advisor to the Special Committee as set out herein.

During the 24 months before Altus Group was first contacted by the Special Committee with respect to the preparation of the Appraisals, neither Altus Group nor any of its affiliated entities had a material financial interest in a transaction involving an Interested Party, other than with respect to the provision of professional services from time to time on a fee-for-services basis, on customary terms and for customary fees.

Altus Group does not have a material financial interest in the completion of the Melcor Acquisition and the fees paid to Altus Group in connection with its engagement do not give Altus Group any financial incentive in respect of the conclusions reached in the Appraisals or the outcome of the Melcor Acquisition.

There are no understandings, agreements or commitments between Altus Group and the REIT, Melcor or any other Interested Party with respect to any future advisory business. Altus Group may, in the future, in the ordinary course of its business, perform valuation and appraisal services for the REIT, Melcor or any other Interested Party.

Altus Group confirmed that it is of the view that it is “independent” (as that term is defined in MI 61-101) of all Interested Parties for the purposes of preparing and delivering the Appraisals in compliance with 61-101.

Independent Appraisals

The Melcor Acquisition constitutes a “related party transaction” under MI 61-101. In accordance with MI 61-101, the REIT was required to obtain, at its own expense, the Appraisals. The Special Committee retained Altus Group to provide an independent estimate of the market value of each of the Melcor Acquisition Properties as at September 30, 2014. The Appraisals were prepared in conformity with the Canadian Uniform Standards of Professional Appraisal Practice and the code of Professional Ethics and Standards of Professional Practice, each adopted by the Appraisal Institute of Canada.

The Appraisal Institute of Canada has defined market value as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus”. According to the Appraisal Institute of Canada, implicit in the definition of market value is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (i) buyer and seller are typically motivated; (ii) both parties are well informed or well advised, and acting in what they consider their best interests; (iii) a reasonable time is allowed for exposure of each individual property in the open market; (iv) payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and (v) the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

The estimated market value of the Melcor Acquisition Properties primarily was determined by Altus Group using an income valuation approach (which utilized both the overall capitalization rate and the discounted cash flow approach). The direct comparison approach was used to support the conclusion reached by the income valuation approach for the Melcor Acquisition Properties. These valuation methods are methods frequently used by investors when acquiring properties of this nature. Altus Group gave consideration to a forecast of income for each property based on contract and market rental rates, growth levels, vacancy rates, tenant roll-overs and operating expenses. Altus Group visited each of the Melcor Acquisition Properties to assess location and general physical characteristics and estimated the highest and best use for each property. Valuation parameters were used, having due regard to the income characteristics, current market conditions and prevailing economic and industry information. In appraising the Melcor Acquisition Properties, Altus Group assumed, among other things, that title to the Melcor Acquisition Properties was good and marketable and did not take into account issues such as, but not limited to, mechanical, structural, environmental, zoning, planning or related issues. Altus Group notes that it has not reviewed the BCA Reports for the Melcor Acquisition Properties, and that any outstanding expenditures of a capital nature may affect value conclusions.

In determining the approximate market value of the Melcor Acquisition Properties, Altus Group relied on operating and financial data provided by Melcor, including rent rolls. For each property, Altus Group discussed with management of Melcor the property’s history, current tenant status and future prospects, reviewed historical operating results and reviewed management revenue and expense estimates for their reasonableness. Based on its limited review, and other relevant facts, Altus Group considered such data to be reasonable.

As set out in the Appraisals, the aggregate market value of the Melcor Acquisition Properties as at September 30, 2014 was approximately \$146.5 million, demonstrating a weighted average capitalization rate of 6.80%, as calculated by the REIT, based on the stabilized net operating income in the Appraisals. Based on the Appraisals, the following table shows the market value of each Melcor Acquisition as at September 30, 2014:

<u>Melcor Acquisition Property</u>	<u>Appraised Value (in thousands)</u>
Lethbridge Centre ..	\$57,600
Telford Industrial	\$16,100
Leduc Common Phase Four.....	\$22,600
Village at Blackmud Creek Phase One	\$25,100
University Park Shopping Centre	\$8,900
West Henday Promenade Phase One	\$16,200
Total.....	\$146,500

This summary of the Appraisals is not complete and is qualified by reference to the Appraisals, copies of which are available on the System for Electronic Document Recovery and Retrieval at www.sedar.com under the REIT's issuer profile. In addition, copies of the Appraisals may be viewed at the REIT's officers at 10310 Jasper Avenue Edmonton, AB T5J 1Y2 and copies will be sent to any Unitholder upon request and subject to a nominal charge to cover printing and mailing costs. See "Risk Factors - Use of Appraisals".

Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value at a particular date. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Appraisals are based on various assumptions of future expectations and while Altus Group's internal forecasts of NOI for the Melcor Acquisition Properties was considered to be reasonable at the time of the Appraisals, some of the assumptions may not materialize or may differ materially from actual experience in the future.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the appraisal value of its properties.

THE ACQUISITION PROPERTIES

Melcor Acquisition Properties

The Melcor Acquisition Properties consist of six commercial properties, with approximately 738,080 square feet of GLA. The following is a description of the Melcor Acquisition Properties:

Lethbridge Centre, 200 4th Avenue South, Lethbridge, Alberta

Lethbridge Centre is a mixed use complex situated on a 10.61-acre site, containing 446,272 square feet of GLA, and which has surface parking for 860 vehicles (1.93 stalls per 1,000 square feet of GLA). The first storey of the mixed use complex and the office building were constructed in 1975, with the second story of the mixed use complex completed in 1988. The property was substantially redeveloped by Melcor from 2011 to 2014. As at November 1, 2014, the property was 90% leased, and was occupied by 43 tenants. Pursuant to the Melcor Acquisition Agreement, Melcor will, with respect to Lethbridge Centre, complete, at its own cost and expense, outstanding tenant improvements, construction projects, capital improvements and landlord's work, and pay certain outstanding leasing commissions, expected to total approximately \$3.96 million in the aggregate.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Hudson's Bay	133,043	29.8%	June 2023
Alberta Health Services	85,013	19.0%	September 2015 ⁽¹⁾ February 2025 ⁽¹⁾
Ministry of Infrastructure	63,962	14.3%	November 2018 ⁽²⁾ September 2019 ⁽²⁾ May 2025 ⁽²⁾

Notes:

1. Tenant is subject to multiple leases: 8,772 sq. ft. expiring in September 2015 and 76,241 sq. ft. expiring in May 2025.
2. Tenant is subject to multiple leases: 11,370 sq. ft. expiring in November 2018, 9,375 sq. ft. expiring in September 2019 and 43,217 sq. ft. expiring in May 2025.

Telford Industrial, 65th Avenue, Leduc, Alberta

Telford Industrial, a property developed by Melcor with construction completed in 2013, is a single tenant industrial building situated on an 8.35-acre site, containing 88,699 square feet of GLA. Pursuant to the Melcor Acquisition Agreement, Melcor will, with respect to Telford Industrial, complete, at its own cost and expense, outstanding construction projects, expected to total approximately \$41,000 in the aggregate.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Basin Tek	88,699	100%	February 2024

Leduc Common Phase Four, Queen Elizabeth II Highway & 50th Avenue, Leduc, Alberta

Leduc Common Phase Four, a property developed by Melcor with full construction expected to be completed in 2015, is a multi-tenant retail complex situated on a 6.57-acre site, containing 69,605 square feet of GLA (24,686 square feet of which is under construction), and which has surface parking for 355 vehicles (5.10 stalls per 1,000 square feet). This is an additional phase of Leduc Common, a multi-building open retail power centre containing 213,966 square feet of GLA, purchased by the REIT at the time of the IPO. As at November 1, 2014, Leduc Common Phase Four was 90 % leased excluding the Head Lease described below (97 % leased including such Head Lease), and was occupied by three tenants. Concurrent with the Melcor Acquisition Closing, Melcor will enter into a Bridge Lease for one premises totaling 17,456 square feet. This premises, while under lease with a third party tenant, is currently under construction and will not be occupied by such third party tenant until construction is complete. It is expected that construction will be completed, with the third party tenant occupying the premises and paying rent in Q1 2015. The Bridge Lease will provide that Melcor will pay minimum rent at the same rate to be paid by the third party tenant (\$17.00 per square foot per annum) and its proportionate share of operating expenses and taxes until the rent commencement date under the third party lease. Further, concurrent with the Melcor Acquisition Closing, Melcor will also enter into a Head Lease with respect to 5,000 square feet of a 7,230 square foot CRU located at Leduc Common Phase Four. The Head Lease will have a term of five years and will provide that Melcor will pay minimum rent in an amount equal to \$20.00 per square foot per annum and its proportionate share of operating expenses and taxes. See "Head and Bridge Leases". Pursuant to the Melcor Acquisition Agreement, Melcor will, with respect to Leduc Common Phase Four, complete, at its own cost and expense, outstanding tenant improvements and construction projects, and pay certain outstanding leasing commissions, expected to total approximately \$1.62 million in the aggregate.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Winners	20,277	29.1%	January 2023
Sport Check	18,185	26.1%	January 2023
Michaels ⁽¹⁾	17,456	25.1%	February 2025

Notes:

1. This premise to be the subject of a Bridge Lease with Melcor.

Village at Blackmud Creek Phase One, 103th A Street & Ellerslie Road, Edmonton, Alberta

Village at Blackmud Creek Phase One, a property developed by Melcor with construction completed in the spring of 2014, is an office and retail complex situated on a 4.05-acre site, containing 57,364 square feet of GLA (48,335 square foot three storey office building and a 9,029 square foot CRU), and which has surface parking for 311 vehicles (5.42 stalls per 1,000 square feet of GLA). As at November 1, 2014, the property was 89% leased, excluding the Head Lease described below (98% leased including such Head Lease), and was occupied by five tenants. Concurrent with the Melcor Acquisition Closing, Melcor will enter into a Bridge Lease for one premises totaling 2,195 square feet. This premises, while under lease with a third party tenant, is currently under construction. It is expected that construction will be completed, with the third party tenant occupying the premises and paying rent in Q2 2015. The Bridge Lease will provide that Melcor will pay minimum rent at the same rate to be paid by the third party tenant (\$28.00 per square foot per annum) and its proportionate share of operating expenses and taxes until the rent commencement date under the third party lease. Further, concurrent with the Melcor Acquisition Closing, Melcor will also enter into a Head Lease with respect to one premises in the office building at Village at Blackmud Creek Phase One totaling 5,190 square feet. The Head Lease will have a term of five years and will provide that Melcor will pay minimum rent in an amount equal to \$20.00 per square foot per annum and its proportionate share of operating expenses and taxes. See "Head and Bridge Leases". Further, concurrent with the Melcor Acquisition Closing, Melcor will also enter into a parking agreement with the REIT pursuant to which it will grant a license to 36 energized parking stalls located on Village at Blackmud Creek Phase Two, which is currently under development. Pursuant to the Melcor Acquisition Agreement, Melcor will, with respect to Blackmud Creek Phase One, complete, at its own cost and expense, outstanding tenant improvements and construction projects, and pay certain outstanding leasing commissions, expected to total approximately \$656,000 in the aggregate.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Fountain Tire	31,134	54.7%	February 2029
Kids & Company.....	9,817	17.1%	March 2029
Amazing Wok Restaurant.....	2,688	4.7%	February 2029

University Park Shopping Centre, 166 University Park Drive, Regina, Saskatchewan

University Park Shopping Centre is a retail community strip centre situated on a 3.41-acre site, containing 41,238 square feet of GLA and surface parking for 222 vehicles (5.38 stalls per 1,000 square feet). The building was constructed in 1981 and expanded in 1986. As at November 1, 2014, the property was 100% leased, and was occupied by 18 tenants.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
WP Garden Centre.....	6,000	14.5%	June 2018
First Tee Indoor Golf Centre	5,480	13.3%	October 2019
ReMax Realty.....	4,900	11.9%	February 2018

West Henday Promenade Phase One, 199th Street & 87th Avenue, Edmonton, Alberta

West Henday Promenade Phase One, a property developed by Melcor with full construction expected to be completed in the spring of 2015, is a 34,902 square foot multi-tenant retail complex (7,847 square feet of which is under construction), situated on a 3.68-acre site, and which has surface parking for 139 vehicles (4.04 stalls per 1,000 square feet). As at November 1, 2014, the property was 96% leased, and was occupied by three tenants. Concurrent with Melcor Acquisition Closing, Melcor will enter into Bridge Leases for two premises totaling 6,580 square feet. These premises, while under lease, are currently under construction and will not be occupied by such third party tenant until construction is complete. It is expected that construction will be completed in Q1 2015, with the tenants occupying these premises and paying rent in Q2 2015. The Bridge Leases will provide that Melcor will pay minimum rent at the same rate to be paid by the third party tenants (\$33.50 and \$34.50 per square foot per annum) and its proportionate share of operating expenses and taxes until the rent commencement date under the third party lease. See “Head and Bridge Leases”. Pursuant to the Melcor Acquisition Agreement, Melcor will, with respect to West Henday Promenade Phase One, complete, at its own cost and expense, outstanding tenant improvements and construction projects, and pay certain outstanding leasing commissions, expected to total approximately \$1.10 million in the aggregate.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Shoppers Drug Mart	17,502	50.2%	November 2028
Pure Orthodontics	5,540	15.9%	March 2024
Sobeys Western Cellars	4,013	11.5%	November 2023

Assessment of the Melcor Acquisition Properties

Building Condition Assessments

Building condition assessment reports (“**BCA Reports**”) were prepared for each of the Melcor Acquisition Properties by independent engineering firms for the purpose of assessing and documenting the existing condition of each building and their major operating components and systems, as well as identifying and quantifying any major defects in materials or systems which might significantly affect the value of either of the Melcor Acquisition Properties or the continued operation thereof. The BCA Reports were completed between May, 2014 and August, 2014. Based on the BCA Reports, the Melcor Acquisition Properties were determined to be in satisfactory and/or fair condition commensurate with their age.

Identified Expenditures

The table below summarizes the capital expenditures recommended in the BCA Reports. All of these amounts, other than approximately \$277,000, are expected to be recoverable from the REIT’s tenants as operating costs. Pursuant to the Acquisition Agreement, Melcor has agreed to complete such structural repairs at its own cost and expense at an expected cost of approximately \$277,000 (estimated to amount to \$250,000 in recommended capital expenditures in the BCA Report at one of the Melcor Acquisition Properties).

	<u>Year One</u>	<u>Year Two</u>	<u>Year Three</u>	<u>Year Four</u>	<u>Year Five</u>	<u>Year Six</u>	<u>Year Seven</u>	<u>Year Eight</u>	<u>Year Nine</u>	<u>Year Ten</u>	<u>Total</u>
From BCA Reports ⁽¹⁾	\$460	\$721	\$737	\$533	\$536	\$54	\$27	\$28	\$69	-	\$3,166

Notes:

1. In thousands.

Environmental Site Assessments

Each of the Melcor Acquisition Properties were the subject of a Phase 1 environmental site assessment report or an update to such a report (collectively, “**Phase I ESA Reports**”) prepared by independent environmental consultants between June, 2014 and September, 2014. In general, the purpose of these Phase I ESA Reports was to identify any RECs at the Melcor Acquisition Properties, which means the presence or likely presence of any hazardous substances or petroleum products on any of the Melcor Acquisition Properties under conditions that

indicate an existing release, a past release, or a material threat of a release of any hazardous substances into the ground, groundwater or surface water of any Melcor Acquisition Property. The Phase I ESA Reports were prepared in accordance with general industry practice for such reports. Intrusive sampling and analysis were not part of these Phase I environmental site assessments or updates.

Environmental site assessments involving certain intrusive soil and/or groundwater sampling or re-sampling of existing monitoring wells and analysis (“**Phase II ESA Reports**”) were recommended for three of the Melcor Acquisition Properties. The purpose of these Phase II ESA Reports was to assess the RECs identified in the Phase I ESA Reports.

Based on the Phase I ESA Reports and the Phase II ESA Reports, the independent environmental consultants did not identify any RECs that immediately warranted further environmental assessment or investigation at any of the Melcor Acquisition Properties other than continued sampling and/or monitoring at two of the Melcor Acquisition Properties at which Phase II investigations were conducted. Melcor will indemnify the REIT and the Partnership with respect to any damages incurred or losses suffered by the REIT or the Partnership relating to environmental matters for a period of seven years with respect to four of the Melcor Acquisition Properties and indefinitely with respect to two of the Melcor Acquisition Properties.

In the event that any remediation, monitoring or sampling is necessary with respect to the two of the Melcor Acquisition Properties identified above as requiring continued sampling and/or monitoring, Melcor will undertake, at its cost, all necessary actions, including recommended actions set out in the Phase I ESA Reports and Phase II ESA Reports, or in any remediation, monitoring or sampling reports or risk assessments prepared in respect of such properties and will obtain all necessary environmental permits in connection with such work or actions.

Head and Bridge Leases

Head Leases

In order to provide the REIT with stable and predictable monthly revenue with respect to two premises (the “**Head Lease Premises**”) at two of the Melcor Acquisition Properties, with aggregate GLA of 10,190 square feet, Melcor will lease the Head Lease Premises from the REIT. The Head Leases will have a five- year term, and Melcor will be responsible for minimum rents as set out in the table below and its proportionate share of additional rent.

The REIT will use commercially reasonable efforts to lease, and Melcor may sublease, each of the Head Lease Premises in whole or in part (each a “**New Lease**”) to mutually acceptable tenants (each a “**New Tenant**”), including any prospective tenants currently under consideration, on mutually acceptable terms, each party acting reasonably. Further, the REIT will reasonably consider new leasing leads presented by Melcor.

In the event that the projected New Lease Revenues are more than the combined minimum rent and additional rent payable for the same space for the remainder of the term under the applicable Head Lease (such difference being the “**Over Recovery**”), then Melcor shall be released from its future obligations under the Head Lease with respect to the space in question: (i) at the time such tenant commences paying rent pursuant to the New Lease between such tenant and the REIT (in the case of a tenant proposed by the REIT); or (ii) at the time the tenant commences paying rent and all applicable tenant inducements pursuant to the Lease have been paid (in the case of a tenant proposed by Melcor). Ten percent of any Over Recovery actually received by the REIT will be credited against, and result in an automatic reduction in, the monthly combined minimum rent and additional rent otherwise then payable by Melcor under any other then existing Head Lease, as designated from time to time by Melcor.

In the event that the projected New Lease Revenues are less than the rent payable for the same space for the remainder of the term under the applicable Head Lease (such difference being the “**Shortfall**”), then Melcor shall have the option of (i) structuring the New Lease as a sublease in which case the New Lease Revenues will be applied against the combined minimum rent and additional rent payable by Melcor under the Head Lease, or (ii) entering into an agreement with the REIT to provide an income supplement for the Shortfall (at Melcor’s option, either on a monthly basis for the remainder of the original Head Lease term, or a payment equal to the net present value of the remaining Shortfall monthly payments discounted at the rate of 1.5%, which is a proxy for the current

five year Government of Canada bond rate, in which case Melcor shall be released from its future obligations under the Head Lease with respect to the space in question: (i) at the time such tenant commences paying rent pursuant to the New Lease between such tenant and the REIT (in the case of a tenant proposed by the REIT); or (ii) at the time the tenant commences paying rent and all applicable tenant inducements have been paid pursuant to the New Lease between such tenant and the REIT (in the case of a tenant proposed by Melcor).

Melcor shall be responsible for the cost of tenant/leasehold improvements, tenant inducements/incentives, rent-free periods, landlord's work and/or leasing commissions for New Tenants.

The Head Leases will include customary provisions such as events of default for non-payment of rent and other obligations and notice clauses.

The following table sets out the Melcor Acquisition Properties subject to the Head Leases and certain specifics of such leases.

Melcor Acquisition Property	GLA of Head Lease Premises (sq. ft.)	% of Total GLA of Melcor Acquisition Properties	Annual Minimum Rent	Minimum Rent per sq. ft.	Term (yrs)
Leduc Common Phase Four	5,000	0.68%	\$100,000	\$20.00	Five
Village of Blackmud Creek	5,190	0.70%	\$103,800	\$20.00	Five

Bridge Leases

Four premises (the "**Bridge Lease Premises**") at three of the Melcor Acquisition Properties, with aggregate GLA of 26,231 square feet, are subject to lease agreement with third party tenants. However, as such premises are still under construction, such third party tenants are neither occupying these premises nor are they paying rent. In order to provide the REIT with interim revenue with respect to the Bridge Lease Premises during the construction periods, Melcor will lease the Bridge Lease Premises from the REIT until the rent commencement date of each third party tenant lease agreement.

Melcor will pay minimum rent at the in-going rate to be paid by the third party tenants, its proportionate share of additional rent, and will be responsible for the cost of tenant/leasehold improvements, tenant inducements/incentives, rent-free periods, landlord's work and/or leasing commissions.

It is expected that all Bridge Lease Premises will be occupied, with the tenants paying rent, by the end of Q2 2015. The following table sets out the Melcor Acquisition Properties subject to the Bridge Leases and certain specifics of such leases.

Melcor Acquisition Property	GLA of Bridge Lease Premises (sq. ft.)	% of Total GLA of Melcor Acquisition Properties	Minimum Rent per sq. ft.	Expected Tenant Occupation/Rent Commencement
Leduc Common Phase Four	17,456	2.37%	\$17.00	Q1 2015
West Henday Promenade Phase One.....	3,052	0.41%	\$34.50	Q2 2015
West Henday Promenade Phase One.....	3,528	0.48%	\$33.50	Q2 2015
Village at Blackmud Creek	2,195	0.30%	\$28.00	Q2 2015

FINANCING FOR THE ACQUISITION

The Offering

In order to partially finance the Melcor Acquisition, the REIT has agreed to sell, subject to regulatory approval and on a bought-deal basis, of \$30 million aggregate principal amount of to a syndicate of underwriters co-led by RBC Dominion Securities Inc. and CIBC World Markets Inc. The Offering is expected to close on December 3, 2014.

