Management's Discussion & Analysis

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August 5, 2014

The following Management's Discussion and Analysis ("MD&A") of Melcor Real Estate Investment Trust's (the "REIT" or "Melcor REIT") results should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2014 and the Management's Discussion & Analysis (MD&A) and consolidated financial statements and related notes for the year ended December 31, 2013.

The underlying financial statements in this MD&A, including 2013 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on August 5, 2014. Disclosures contained in this MD&A are current to August 5, 2014, unless otherwise indicated.

All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Other Information

Additional information about the REIT, including our annual information form, information circular and annual and quarterly reports, is available on SEDAR at www.sedar.com.

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA Canada Handbook and do not have any standardized meaning prescribed by IFRS. These measures include funds from operations ("FFO"), adjusted funds from operations ("AFFO") and net operating income ("NOI"), which are key measures of performance used by real estate businesses. We believe that these measures are important in evaluating the REIT's operating performance, financial risk, economic performance, and cash flows. These non-standard measures may not be comparable to similar measures presented by other companies and real estate investment trusts and should not be used as a substitute for performance measures prepared in accordance with IFRS.

Non-standard measures included in this MD&A are defined on page 16 "*Non-standard Measures.*"

Forward-looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions, courses of action and include future-oriented financial information.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent the REIT's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2014 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook of our operations.
By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the Canadian economy and how this performance will affect the REIT's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the REIT or on its behalf.

Financial Reporting

As Melcor Developments Ltd. ("Melcor") retained control over the REIT, the May 1, 2013 initial public offering and acquisition of the Initial Properties was accounted for as a reorganization and recapitalization using the continuity of interests method. Financial information for the pre-acquisition period as included in the June 30, 2013 comparative period are presented based on historical combined financial information for the Initial Properties as previously reported by Melcor.

Throughout this MD&A we make reference to the terms “we”, “our” and “management”. These terms are used to describe the activities of the REIT through the eyes of management, as provided by Melcor under the asset management and property management agreements.

Certain comparative information has been amended to reflect revised calculation of the metrics which management considers to provide better and more meaningful information.

Formation of Melcor REIT

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, which was subsequently amended and restated May 1, 2013.

We began operations on May 1, 2013 when our trust units were issued for cash pursuant to the initial public offering (“IPO”). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement.

As at August 5, 2014, Melcor, through an affiliate, holds an approximate 47.6% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party.

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated Declaration of Trust (“DOT”) dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At August 5, 2014, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Our Business: Vision, Goals & Strategy

Melcor REIT has an established and diversified portfolio focused on high-growth markets in Western Canada. We own 32 income-producing office, retail and industrial properties representing 1.84 million square feet in gross leasable area ("GLA") at June 30, 2014. These high-quality properties feature stable occupancy and a diversified mix of tenants, some of whom have been in place for over 20 years. The REIT is externally managed, administered and operated by Melcor pursuant to the asset management and property management agreements entered into in connection with the IPO.

Melcor, a real estate company founded in 1923, has a rich history of growth and performance prior to the formation of the REIT. Our objective is to continue that tradition by expanding our portfolio of income-producing properties across Western Canada to provide stable and growing monthly cash distributions to unitholders. Our growth strategy is simple: acquire and improve. Melcor REIT has a proven track record of doing both and, under its management, the REIT achieved the following in the six-months ended June 30, 2014.

Acquire:

During Q2-2014 we purchased two multi-tenant retail properties from Melcor for a purchase price of approximately $13.50 million (excluding transaction costs) (the "Acquisition"). The properties include an 11,555 sq. ft. commercial retail unit at our Kingsview Market retail complex in Airdrie, Alberta completed by Melcor in early 2013 and a 42,586 sq. ft. retail community strip centre (Market Mall) located in Regina, Saskatchewan that was substantially redeveloped by Melcor in 2009. The Acquisition represent the first transactions through our proprietary pipeline with Melcor, a cornerstone in our growth strategy. In conjunction with the Acquisition, we also completed a bought deal issuance of 2.15 million trust units (including over allotment exercise) at $10.65 per unit for total gross proceeds of $22.84 million.

We also continued to execute on our external acquisition strategy with two third party property acquisitions in the first half of 2014. We completed the acquisition of a 67,610 sq. ft. industrial warehouse in Lethbridge, Alberta (LC Industrial) for the purchase price of $5.93 million (excluding transaction costs) in Q1-2014. We also acquired a 23,432 sq. ft. office building in Edmonton, Alberta (107 Avenue Building) for a purchase price of $5.55 million (excluding transaction costs) in Q2-2014. These acquisitions add depth to our industrial property offering and office portfolio while adhering to our strategy of growing in the markets that we know best.

With these acquisitions, portfolio GLA has grown 17% since IPO on May 1, 2013.

Improve:

We continued to improve our existing assets through both property management