The Debentures will be issued pursuant to the Indenture, dated the date of closing of the Offering, among the REIT and the Debenture Trustee. Following the completion of the Offering, the Indenture will be filed with the various securities commissions or similar authorities in Canada. Consequently, the Indenture will be available on www.sedar.com.

The following is a summary of the material attributes and characteristics of the Debentures. This summary does not purport to be complete and is subject to, and qualified in its entirety by, reference to the terms of the Indenture.

Overview

The Debentures will initially be limited in the aggregate principal amount to \$34.5 million, inclusive of the Over-Allotment Option (if exercised in full by the Underwriters). The REIT may, however, from time to time, without the consent of the holders of the Debentures, issue additional or other debentures in addition to the Debentures offered hereby. The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof. At Closing, the Debentures will be available for delivery in book-entry only form through the facilities of CDS. Holders of beneficial interests in the Debentures will not have the right to receive physical certificates evidencing their ownership of Debentures except under certain circumstances described under “- Book-Entry, Delivery and Form”. No fractional Debentures will be issued.

The Maturity Date for the Debentures will initially be the Initial Maturity Date. If the completion of the Melcor Acquisition occurs prior to the occurrence of a Termination Event, the Maturity date of the Debentures will be automatically extended from the Initial Maturity Date to the Final Maturity Date, and the first interest payment on June 30, 2015 will include accrued and unpaid interest for the period from, and including, the date of closing of the Offering to, but excluding, June 30, 2015. In the event that the completion of the Melcor Acquisition does not occur prior to the occurrence of a Termination Event, the Debentures will mature on the Initial Maturity Date and the REIT will repay the aggregate principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon.

The Debentures will bear interest from, and including, the date of closing of the Offering at 5.50% per annum, payable semi-annually in arrears on June 30 and December 31 (each an “**Interest Payment Date**”) in each year, commencing on June 30, 2015 until the maturity date of the Debenture; the first payment will include accrued and unpaid interest for the period from the Closing Date to, but excluding, June 30, 2015.

The Debentures will be direct obligations of the REIT and will not be secured by any mortgage, pledge, hypothec or other charge and will be subordinated to all other liabilities of the REIT as described under “- Subordination”. The Indenture will not restrict the REIT from incurring additional indebtedness for borrowed money or from mortgaging, pledging or charging its real or personal property or properties to secure any indebtedness.

The Debentures will be transferable, and may be presented for conversion, at the principal offices of the Debenture Trustee in Calgary, Alberta and Toronto, Ontario.

The Debentures will be issuable only in denominations of \$1,000 and integral multiples thereof. At closing of the Offering, one or more Global Debenture Certificates representing the Debentures will be issued in registered form to CDS or its nominee as registered global debentures and will be deposited with CDS. Holders of beneficial interests in the Debentures will not be entitled to receive physical certificates evidencing their ownership of Debentures except under certain circumstances described under “-Book Entry, Delivery and Form”.

Conversion Privilege

Each Debenture will be convertible into Units at the option of the Debenture Holder at any time after the Initial Maturity Date and prior to 5:00 p.m. (Alberta time) on the earlier of the Final Maturity Date and the business day immediately preceding the date specified by the REIT for redemption of the Debentures, at the Conversion Price of \$12.65 per Unit, being a conversion rate of approximately 79.0514 Units per \$1,000 principal amount of the Debentures, subject to adjustment in certain events described below. No adjustment will be made for distributions on Units issuable upon conversion or for interest accrued on Debentures surrendered for conversion; however,

Debenture Holders converting their Debentures will be entitled to receive, in addition to the applicable number of Units, accrued and unpaid interest on such Debentures for the period from, and including, the last Interest Payment Date (or the date of closing of the Offering if no interest has yet been paid with respect to their Debentures) to and including the last record date set by the REIT, occurring prior to the date of conversion, for determining the holders of Units entitled to receive a distribution on the Units. In the event distributions have been suspended by the REIT or a public announcement has been made giving notice of the suspension of regular distributions to holders of Units prior to the applicable date of conversion, and such suspension is in effect on such date of conversion, such Debenture Holder, in addition to the applicable number of Units to be received on conversion, will be entitled to receive accrued and unpaid interest for the period from, and including, the last Interest Payment Date prior to the date of conversion (or the date of closing of the Offering if no interest has yet been paid on the Debentures) to and including the date of conversion. Notwithstanding the foregoing, no Debenture may be converted during the five business days preceding June 30 and December 31 in each year, as the register of the Debenture Trustee will be closed during such periods.

Subject to the provisions thereof, the Indenture will provide for the adjustment of the Conversion Price in certain events, including: (i) the subdivision, redivision, reduction, combination or consolidation of the outstanding Units; (ii) the issuance of Units to holders of all or substantially all of the outstanding Units by way of distribution or otherwise (other than an issue of Units to holders of Units who have elected to receive distributions in the form of Units in lieu of receiving cash distributions paid in the ordinary course on the Units); (iii) the issuance of options, rights or warrants to holders of all or substantially all of the outstanding Units entitling such holders to acquire (a) Units at a price per Unit of less than 95% of the then Current Market Price of a Unit or (b) securities convertible or exchangeable into Units at a conversion or exchange price per Unit, as the case may be, of less than 95% of the then Current Market Price of a Unit; and (iv) the distribution to holders of all or substantially all of the outstanding Units of any securities or assets (other than cash distributions and equivalent distributions in securities paid in lieu of cash distributions in the ordinary course). There will be no adjustment of the Conversion Price in respect of any event described in (ii), (iii) or (iv) above if, subject to prior written consent of the exchange on which the Debentures are then listed, the Debenture Holders are entitled to participate in such event as though they had converted their Debentures prior to the effective date or record date, as the case may be, of such event. The REIT will not be required to make adjustments of the Conversion Price unless such adjustment would require an increase or decrease of at least 1% in the Conversion Price then in effect; provided, however, that any adjustments that are, accordingly, not required to be made shall be carried forward and taken into account in any subsequent adjustment.

In the case of any reclassification of the Units or a capital reorganization of the REIT (other than a subdivision, redivision, reduction, combination or consolidation of the outstanding Units) or an amalgamation, arrangement or merger of the REIT or a similar transaction with or into any other person or other entity, or a sale or conveyance of the property and assets of the REIT as an entirety or substantially as an entirety to any other person or other entity or a liquidation, dissolution or winding-up or other similar transaction of the REIT, the terms of the conversion privilege shall be adjusted so that each Debenture shall, after such event, be convertible into the kind and amount of securities or assets of the REIT or of the person or other entity resulting from such event, as the case may be, which the Debenture Holder thereof would have been entitled to receive as a result of such event if on the effective date or the record date, as the case may be, of such event the Debenture Holder had been the registered holder of the number of Units into which the Debenture was convertible prior to the effective date or the record date, as the case may be, of such event.

No fractional Units will be issued on any conversion of the Debentures. In lieu thereof, the REIT shall satisfy such fractional interest by a cash payment equal to the Current Market Price of such fractional interest.

Redemption and Purchase

The Debentures will not be redeemable prior to December 31, 2017, except upon the satisfaction of certain conditions after a Change of Control has occurred (see “Put Right upon a Change of Control”). On and from December 31, 2017, and prior to December 31, 2018, the Debentures will be redeemable, in whole at any time, or in part from time to time, at the option of the REIT on not more than 60 days’ and not less than 30 days’ prior written notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest up to the date fixed for redemption, provided that the Current Market Price on the date on which notice of redemption is given is

not less than 125% of the Conversion Price. On and from December 31, 2018, and prior to the Final Maturity Date, the Debentures will be redeemable, in whole at any time, or in part from time to time, at the option of the REIT on not more than 60 days' and not less than 30 days' prior written notice, at a redemption price equal to the principal amount thereof plus accrued and unpaid interest up to the date fixed for redemption.

The REIT will have the right to purchase Debentures in the market, by tender or by private contract, at any price, subject to compliance with regulatory requirements; provided, however, that if an Event of Default has occurred and is continuing, the REIT will not have the right to purchase the Debentures by private contract. In the case of redemption of less than all of the Debentures, the Debentures to be redeemed will be selected by the Debenture Trustee on a pro rata basis to the nearest multiple of \$1,000 or by lot in such manner as the Debenture Trustee deems equitable, subject to the consent of the exchange on which the Debentures are then listed, if required.

Payment upon Redemption or Maturity

On redemption or on the Initial Maturity Date or Final Maturity Date, as applicable, the REIT will repay the indebtedness represented by the Debentures by paying to the Debenture Trustee in lawful money of Canada an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon. The REIT may, at its option, on not more than 60 days' and not less than 30 days' prior written notice and subject to any required regulatory approvals, unless an Event of Default has occurred and is continuing, elect to satisfy its obligation to pay, in whole or in part, the principal amount of the Debentures which are to be redeemed or which have matured by issuing and delivering that number of fully paid, non-assessable and freely-tradeable Units to the Debenture Holders obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity, as applicable. No fractional Units will be issued to Debenture Holders. In lieu thereof, the REIT shall satisfy such fractional interests by cash payments equal to the Current Market Price of such fractional interests.

Interest Payment Election

Provided that the maturity date for the Debentures has been extended to the Final Maturity Date and no Event of Default has occurred and is continuing, and subject to applicable regulatory approval, the REIT may elect (the "**Unit Interest Payment Election**"), from time to time, to satisfy its obligation to pay interest on the Debentures on the date interest is payable under the Indenture, by issuing and delivering fully paid, non-assessable and freely-tradeable Units to the Debenture Trustee to be sold by the Debenture Trustee for proceeds, which together with any cash payments to be made by the REIT in lieu of fractional Units, are sufficient to satisfy all of the REIT's obligations to pay interest on the Debentures in accordance with the Indenture. The Indenture will provide that, upon such election, the Debenture Trustee shall request bids to purchase Units in accordance with the Indenture and shall (i) accept delivery of Units from the REIT, (ii) accept bids with respect to, and facilitate settlement of sales of, such Units, each as the REIT shall direct in its absolute discretion, (iii) invest the proceeds of such sales in short-term obligations of, or guaranteed by, the Government of Canada (and other approved investments), (iv) deliver proceeds to Debenture Holders sufficient to satisfy the REIT's interest payment obligations, and (v) perform any other action necessarily incidental thereto as directed by the REIT.

The amount received by a Debenture Holder in respect of interest will not be affected by whether or not the REIT elects to use the Unit Interest Payment Election. Neither the REIT's making of the Unit Interest Payment Election nor the consummation of sales of Units in connection therewith will (i) result in the Debenture Holders not being entitled to receive on the applicable Interest Payment Date cash in an aggregate amount equal to the interest payable on such Interest Payment Date, or (ii) entitle such Debenture Holders to receive any Units in satisfaction of the interest payable on the applicable Interest Payment Date.

Cancellation

All Debentures converted, redeemed or purchased as aforesaid will be cancelled and may not be reissued or resold.

Subordination

The payment of the principal of, and interest on, the Debentures will be subordinated in right of payment, as set forth in the Indenture, to the prior payment in full of all Senior Indebtedness.

Each debenture issued under the Indenture of the same series of debentures will rank *pari passu* with each other debenture of the same series (regardless of their actual date or terms of issue) and, subject to statutory preferred exceptions, with all other present and future subordinated and unsecured indebtedness of the REIT, except for sinking fund provisions (if any) applicable to different series of debentures or other similar types of obligations of the REIT. The Debentures will not limit the ability of the REIT to incur additional indebtedness, including indebtedness that ranks senior to the Debentures, or from mortgaging, pledging or charging its properties to secure any indebtedness.

The Indenture will provide that in the event of any dissolution, winding-up, liquidation, reorganization, bankruptcy, insolvency, receivership, creditor enforcement or realization or other similar proceedings relating to the REIT or any of its property (whether voluntary or involuntary, partial or complete) or any other marshalling of the assets and liabilities of the REIT or any sale of all or substantially all of the assets of the REIT, all Senior Indebtedness and trade creditors of the REIT will first be paid in full, or provision made for such payment, before any payment is made on account of the indebtedness, liabilities and obligations of the REIT under the Debentures (excluding the issuance of Units or other securities upon any conversion, redemption or at maturity).

The Indenture will also provide that the REIT will not make any payment, and the Debenture Holders will not be entitled to demand, institute proceedings for the collection of, or receive any payment or benefit (including, without limitation, by set-off, combination of accounts, realization of security or otherwise in any manner whatsoever) on account of indebtedness represented by the Debentures (i) in a manner inconsistent with the terms (as they exist on the date of issue) of the Debentures or (ii) at any time when a default has occurred under the Senior Indebtedness and is continuing and which permits the holder of the Senior Indebtedness to demand payment or to accelerate the maturity thereof, and the notice of such event of default has been given by or on behalf of the holders of Senior Indebtedness to the REIT, unless the Senior Indebtedness has been cured, waived or repaid in full.

The Debentures will also be effectively subordinated to claims of creditors of the REIT's subsidiaries, except to the extent the REIT is a creditor of such subsidiaries ranking at least *pari passu* with such other creditors.

Put Right upon a Change of Control

Upon the occurrence of a Change of Control, each Debenture Holder shall have the right (the “**Put Right**”) to require the REIT to purchase, on the date (the “**Put Date**”) which is not later than 30 days following the date upon which the Debenture Trustee provides notice of the Change of Control to the Debenture Holders as set out below, all or any part of such holder's Debentures, in accordance with the requirement of applicable Canadian securities laws, in lawful money of Canada at a price equal to 101% of the principal amount thereof (the “**Put Price**”) plus accrued and unpaid interest up to, but excluding, the Put Date.

If on the Put Date, 90% or more of the aggregate principal amount of the Debentures outstanding on the date the REIT provides notice of the Change of Control to the Debenture Trustee have been tendered for purchase pursuant to the Put Right, the REIT will have the right to redeem all the remaining Debentures on the Put Date at the Put Price, together with accrued and unpaid interest up to, but excluding, such date. Notice of such redemption must be given to the Debenture Trustee prior to the Put Date and promptly thereafter, by the Debenture Trustee to the holders of Debentures not tendered for purchase.

The Indenture will contain notification provisions to the following effect: (i) the REIT will, as soon as practicable, and in any event no later than two business days after the occurrence of a Change of Control, give written notice to the Debenture Trustee and the Debenture Trustee will, as soon as practicable thereafter, and in any event no later than two business days thereafter, deliver to the Debenture Holders a notice of the Change of Control, which will include a description of the Change of Control, details of the Debenture Holders' Put Right and a description of the rights of the REIT to redeem untendered Debentures; and (ii) a Debenture Holder, to exercise the

Put Right, must deliver to the Debenture Trustee, not less than five business days prior to the Put Date, written notice of the holder's exercise of such right.

Modification

The rights of the Debenture Holders as well as any other series of debentures that may be issued under the Indenture may be modified in accordance with the terms of the Indenture. For that purpose, the Indenture will contain, among others, certain provisions that will make binding on all Debenture Holders resolutions passed at meetings of the Debenture Holders by votes cast thereat by holders of not less than 66 2/3% of the principal amount of the then outstanding Debentures present at the meeting or represented by proxy, or rendered by instruments in writing signed by the holders of not less than 66 2/3% of the principal amount of the then outstanding Debentures. In certain cases, the modification will, instead of or in addition to, require assent by the holders of the required percentage of debentures of each particularly affected series. Under the Indenture, the Debenture Trustee will have the right to make certain amendments to the Indenture in its discretion, without the consent of the Debenture Holders.

Events of Default

The Indenture will provide that an event of default ("**Event of Default**") in respect of the Debentures will occur if certain events described in the Indenture occur, including if any one or more of the following events has occurred and is continuing with respect to the Debentures: (i) failure for 15 days to pay interest on the Debentures when due; (ii) failure to pay principal or premium, if any, on the Debentures, whether at the maturity date of the Debentures, upon redemption, by declaration or otherwise; (iii) default in the observance or performance of any material covenant or condition of the Indenture and continuance of such default for a period of 30 days after notice in writing has been given by the Debenture Trustee to the REIT specifying such default and requiring the REIT to rectify the same; or (iv) certain events of bankruptcy or insolvency of the REIT under bankruptcy or insolvency laws. If an Event of Default has occurred and is continuing, the Debenture Trustee may, in its discretion, and shall, upon receipt of a request in writing signed by the holders of not less than 25% of the principal amount of the Debentures then outstanding, declare the principal of (and premium, if any) and accrued interest on all outstanding Debentures to be immediately due and payable to the Debenture Trustee. In certain cases, the holders of more than 66 2/3% of the principal amount of the Debentures then outstanding may, on behalf of all Debenture Holders, waive any Event of Default and/or cancel any such declaration upon such terms and conditions as such holders shall prescribe.

Offers for Debentures

The Indenture will contain provisions to the effect that if an offer is made to acquire outstanding Debentures where, as of the date of the offer to acquire, the Debentures that are subject to the offer to acquire, together with the offeror's Debentures, constitute in the aggregate 20% or more of the outstanding principal amount of the Debentures, and, among other things, (i) within the time provided in the offer for its acceptance or within 60 days after the date the offer is made, whichever period is shorter, the offer is accepted by holders of Debentures representing at least 90% of the outstanding principal amount of the Debentures, other than Debentures beneficially owned, or over which control or direction is exercised, on the date of the offer by the offeror, any affiliate or associate of the offeror or any person acting jointly or in concert with the offeror and (ii) the offeror is bound to take up and pay for, or has taken up and paid for the Debentures of the Debenture Holders who accepted the offer, the offeror will be entitled to acquire, for the same consideration per Debenture payable under the offer, the Debentures held by Debenture Holders who did not accept the offer.

Contractual Rights of Rescission

Under the Indenture, original purchasers of Debentures will have a non-assignable contractual right of rescission, exercisable against the REIT following the issuance of Units to such purchaser pursuant to the exercise of the Debenture conversion privilege, to receive the offering price of each such Debenture if this short form prospectus (including the documents incorporated herein by reference) or any amendment thereto contains a misrepresentation (within the meaning of the *Securities Act* (Ontario)), provided such remedy for rescission is exercised within 180 days of the closing of the Offering, following which this contractual right of rescission will be

null and void. This contractual right of rescission shall be subject to the defences, limitations and other provisions described under part XXIII of the *Securities Act* (Ontario), and is in addition to any other right or remedy available to original purchasers of Debentures under section 130 of the *Securities Act* (Ontario) or otherwise at law. For greater certainty, this contractual right of rescission is only in connection with a misrepresentation (within the meaning of the *Securities Act* (Ontario) and is not a right to withdraw from an agreement to purchase securities within two business days as provided in securities legislation in certain provinces and territories of Canada.

Limitation on Non-Resident Ownership

In order for the REIT to maintain its status as a “mutual fund trust” under the Tax Act, the REIT must not be established or maintained primarily for the benefit of Non-Residents. The Trustees may require a registered holder of Debentures to provide the Trustees with a declaration as to the jurisdictions in which beneficial owners of the Debentures registered in the name of such Debenture Holder are resident and as to whether such beneficial owners are Non-Residents (or in the case of a partnership, whether the partnership is a Non-Resident). If the Trustees become aware, as a result of acquiring such declarations as to beneficial ownership or as a result of any other investigations, that the beneficial owners of 49% of the Units (on a diluted basis assuming conversion for Units of all outstanding convertible debentures issued under the Indenture (for greater certainty, including the Debentures, collectively, the “**Subject Debentures**”), are, or may be, Non-Residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription for Subject Debentures from or issue or register a transfer of Subject Debentures (including the issuance of Units on conversion of Subject Debentures) to a person unless the person or partnership, as the case may be, provides a declaration in form and content satisfactory to the Trustees that the person or partnership, as the case may be, is not a Non-Resident and does not hold such Subject Debentures for the benefit of Non-Residents. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units (on a diluted basis assuming conversion of all outstanding Subject Debentures for Units) would be held by Non-Residents, the Trustees may send a notice to such Non-Resident holders of Subject Debentures chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring such holders to sell their Subject Debentures or a portion thereof within a specified period of not more than 30 days. If holders of Subject Debentures receiving such notice have not sold the specified number of Subject Debentures or provided the Trustees with satisfactory evidence that they are not Non-Residents within such period, the Trustees may on behalf of such securityholders sell such Subject Debentures and, in the interim, shall suspend any voting, conversion and economic rights attached to such Subject Debentures (other than the right to receive the net proceeds from the sale). Upon such sale, the affected holders of Subject Debentures shall cease to be holders of the relevant Subject Debentures and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates, if any, representing such Subject Debentures. The Trustees will have no liability for the amount received provided that they act in good faith. The REIT may direct the Debenture Trustee to assist the Trustees with respect to any of the foregoing. Notwithstanding the foregoing, the Trustees may determine not to take any of the actions described above if the Trustees have been advised by legal counsel to the REIT that the failure to take any of such actions would not adversely impact the status of the REIT as a “mutual fund trust” for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the REIT as a “mutual fund trust” for purposes of the Tax Act.

Book Entry, Delivery and Form

The Debentures will be represented in the form of one or more Global Debenture Certificates. Each purchaser acquiring a beneficial interest in a Debenture represented by the Global Debenture Certificates will receive a customer confirmation of purchase from the Underwriter from whom the beneficial interest is purchased in accordance with the practices and procedures of the selling Underwriter. Registration of ownership and transfers of Debentures represented by the Global Debenture Certificates may be effected through the book-entry only system administered by CDS or its nominees (with respect to interests of participants of CDS) and on the records of participants of CDS (with respect to interests of persons other than participants of CDS). The ability of an owner of a beneficial interest in a Debenture represented by the Global Debenture Certificates to pledge such Debenture or otherwise take action with respect to such owner’s interest in such Debenture (other than through a CDS participant) may be limited due to the lack of a physical certificate.

Neither the REIT nor the Underwriters nor the Debenture Trustee shall have any responsibility or liability for: (i) any aspect of the records relating to the beneficial ownership of the Debentures held by CDS or any payments relating thereto; (ii) maintaining, supervising or reviewing any records relating to the Debentures; or (iii) any advice or representation made by or with respect to CDS relating to the rules governing CDS or any action to be taken by CDS or at the direction of a participant of CDS. The rules governing CDS provide that it acts as the agent and depository for the participants of CDS. As a result, participants of CDS must look solely to CDS and a purchaser acquiring a beneficial interest in the Debentures represented by a Global Debenture Certificate must look solely to participants of CDS for any payments relating to the Debentures paid by or on behalf of the REIT to CDS.

Debentures will be issued in fully registered form to holders or their nominees, other than CDS or its nominee, only if: (i) the REIT is required to do so by applicable law; (ii) the book-entry only system ceases to exist; (iii) the REIT or CDS advises the Debenture Trustee that CDS is unwilling or unable to continue as the depository with respect to the Debentures; (iv) CDS ceases to be eligible to be the depository with respect to the Debentures; (v) the REIT determines, in its sole discretion, to terminate the book-entry only system through CDS; or (vi) the Debenture Trustee has determined that an Event of Default has occurred and is continuing with respect to the Debentures, provided the Debenture Trustee has not waived the Event of Default in accordance with the terms of the Indenture.

Defeasance

The Indenture will contain provisions requiring the Debenture Trustee to release the REIT from its obligations under the Indenture (including the Debentures) and any supplemental indenture relating to a particular series of debentures, provided that, among other things, the REIT satisfies the Debenture Trustee that it has deposited, or caused to be deposited, funds or property sufficient for, among other things, the payment of (i) the expenses of the Debenture Trustee under the Indenture and (ii) all principal, premium (if any), interest and other amounts due or to become due in respect of such series of debentures.

Reports to Holders

To the extent not publically available on SEDAR at www.sedar.com, the REIT will provide the Debenture Trustee with copies of continuous disclosure documents furnished to its Unitholders (including annual consolidated financial statements of the REIT and any reports of the REIT's auditors thereon) promptly upon the distribution thereof to its Unitholders.

Governing Law

Each of the Indenture and the Debentures will be governed by, and construed in accordance with, the laws of the Province of Alberta applicable to contracts executed and to be performed entirely in such Province.

Over-Allotment Option

The REIT has also granted to the Underwriters an option (the “**Over-Allotment Option**”) to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, at any time not later than the earlier of (i) the 30th day following closing of the Offering and (ii) the occurrence of a Termination Event, and entitles the Underwriters to purchase up to an additional \$4,500,000 aggregate principal amount of Debentures on the same terms solely to cover over-allocations, if any, and for market stabilization purposes.

Underwriters' Fee

In consideration for their services in connection with the Offering, the REIT has agreed to pay the Underwriters a fee equal to \$37.50 per \$1,000 aggregate principal amount of Debentures, plus applicable taxes (if any). The Underwriters' fee is payable upon closing of the Offering.

The REIT has also agreed to pay the Underwriters a fee equal to \$37.50 per \$1,000 aggregate principal amount of Debentures (plus applicable taxes, if any) for each Debenture purchased pursuant to the exercise of the

Over-Allotment Option. The Underwriters' fee with respect to Debentures purchased pursuant to the exercise of the Over-Allotment Option is payable upon closing of the Over-Allotment Option.

Assumed Mortgages

Approximately \$78.4 million of the purchase price for the Melcor Acquisition Properties will be satisfied by the assumption of the Assumed Mortgages. The following table summarizes, for each of the Melcor Acquisition Properties, the expected outstanding principal amount of the debt secured by the Assumed Mortgages on closing of the Melcor Acquisition, the interest rate applicable to such debt and the maturity date of such debt.

<u>Melcor Acquisition Property</u>	<u>Loan Balance (in thousands)</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
Lethbridge Centre	\$28,519	3.383%	June 2019
Telford Industrial	\$8,780	4.199%	May 2024
Leduc Common Phase Four.....	\$14,690	3.100%	October 2019
Village at Blackmud Creek Phase One	\$16,055	3.640%	October 2024
West Henday Promenade Phase One	\$10,400	3.110%	October 2019

Issuance of Class B LP

A portion of the purchase price for the Melcor Acquisition Properties will be satisfied by the issuance of 4,390,244 Class B LP Units to Melcor, each with an issue price equal to the Class B LP Unit Issue Price of \$10.25.

Melcor currently holds an approximate 47.6% effective interest in the REIT through ownership of 10,225,634 Class B LP Units of the Partnership. Melcor has, with respect to the Offering, waived the pre-emptive right, granted pursuant to the Exchange Agreement, to maintain its *pro rata* ownership in the REIT. On the closing of the Melcor Acquisition, it is expected that Melcor will hold an approximate 56.5% effective interest in the REIT, on an undiluted basis, through ownership of 14,615,878 Class B LP Units of the Partnership.

CONSOLIDATED CAPITALIZATION OF THE REIT

Consolidated Capitalization

Since September 30, 2014, the date of the Q3 Financial Statements, there have been no material changes in the capitalization of the REIT which have not been disclosed in this Circular or the documents incorporated by reference herein.

The following table sets forth the capitalization of the REIT as at September 30, 2014, before and after giving effect to the Pre-Offering Changes in Capitalization, the Offering, the Melcor Acquisition and the Third Party Edmonton Acquisition, including the issuance of Class B LP Units in connection with the Melcor Acquisition, but without giving effect to the exercise of the Over-Allotment Option. The table should be read in conjunction with the REIT's and the Melcor Acquisition Properties' financial statements and the notes thereto included or incorporated by reference herein.

	As at September 30, 2014 (in thousands) ⁽¹⁾	Pro forma as at September 30, 2014 after giving effect to the Pre-Offering Changes in Capitalization ⁽²⁾	Pro forma as at September 30, 2014 after giving effect to the Pre-Offering Changes in Capitalization, the Offering and the Melcor Acquisition (in thousands) ⁽¹⁾	Pro forma as at September 30, 2014 after giving effect to the Pre-Offering Changes in Capitalization, the Offering, the Melcor Acquisition and the Third Party Edmonton Acquisition (in thousands) ⁽¹⁾
Indebtedness				
Mortgages payable.....	\$115,278	\$119,862	\$198,203	\$213,303
Revolving Credit Facility	\$4,925	\$4,925	\$ ⁽³⁾	\$3,774
Class B LP Units	\$101,132	\$101,132	\$146,132 ⁽⁴⁾	\$146,132 ⁽⁴⁾
Class C LP Units	\$91,636	\$91,636	\$91,636	\$91,636
Debentures.....	\$-	\$-	\$30,000	\$30,000
Unitholders' Equity				
Units, contributed surplus, and retained earnings ⁽¹⁾	\$155,635	\$155,635	\$155,635	\$155,635
Special Voting Units.....	\$-	\$-	\$-	\$-
(Authorized - unlimited; Issued - 10,225,634)				
Total Capitalization	\$468,606	\$473,190	\$621,606	\$640,480

Notes:

1. Sufficient Units will be reserved for issuance to satisfy the REIT's obligations to issue Units in connection with the exchange rights granted to the holders of Class B LP Units pursuant to, and as contemplated by, the Exchange Agreement. Upon the exchange of Class B LP Units for Units, a corresponding number of Special Voting Units will be cancelled.
2. Reflects the following changes in capitalization (the "Pre-Offering Changes in Capitalization") for the period from October 1, 2014 to November 18, 2014: mortgage financing of approximately \$21.65 million, approximately \$17.06 million of which was used to pay out two existing mortgages. See "General Information Regarding the Meeting - Recent Mortgage Financings".
3. Represents the balance owing on the Revolving Credit Facility after repayment of an amount equal to the net proceeds of the Offering (after expenses of the Offering and the Melcor Acquisition) less \$14.8 million (representing that portion of the purchase price of the Melcor Acquisition funded out of the net proceeds of the Offering).
4. Reflects issuances of Class B LP Units, valued at approximately \$45.0 million in partial satisfaction of the purchase price for the Melcor Acquisition Properties.

Pro Forma Indebtedness to Gross Book Value Ratio

The Declaration of Trust provides that the REIT may not incur or assume any Indebtedness if, after incurring or assuming such Indebtedness, the total Indebtedness of the REIT would be greater than 60% of Gross Book Value (65% including any convertible debentures). After giving effect to the Pre-Offering Changes in Capitalization, the Offering and the Melcor Acquisition, but excluding any mark-to-market adjustments, management estimates that pro forma Indebtedness, as at September 30, 2014, will be approximately \$288.5 million (\$318.5 million including the Debentures), representing approximately 49.0% of pro forma Gross Book Value (54.1% including the Debentures). After giving effect to the Pre-Offering Changes in Capitalization, the Offering, the Melcor Acquisition and the Third Party Edmonton Acquisition, but excluding any mark-to-market adjustments, management estimates that pro forma Indebtedness, as at September 30, 2014, will be approximately \$307.4 million (\$337.4 million including the Debentures), representing approximately 49.6% of pro forma Gross Book Value (54.4% including the Debentures).

EARNINGS COVERAGE RATIOS

The following earnings coverage ratios are: (i) are calculated on a consolidated basis for the twelve-month period ended December 31, 2013 and for the twelve month period ended September 30, 2014; (ii) derived from the

audited consolidated financial statements of the REIT for the year ended December 31, 2013, and the unaudited consolidated financial statements of the REIT for the nine-month period ended September 30, 2014, respectively; and (iii) prepared in accordance with Canadian securities laws disclosure requirements. The earnings coverage ratios do not include any earnings that may be derived from the use of the net proceeds of the Offering or cash on hand or annualized earnings from properties acquired after December 31, 2013 or September 30, 2014, as applicable.

The pro forma earnings coverage ratios are calculated on a consolidated basis for the period from January 1, 2013 to December 31, 2013 and October 1, 2013 to September 30, 2014, and have been prepared as at December 31, 2013 and September 30, 2014, as adjusted to give effect to, among other things, the issuance of the Pre-Offering Changes in Capitalization, the Debentures, but without giving effect to the exercise of the Over-Allotment Option, and the completion of the Melcor Acquisition (including the assumption of the Assumed Mortgages) and the Third Party Edmonton Acquisition (including the assumption of the Third Party Edmonton Mortgage) as if such issuance and such acquisitions and the related mortgage assumptions had occurred at the beginning of the respective calculation periods.

(in thousands)	Twelve Month Period Ended Dec. 31, 2013 (Historical)	Twelve Month Period Ended Sept. 30, 2014 (Historical)	Twelve Month Period Ended Dec. 31, 2013 (Pro Forma ⁽¹⁾)	Twelve Month Period Ended Sept. 30, 2014 (Pro Forma ⁽¹⁾)	Twelve Month Period Ended Dec. 31, 2013 (Pro Forma ⁽²⁾)	Twelve Month Period Ended Sept. 30, 2014 (Pro Forma ⁽²⁾)	Twelve Month Period Ended Dec. 31, 2013 (Pro Forma ⁽³⁾)	Twelve Month Period Ended Sept. 30, 2014 (Pro Forma ⁽³⁾)
Earnings Coverage Ratio	2.81	2.06	2.71	2.06	1.73	1.43	1.66	1.38
Supplemental Earnings Coverage Ratio ⁽³⁾	1.75	1.53	1.69	1.54	1.08	1.07	1.03	1.03

Notes:

1. Pro forma after giving effect to the Pre-Offering Changes in Capitalization for the period of January 1, 2014 to November 18, 2014 and October 1, 2014 to November 18, 2014, respectively.
2. Pro forma after giving effect to the Pre-Offering Changes in Capitalization for the period of January 1, 2014 to November 18, 2014 and October 1, 2014 to November 18, 2014, respectively, the Offering and the Melcor Acquisition.
3. Pro forma after giving effect to the Pre-Offering Changes in Capitalization for the period of January 1, 2014 to November 18, 2014 and October 1, 2014 to November 18, 2014, respectively, the Offering, the Melcor Acquisition and the Third Party Edmonton Acquisition.

The REIT's interest requirements, before giving *pro forma* effect to the Pre-Offering Changes in Capitalization for the respective reference period, the Offering, Melcor Acquisition and Third Party Edmonton Acquisition, amount to \$12.41 million and \$15.43 million for the twelve-month periods ended December 31, 2013 and September 30, 2014, respectively. The REIT's earnings before taxes and interest for the twelve-month periods ended December 31, 2013 and September 30, 2014 were \$34.87 million and \$31.76 million respectively, which is 2.81 times the REIT's interest requirements for the twelve-month period ended December 31, 2013 and 2.06 times the REIT's interest requirements for the twelve-month period ended September 30, 2014.

The REIT's interest requirements, after giving *pro forma* effect to the Pre-Offering Changes in Capitalization for the respective reference period, amount to \$12.86 million and \$15.40 million for the twelve-month periods ended December 31, 2013 and September 30, 2014, respectively. The REIT's earnings before taxes and interest for twelve-month periods ended December 31, 2013 and September 30, 2014 were \$34.87 million and \$31.76 million respectively, which is 2.71 times the REIT's interest requirements for the twelve-month period ended December 31, 2013 and 2.06 times the REIT's interest requirements for the twelve-month period ended September 30, 2014.

The REIT's interest requirements, after giving *pro forma* effect to the Pre-Offering Changes in Capitalization for the respective reference period, the Offering and Melcor Acquisition, amount to \$20.17 million and \$22.14 million for the twelve-month periods ended December 31, 2013 and September 30, 2014, respectively. The REIT's earnings before taxes and interest for twelve-month periods ended December 31, 2013 and September 30, 2014 were \$34.87 million and \$31.76 million respectively, which is 1.73 times the REIT's interest requirements

for the twelve-month period ended December 31, 2013 and 1.43 times the REIT's interest requirements for the twelve-month period ended September 30, 2014.

The REIT's interest requirements, after giving *pro forma* effect to the Pre-Offering Changes in Capitalization for the respective reference period, the Offering, Melcor Acquisition and the Third Party Edmonton Acquisition, amount to \$21.01 million and \$22.96 million for the twelve-month periods ended December 31, 2013 and September 30, 2014, respectively. The REIT's earnings before taxes and interest for twelve-month periods ended December 31, 2013 September 30, 2014 were \$34.87 million and \$31.76 million respectively, which is 1.66 times the REIT's interest requirements for the twelve-month period ended December 31, 2013 and 1.38 times the REIT's interest requirements for the twelve-month period ended September 30, 2014.

The earnings of the REIT excluding change in fair value of investment properties and Class B LP Units for the twelve-month periods ending December 31, 2013 and September 30, 2014 were \$21.73 million and \$23.63 million respectively, representing supplementary earnings coverage ratios of 1.75 and 1.53 respectively, on a historical basis and 1.03 and 1.03 respectively, after giving effect to the Pre-Closing Changes in Capitalization for the respective reference period, the Offering, the Melcor Acquisition and the Third Party Edmonton Acquisition. The supplementary earnings coverage ratio adjust for non-cash fair value adjustments to investment properties and Class B LP Units and reflect the adjusted earnings that are available to cover borrowing costs.

The following factors, in particular, have had the effect of depressing the earnings coverage ratios noted above:

- The *pro forma* earnings ratio noted above includes interest expense from the new indebtedness or indebtedness assumed in the May 2014 Melcor Acquisition, the Melcor Acquisition and Third Party Acquisition, but does not include earnings from the properties acquired pursuant to the May 2014 Melcor Acquisition, the Melcor Acquisition and the Third Party Acquisition.
- The *pro forma* earnings noted above assume that there are no additional earnings, other than interest savings, derived from the use of the net proceeds of the Debentures or other changes in indebtedness subsequent to the respective calculation periods.

ACQUISITION RESOLUTION

At the Meeting, Unitholders will be asked to consider and, if deemed advisable, approve the Melcor Acquisition Resolution, the full text of which is attached hereto as Appendix "A".

Pursuant to MI 61-101 and section 604(a) of TSX Company Manual, the Melcor Acquisition Resolution must be approved ("**Majority of the Minority Approval**") by the affirmative vote of a majority of votes cast by Unitholders present in person or represented by proxy at the Meeting, excluding the votes attached to Voting Units beneficially owned or over which control or direction is exercised by Melcor and certain of its associates and affiliates.

The following table indicates persons or entities ("**Additional Excluded Parties**"), in addition to Melcor who as of the Record Date, to the knowledge of the Trustees and management of the REIT, after reasonable inquiry, are holders of Units and whose votes will be excluded from the determination of whether the Majority of the Minority Approval has been obtained:

Additional Excluded Parties	Units beneficially owned, or controlled or directed
Gordon Clanachan, Director of Melcor	9,100
Ross A. Grieve, Director of Melcor	50,000
Catherine M. Roozen, Director of Melcor	75,700
Allan E. Scott, Director of Melcor	5,000
Ralph B. Young, Director of Melcor	19,800
Brian Baker, Director and Chief Executive Officer and Director of Melcor	5,000
Andrew J. Melton, Executive Vice-Chairman and Director of Melcor	62,800
Darin Rayburn, Executive Vice President of Melcor	42,271
Jonathan Chia, Chief Financial Officer of Melcor	4,500
Naomi Stefura, Vice-President, Finance of Melcor	1,000
Brett Halford, VP Recreation Properties of Melcor	5,000
Jesse Rudge, VP Property Development of Melcor	1,380
Dennis Inglis, VP Land Development (South) of Melcor	500
Jason Fjeldheim, VP Land Development (Edmonton) of Melcor	1,000

Together, Melcor and the Other Excluded Parties hold an approximate 48.9% effective interest in the REIT through ownership, or direction or control over 283,051 Units, 10,225,634 Class B LP Units and 10,225,634 Special Voting Units. Accordingly, votes attached to an aggregate of 10,508,685 Voting Units will be excluded from the determination of whether the Majority of the Minority Approval has been obtained.

On November 12, 2014 the Special Committee unanimously recommended to the Board that they recommend that Unitholders vote FOR the Melcor Acquisition Resolution. Based on the recommendation of the Special Committee and other factors, the Board unanimously recommends that Unitholders vote FOR the Melcor Acquisition at the Meeting.

PRIOR SALES

The REIT completed its concurrent IPO and indirect acquisition of the Initial Properties on May 1, 2013. Pursuant to the IPO, the REIT issued 8,300,000 Units at a price of \$10.00 per Unit. As partial consideration for the Initial Properties, the Partnership issued Melcor 10,360,798 Class B LP Units (and accompanying Special Voting Units) at a price of \$10.00 per Class B LP Unit. On May 9, 2013, the REIT issued an additional 830,000 Units at a price of \$10.00 per Unit pursuant to the exercise in full of the over-allotment option granted by Melcor to the underwriters in connection with the IPO. In conjunction with the exercise of such over-allotment option, Melcor exchanged 830,000 Class B LP for a corresponding number of Units and thereby reduced the total number of Class B LP Units it had to 9,530,798.

On May 7, 2014, the REIT completed an offering (the “**May 2014 Public Offering**”) of 1,900,000 Units on a bought deal basis at a price of \$10.65 per Unit, for gross proceeds of \$20,235,000. In connection with the May 2014 Public Offering, the REIT completed the acquisition of the May 2014 Melcor Properties. As partial consideration for such properties, the Partnership issued Melcor 694,836 Class B LP Units (and accompanying Special Voting Units) at a price of \$10.65 per Class B LP Unit. On May 16, 2014, the REIT issued an additional 245,000 Units at a price of \$10.65 per Unit pursuant to the exercise of the over-allotment option granted to the underwriters in connection with the May 2014 Public Offering.

MARKET FOR SECURITIES

The outstanding Units are listed on the TSX and commenced trading under the symbol “MR.UN” on May 1, 2013. The following table sets forth, for the periods indicated, the reported high and low prices and the aggregate trading volume of the Units on the TSX, as reported by the TSX:

	<u>Monthly Price Range</u>		
	<u>Volume</u> (<u>\$</u>)	<u>High</u> (<u>\$</u>)	<u>Low</u> (<u>\$</u>)
2013			
October	322,725	10.85	9.87
November	357,805	11.15	10.50
December	128,974	10.89	10.21
2014			
January	132,166	10.74	10.10
February	122,387	11.00	10.15
March	81,064	10.88	10.45
April	216,488	11.00	10.53
May	404,776	10.62	10.05
June	177,418	10.44	10.07
July	219,338	10.45	10.00
August	181,843	10.42	9.99
September	160,193	10.29	9.60
October	189,696	10.18	9.13
November (1-19)	113,031	10.33	9.90

DISTRIBUTION POLICY

The following outlines the distribution policy of the REIT as contained in the Declaration of Trust and the Limited Partnership Agreement. Determination as to amounts actually distributed will be made in the sole discretion of the Trustees.

The REIT currently intends to make monthly cash distributions of \$0.05625 per Unit to holders of Units and has done so for each month since the closing of the IPO. Management of the REIT believes that the current payout ratio set by the REIT should allow the REIT to meet its internal funding needs, while being able to support stable growth in cash distributions. However, the actual payout ratio will be determined by the Trustees from time to time in their discretion. Pursuant to the Declaration of Trust, the Trustees have full discretion respecting the timing and amounts of distributions. The REIT intends to make distributions to holders of Units 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 ordinary Canadian income taxes, net of capital gains tax refunds, on such income. Any increase or reduction in the percentage of AFFO to be distributed to holders of Units will result in a corresponding increase or reduction in distributions on Class B LP Units.

Holders of Units of record as at the close of business on the last business day of the month preceding a Distribution Date will have an entitlement on and after that day to receive distributions in respect of that month on such Distribution Date. Distributions may be adjusted for amounts paid in prior periods if the actual AFFO for the prior periods is greater than or less than the estimates for the prior periods. Under the Declaration of Trust and pursuant to the above-described distribution policy of the REIT, where the REIT's cash is not sufficient to make payment of the full amount of a distribution, such payment will, to the extent necessary, be distributed in the form of additional Units.

Melcor REIT GP, on behalf of the Partnership, will make monthly cash distributions to holders of Class A LP Units and holders of Class B LP Units by reference to the monthly cash distributions payable by the REIT to holders of Units. Distributions to be made on the Class B LP Units will be equal to the distributions that the holders of Class B LP Units would have received if they were holding Units instead of Class B LP Units. Distributions to holders of Class C LP Units will be made in priority to distributions to holders of Class A LP Units and holders of Class B LP Units.

The Revolving Credit Facility contains negative covenants which restrict the REIT's ability to make a monthly cash distribution if after the making of such distribution the REIT would be in default under the Revolving Credit Facility (after the lapse of time or giving notice, or both).

RISK FACTORS

Unitholders should carefully consider the risks related to the Melcor Acquisition described below, the risk factors described in the AIF and Annual MD&A and other information elsewhere in this Circular and the documents incorporated by reference herein, before determining whether to vote in favour of the Melcor Acquisition Resolution. If any of such or other risks occur, the REIT's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that case, the trading price of the Debentures or Units could decline and investors could lose all or part of their investment. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described or other unforeseen risks.

Closing of the Melcor Acquisition

The closing of the Offering will occur before the closing of the Melcor Acquisition. The closing of the Melcor Acquisition is subject to a number of conditions, including regulatory approval under the Competition Act, Unitholder approval, OSC approval, TSX approval, receipt of appropriate mortgage financing and satisfactory environmental reports, building condition reports and appraisals. It is possible that the Melcor Acquisition will not close because these or other conditions cannot be met, or that it will not close on the same terms as disclosed, including expected timing, because of a failure to satisfy conditions or other due diligence issues that may arise. A substantial delay in closing, or the failure to close, the Melcor Acquisition, as disclosed herein, may negatively impact the REIT's financial performance including the dilution of AFFO per Unit thereby.

Use of Appraisals

Caution should be exercised in the evaluation and use of appraisals. An appraisal is an estimate of market value at a particular date. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Appraisals are based on various assumptions of future expectations and while Altus Group's internal forecasts for the Melcor Acquisition Properties was considered to be reasonable at the time of the Appraisals, some of the assumptions may not materialize or may differ materially from actual experience in the future.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the Appraisals.

Use of Fairness Opinions

The Fairness Opinion is directed only to the fairness of the consideration payable by the REIT pursuant to the Melcor Acquisition, from a financial point of view, to Unitholders, other than Melcor and certain of its associates and affiliates. The Fairness Opinion does not address the relative merits of the Melcor Acquisition as compared to other business strategies or transactions that might be available to the REIT or the underlying business decision of the REIT to effect the Melcor Acquisition.

Undisclosed Defects and Obligations With Respect to Melcor Acquisition Properties

The REIT's external growth prospects depend in part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. Notwithstanding pre-acquisition due diligence, it is not possible to fully understand a property before it is owned and operated for an extended period of time. For example, the REIT could acquire a property that contains undisclosed defects in design or construction. Furthermore, the REIT is not always able to obtain the records and documents needed in order to fully verify that the buildings to be acquired were constructed in accordance, and that their use complies, with planning laws and building code

requirements. Accordingly, in the course of acquiring the Melcor Acquisition Properties, specific risks might not be or might not have been recognized or correctly evaluated. Thus, the REIT could have overlooked or misjudged legal and/or economic liabilities. These circumstances could lead to additional costs and could have a material adverse effect on the REIT's proceeds from sales and rental income in respect of the Melcor Acquisition Properties. In addition, after the acquisition of the Melcor Acquisition Properties, the markets in which the Melcor Acquisition Properties are located may experience unexpected changes that materially adversely affect the properties' value. The occupancy of the Melcor Acquisition Properties may decline during the REIT's ownership, and rents that are in effect at the time the Melcor Acquisition Properties are acquired may decline thereafter. For these reasons, among others, the acquisition of the Melcor Acquisition Properties may cause the REIT to experience significant losses.

Rent Adjustment Provisions

Certain tenant leases for Leduc Common Phase Four contain material rent adjustment provisions in the event that certain shadow tenants located in the greater Leduc Common development cease operations. Should such shadow tenants cease operations at the greater Leduc Common development, the REIT's financial performance may be negatively impact.

EXPENSES OF THE ACQUISITION

The REIT expects to incur expenses of approximately \$1,375,000 in connection with the Offering and the Melcor Acquisition (exclusive from the Underwriters' fee for the Offering), including financial advisory, accounting and legal fees, the costs of preparation, printing and mailing of this Circular and other related documents and agreements, and stock exchange and regulatory filing fees. The REIT will pay the expenses of the Offering and the Melcor Acquisition. The REIT may allocate its expenses amongst one or more of its affiliates.

INTEREST OF EXPERTS

Information relating to the Appraisals has been based on reports prepared by Altus Group Limited, located at 10180 101st Street NW, Suite 780, Edmonton, Alberta T5J 3S4. As at the date of this Circular, the "designated professionals" of Altus Group Limited beneficially own, directly and indirectly, less than 1% of the outstanding securities or other property of the REIT, its associates or its affiliates.

The Fairness Opinion has been provided by Trimaven, located at Nine Temperance Street, Suite 400, Toronto Ontario M5H 1Y6. As of the date of this Circular, the principals and employees of Trimaven, as a group, beneficially own, directly and indirectly, less than 1% of the outstanding securities or other property of the REIT, its associates or its affiliates.

The auditors of the REIT, PricewaterhouseCoopers LLP, located 1501 10088 102 Ave NW, Edmonton, Alberta T5J 3N5, have advised that it is independent of the REIT in accordance with the rules of professional conduct applicable to auditors in Alberta.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the REIT are PricewaterhouseCoopers LLP, Chartered Accountants, located 1501 10088 102 Ave NW, Edmonton, Alberta T5J 3N5. The transfer agent and registrar for the Units is Valiant Trust Company, located at 3000 - 10303 Jasper Avenue NW, Edmonton, Alberta T5J 3X6.

ADDITIONAL INFORMATION

Additional information relating to the REIT, including the Fund's AIF, Annual Financial Statements and Annual MD&A, which provide financial information concerning the REIT for its most recently completed financial year, can be found on SEDAR at www.sedar.com under the REIT's profile. Copies of such documents, as well as any additional copies of the Information Circular, may be obtained on request without charge by contacting the Chief Financial Officer of the REIT at 900, 10310 Jasper Avenue, Edmonton, Alberta, T5J 1Y8, Telephone 1-855-673-6931.

TRUSTEES' APPROVAL

The contents and the sending of the Notice of Special Meeting and this Information Circular have been approved by the board of trustees of Melcor Real Estate Investment Trust.

Dated this 20th day of November, 2014.

BY ORDER OF THE BOARD OF TRUSTEES OF MELCOR REAL ESTATE INVESTMENT TRUST

(Signed) "Darin Rayburn"
Darin Rayburn
Chief Executive Officer

CONSENT

TO: The Trustees of Melcor Real Estate Investment Trust

We refer to the formal valuation dated November 10, 2014, with an effective date of September 30, 2014, which we prepared for the Special Committee of the Board of Trustees of Melcor Real Estate Investment Trust in connection with the acquisition by Real Melcor Estate Investment Trust, through its subsidiary, Melcor REIT Limited Partnership, of certain properties from Melcor Developments Ltd. We consent to the filing of the formal valuation with the securities regulatory authority and an inclusion of the formal valuation in the Information Circular of Melcor Real Estate Investment Trust dated November 20th, 2014.

Edmonton, Alberta
November 20, 2014

(Signed) Altus Group Limited

CONSENT

TO: The Trustees of Melcor Real Estate Investment Trust

We refer to the Fairness Opinion dated November 12, 2014, which we prepared for the Special Committee of the Board of Trustees of Melcor Real Estate Investment Trust in connection with the acquisition by Melcor Real Estate Investment Trust, through its subsidiary, Melcor REIT Limited Partnership, of certain properties from Melcor Developments Ltd. We consent to the inclusion of the Fairness Opinion in the Information Circular of Melcor Real Estate Investment Trust dated November 20th, 2014.

Toronto, Ontario
November 20th, 2014

(Signed) Trimaven Capital Advisors Inc.

APPENDIX “A”
ACQUISITION RESOLUTION

BE IT RESOLVED THAT:

1. The indirect acquisition by Melcor Real Estate Investment Trust (the “**REIT**”) of a six commercial properties (the “**Melcor Acquisition Properties**”) from Melcor Developments Ltd. (“**Melcor**”) for an aggregate purchase price of \$138.25 million pursuant to an agreement dated November 12, 2014, including the issuance of 4,390,244 Class B LP Units of Melcor REIT Limited Partnership (at a price of \$ 10.25 per Class B LP Unit) and the associated Special Voting Units of the REIT to Melcor in partial satisfaction of the purchase price for the Melcor Acquisition Properties, all as described in the REIT’s management information circular dated November 20, 2014, be approved.
2. Notwithstanding that this resolution has been duly passed by the unitholders of the REIT, the trustees of the REIT are hereby authorized and empowered, without further notice to, or approval of, the unitholders of the REIT, not to proceed with the Melcor Acquisition; and
3. Any trustee or executive officer of the REIT is hereby authorized and directed for and on behalf of the REIT to execute or cause to be executed and to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as in such person’s opinion may be necessary or desirable to give full effect to the foregoing resolution and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such document, agreement or instrument or the doing of any such act or thing.

**APPENDIX “B”
FAIRNESS OPINION**

TRIMAVEN CAPITAL ADVISORS INC.

9 Temperance Street, Suite 400, Toronto, Ontario M5H 1Y6
416.602.6414 ♦ 1.855.830.9198
www.trimavencap.com

A Real Estate Investment Bank

The Special Committee of the Board of Trustees of Melcor REIT
Suite 900, 10310 Jasper Avenue
Edmonton, AB T5J 1Y8

November 12th, 2014

To the Special Committee:

Trimaven Capital Advisors Inc. (“**Trimaven**”, “**we**” or “**us**”) understands that Melcor Real Estate Investment Trust (“**Melcor**” or the “**REIT**”) will enter into an acquisition agreement dated November 12th, 2014 (the “**Acquisition Agreement**”) with Melcor Developments Ltd. and certain of its affiliates (collectively “**Melcor Developments**” or the “**Vendor**”) pursuant to which, among other things, the REIT would acquire a portfolio of retail, office and industrial properties located in Alberta and Saskatchewan (the “**Subject Portfolio**”) from the Vendor (the “**Proposed Transaction**”) at a purchase price of \$138.25 million, subject to certain customary adjustments (the “**Purchase Price**”). The terms of the Proposed Transaction, the Subject Portfolio and other related matters are more fully described in a management information circular of the REIT to be dated on or about November 20th, 2014 (the “**Circular**”) that will be mailed to unitholders of Melcor in connection with the Proposed Transaction. Terms appearing in capitalized letters and not otherwise defined in this fairness opinion letter (“**Fairness Opinion Letter**”) shall, as the context requires, have the meanings set forth in the Circular.

We understand that the form of consideration (“**Form of Consideration**”) to satisfy settlement of the Purchase Price for the Subject Portfolio is as set forth below:

- (i) approximately \$45 million of the purchase price by the issuance of 4,390,244 Class B LP Units to Melcor, each with an issue price equal to \$10.25;
- (ii) \$78.4 million of the purchase price by the assumption of the Assumed Mortgages; and
- (iii) approximately \$14.8 million of the purchase price by the net proceeds of the Offering.

We further understand that Melcor Developments, through an affiliate, currently holds an approximate 47.6% effective interest in the REIT through its ownership of 10,225,634 Class B LP Units and 10,225,634 Special Voting Units of the REIT. Based on the proposed Form of Consideration, we understand Melcor Developments will hold an approximate 56.5% effective interest in the REIT, on an undiluted basis, upon successful completion of the Proposed Transaction.

The Proposed Transaction and the issuance of Class B LP Units to Melcor Developments in connection with the Proposed Transaction is considered by the REIT to be a “related party transaction” (“**Related Party Transaction**”) under Multilateral Instrument 61-101 - *Protection of Minority Security Holders in Special Transactions* (“**MI 61-101**”). As described in the Circular, the provisions of MI 61-101 would have required the REIT to obtain a formal valuation of the Class B LP Units to be issued to the Vendor as partial consideration for the Proposed Transaction. As further described in the Circular, the REIT has applied to the Ontario Securities Commission for exemptive relief from the requirement to obtain a formal valuation of the Class B LP Units to be issued to Melcor Developments in connection with the Proposed Transaction. The REIT, in accordance with MI 61-101, retained Altus Group Ltd. to provide appraisals (the “**Appraisals**”) in respect of the Subject Portfolio as the formal valuation required under MI 61-101, which includes an estimate of the fair market value of the Subject Portfolio as at September 30, 2014 (the “**Formal Valuation**”). The Formal Valuation prepared by the Altus Group Ltd., subject to the terms and conditions therein, estimates the value of the Subject Portfolio at \$146.5 million.

A special committee (the “**Special Committee**”) of Independent Trustees of the Board of Trustees of the REIT (the “**Board**”) was formed to consider the Proposed Transaction and the issuance of Class B LP Units to Melcor Developments. As more fully described below, the Special Committee engaged Trimaven to provide an opinion on the terms of the Proposed Transaction, as to whether or not the consideration payable by the REIT pursuant to the Proposed Transaction is “fair” to unitholders of the REIT (“**Unitholders**”), other than Melcor Developments and certain of its associates and affiliates. Trimaven was not asked to provide, nor did we provide, a formal valuation in respect of the issuance of Class B LP Units to Melcor Developments, and this Fairness Opinion Letter should not be construed or relied upon as such. Trimaven also understands that the Proposed Transaction is subject to approval, being a majority of votes cast by Unitholders, who are not Melcor Developments or certain of its associates or affiliates, voting in favour of the Proposed Transaction.

Engagement of Trimaven

Pursuant to an engagement agreement dated August 18, 2014 (the “**Engagement Agreement**”), Melcor retained, at the direction of the Special Committee, the services of Trimaven. Trimaven’s services under its engagement include the preparation and delivery to the Special Committee of an opinion as to whether the consideration to be paid by the REIT under the Proposed Transaction is fair from a financial point of view to Unitholders, other than Melcor Developments and certain of its associates and affiliates (the “**Fairness Opinion**”).

Trimaven understands that the Fairness Opinion and/or a summary thereof may be included in the Circular and, subject to the approval and other terms of the Engagement Agreement, Trimaven consents to such disclosure.

Trimaven is entitled to a fee for the preparation and delivery of the Fairness Opinion to the Special Committee. The fees to be received by Trimaven in respect of the Fairness Opinion are not contingent on either the conclusion of the Fairness Opinion or on the completion of the Proposed Transaction or any alternative transaction. Melcor has also agreed to reimburse Trimaven for its reasonable out-of-pocket expenses and to indemnify Trimaven in respect of certain liabilities that might arise out of its engagement.

Credentials of Trimaven

Trimaven is a leading independently owned real estate investment bank that provides clients with specialized advice in mergers and acquisitions, special situations, shareholder activism, corporate finance, valuations, private equity and asset/portfolio advisory. The Fairness Opinion is the opinion of Trimaven and the form and content herein has been reviewed and approved for release by a group of managing directors of Trimaven, each of whom is experienced in mergers and acquisitions, divestiture, valuation, fairness opinion and other capital markets matters. Trimaven’s principals have over forty years of combined experience as corporate owners, managers and advisors in the real estate sector.

Relationship with Interested Parties

Trimaven is not an “associated” or “affiliated” entity or “issuer insider” (as such terms are used under MI 61-101) of Melcor or Melcor Developments, nor is it a financial advisor to Melcor Developments in connection with the Proposed Transaction. Trimaven has not been engaged to provide any financial advisory services to Melcor or Melcor Developments during the 24-month period preceding the execution of the Engagement Agreement.

Trimaven is a real estate financial advisory firm involved in a wide range of investment banking, corporate finance, private equity, asset advisory, asset management and other investment and financial businesses and services, both for its own account and for the accounts of third parties. Trimaven and its shareholders, directors, officers and employees may acquire, hold or sell, for their own account and the accounts of third parties, equity, debt and other securities and financial instruments of Melcor and Melcor Developments or any other companies that may be involved in the Proposed Transaction, as well as provide investment banking and other financial services to such companies. Trimaven and its shareholders, officers and employees may have interests, or be engaged in a broad range of transactions involving interests, that differ from those of Melcor. Trimaven and certain of its respective employees, including members of the team performing this engagement, may from time-to-time acquire, hold or make direct or indirect investments in or otherwise participate in a wide variety of companies, including parties with a potential direct or indirect interest in any transaction to which this engagement relates.

There are no understandings, agreements or commitments between Trimaven and any of Melcor or Melcor Developments with respect to future business dealings. Trimaven may, in the future, in the ordinary course of business, provide financial advisory, investment banking, or other financial services to one or more of Melcor or Melcor Developments from time to time. Trimaven does not currently conduct research on securities and does not provide research reports on investment matters, including in respect of Melcor or Melcor Developments.

Scope of Review

In connection with rendering our Fairness Opinion, we have considered, reviewed and/or relied upon, among other things, the following:

- (a) a draft of the Circular;
- (b) a draft of the Acquisition Agreement, including the various head-lease and bridge-lease schedules;
- (c) the Altus Group Ltd. Appraisals;
- (d) discussions with Altus Group Ltd. regarding the Subject Portfolio and the Appraisals;
- (e) a draft of the environmental indemnity agreement, provided by Melcor Developments in favour of the REIT;
- (f) publicly available documents regarding Melcor, including annual and quarterly reports, financial statements, annual information forms, management information circulars and other filings deemed relevant in respect of each of them;
- (g) certain non-public documents regarding Melcor, including particulars and financial information in respect of the Subject Portfolio, internal management cash flow budgets prepared on a property-by-property basis, deferred capital expenditure schedules prepared on a property-by-property basis, cost-to-complete schedules prepared on a property-by-property basis, environmental and building condition reports for each property in the Subject Portfolio and detailed existing and/or new mortgage schedules for each property in the Subject Portfolio;
- (h) a financial forecast and cash flow statement prepared by management of Melcor;
- (i) a tax impact analysis prepared by management of Melcor;
- (j) trading statistics and related financial information in respect of Melcor;
- (k) as available, various reports published by equity research analysts and industry sources regarding Melcor;
- (l) public information regarding the real estate industry generally, and the commercial real estate sector in particular;
- (m) comparable asset acquisition or disposition transactions considered by us to be relevant, if any;
- (n) discussions with (i) senior management of Melcor, and its legal advisor; and (ii) discussions with the Special Committee, and its legal advisor;

- (o) press releases for Melcor during 2013 and 2014; and,
- (p) other information, analysis, investigations and discussions we considered necessary or appropriate in the circumstances.

Trimaven has not, to the best of its knowledge, been denied access by Melcor to any information under the control of Melcor that has been requested by Trimaven, including any prior valuations as contemplated under MI 61-101.

Assumptions and Limitations

The opinion of Trimaven is subject to the assumptions, qualifications and limitations set forth below. Our role is limited to the preparation and delivery of the Fairness Opinion. We have not been asked to prepare, nor have we prepared, a formal valuation or appraisal of any of the assets or securities of Melcor or any of their respective affiliates, including the Class B LP Units of Melcor and our Fairness Opinion should not be construed or relied upon as such, nor have we been requested to identify, solicit, consider or develop any potential alternatives to the Proposed Transaction.

With the Special Committee's approval and as provided for in the Engagement Agreement, we have relied upon the completeness, accuracy and fair presentation of all financial and other information, data, advice, appraisals, opinions and representations obtained by us from public sources, and/or provided to us by Melcor, its subsidiaries or their respective directors, officers, associates, affiliates, consultants, advisors and representatives. We have not met separately with the independent auditors of Melcor in connection with preparing the Fairness Opinion, and with the permission of the Special Committee, we have assumed the accuracy and fair presentation of, and relied upon, the audited financial statements of Melcor and the reports of the auditors thereon and the interim unaudited financial statements of Melcor. With respect to the historical financial data, operating and financial forecasts and property budgets provided to us concerning Melcor and relied upon in our financial analyses, we have assumed that they have been reasonably prepared on bases reflecting the most reasonable assumptions, estimates and judgements of management of Melcor, having regard to Melcor's business, plans, financial condition, balance sheet liquidity, and prospects (collectively, the foregoing in this paragraph, the "**Information**"). Our Fairness Opinion is conditional upon the completeness, accuracy and fair presentation of the Information. We have not been requested to, nor, subject to the exercise of professional judgment, have we attempted to verify independently the completeness, accuracy or fair presentation of the Information or any other information.

Senior officers of Melcor have represented to Trimaven in a certificate delivered on or around the date hereof, among other things, that (i) the Information provided orally by, or in the presence of, an officer or employee of Melcor or in writing by Melcor or any of its subsidiaries, associates or affiliates or their respective directors, officers, associates, affiliates, consultants, advisors and representatives to Trimaven or obtained by Trimaven from the System for Electronic Document Analysis and Retrieval (SEDAR) relating to Melcor, its subsidiaries, associates or affiliates or the Proposed Transaction for the purpose of preparing the Fairness Opinion is, or in the case of historical Information, was, at the date of preparation, complete, true and correct in all material respects, and did not and does not contain any untrue statement of a material fact (as defined in the *Securities Act* (Ontario)) in respect of Melcor, its subsidiaries, associates or affiliates, or the Proposed Transaction and did not and does not omit to state a material fact in respect of Melcor, its subsidiaries, associates or affiliates, or the Proposed Transaction necessary to make the Information or any statement contained therein not misleading in light of the circumstances under which the Information was provided or any such statement was made; and that (ii) to the extent that any of the Information identified in subparagraph (i) above is historical, since the dates on which such Information was provided to Trimaven, except as disclosed in writing to Trimaven, there has been no material change (as defined in the *Securities Act* (Ontario)), financial or otherwise, in the financial

condition, assets, liabilities (contingent or otherwise), business, operations or prospects of Melcor or any of its subsidiaries and no material change has occurred in the Information or any part thereof which would have or which would reasonably be expected to have a material effect on the Fairness Opinion. With respect to any forecasts, projections, estimates and/or budgets provided to Trimaven and used in its analyses, Trimaven notes that projecting future results of any company is inherently subject to uncertainty. Trimaven has assumed, however, that such forecasts, projections, estimates and/or budgets were prepared using the assumptions identified therein and that such assumptions in the opinion of Melcor, are (or were at the time and continue to be) reasonable in the circumstances.

Trimaven has assumed that, in all respects material to its analysis, the Acquisition Agreement executed by the parties will be in substantially the form of the draft provided to us, the representations and warranties of the parties to the Acquisition Agreement contained therein are true, accurate and complete in all material respects, such parties will each perform all of the respective covenants and agreements to be performed by them under the Proposed Transaction, Melcor Developments will perform its obligations under the Acquisition Agreement and the Proposed Transaction, and all conditions to the obligations of such parties as specified in the Acquisition Agreement and under Proposed Transaction will be satisfied without any waiver thereof. Trimaven has also assumed that all material approvals and consents required in connection with the consummation of the Acquisition Agreement and the Proposed Transaction will be obtained and that, in connection with obtaining any necessary approvals and consents, no limitations, restrictions or conditions will be imposed that would have a material adverse effect on Melcor.

We are not legal, tax or accounting experts and we express no opinion concerning any legal, tax or accounting matters concerning the Proposed Transaction. We express no opinion as to the value at which Melcor Units may trade following completion of the Proposed Transaction.

This Fairness Opinion is rendered as at the date hereof and on the basis of securities markets, economic and general business and financial conditions prevailing as at the date hereof and the conditions and prospects, financial and otherwise, of Melcor and the Subject Portfolio as they are reflected in the Information and as they were represented to us in our discussions with the management of Melcor. In our analyses and in connection with the preparation of our Fairness Opinion, we made numerous assumptions with respect to industry performance, general business, capital market and economic conditions and other matters, many of which are beyond the control of Trimaven and any party involved in the Proposed Transaction. Trimaven disclaims any undertaking or obligation to advise any person of any change in any fact or matter affecting the Fairness Opinion which may come or be brought to the attention of Trimaven after the date hereof. Without limiting the foregoing, in the event that there is any material change in any fact or matter affecting the Fairness Opinion after the date hereof, Trimaven reserves the right to change, modify or withdraw the Fairness Opinion. The preparation of a fairness opinion is a complex process and is not necessarily capable of being partially analyzed or summarized. Trimaven believes that its analyses must be considered as a whole and that selecting portions of the analyses or the factors considered by it, without considering all factors and analyses together, may create an incomplete view of the process underlying the Fairness Opinion. The Fairness Opinion should be read in its entirety.

This Fairness Opinion is addressed to the Special Committee and is for the sole use and benefit of the Special Committee and the Board in evaluating the Proposed Transaction and may not be relied upon by any other person, and may not be referred to, summarized, circulated, publicized or reproduced or disclosed to or used or relied upon by any party without the express written consent of Trimaven. This Fairness Opinion is not to be construed as a recommendation to any Unitholder to accept or reject the Proposed Transaction. In considering fairness from a financial point of view, Trimaven considered the Proposed Transaction from the perspective of Unitholders generally and did not consider the specific circumstances of any particular Unitholder, including such holders specific income tax considerations.

Conclusion

Based upon and subject to the foregoing and such other matters as we considered relevant, it is our opinion, as of the date hereof, that the consideration payable pursuant to the Proposed Transaction is fair, from a financial point of view, to Unitholders, other than Melcor Developments and certain of its associates and affiliates.

Yours very truly,

A handwritten signature in cursive script that reads "Trimaven Capital Advisors Inc." The signature is written in dark ink and is positioned above the printed name of the company.

Trimaven Capital Advisors Inc.

**APPENDIX “F”
FINANCIAL STATEMENT**

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PRO FORMA CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Melcor Real Estate Investment Trust

As at and for the nine-months ended September 30, 2014 and for the year ended December 31, 2013

(Unaudited, in \$000s of Canadian dollars)

Melcor Real Estate Investment Trust - Unaudited ProForma Condensed Consolidated Statement of Financial Position

As at September 30, 2014

(Unaudited)

(\$000s)	Melcor REIT	Acquisition Properties	Notes	Pro forma Adjustments	Total
ASSETS					
Current Assets					
Cash and cash equivalents	1,900	2,521	2a) 2b) 2f)	27,500 (14,658) (2,678)	14,585
Accounts receivable	1,740	918		—	2,658
Other assets	1,863	648		—	2,511
	5,503	4,087		10,164	19,754
Non-Current Assets					
Restricted cash	3,396	—		—	3,396
Investment properties	455,094	118,071	2b)	104	573,269
Other assets	13,122	20,075		—	33,197
	471,612	138,146		104	609,862
TOTAL ASSETS	477,115	142,233		10,268	629,616
LIABILITIES					
Current Liabilities					
Revolving credit facility	4,925	—		—	4,925
Accounts payable	2,395	—		—	2,395
Distribution payable	1,209	—		—	1,209
Accrued liabilities and other payables	3,683	1,660		—	5,343
Class C LP Units	26,136	—		—	26,136
Project specific financing	—	23,265	2d)	(23,265)	—
Mortgages payable	38,970	7,905	2d)	(5,957)	40,918
	77,318	32,830		(29,222)	80,926
Non-Current Liabilities					
Accrued liabilities and other payables	1,222	—		—	1,222
Class B LP Units	101,132	—	2e)	45,000	146,132
Class C LP Units	65,500	—		—	65,500
Deferred income taxes	—	8,269	2i)	(8,269)	—
Mortgages payable	76,308	36,291	2d)	40,102	152,701
Convertible debenture	—	—	2a)	27,015	27,015
TOTAL LIABILITIES	321,480	77,390		74,626	473,496
Trust units	103,959	—		—	103,959
Contributed surplus	36,948	—		—	36,948
Convertible debenture	—	—	2a)	485	485
Divisional surplus	—	64,843		(64,843)	—
Retained earnings	14,728	—		—	14,728
EQUITY	155,635	64,843		(64,358)	156,120
TOTAL LIABILITIES AND EQUITY	477,115	142,233		10,268	629,616

See accompanying notes to the unaudited pro forma condensed consolidated financial statements

Melcor Real Estate Investment Trust - Unaudited ProForma Condensed Consolidated Statement of Comprehensive Income

For the year ended December 31, 2013

(Unaudited)

(\$000s)	Melcor REIT	Acquisition Properties	May 2014 Melcor Properties	Notes	Pro forma Adjustments	Total
Rental revenue	39,325	7,316	871		—	47,512
Direct operating expenses	(15,930)	(4,099)	(313)		—	(20,342)
Net rental income	23,395	3,217	558		—	27,170
General and administrative expenses	(1,728)	—	—		—	(1,728)
Fair value adjustment on investment properties	16,953	(389)	922		—	17,486
Fair value adjustment on Class B LP Units	(3,812)	—	—		—	(3,812)
Income before finance costs and income taxes	34,808	2,828	1,480		—	39,116
Interest income	61	8	16		—	85
Finance costs	(12,411)	(1,349)	(126)	2h)	(1,650)	(18,995)
				2h)	(496)	
				2h)	(2,963)	
Net finance costs	(12,350)	(1,341)	(110)		(5,109)	(18,910)
Net income before income taxes	22,458	1,487	1,370		(5,109)	20,206
Deferred income tax recovery (expense)	40,261	(163)	(228)	2i)	391	40,261
Income tax recovery (expense)	40,261	(163)	(228)		391	40,261
Net income and comprehensive income	62,719	1,324	1,142		(4,718)	60,467

See accompanying notes to the unaudited pro forma condensed consolidated financial statements

Melcor Real Estate Investment Trust - Unaudited ProForma Condensed Consolidated Statement of Comprehensive Income

For the nine-months ended September 30, 2014

(Unaudited)

(\$000s)	Melcor REIT	Acquisition Properties	May 2014 Melcor Properties	Notes	Pro forma Adjustments	Total
			2g)			
Rental revenue	32,840	8,575	413		—	41,828
Direct operating expenses	(13,032)	(3,538)	(152)		—	(16,722)
Net rental income	19,808	5,037	261		—	25,106
General and administrative expenses	(1,482)	(236)	(3)		—	(1,721)
Fair value adjustment on investment properties	(3,103)	5,142	(1,179)		—	860
Fair value adjustment on Class B LP Units	5,264	—	—		—	5,264
Income before finance costs and income taxes	20,487	9,943	(921)		—	29,509
Interest income	54	8	6		—	68
Finance costs	(11,674)	(1,159)	(30)	2h)	(1,238)	(16,735)
				2h)	(411)	
				2h)	(2,223)	
Net finance costs	(11,620)	(1,151)	(24)		(3,872)	(16,667)
Net income before income taxes	8,867	8,792	(945)		(3,872)	12,842
Deferred income tax recovery (expense)	—	(1,555)	153	2i)	1,402	—
Income tax recovery (expense)	—	(1,555)	153		1,402	—
Net income and comprehensive income	8,867	7,237	(792)		(2,470)	12,842

See accompanying notes to the unaudited pro forma condensed consolidated financial statements

1. BASIS OF PRESENTATION

Melcor Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust ("DOT") dated January 25, 2013 and subsequently amended and restated May 1, 2013. These unaudited pro forma condensed consolidated financial statements have been prepared for inclusion in a short-form prospectus (the "Prospectus") relating to the proposed sale and issue of a 5.50% extendible convertible unsecured subordinated debenture (the "Debentures") of the REIT for cash consideration pursuant to a bought deal offering (the "Offering"). The Debentures will have an initial maturity date based on the occurrence of a terminating event, as described in the Prospectus. Upon the acquisition (the "Melcor Acquisition") by the REIT of an indirect interest in 6 investment properties (the "Melcor Acquisition Properties") from Melcor Developments Ltd. ("Melcor"), as described in the Prospectus, the maturity date of the Debentures will be extended to December 31, 2019.

The REIT began operations on May 1, 2013 when its trust units were issued for cash pursuant to the initial public offering ("IPO").

The principal business of the REIT is to acquire, own and manage office, retail and industrial properties in select target markets in Western Canada. The REIT is externally managed, administered and operated by Melcor pursuant to the Property Management Agreement and Asset Management Agreement.

The REIT is governed under the laws of the Province of Alberta. The registered office of the REIT is located at Suite 900, 10310 Jasper Avenue Edmonton, Alberta, Canada. The REIT's trust units are traded on the Toronto Stock Exchange under the symbol "MR.UN".

These unaudited pro forma condensed consolidated financial statements have been prepared using the unaudited condensed interim consolidated financial statements of the REIT as at and for the nine-months ended September 30, 2014, the unaudited September 30, 2014 combined condensed carve-out financial statements of the Melcor Acquisition Properties, the unaudited March 31, 2014 combined condensed carve-out financial statements of the May 2014 Melcor Properties, the audited consolidated financial statements of the REIT as at and for the year ended December 31, 2013, the audited December 31, 2013 combined carve-out financial statements of the Melcor Acquisition Properties, and the audited December 31, 2013 combined carve-out financial statements of the May 2014 Melcor Properties. The REIT's financial statements can be found on SEDAR at sedar.com and the other financial statements can be found elsewhere in the Prospectus.

The unaudited pro forma condensed consolidated statement of financial position gives effect to the transactions described in note 2 as if they had occurred on September 30, 2014. The unaudited pro forma condensed consolidated statement of comprehensive income for the year ended December 31, 2013 and nine-months ended September 30, 2014 gives effect to the transactions described in note 2 as if they had occurred on January 1, 2013.

These unaudited pro forma condensed consolidated financial statements are not necessarily indicative of the results that would have occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of the future operating results or the financial position of the REIT.

The accounting policies used in the preparation of these unaudited pro forma condensed consolidated financial statements are consistent with the policies disclosed in the REIT and carve-out financial statements referred to above.

2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS

a) Convertible debenture offering

For the purposes of these pro formas the REIT is assumed to have completed the distribution (the "Offering") of 5.50% extendible convertible unsecured subordinated debentures (the "Debentures") to the public for gross proceeds of \$30,000 (excluding any over-allotment option). The Debentures bear interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. Provided that the Melcor Acquisition is completed before January 15, 2015, the Debentures will mature on December 31, 2019. The Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 79.0514 trust units per \$1,000 principal amount of Debentures (the "Conversion Price"). On and from December 31, 2017, and prior to December 31, 2018, the Debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2018, and prior to the maturity date, the Debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the Debentures on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity.

As a compound financial instrument, the values of the liability component and equity conversion component will be determined at issuance of the Debenture. For purposes of these pro formas, the fair value of the liability component was calculated using a market interest rate for an equivalent non-convertible bond. The residual amount, representing the value of the equity conversion option, is included in unitholders' equity.

Costs relating to the placement, including underwriters' fees, are assumed to be \$2,500 for net proceeds of \$27,500, and have been allocated to the individual components consistent with the allocation of proceeds.

The convertible debenture originally recognized is calculated as follows:

Fair value of liability component	29,471
Transaction costs	(2,456)
	<u>27,015</u>
Fair value of equity component	529
Transaction costs	(44)
	<u>485</u>
Total	<u>27,500</u>

b) Purchase of the Melcor Acquisition Properties

The purchase of the Melcor Acquisition Properties will be accounted for as an asset acquisition; whereby the REIT will record the assets acquired and liabilities assumed at their purchase price.

Net assets acquired	
Investment properties and other assets	138,250
Assumed mortgages (note 2c)	(37,447)
Assumed mortgages (note 2d)	(41,145)
	<u>59,658</u>
Consideration to Melcor	
Class B LP Units (note 2e)	45,000
Cash paid by the REIT	14,658
	<u>59,658</u>

The difference between the \$138,146 September 30, 2014 carrying value of the acquired assets and the \$138,250 purchase price is \$104. This has been reflected in this pro forma adjustment.

c) Assumed mortgages - in-place financing

On closing, the REIT will assume the mortgages on certain of the Melcor Acquisition Properties with an outstanding principal balance of \$37,447 as at September 30, 2014. Balance is presented gross of deferred financing costs of \$251. Carrying value of the assumed mortgages approximates fair value.

d) Assumed mortgages - new financing

On closing, the REIT will also assume mortgages on certain of the Melcor Acquisition Properties which were financed by Melcor subsequent to September 30, 2014. Proceeds from financing was used to repay and extinguish project specific financing and existing mortgage facilities. As at September 30, 2014 these project specific financing facilities had an outstanding principal balance of \$23,265 and the mortgage payable facility had an outstanding principal balance of \$7,000. The net difference of \$10,880 represents an increase in financing levels on these properties. A reconciliation of the pro forma adjustments is as follows:

	Project specific financing	Mortgages payable		Total
		Current	Long-term	
Repayments	(23,265)	(7,000)	—	(30,265)
New financing	—	1,043	40,102	41,145
	(23,265)	(5,957)	40,102	10,880

No pro forma adjustment has been made to finance costs in the pro forma consolidated statements of comprehensive income as these borrowing costs during the periods presented are attributable to the construction of qualifying assets and are therefore added to the cost of the investment property. Changes to the borrowing costs capitalized would result in a fair value gain/loss on investment properties.

e) Class B LP Units

Melcor will receive 4,390,244 Class B LP Units at a price of \$10.25 per Unit for total consideration of \$45,000.

As the Class B LP Units are financial liabilities designated as fair value through profit and loss, they will be adjusted to their fair value on an ongoing basis with any fair value adjustments being included in the income statement. These pro forma consolidated financial statements assume no change in fair value of the Class B LP Units during the December 31, 2013 or September 30, 2014 pro forma consolidated statement of comprehensive income periods. However, the actual REIT consolidated financial statements of future periods will include fair value changes and such changes could be material.

f) Working capital

On closing, the REIT will acquire the net working capital of the Acquisition Properties for a purchase price equal to the net working capital acquired plus reimbursed deferred financing costs.

g) Purchase of the May 2014 Melcor Properties

On May 9, 2014, the REIT completed the purchase of the May 2014 Melcor Properties from Melcor for a purchase price of \$13,500. The REIT satisfied approximately \$7,400 of the purchase price of the acquisition by issuing 694,836 Class B LP Units at a price of \$10.65 per unit. The remainder of the purchase price was funded through the REIT's line of credit and available cash. The September 30, 2014 REIT interim consolidated statement of financial position consolidates the assets and liabilities of the May 2014 Melcor Properties. The interim consolidated statement of comprehensive income for the nine-months ended September 30, 2014 reflects the revenue and expenses for the period from May 9, 2014 to September 30, 2014. In order to reflect the pro forma impact of the May 2014 Melcor Properties for the entire nine-month period we have given pro forma effect to the revenues and expenses for the three-months ended March 31, 2014 as included in the unaudited carve-out financial statements of the May 2014 Melcor Properties and further adjusted to include the revenues and expenses for the period from April 1, 2014 to May 8, 2014 as reported by Melcor.

For the nine-months ended September 30, 2014

(\$000s)	Three months ended March 31, 2014	April 1, 2014 to May 8, 2014	May 2014 Melcor Properties
Rental revenue	289	124	413
Direct operating expenses	(98)	(54)	(152)
Net rental income	191	70	261
General and administrative expenses	—	(3)	(3)
Fair value adjustment on investment properties	47	(1,226)	(1,179)
Fair value adjustment on Class B LP Units	—	—	—
Income before finance costs and income taxes	238	(1,159)	(921)
Interest income	4	2	6
Finance costs	(25)	(5)	(30)
Net finance costs	(21)	(3)	(24)
Net income before income taxes	217	(1,162)	(945)
Deferred income tax recovery (expense)	(48)	201	153
Income tax recovery (expense)	(48)	201	153
Net income and comprehensive income	169	(961)	(792)

h) Finance costs

Finance costs have been adjusted to reflect the interest expense on the Debentures issued as part of the Offering. The Debentures bear interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year. In addition, finance costs have been adjusted to reflect the unwinding of the discount and amortization of transaction costs.

Finance costs have also been adjusted to reflect distributions on the Class B LP Units issued as part of the Melcor Acquisition (note 2e)). The distributions on the Class B LP Units are consistent with those declared and paid on the REIT's existing Class B LP Units at a rate of \$0.05625 per unit per month.

Adjustments to finance costs are summarized as follows:

	Finance costs
<u>For the year ended December 31, 2013</u>	
Debenture interest	1,650
Accretion of Debenture and amortization of transaction costs	496
Class B LP Interest	2,963
	5,109
<u>For the nine-months ended September 30, 2014</u>	
Debenture interest	1,238
Accretion of Debenture and amortization of transaction costs	411
Class B LP Interest	2,223
	3,872

i) Income taxes

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) ("Tax Act") and as a real estate investment trust eligible for the 'REIT Exception', as defined in the rules applicable to Specified Investment Flow-Through ("SIFT") trusts and partnership in the Tax Act. The REIT expects to allocate all taxable income and to continue to qualify for the REIT Exception. Accordingly, no income tax expense and deferred income tax liabilities or assets have been recorded in the pro forma condensed consolidated financial statements.

COMBINED CARVE-OUT FINANCIAL STATEMENTS

Melcor Acquisition Properties Financial Statements

For the years ended December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Directors of Melcor Developments Ltd.

We have audited the accompanying combined carve-out financial statements of the Melcor Acquisition Properties (Melcor Acquisition Properties), which comprise the combined carve-out statement of financial position as at December 31, 2013 and the combined carve-out statements of income and comprehensive income, changes in divisional equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined carve-out financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the combined carve-out financial statements present fairly, in all material respects, the financial position of the Melcor Acquisition Properties as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as described in note 2 to the combined carve-out financial statements, the properties included in the combined carve-out financial statements have not operated as a separate entity. These combined carve-out financial statements are, therefore, not necessarily indicative of results that would have occurred if the properties had operated as a separate entity during the year presented or of future results of the combined properties.

Other matter

The comparative financial statements of the Melcor Acquisition Properties, which comprise the combined carve-out statements of financial position as at December 31, 2012 and January 1, 2012 and the combined carve-out statements of income and comprehensive income, changes in divisional equity and cash flows for the year ended December 31, 2012, and the related notes, are unaudited and we express no opinion on those balances.

●

Chartered Accountants

Edmonton, Canada

● , 2014

Combined Carve-out Statements of Financial Position

(\$000s)	December 31, 2013	December 31, 2012	January 1, 2012
ASSETS		(Unaudited)	(Unaudited)
Current Assets			
Cash and cash equivalents	305	163	172
Accounts receivable	545	258	178
Other assets (note 7)	427	247	215
	1,277	668	565
Non-Current Assets			
Accounts receivable	83	95	106
Investment properties (notes 6 and 14)	103,996	67,390	28,966
Other assets (note 7)	17,539	6,123	4,380
	121,618	73,608	33,452
TOTAL ASSETS	122,895	74,276	34,017
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	2,887	1,508	1,074
Project specific financing (note 8)	25,365	—	—
Mortgages payable (note 9)	32,424	13,570	10,138
	60,676	15,078	11,212
Non-Current Liabilities			
Deferred income taxes (note 11)	6,714	6,551	3,566
Mortgages payable (note 9)	—	7,000	3,570
TOTAL LIABILITIES	67,390	28,629	18,348
DIVISIONAL EQUITY	55,505	45,647	15,669
TOTAL LIABILITIES AND DIVISIONAL EQUITY	122,895	74,276	34,017

See accompanying notes to these combined carve-out financial statements.

Combined Carve-out Statements of Income and Comprehensive Income

For the years ended December 31

(\$000s)	2013	2012
		(Unaudited)
Rental revenue (note 10)	7,316	5,961
Direct operating expenses	(4,099)	(3,504)
Net rental income	3,217	2,457
Fair value adjustment on investment properties (note 6 and 14)	(389)	22,778
Income before interest expense and income taxes	2,828	25,235
Interest income	8	6
Interest expense	(1,349)	(723)
Net interest expense	(1,341)	(717)
Net income before income taxes	1,487	24,518
Deferred income tax expense (note 11)	(163)	(2,985)
Income tax expense	(163)	(2,985)
Net income and comprehensive income	1,324	21,533

See accompanying notes to these combined carve-out financial statements.

Combined Carve-out Statements of Changes in Divisional Equity

For the years ended December 31

(\$000s)	Divisional Equity
	(Unaudited)
Balance at January 1, 2012	15,669
Net income for the year	21,533
Net contributions from Melcor Developments Ltd.	8,445
Balance at December 31, 2012	45,647

(\$000s)	Divisional Equity
Balance at January 1, 2013 (Unaudited)	45,647
Net income for the year	1,324
Net contributions from Melcor Developments Ltd.	8,534
Balance at December 31, 2013	55,505

See accompanying notes to these combined carve-out financial statements.

Combined Carve-out Statements of Cash Flows

For the years ended December 31

(\$000s)	2013	2012
		(Unaudited)
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	1,324	21,533
Non cash items:		
Amortization of tenant incentives (notes 7 and 10)	1,500	749
Straight-line rent adjustments (note 10)	(101)	(160)
Fair value adjustment on investment properties (notes 6 and 14)	389	(22,778)
Deferred income tax expense (note 11)	163	2,985
	3,275	2,329
Changes in operating assets and liabilities (note 3(i))	(766)	333
	2,509	2,662
INVESTING ACTIVITIES		
Land allocation from Melcor Developments Ltd. (note 6)	(7,571)	(2,705)
Payment of tenant incentives (note 7)	(12,815)	(2,332)
Investment property improvements, development and direct leasing costs	(27,734)	(12,941)
	(48,120)	(17,978)
FINANCING ACTIVITIES		
Project specific financing (note 8)	25,365	—
Proceeds from mortgages payable	12,000	7,000
Repayment of mortgages payable	(146)	(138)
Net contributions from Melcor Developments Ltd.	8,534	8,445
	45,753	15,307
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE YEAR	142	(9)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	163	172
CASH AND CASH EQUIVALENTS, END OF THE YEAR	305	163

See accompanying notes to these combined carve-out financial statements.

1. DESCRIPTION OF THE BUSINESS

These combined carve-out financial statements include retail, office, industrial and development investment properties (the "Melcor Acquisition Properties") that are directly and indirectly owned by Melcor Developments Ltd. ("Melcor") at December 31, 2013 and do not represent a separate legal entity. The Melcor Acquisition Properties consist of six properties located in Western Canada: Lethbridge Centre, Telford Industrial, Leduc Common Phase Four, Village at Blackmud Creek Phase One, University Park Shopping Centre and West Henday Promenade Phase One.

Melcor's place of business is Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8.

The Melcor Acquisition Properties combined carve-out financial statements for the years ended December 31, 2013 and 2012 were authorized for issue by the Board of Directors' of Melcor on • , 2014, after which date the combined carve-out financial statements may only be amended with the Board of Directors' approval.

2. BASIS OF PRESENTATION

These combined carve-out financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). As these are the first IFRS financial statements prepared for the Melcor Acquisition Properties they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". With the exception of the presentation of the opening IFRS combined statement of financial position as at January 1, 2012, the application of IFRS 1 has no material effect as Melcor has been applying IFRS.

The Melcor Acquisition Properties are all directly and indirectly owned by Melcor. One property in the portfolio was jointly owned with an unrelated third party until July 31, 2013 when its interest was purchased by a wholly owned subsidiary of Melcor. These combined carve-out financial statements reflect 100% of the assets, liabilities, revenues and expenses of the property for all periods presented. The properties which are internally managed by Melcor do not maintain their own cash accounts. Divisional equity represents the net of all capital and financing/cash transactions between the Melcor Acquisition Properties and Melcor.

The activities of the Melcor Acquisition Properties are included in these combined carve-out financial statements from the point in time the property qualifying as an investment property pursuant to the definition prescribed under IAS 40, *Investment Property*. The allocation of Melcor's land inventory to the Melcor Acquisition Properties is recorded in these combined carve-out financial statements as an addition to property under development at fair value. The Melcor Acquisition Properties do not hold land for future development.

Due to the inherent limitations of carving out activities from larger entities, these combined carve-out financial statements may not necessarily reflect the Melcor Acquisition Properties' results of operations, financial position and cash flows for future periods, nor do they necessarily reflect the results of operations, financial position and cash flows that would have been realized had the properties been a stand-alone entity during the periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these combined carve-out financial statements are described below.

a) *Basis of measurement*

These combined carve-out financial statements have been prepared under the historical cost convention, except for the revaluation of investment properties which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the combined carve-out financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 and have been derived from the historical financial statements of Melcor.

These combined carve-out financial statements are presented in Canadian dollars which is the Melcor Acquisition Properties presentational and functional currency.

b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired. These balances relate to the cash accounts of externally managed properties.

c) Investment properties

Investment properties include retail, office and industrial properties held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development for future use as investment properties. Land related to properties under development is allocated from Melcor at the commencement of property development.

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at their fair value, which is determined by discounting projected future cash flows based on property specific capitalization rates. Valuations are performed as of the period end date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases based on current market conditions. The value also reflects any cash outflows that could be expected in respect of the property. Changes in fair value are recognized in income.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Melcor Acquisition Properties and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures and no amounts for internal allocations are capitalized with respect to the negotiation and arranging of tenant leases.

d) Capitalization of borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our investment properties under development assets. All other borrowing costs are recognized as interest expense in income in the period in which they are incurred.

e) Other assets

Other assets include prepaid expenses, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

f) Recognition of revenue

Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties. Revenue from investment properties includes base rents, recoveries of operating expenses including property taxes, parking revenue and incidental income. Revenue recognition under a lease

commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Other revenues are recorded as earned.

g) *Income taxes*

Since the Melcor Acquisition Properties are currently owned by Melcor, which is a taxable entity, current and deferred income taxes are included in the combined carve-out financial statements. The Melcor Acquisition Properties use the liability method of accounting for income taxes. Under the liability method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of future income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Current taxes payable have been treated as a payable to Melcor and included in divisional equity as Melcor holds the obligation to remit the taxes.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

h) *Financial instruments*

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable and cash and cash equivalents.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

Financial liabilities

We record our financial liabilities at fair value on initial recognition. Subsequently, "other liabilities" are measured at amortized cost using the effective interest rate method and financial liabilities designated as fair value through profit or loss ("FVTPL") are remeasured at fair value with changes in their fair value recorded through income. Other liabilities include accounts payable and accrued liabilities, project specific financing and mortgages payable.

i) *Statements of cash flows*

Operating assets and liabilities is defined as the net change of accounts receivable, prepaid expense and other, and accounts payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable at period end.

4. SIGNIFICANT JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

Significant judgments

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the combined carve-out financial statements. These include:

Classification of tenant incentives

Payments are often made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, *Operating leases – incentives*.

Critical accounting estimates

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

Valuation of investment properties

Investment properties are valued using either a direct capitalization or discounted cash flow approach, as completed by qualified external professional valuers with key assumptions reviewed and updated quarterly. Key estimates and assumptions include expected occupancy rates and lease payments, expenditures for operating costs and capital expenditures as well as discount and capitalization rates. Refer to notes 6 and 14 for further information about methods and assumptions used in determining fair value.

5. NEW STANDARDS

IFRIC 21, Levies is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is required to be applied for accounting periods beginning on or after January 1, 2014, with earlier adoption permitted.

We have adopted IFRIC 21 retrospectively in these financial statements. The adoption of this standard did not result in a change in the recognition or timing of levies imposed.

IFRS 9, Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

We are currently assessing the impact of adopting this standard.

IFRS 15, Revenue from Contracts with Customers was issued in May 2014 and supersedes IAS 18, *Revenue*, IAS 11 *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

We are currently assessing the impact of adopting this standard.

6. INVESTMENT PROPERTIES

Year ended December 31, 2013			
((\$000s))	Investment Properties	Property under Development	Total
Balance - beginning of year	57,578	9,812	67,390
Additions			
Land	—	7,571	7,571
Direct leasing costs	441	517	958
Property improvements	2,618	—	2,618
Development costs	—	24,812	24,812
Capitalized borrowing costs	—	1,036	1,036
Fair value adjustment on investment properties (note 14)	(8,926)	8,537	(389)
Balance - end of year	51,711	52,285	103,996

Year ended December 31, 2012			
(Unaudited - \$000s)	Investment Properties	Property under Development	Total
Balance - beginning of year	23,820	5,146	28,966
Additions			
Land	—	2,705	2,705
Direct leasing costs	927	221	1,148
Property improvements	2,377	—	2,377
Development costs	—	9,066	9,066
Capitalized borrowing costs	—	350	350
Transfers	8,534	(8,534)	—
Fair value adjustment on investment properties (note 14)	21,920	858	22,778
Balance - end of year	57,578	9,812	67,390

In accordance with our policy, as described in note 3c, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 14.

The cost of investment properties as at December 31, 2013 totalled \$78,850 (December 31, 2012, unaudited - \$41,855; January 1, 2012, unaudited - \$26,209).

Presented separately from investment properties is \$17,278 (December 31, 2012, unaudited - \$5,963; January 1, 2012, unaudited - \$4,380) in tenant incentives and \$261 (December 31, 2012, unaudited - \$160; January 1, 2012, unaudited - \$nil) in straight-line rent adjustments (note 7). The fair value of investment properties has been reduced by these amounts.

Investment property assets are comprised of the following:

(\$000s)	December 31, 2013	December 31, 2012	January 1, 2012
		(Unaudited)	(Unaudited)
Office	44,607	42,653	16,295
Retail	45,117	24,682	12,671
Industrial	14,272	55	—
	103,996	67,390	28,966

Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

(\$000s)	December 31, 2013	December 31, 2012	January 1, 2012
		(Unaudited)	(Unaudited)
Within one year	6,184	2,407	2,590
Later than one year but not later than 5 years	22,940	5,308	5,856
Later than 5 years	27,817	1,574	3,054
	56,941	9,289	11,500

7. OTHER ASSETS

(\$000s)	December 31, 2013	December 31, 2012	January 1, 2012
		(Unaudited)	(Unaudited)
Current Assets			
Prepaid expenses and other	427	247	215
Non-Current Assets			
Straight-line rent adjustments	261	160	—
Tenant incentives	17,278	5,963	4,380
	17,539	6,123	4,380

During the year we provided tenant incentives of \$12,815 (2012, unaudited - \$2,332) and recorded \$1,500 (2012, unaudited - \$749) of amortization expense respectively. In accordance with SIC 15, *Operating leases - incentives*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

8. PROJECT SPECIFIC FINANCING

(\$000s)	December 31, 2013	December 31, 2012 (Unaudited)	January 1, 2012 (Unaudited)
Demand construction loan, bearing interest at prime + 0.75% or BA + 200 bps, to a maximum of \$17,000 based upon a percentage of eligible project costs.	12,199	—	—
Demand construction loan, bearing interest at prime + 0.60% or BA + 185 bps, to a maximum of \$16,000 based upon a percentage of eligible project costs.	5,464	—	—
Non-revolving demand construction loan, bearing interest at prime + 0.50%, to a maximum of \$24,295 based upon a percentage of eligible project costs.	7,702	—	—
	25,365	—	—

Specific investment properties under development with a December 31, 2013 carrying value of \$46,550 (December 31, 2012, unaudited - \$nil; January 1, 2012, unaudited - \$nil), have been pledged as collateral on project specific debt on investment properties under development. Interest only payments are made on the above debts. The weighted average interest rate on the above debts, based on year end balances is 3.38%.

9. MORTGAGES PAYABLE

(\$000s)	December 31, 2013	December 31, 2012 (Unaudited)	December 31, 2011 (Unaudited)
Mortgage amortized over 20 years at fixed interest rate of 5.52%, maturing January 15, 2014	3,424	3,570	3,708
Non-revolving term loan, due November 30, 2014, at variable interest rate of prime plus 0.50% (2013 - 3.50%; 2012 - 3.50%)	7,000	7,000	—
Non-revolving term loan, due on demand with interest only payments, at variable interest rate of prime plus 1.50%: 4.50% (2012 - variable interest rate of prime plus 2.00%: 5.00%; 2011 - variable interest rate of prime plus 2.00%: 5.00%)	22,000	10,000	10,000
	32,424	20,570	13,708
Current portion of mortgages payable	(32,424)	(13,570)	(10,138)
	—	7,000	3,570

Specific investment properties with a carrying value of \$65,856 (December 31, 2012, unaudited - \$63,700; January 1, 2012, unaudited - \$28,200) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above mortgages. The weighted average effective interest rate for the above mortgages, based on year-end balances is 4.39% (December 31, 2012, unaudited - 4.58%; January 1, 2012, unaudited - 5.14%).

10. RENTAL REVENUE

The components of rental revenue are as follows:

(\$000s)	2013	2012
		(Unaudited)
Rental revenue	8,715	6,550
Amortization of tenant incentives	(1,500)	(749)
Straight-line rent adjustment	101	160
	7,316	5,961

11. INCOME TAX EXPENSE

The components of income tax expense are as follows:

(\$000s)	2013	2012
		(Unaudited)
Deferred tax expense		
Origination and reversal of temporary differences	163	2,985
Income tax expense	163	2,985

The Melcor Acquisition Properties effective income tax rate is derived as follows:

(\$000s)	2013	2012
		(Unaudited)
Income before income taxes	1,487	24,518
Statutory rate	25%	25%
	372	6,130
Non-taxable portion of capital gains and fair value adjustments	(209)	(3,145)
Income tax expense	163	2,985

The movement in deferred tax balances during the year are as follows:

(\$000s)	December 31, 2013		
	Opening (Unaudited)	Recognized in profit or loss	Closing
Investment property	5,244	513	5,757
Tenant incentives	2,146	3,111	5,257
Tax loss carry-forwards	(839)	(3,461)	(4,300)
Deferred tax liability	6,551	163	6,714

(\$000s)	December 31, 2012 (Unaudited)		
	Opening	Recognized in profit or loss	Closing
Investment property	2,153	3,091	5,244
Tenant incentives	1,413	733	2,146
Tax loss carry-forwards	—	(839)	(839)
Deferred tax liability	3,566	2,985	6,551

12. SEGMENTED INFORMATION

All the properties included in these combined carve-out financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer of Melcor) as one operating segment in the context of these combined carve-out financial statements.

13. FINANCIAL RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents and accounts receivable. Our maximum exposure to credit risk is the carrying amount of these instruments.

We invest our cash and cash equivalents in bank accounts with major Canadian chartered banks. Accounts receivable balances include amounts due from tenants. There have been no impairment adjustments made to these accounts.

We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant. Management has reviewed outstanding receivable balances at December 31, 2013 and expect full payment of balances outstanding. No allowance for doubtful accounts has been recorded.

b) Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term mortgage repayments. We monitor rolling forecasts of our liquidity, which includes cash, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against capital requirements and maintain on-going debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed project specific financing facilities to meet current spending forecasts.

Refer to notes 8 and 9 for the maturity information on project specific financing and mortgages payable. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

c) Market Risk

We are subject to interest rate cash flow risk as our project specific financing facilities bear interest at rates that vary in accordance with borrowing rates in Canada. For each 1% change in the rate of interest on our project specific financing facilities, the change in annual finance costs is approximately \$254 (2012, unaudited - n/a) based upon applicable period end debt balances. We are also subject to interest rate risk on refinancing of our fixed rate debts in the year of maturity. We are not subject to other significant market risks pertaining to our financial instruments.

14. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of the financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and project specific financing approximate their fair values based on the short term maturities of these financial instruments.
- fair value of mortgages payable are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).

In addition, investment properties are carried at fair value, which is determined by either the direct capitalization approach or by discounting future cash flows at a property specific discount rate (Level 3).

The following table summarizes the assets and liabilities carried at fair value and financial assets and liabilities where carrying value may not approximate fair value.

	December 31, 2013				December 31, 2012		January 1, 2012	
					(Unaudited)		(Unaudited)	
(\$000s)	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets								
Investment properties	103,996	—	103,996	103,996	67,390	67,390	28,966	28,966
Financial liabilities								
Mortgages payable	—	32,424	32,424	32,424	20,570	20,570	13,708	13,708

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Investment properties are classified as Level 3 in the hierarchy. There were no transfers between the levels of the fair value hierarchy during the year.

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013, December 31, 2012 and January 1, 2012. Fair values of investment properties were revised based on the updated data and model variables resulting in fair value loss of \$389 (2012, unaudited - fair value gain of \$22,778) recorded as fair value adjustment on investment properties in income. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a discount rate to estimated year eleven cash flows, or by applying a capitalization rate to the estimated future net operating income under the direct capitalization approach.

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	- Capitalization rate - Discount rate - Terminal rate - Stabilized NOI - Cash flows	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	- Capitalization rate - Stabilized NOI - Costs to complete	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.

The significant unobservable inputs in the Level 3 valuation under the above methods are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate - taking into account assumptions regarding vacancy rates and market rents; and

- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, *Fair value measurement*. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation and reviewing the results with the independent valuator. Melcor's management, along with its Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties is \$4,916 (December 31, 2012, unaudited - \$4,127; January 1, 2012, unaudited - \$2,218). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			Properties under Development		
December 31, 2013	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.75%	7.25%	6.85%	6.00%	6.25%	6.09%
Terminal capitalization rate	6.00%	7.50%	7.28%	6.25%	6.50%	6.39%
Discount rate	7.00%	8.50%	8.28%	7.50%	7.50%	7.50%

(Unaudited)	Investment Properties			Properties under Development		
December 31, 2012	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	6.00%	7.50%	7.20%	6.00%	6.00%	6.00%
Terminal capitalization rate	6.25%	7.50%	6.82%	6.25%	6.25%	6.25%
Discount rate	7.00%	8.25%	7.57%	7.00%	7.00%	7.00%

(Unaudited)	Investment Properties			Properties under Development		
January 1, 2012	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	7.50%	8.00%	7.86%	-	-	-
Terminal capitalization rate	8.00%	8.00%	8.00%	-	-	-
Discount rate	8.75%	8.75%	8.75%	-	-	-

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$4,887 (December 31, 2012, unaudited - \$3,720; January 1, 2012, unaudited - \$1,686). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$5,657 (December 31, 2012, unaudited - \$4,275; January 1, 2012, unaudited - \$1,915).

15. KEY MANAGEMENT REMUNERATION

Key management includes executive officers of Melcor. No Key Management salaries or other employee future benefits have been allocated to the Melcor Acquisition Properties.

16. SUBSEQUENT EVENTS

Subsequent to year end Melcor obtained new mortgage financing on certain of the Melcor Acquisition Properties for gross proceeds of \$78,730. Proceeds from financing was used to repay and extinguish project specific financing and existing mortgage facilities. As at December 31, 2013 these project specific financing facilities had an outstanding principal balance of \$25,365 and mortgage facilities had an outstanding principal balance of \$29,000. In addition, Melcor repaid and extinguished the mortgage on one Melcor Acquisition Property which had a December 31, 2013 principal balance of \$3,424.

On November 12, 2014 Melcor entered into an acquisition agreement with Melcor Real Estate Investment Trust (the "REIT") and a wholly-owned subsidiary of the REIT, pursuant to which the REIT will indirectly acquire the Melcor Acquisition Properties

(the "Melcor Acquisition"). The Melcor Acquisition is conditional upon the satisfaction of certain conditions including lender consents, completion of a placement of \$30,000 aggregate principal amount of 5.50% extendible convertible unsecured subordinated debentures (the "Debentures"), approval from the unitholders of the REIT, and certain other conditions and third party approvals. The Debentures bear interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. Provided that the Melcor Acquisition is completed before January 15, 2015, the debentures will mature on December 31, 2019. Completion of the Melcor Acquisition is expected to occur on or about December 18, 2014.

COMBINED CONDENSED CARVE-OUT INTERIM FINANCIAL STATEMENTS

Melcor Acquisition Properties Financial Statements

For the three and nine-months ended September 30, 2014 and 2013

(Unaudited)

Combined Condensed Carve-out Interim Statements of Financial Position

As at September 30, 2014

(Unaudited)

(\$000s)	September 30, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	2,521	305
Accounts receivable	844	545
Other assets (note 5)	648	427
	4,013	1,277
Non-Current Assets		
Accounts receivable	74	83
Investment properties (notes 4 and 11)	118,071	103,996
Other assets (note 5)	20,075	17,539
	138,220	121,618
TOTAL ASSETS	142,233	122,895
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	1,660	2,887
Project specific financing (note 6)	23,265	25,365
Mortgages payable (note 7)	7,905	32,424
	32,830	60,676
Non-Current Liabilities		
Deferred income taxes (note 9)	8,269	6,714
Mortgages payable (note 7)	36,291	—
TOTAL LIABILITIES	77,390	67,390
DIVISIONAL EQUITY	64,843	55,505
TOTAL LIABILITIES AND DIVISIONAL EQUITY	142,233	122,895

See accompanying notes to these combined condensed carve-out interim financial statements.

Combined Condensed Carve-out Interim Statements of Income and Comprehensive Income

For the three and nine-months ended September 30

(Unaudited)

	Three-months ended September 30,		Nine-months ended September 30,	
(\$000s)	2014	2013	2014	2013
Rental revenue (note 8)	3,103	1,813	8,575	5,487
Direct operating expenses	(1,200)	(926)	(3,538)	(2,983)
Net rental income	1,903	887	5,037	2,504
General and administrative expenses	(29)	—	(236)	—
Fair value adjustment on investment properties (notes 4 and 11)	456	5,007	5,142	5,497
Income before finance costs and income taxes	2,330	5,894	9,943	8,001
Interest income	4	1	8	7
Interest expense	(496)	(359)	(1,159)	(991)
Net interest expense	(492)	(358)	(1,151)	(984)
Net income before income taxes	1,838	5,536	8,792	7,017
Deferred income tax expense (note 9)	(403)	(758)	(1,555)	(1,067)
Income tax expense	(403)	(758)	(1,555)	(1,067)
Net income and comprehensive income	1,435	4,778	7,237	5,950

See accompanying notes to these combined condensed carve-out interim financial statements.

Combined Condensed Carve-out Interim Statements of Changes in Divisional Equity

For the nine-months ended September 30

(Unaudited)

(\$000s)	Divisional Equity
Balance at January 1, 2013	45,647
Net income for the period	5,950
Net contributions from Melcor Developments Ltd.	1,691
Balance at September 30, 2013	53,288

(\$000s)	Divisional Equity
Balance at January 1, 2014	55,505
Net income for the period	7,237
Net contributions from Melcor Developments Ltd.	2,101
Balance at September 30, 2014	64,843

See accompanying notes to these combined condensed carve-out interim financial statements.

Combined Condensed Carve-out Interim Statements of Cash Flows

For the three and nine-months ended September 30

(Unaudited)

	Three-months ended September 30,		Nine-months ended September 30,	
(\$000s)	2014	2013	2014	2013
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	1,435	4,778	7,237	5,950
Non cash items:				
Amortization of tenant incentives (notes 5 and 8)	384	434	1,495	969
Straight-line rent adjustments (note 8)	(159)	(14)	(645)	(77)
Fair value adjustment on investment properties (notes 4 and 11)	(456)	(5,007)	(5,142)	(5,497)
Deferred income tax expense (note 9)	403	758	1,555	1,067
	1,607	949	4,500	2,412
Changes in operating assets and liabilities	(84)	(324)	160	(534)
	1,523	625	4,660	1,878
INVESTING ACTIVITIES				
Payment of tenant incentives (note 5)	(202)	(2,663)	(3,386)	(6,935)
Investment property improvements, development and direct leasing costs	(2,764)	(16,803)	(10,579)	(29,051)
	(2,966)	(19,466)	(13,965)	(35,986)
FINANCING ACTIVITIES				
Project specific financing	1,176	16,946	(2,101)	20,887
Proceeds from mortgages payable	—	—	15,315	12,000
Repayment of mortgages payable	(160)	(37)	(3,794)	(109)
Net contributions from Melcor Developments Ltd.	525	2,008	2,101	1,691
	1,541	18,917	11,521	34,469
INCREASE IN CASH & CASH EQUIVALENTS DURING THE PERIOD	98	76	2,216	361
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	2,423	448	305	163
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	2,521	524	2,521	524

See accompanying notes to these combined condensed carve-out interim financial statements.

1. DESCRIPTION OF THE BUSINESS

These combined condensed carve-out interim financial statements include retail, office, industrial and development investment properties (the "Melcor Acquisition Properties") that are directly and indirectly owned by Melcor Developments Ltd. ("Melcor") at September 30, 2014 and do not represent a separate legal entity. The Melcor Acquisition Properties consist of six properties located in Western Canada: Lethbridge Centre, Telford Industrial, Leduc Common Phase Four, Village at Blackmud Creek Phase One, University Park Shopping Centre and West Henday Promenade Phase One.

Melcor's place of business is Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8.

The Melcor Acquisition Properties combined condensed carve-out interim financial statements for the three and nine-months ended September 30, 2014 were authorized for issue by the Board of Directors' of Melcor on • , 2014, after which date the combined condensed carve-out interim financial statements may only be amended with the Board of Directors' approval.

2. BASIS OF PRESENTATION

These combined condensed carve-out interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

The Melcor Acquisition Properties are all directly and indirectly owned by Melcor. One property in the portfolio was jointly owned with an unrelated third party until July 31, 2013 when its interest was purchased by a wholly owned subsidiary of Melcor. These combined condensed carve-out interim financial statements reflect 100% of the assets, liabilities, revenues and expenses of the property for all periods presented. The properties which are internally managed by Melcor do not maintain their own cash accounts. Divisional equity represents the net of all capital and financing/cash transactions between the Melcor Acquisition Properties and Melcor.

The activities of the Melcor Acquisition Properties are included in these combined condensed carve-out interim financial statements from the point in time the property qualifying as an investment property pursuant to the definition prescribed under IAS 40, *Investment Property*. The allocation of Melcor's land inventory to the Melcor Acquisition Properties is recorded in these combined condensed carve-out interim financial statements as an addition to property under development at fair value. The Melcor Acquisition Properties do not hold land for future development.

Due to the inherent limitations of carving out activities from larger entities, these combined condensed carve-out interim financial statements may not necessarily reflect the Melcor Acquisition Properties' results of operations, financial position and cash flows for future periods, nor do they necessarily reflect the results of operations, financial position and cash flows that would have been realized had the properties been a stand-alone entity during the periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in these combined condensed carve-out interim financial statements are consistent with those of the previous financial year.

4. INVESTMENT PROPERTIES

				Nine-months ended September 30, 2014
(\$000s)	Investment Properties	Property under Development	Total	
Balance - beginning of period	51,711	52,285	103,996	
Additions				
Direct leasing costs	—	486	486	
Property improvements	1,174	—	1,174	
Development costs	—	6,678	6,678	
Capitalized borrowing costs	—	595	595	
Transfers	50,890	(50,890)	—	
Fair value adjustment on investment properties (note 11)	4,005	1,137	5,142	
Balance - end of period	107,780	10,291	118,071	

				Year ended December 31, 2013
(\$000s)	Investment Properties	Property under Development	Total	
Balance - beginning of year	57,578	9,812	67,390	
Additions				
Land	—	7,571	7,571	
Direct leasing costs	441	517	958	
Property improvements	2,618	—	2,618	
Development costs	—	24,812	24,812	
Capitalized borrowing costs	—	1,036	1,036	
Fair value adjustment on investment properties	(8,926)	8,537	(389)	
Balance - end of year	51,711	52,285	103,996	

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 11.

The cost of investment properties as at September 30, 2014 totaled \$87,783 (December 31, 2013 - \$78,850).

Presented separately from investment properties is \$19,169 (December 31, 2013 - \$17,278) in tenant incentives and \$906 (December 31, 2013 - \$261) in straight-line rent adjustments (note 5). The fair value of investment properties has been reduced by these amounts.

5. OTHER ASSETS

(\$000s)	September 30, 2014	December 31, 2013
Current Assets		
Prepaid expenses and other	648	427
Non-Current Assets		
Straight-line rent adjustments	906	261
Tenant incentives	19,169	17,278
	20,075	17,539

During the nine-month period we provided tenant incentives of \$3,386 (2013 - \$6,935) and recorded \$1,495 (2013 - \$969) of amortization expense respectively. In accordance with SIC 15, *Operating leases - incentives*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

6. PROJECT SPECIFIC FINANCING

(\$000s)	September 30, 2014	December 31, 2013
Demand construction loan, bearing interest at prime + 0.75% or BA + 200 bps, to a maximum of \$17,000 based upon a percentage of eligible project costs.	15,737	12,199
Demand construction loan, bearing interest at prime + 0.60% or BA + 185 bps, to a maximum of \$16,000 based upon a percentage of eligible project costs.	7,528	5,464
Non-revolving demand construction loan, bearing interest at prime + 0.50%, to a maximum of \$24,295 based upon a percentage of eligible project costs.	—	7,702
	23,265	25,365

Specific investment properties under development with a September 30, 2014 carrying value of \$40,091 (December 31, 2013 - \$46,550), have been pledged as collateral on project specific debt on investment properties under development. Interest only payments are made on the above debts. The weighted average interest rate on the above debts, based on period end balances is 3.70% (December 31, 2013 - 3.38%).

7. MORTGAGES PAYABLE

(\$000s)	September 30, 2014	December 31, 2013
Mortgage amortized over 20 years at fixed interest rate of 5.52%, maturing January 15, 2014	—	3,424
Mortgage amortized over 30 years at a fixed interest rate of 4.20%, maturing May 1, 2024	8,805	—
Non-revolving term loan, due November 30, 2014, at variable interest rate of prime plus 0.50% (September 30, 2014: 3.50%; December 31, 2013: 3.50%)	7,000	7,000
Mortgage amortized over 25 years at fixed interest rate of 3.38%, maturing August 1, 2019 (2013 - non-revolving term loan, due on demand with interest only payments, at variable interest rate of prime plus 1.50%: 4.50%)	28,642	22,000
	44,447	32,424
Unamortized deferred financing fees	(251)	—
	44,196	32,424
Current portion of mortgages payable	(7,905)	(32,424)
	36,291	—

Specific investment properties with a carrying value of \$78,640 (December 31, 2013 - \$65,856) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above mortgages. The weighted average effective interest rate for the above mortgages, based on period-end balances is 3.56% (December 31, 2013 - 4.39%).

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

	Principal Installment Repayments	Balance Maturing	Total
Remainder of 2014	225	7,000	7,225
2015	913	—	913
2016	945	—	945
2017	979	—	979
2018	1,014	—	1,014
Thereafter	2,089	31,282	33,371
	6,165	38,282	44,447

8. RENTAL REVENUE

The components of rental revenue are as follows:

	Three-months ended September 30,		Nine-months ended September 30,	
(\$000s)	2014	2013	2014	2013
Rental revenue	3,328	2,233	9,425	6,379
Amortization of tenant incentives	(384)	(434)	(1,495)	(969)
Straight-line rent adjustments	159	14	645	77
	3,103	1,813	8,575	5,487

9. INCOME TAX EXPENSE

Income tax expense is recognized based on Melcor's management estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate for the period is 17.7% (September 30, 2013 - 15.2%).

10. SEGMENTED INFORMATION

All the properties included in these combined condensed carve-out interim financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer of Melcor) as one operating segment in the context of these carve-out financial statements.

11. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of the financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and project specific financing approximate their fair values based on the short term maturities of these financial instruments.
- fair value of mortgages payable are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).

In addition, investment properties are carried at fair value, which is determined by either the direct capitalization approach or by discounting future cash flows at a property specific discount rate (Level 3).

The following table summarizes the assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value.

(\$000s)	September 30, 2014				December 31, 2013	
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	118,071	—	118,071	118,071	103,996	103,996
Financial liabilities						
Mortgages payable	—	44,447	44,447	44,447	32,424	32,424

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Investment properties are classified as Level 3 in the hierarchy. There were no transfers between the levels of the fair value hierarchy during the period.

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data at September 30, 2014 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at September 30, 2014. Fair values of investment properties were revised based on the updated data and model variables resulting in fair value gain for the nine-month period of \$5,142 (2013 - \$5,497) recorded as fair value adjustment on investment properties in income. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a discount rate to estimated year eleven cash flows, or by applying a capitalization rate to the estimated future net operating income under the direct capitalization approach.

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	- Capitalization rate - Discount rate - Terminal rate - Stabilized NOI - Cash flows	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	- Capitalization rate - Stabilized NOI - Costs to complete	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.

The significant unobservable inputs in the Level 3 valuation under the above methods are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, *Fair value measurement*. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation and reviewing the results with the independent valuator. Melcor's management, along with its Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties is \$2,292 (December 31, 2013 - \$4,916). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			Properties under Development		
September 30, 2014	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	6.00%	7.25%	6.66%	6.00%	6.00%	6.00%
Terminal capitalization rate	6.25%	7.75%	7.04%	6.25%	6.25%	6.25%
Discount rate	7.50%	8.75%	8.08%	7.50%	7.50%	7.50%

	Investment Properties			Properties under Development		
December 31, 2013	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.75%	7.25%	6.85%	6.00%	6.25%	6.09%
Terminal capitalization rate	6.00%	7.50%	7.28%	6.25%	6.50%	6.39%
Discount rate	7.00%	8.50%	8.28%	7.50%	7.50%	7.50%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$9,143 (December 31, 2013 - \$4,887). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$10,628 (December 31, 2013 - \$5,657).

12. SUBSEQUENT EVENTS

Subsequent to period end Melcor obtained new mortgage financing on certain of the Melcor Acquisition Properties for gross proceeds of \$41,145. Proceeds from financing was used to repay and extinguish project specific financing and an existing mortgage facility. As at September 30, 2014 these project specific financing facilities had an outstanding principal balance of \$23,265 and the mortgage facility had an outstanding principal balance of \$7,000.

On November 12, 2014 Melcor entered into an acquisition agreement with Melcor Real Estate Investment Trust (the "REIT") and a wholly-owned subsidiary of the REIT, pursuant to which the REIT will indirectly acquire the Melcor Acquisition Properties (the "Melcor Acquisition"). The Melcor Acquisition is conditional upon the satisfaction of certain conditions including lender consents, completion of a placement of \$30,000 aggregate principal amount of 5.50% extendible convertible unsecured subordinated debentures (the "Debentures"), approval from the unitholders of the REIT, and certain other conditions and third party approvals. The Debentures bear interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2015. Provided that the Melcor Acquisition is completed before January 15, 2015, the debentures will mature on December 31, 2019. Completion of the Melcor Acquisition is expected to occur on or about December 18, 2014.

COMBINED CARVE-OUT FINANCIAL STATEMENTS

May 2014 Melcor Properties Financial Statements

For the years ended December 31, 2013 and 2012

Independent Auditor's Report

To the Board of Directors of Melcor Developments Ltd.

We have audited the accompanying combined carve-out financial statements of the May 2014 Melcor Properties (May 2014 Melcor Properties), which comprise the combined carve-out statement of financial position as at December 31, 2013 and the combined carve-out statements of income and comprehensive income, changes in divisional equity and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the combined carve-out financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the combined carve-out financial statements present fairly, in all material respects, the financial position of the May 2014 Melcor Properties as at December 31, 2013 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to the fact that, as described in note 2 to the combined carve-out financial statements, the properties included in the combined carve-out financial statements have not operated as a separate entity. These combined carve-out financial statements are, therefore, not necessarily indicative of results that would have occurred if the properties had operated as a separate entity during the year presented or of future results of the combined properties.

Other matter

The comparative financial statements of the May 2014 Melcor Properties, which comprise the combined carve-out statement of financial position as at December 31, 2012 and January 1, 2012 and the combined carve-out statements of income and comprehensive income, changes in divisional equity and cash flows for the year ended December 31, 2012, and the related notes, are unaudited and we express no opinion on those balances.

●

Chartered Accountants

Edmonton, Canada

● , 2014

Combined Carve-out Statements of Financial Position

(\$000s)	December 31, 2013	December 31, 2012	January 1, 2012
		(Unaudited)	(Unaudited)
ASSETS			
Current Assets			
Cash and cash equivalents	28	108	27
Accounts receivable	47	58	42
Other assets (note 7)	10	3	2
	85	169	71
Non-Current Assets			
Accounts receivable	231	278	322
Investment properties (notes 6 and 13)	12,646	10,579	5,553
Other assets (note 7)	2,104	1,965	947
	14,981	12,822	6,822
TOTAL ASSETS	15,066	12,991	6,893
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	369	114	43
Mortgage payable (note 8)	2,602	2,708	101
	2,971	2,822	144
Non-Current Liabilities			
Deferred income taxes (note 10)	1,171	943	644
Mortgage payable (note 8)	—	—	2,708
TOTAL LIABILITIES	4,142	3,765	3,496
DIVISIONAL EQUITY	10,924	9,226	3,397
TOTAL LIABILITIES AND DIVISIONAL EQUITY	15,066	12,991	6,893

See accompanying notes to these combined carve-out financial statements.

Combined Carve-out Statements of Income and Comprehensive Income

For the years ended December 31

(\$000s)	2013	2012
		(Unaudited)
Rental revenue (note 9)	871	541
Direct operating expenses	(313)	(268)
Net rental income	558	273
Fair value adjustment on investment properties (notes 6 and 13)	922	2,135
Income before interest expense and income taxes	1,480	2,408
Interest income	16	17
Interest expense	(126)	(134)
Net interest expense	(110)	(117)
Net income before income taxes	1,370	2,291
Deferred income tax expense (note 10)	(228)	(299)
Income tax expense	(228)	(299)
Net income and comprehensive income	1,142	1,992

See accompanying notes to these combined carve-out financial statements.

Combined Carve-out Statements of Changes in Divisional Equity

For the years ended December 31

(\$000s)	Divisional Equity
	(Unaudited)
Balance at January 1, 2012	3,397
Net income for the year	1,992
Net contributions from Melcor Developments Ltd.	3,837
Balance at December 31, 2012	9,226

(\$000s)	Divisional Equity
Balance at January 1, 2013 (Unaudited)	9,226
Net income for the year	1,142
Net contributions from Melcor Developments Ltd.	556
Balance at December 31, 2013	10,924

See accompanying notes to these combined carve-out financial statements.

Combined Carve-out Statements of Cash Flows

For the years ended December 31

(\$000s)	2013	2012
		(Unaudited)
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	1,142	1,992
Non cash items:		
Amortization of tenant incentives (notes 7 and 9)	264	227
Straight-line rent adjustments (note 9)	(100)	(27)
Fair value adjustment on investment properties (notes 6 and 13)	(922)	(2,135)
Deferred income tax expense (note 10)	228	299
	612	356
Changes in operating assets and liabilities (note 3(i))	306	98
	918	454
INVESTING ACTIVITIES		
Land allocation from Melcor Developments Ltd. (note 6)	—	(1,200)
Payment of tenant incentives (note 7)	(303)	(1,218)
Investment property improvements, development and direct leasing costs	(1,145)	(1,691)
	(1,448)	(4,109)
FINANCING ACTIVITIES		
Repayment of mortgage payable	(106)	(101)
Net contributions from Melcor Developments Ltd.	556	3,837
	450	3,736
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE YEAR	(80)	81
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	108	27
CASH AND CASH EQUIVALENTS, END OF THE YEAR	28	108

See accompanying notes to these combined carve-out financial statements.

1. DESCRIPTION OF THE BUSINESS

These combined carve-out financial statements include retail properties (the "May 2014 Melcor Properties") that were directly owned by Melcor Developments Ltd. ("Melcor") at December 31, 2013 and do not represent a separate legal entity. The May 2014 Melcor Properties consist of two properties located in Western Canada: Kingsview Market Phase Three and Market Mall. On May 9, 2014 Melcor sold the May 2014 Melcor Properties to Melcor Real Estate Investment Trust (the "REIT").

Melcor's place of business is Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8.

The May 2014 Melcor Properties combined carve-out financial statements for the years ended December 31, 2013 and 2012 were authorized for issue by the Board of Directors' of Melcor on • , 2014, after which date the combined carve-out financial statements may only be amended with the Board of Directors' approval.

2. BASIS OF PRESENTATION

These combined carve-out financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). As these are the first IFRS financial statements prepared for the May 2014 Melcor Properties they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". With the exception of the presentation of the opening IFRS combined statement of financial position as at January 1, 2012, the application of IFRS 1 has no material effect as Melcor has been applying IFRS.

The May 2014 Melcor Properties are all directly owned by Melcor. The properties which are internally managed by Melcor do not maintain their own cash accounts. Divisional equity represents the net of all capital and financing/cash transactions between the May 2014 Melcor Properties and Melcor.

The activities of the May 2014 Melcor Properties are included in these combined carve-out financial statements from the point in time the property qualifying as an investment property pursuant to the definition prescribed under IAS 40, *Investment Property*. The allocation of Melcor's land inventory to the May 2014 Melcor Properties is recorded in these combined carve-out financial statements as an addition to property under development at fair value. The May 2014 Melcor Properties do not hold land for future development.

Due to the inherent limitations of carving out activities from larger entities, these combined carve-out financial statements may not necessarily reflect the May 2014 Melcor Properties' results of operations, financial position and cash flows for future periods, nor do they necessarily reflect the results of operations, financial position and cash flows that would have been realized had the properties been a stand-alone entity during the periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these combined carve-out financial statements are described below.

a) *Basis of measurement*

These combined carve-out financial statements have been prepared under the historical cost convention, except for the revaluation of investment properties which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the combined carve-out financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4 and have been derived from the historical financial statements of Melcor.

These combined carve-out financial statements are presented in Canadian dollars which is the May 2014 Melcor Properties presentational and functional currency.

b) Cash and cash equivalents

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired. These balances relate to the cash accounts of externally managed properties.

c) Investment properties

Investment properties include retail properties held for the long term to earn rental income or for capital appreciation, or both. The comparative periods also include properties under development for future use as investment properties. Land related to properties under development is allocated from Melcor at the commencement of property development.

Acquired investment properties are measured initially at cost, including related transaction costs associated with the acquisition. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at their fair value, which is determined by discounting projected future cash flows based on property specific capitalization rates. Valuations are performed as of the period end date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases based on current market conditions. The value also reflects any cash outflows that could be expected in respect of the property. Changes in fair value are recognized in income.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the May 2014 Melcor Properties and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures and no amounts for internal allocations are capitalized with respect to the negotiation and arranging of tenant leases.

d) Capitalization of borrowing costs

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing cost capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our investment properties under development assets. All other borrowing costs are recognized as interest expense in income in the period in which they are incurred.

e) Other assets

Other assets include prepaid expenses, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

f) Recognition of revenue

Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties. Revenue from investment properties includes base rents, recoveries of operating expenses including property taxes, parking revenue and incidental income. Revenue recognition under a lease

commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Other revenues are recorded as earned.

g) *Income taxes*

Since the May 2014 Melcor Properties were owned by Melcor at December 31, 2013, which is a taxable entity, current and deferred income taxes are included in the combined carve-out financial statements. The May 2014 Melcor Properties use the liability method of accounting for income taxes. Under the liability method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of future income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Current taxes payable have been treated as a payable to Melcor and included in divisional equity as Melcor holds the obligation to remit the taxes.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

h) *Financial instruments*

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable and cash and cash equivalents.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

Financial liabilities

We record our financial liabilities at fair value on initial recognition. Subsequently, "other liabilities" are measured at amortized cost using the effective interest rate method and financial liabilities designated as fair value through profit or loss ("FVTPL") are remeasured at fair value with changes in their fair value recorded through income. Other liabilities include accounts payable and accrued liabilities and mortgage payable.

i) *Statements of cash flows*

Operating assets and liabilities is defined as the net change of accounts receivable, prepaid expense and other, and accounts payable and accrued liabilities. Excluded from operating assets and liabilities are investment property additions that are unpaid and included in accounts payable at period end.

4. SIGNIFICANT JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

Significant judgments

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the combined carve-out financial statements. These include:

Classification of tenant incentives

Payments are often made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, *Operating leases – incentives*.

Critical accounting estimates

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the financial statements relate to the following:

Valuation of investment properties

Investment properties are valued using either a direct capitalization or discounted cash flow approach, as completed by qualified external professional valuers with key assumptions reviewed and updated quarterly. Key estimates and assumptions include expected occupancy rates and lease payments, expenditures for operating costs and capital expenditures as well as discount and capitalization rates. Refer to notes 6 and 13 for further information about methods and assumptions used in determining fair value.

5. NEW STANDARDS

IFRIC 21, Levies is an interpretation of IAS 37, 'Provisions, contingent liabilities and contingent assets'. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. This standard is required to be applied for accounting periods beginning on or after January 1, 2014, with earlier adoption permitted.

We have adopted IFRIC 21 retrospectively in these financial statements. The adoption of this standard did not result in a change in the recognition or timing of levies imposed.

IFRS 9, Financial instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The standard also results in one impairment method replacing the numerous impairment methods in IAS 39 that arise from the different classification categories. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

We are currently assessing the impact of adopting this standard.

IFRS 15, Revenue from Contracts with Customers was issued in May 2014 and supersedes IAS 18, *Revenue*, IAS 11 *Construction Contracts* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria. IFRS 15 is to be applied retrospectively and is effective for annual periods beginning on or after January 1, 2017, with earlier application permitted.

We are currently assessing the impact of adopting this standard.

6. INVESTMENT PROPERTIES

Year ended December 31, 2013			
(\$000s)	Investment Properties	Property under Development	Total
Balance - beginning of year	6,136	4,443	10,579
Additions			
Direct leasing costs	—	87	87
Development costs	—	1,035	1,035
Capitalized borrowing costs	—	23	23
Transfers	5,908	(5,908)	—
Fair value adjustment on investment properties (note 13)	602	320	922
Balance - end of year	12,646	—	12,646

Year ended December 31, 2012			
(Unaudited - \$000s)	Investment Properties	Property under Development	Total
Balance - beginning of year	5,553	—	5,553
Additions			
Land	—	1,200	1,200
Direct leasing costs	—	16	16
Property improvements	54	—	54
Development costs	—	1,601	1,601
Capitalized borrowing costs	—	20	20
Fair value adjustment on investment properties (note 13)	529	1,606	2,135
Balance - end of year	6,136	4,443	10,579

In accordance with our policy, as described in note 3c, we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 13.

The cost of investment properties as at December 31, 2013 totalled \$8,715 (December 31, 2012, unaudited - \$7,570; January 1, 2012, unaudited - \$4,679).

Presented separately from investment properties is \$1,977 (December 31, 2012, unaudited - \$1,938; January 1, 2012, unaudited - \$947) in tenant incentives and \$127 (December 31, 2012, unaudited - \$27; January 1, 2012, unaudited - \$nil) in straight-line rent adjustments (note 7). The fair value of investment properties has been reduced by these amounts.

Our investment properties are leased to tenants primarily under long term operating leases. Rentals are receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

(\$000s)	December 31, 2013	December 31, 2012 (Unaudited)	January 1, 2012 (Unaudited)
Within one year	831	542	489
Later than one year but not later than 5 years	3,103	1,973	2,066
Later than 5 years	3,139	2,281	648
	7,073	4,796	3,203

7. OTHER ASSETS

(\$000s)	December 31, 2013	December 31, 2012 (Unaudited)	January 1, 2012 (Unaudited)
Current Assets			
Prepaid expenses and other	10	3	2
Non-Current Assets			
Straight-line rent adjustments	127	27	—
Tenant incentives	1,977	1,938	947
	2,104	1,965	947

During the year we provided tenant incentives of \$303 (2012, unaudited - \$1,218) and recorded \$264 (2012, unaudited - \$227) of amortization expense respectively. In accordance with SIC 15, *Operating leases - incentives*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

8. MORTGAGE PAYABLE

We have a mortgage, amortized over 20 years at a fixed interest rate of 3.88%, maturing December 1, 2014. Specific investment properties with a carrying value of \$8,200 (December 31, 2012, unaudited - \$8,100; January 1, 2012, unaudited - \$6,500) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the mortgage.

9. RENTAL REVENUE

The components of rental revenue are as follows:

(\$000s)	2013	2012 (Unaudited)
Rental revenue	1,035	741
Amortization of tenant incentives	(264)	(227)
Straight-line rent adjustments	100	27
	871	541

10. INCOME TAX EXPENSE

The components of income tax expense are as follows:

(\$000s)	2013	2012 (Unaudited)
Deferred tax expense		
Origination and reversal of temporary differences	228	299
Income tax expense	228	299

The May 2014 Melcor Properties effective income tax rate is derived as follows:

(\$000s)	2013	2012
		(Unaudited)
Income before income taxes	1,370	2,291
Statutory rate	25%	25%
	343	573
Non-taxable portion of capital gains and fair value adjustments	(115)	(274)
Income tax expense	228	299

The movement in deferred tax balances during the year are as follows:

(\$000s)	December 31, 2013		
	Opening (Unaudited)	Recognized in profit or loss	Closing
Investment property	634	189	823
Tenant incentives	592	34	626
Tax loss carry-forward	(283)	5	(278)
Deferred tax liability	943	228	1,171

(\$000s)	December 31, 2012 (Unaudited)		
	Opening	Recognized in profit or loss	Closing
Investment property	313	321	634
Tenant incentives	331	261	592
Tax loss carry-forward	—	(283)	(283)
Deferred tax liability	644	299	943

11. SEGMENTED INFORMATION

All the properties included in these combined carve-out financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer of Melcor) as one operating segment in the context of these combined carve-out financial statements.

12. FINANCIAL RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents and accounts receivable. Our maximum exposure to credit risk is the carrying amount of these instruments.

We invest our cash and cash equivalents in bank accounts with major Canadian chartered banks. Accounts receivable balances include amounts due from tenants. There have been no impairment adjustments made to these accounts.

We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant. Management has reviewed outstanding receivable balances at December 31, 2013 and expect full payment of balances outstanding. No allowance for doubtful accounts has been recorded.

b) Liquidity Risk

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term mortgage repayments. We monitor rolling forecasts of our liquidity, which includes cash, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against capital requirements and maintain on-going debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

Accounts payable and accrued liabilities and mortgage payable are expected to be repaid in the next twelve months.

c) Market Risk

We are subject to interest rate risk on refinancing of our fixed rate debts in the year of maturity. We are not subject to other significant market risks pertaining to our financial instruments.

13. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of the financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair value of mortgage payable are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).

In addition, investment properties are carried at fair value, which is determined by either the direct capitalization approach or by discounting future cash flows at a property specific discount rate (Level 3).

The following table summarizes the assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value.

	December 31, 2013				December 31, 2012		January 1, 2012	
					(Unaudited)		(Unaudited)	
(\$000s)	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets								
Investment properties	12,646	—	12,646	12,646	10,579	10,579	5,553	5,553
Financial liabilities								
Mortgage payable	—	2,602	2,602	2,602	2,708	2,708	2,809	2,809

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

Investment properties are classified as Level 3 in the hierarchy. There were no transfers between the levels of the fair value hierarchy during the year.

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013,

December 31, 2012 and January 1, 2012. Fair values of investment properties were revised based on the updated data and model variables resulting in fair value gains of \$922 (2012, unaudited - \$2,135) recorded as fair value adjustment on investment properties in the income statement. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a discount rate to estimated year eleven cash flows, or by applying a capitalization rate to the estimated future net operating income under the direct capitalization approach.

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	- Capitalization rate - Discount rate - Terminal rate - Stabilized NOI - Cash flows	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	- Capitalization rate - Stabilized NOI - Costs to complete	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.

The significant unobservable inputs in the Level 3 valuation under the above methods are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, *Fair value measurement*. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team is responsible for determining fair value measurements including verifying all major inputs included in the valuation and reviewing the results with the independent valuator. Melcor's management, along with its Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties is \$505 (December 31, 2012, unaudited - \$587; January 1, 2012, unaudited - \$471). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties			Properties under Development		
December 31, 2013	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	6.00%	7.25%	6.69%	-	-	-
Terminal capitalization rate	6.25%	7.50%	6.94%	-	-	-
Discount rate	7.00%	8.50%	7.83%	-	-	-

(Unaudited)	Investment Properties			Properties under Development		
December 31, 2012	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	7.25%	7.25%	7.25%	6.25%	6.25%	6.25%
Terminal capitalization rate	7.50%	7.50%	7.50%	6.50%	6.50%	6.50%
Discount rate	8.75%	8.75%	8.75%	7.25%	7.25%	7.25%

(Unaudited)	Investment Properties			Properties under Development		
	Min	Max	Weighted Average	Min	Max	Weighted Average
January 1, 2012						
Capitalization rate	7.25%	7.25%	7.25%	-	-	-
Terminal capitalization rate	8.25%	8.25%	8.25%	-	-	-
Discount rate	9.25%	9.25%	9.25%	-	-	-

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$1,025 (December 31, 2012, unaudited - \$523; January 1, 2012, unaudited - \$419). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$1,190 (December 31, 2012, unaudited - \$600; January 1, 2012, unaudited - \$481).

14. KEY MANAGEMENT REMUNERATION

Key management includes executive officers of Melcor. No Key Management salaries or other employee future benefits have been allocated to the May 2014 Melcor Properties.

15. SUBSEQUENT EVENTS

On May 9, 2014 Melcor sold the May 2014 Melcor Properties to the REIT for a purchase price of approximately \$13,500 (excluding closing and transaction costs).

COMBINED CONDENSED CARVE-OUT INTERIM FINANCIAL STATEMENTS

May 2014 Melcor Properties Financial Statements

For the three-months ended March 31, 2014 and 2013

(Unaudited)

Combined Condensed Carve-out Interim Statements of Financial Position

(Unaudited)

(\$000s)	March 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	27	28
Accounts receivable	66	47
Other assets (note 5)	8	10
	101	85
Non-Current Assets		
Accounts receivable	219	231
Investment properties (notes 4 and 9)	12,693	12,646
Other assets (note 5)	2,057	2,104
	14,969	14,981
TOTAL ASSETS	15,070	15,066
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	373	369
Mortgage payable	2,573	2,602
	2,946	2,971
Non-Current Liabilities		
Deferred income taxes (note 7)	1,219	1,171
TOTAL LIABILITIES	4,165	4,142
DIVISIONAL EQUITY	10,905	10,924
TOTAL LIABILITIES AND DIVISIONAL EQUITY	15,070	15,066

See accompanying notes to these combined condensed carve-out interim financial statements.

Combined Condensed Carve-out Interim Statements of Income and Comprehensive Income

For the three-months ended March 31

(Unaudited)

(\$000s)	2014	2013
Rental revenue (note 6)	289	169
Direct operating expenses	(98)	(69)
Net rental income	191	100
Fair value adjustment on investment properties (note 4 and 9)	47	228
Income before interest expense and income taxes	238	328
Interest income	4	4
Interest expense	(25)	(33)
Net interest expense	(21)	(29)
Net income before income taxes	217	299
Deferred income tax expense (note 7)	(48)	(47)
Income tax expense	(48)	(47)
Net income and comprehensive income	169	252

See accompanying notes to these combined condensed carve-out interim financial statements.

Combined Condensed Carve-out Interim Statements of Changes in Divisional Equity

For the three-months ended March 31

(Unaudited)

(\$000s)	Divisional Equity
Balance at January 1, 2013	9,226
Net income for the period	252
Net contributions from Melcor Developments Ltd.	689
Balance at March 31, 2013	10,167

(\$000s)	Divisional Equity
Balance at January 1, 2014	10,924
Net income for the period	169
Net distributions to Melcor Developments Ltd.	(188)
Balance at March 31, 2014	10,905

See accompanying notes to these combined condensed carve-out interim financial statements.

Combined Condensed Carve-out Interim Statements of Cash Flows

For the three-months ended March 31

(Unaudited)

(\$000s)	2014	2013
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	169	252
Non cash items:		
Amortization of tenant incentives (notes 5 and 6)	60	64
Straight-line rent adjustments (note 6)	(13)	(21)
Fair value adjustment on investment properties (notes 4 and 9)	(47)	(228)
Deferred income tax expense (note 7)	48	47
	217	114
Changes in operating assets and liabilities	(1)	2
	216	116
INVESTING ACTIVITIES		
Payment of tenant incentives (note 5)	—	(14)
Investment property improvements and direct leasing costs	—	(839)
	—	(853)
FINANCING ACTIVITIES		
Repayment of mortgage payable	(29)	(26)
Net contributions (distributions) from (to) Melcor Developments Ltd.	(188)	689
	(217)	663
DECREASE IN CASH & CASH EQUIVALENTS DURING THE PERIOD	(1)	(74)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	28	108
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	27	34

See accompanying notes to these combined condensed carve-out interim financial statements.

1. DESCRIPTION OF THE BUSINESS

These combined condensed carve-out interim financial statements include retail properties (the "May 2014 Melcor Properties") that were directly owned by Melcor Developments Ltd. ("Melcor") at March 31, 2014 and do not represent a separate legal entity. The May 2014 Melcor Properties consist of two properties located in Western Canada: Kingsview Market Phase Three and Market Mall. On May 9, 2014 Melcor sold the May 2014 Melcor Properties to Melcor Real Estate Investment Trust (the "REIT").

Melcor's place of business is Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8.

The May 2014 Melcor Properties combined condensed carve-out financial statements for the three-months ended March 31, 2014 were authorized for issue by the Board of Directors' of Melcor on •, 2014, after which date the combined condensed carve-out financial statements may only be amended with the Board of Directors' approval.

2. BASIS OF PRESENTATION

These combined condensed carve-out interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

The May 2014 Melcor Properties are all directly owned by Melcor. The properties which are internally managed by Melcor do not maintain their own cash accounts. Divisional equity represents the net of all capital and financing/cash transactions between the May 2014 Melcor Properties and Melcor.

The activities of the May 2014 Melcor Properties are included in these combined carve-out financial statements from the point in time the property qualifying as an investment property pursuant to the definition prescribed under IAS 40, *Investment Property*. The allocation of Melcor's land inventory to the May 2014 Melcor Properties is recorded in these combined carve-out financial statements as an addition to property under development at fair value. The May 2014 Melcor Properties do not hold land for future development.

Due to the inherent limitations of carving out activities from larger entities, these combined condensed carve-out interim financial statements may not necessarily reflect the May 2014 Melcor Properties' results of operations, financial position and cash flows for future periods, nor do they necessarily reflect the results of operations, financial position and cash flows that would have been realized had the properties been a stand-alone entity during the periods presented.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies followed in these combined condensed carve-out interim financial statements are consistent with those of the previous financial year.

4. INVESTMENT PROPERTIES

			Period ended March 31, 2014
(\$000s)	Investment Properties	Property under Development	Total
Balance - beginning of period	12,646	—	12,646
Fair value adjustment on investment properties (note 9)	47	—	47
Balance - end of period	12,693	—	12,693

			Year ended December 31, 2013
(\$000s)	Investment Properties	Property under Development	Total
Balance - beginning of year	6,136	4,443	10,579
Additions			
Direct leasing costs	—	87	87
Development costs	—	1,035	1,035
Capitalized borrowing costs	—	23	23
Transfers	5,908	(5,908)	—
Fair value adjustment on investment properties	602	320	922
Balance - end of year	12,646	—	12,646

In accordance with our policy we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 9.

The cost of investment properties as at March 31, 2014 totalled \$8,715 (December 31, 2013 - \$8,715).

Presented separately from investment properties is \$1,917 (December 31, 2013 - \$1,977) in tenant incentives and \$140 (December 31, 2013 - \$127) in straight-line rent adjustments (note 5). The fair value of investment properties has been reduced by these amounts.

5. OTHER ASSETS

(\$000s)	March 31, 2014	December 31, 2013
Current Assets		
Prepaid expenses and other	8	10
Non-Current Assets		
Straight-line rent adjustments	140	127
Tenant incentives	1,917	1,977
	2,057	2,104

During the three-months ended March 31, 2014 we provided tenant incentives of \$nil (2013 - \$14) and recorded \$60 (2013 - \$64) of amortization expense respectively. In accordance with SIC 15, *Operating leases - incentives*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

6. RENTAL REVENUE

The components of rental revenue are as follows:

For the three-months ended March 31 (\$000s)	2014	2013
Rental revenue	336	212
Amortization of tenant incentives	(60)	(64)
Straight-line rent adjustments	13	21
	289	169

7. INCOME TAX EXPENSE

Income tax expense is recognized based on Melcor's management estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate for the period is 22.3% (2013 - 15.5%).

8. SEGMENTED INFORMATION

All the properties included in these combined condensed carve-out interim financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer of Melcor) as one operating segment in the context of these carve-out financial statements.

9. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of the financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values based on the short term maturities of these financial instruments.
- fair value of mortgage payable are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).

In addition, investment properties are carried at fair value, which is determined by either the direct capitalization approach or by discounting future cash flows at a property specific discount rate (Level 3).

The following table summarizes the assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value.

(\$000s)	March 31, 2014				December 31, 2013	
	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	12,693	—	12,693	12,693	12,646	12,646
Financial liabilities						
Mortgage payable	—	2,573	2,573	2,573	2,602	2,602

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

- Level 3: unobservable inputs for the asset or liability.

Investment properties are classified as Level 3 in the hierarchy. There were no transfers between the levels of the fair value hierarchy during the period.

Investment properties

Investment properties are remeasured to fair value on a recurring basis and categorized as Level 3 in the fair value hierarchy. Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data at March 31, 2014 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at March 31, 2014. Fair values of investment properties were revised based on the updated data and model variables resulting in fair value gains of \$47 (2013 - \$228) recorded as fair value adjustment on investment properties in income. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a discount rate to estimated year eleven cash flows, or by applying a capitalization rate to the estimated future net operating income under the direct capitalization approach.

The following table summarizes the valuation approach, significant unobservable inputs, and the relationship between the inputs and the fair value:

Asset	Valuation approach	Significant unobservable inputs	Relationship between inputs and fair value
Investment properties	Direct capitalization or discounted cash flows	- Capitalization rate - Discount rate - Terminal rate - Stabilized NOI - Cash flows	Inverse relationship between capitalization, discount and terminal rates and fair value (higher rates result in decreased fair value); whereas higher stabilized NOI or cash flows results in increased fair value.
Properties under development	Direct capitalization less cost to complete	- Capitalization rate - Stabilized NOI - Costs to complete	Inverse relationship between capitalization rate and fair value (higher capitalization rate results in lower fair value); whereas higher stabilized NOI results in increased fair value.

The significant unobservable inputs in the Level 3 valuation under the above methods are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, *Fair value measurement*. We have determined that the current uses of our investment properties are their 'highest and best use'.

Melcor's executive management team, is responsible for determining fair value measurements including verifying all major inputs included in the valuation and reviewing the results with the independent valuator. Melcor's management, along with its Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties is \$505 (December 31, 2013 - \$505). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Investment Properties		
March 31, 2014	Min	Max	Weighted Average
Capitalization rate	6.00%	7.25%	6.69%
Terminal capitalization rate	6.25%	7.50%	6.94%
Discount rate	7.00%	8.50%	7.83%

	Investment Properties		
December 31, 2013	Min	Max	Weighted Average
Capitalization rate	6.00%	7.25%	6.69%
Terminal capitalization rate	6.25%	7.50%	6.94%
Discount rate	7.00%	8.50%	7.83%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$1,025 (December 31, 2013 - \$1,025). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$1,190 (December 31, 2013 - \$1,190).

10. SUBSEQUENT EVENTS

On May 9, 2014 Melcor sold the May 2014 Melcor Properties to the REIT for a purchase price of approximately \$13,500 (excluding closing and transaction costs).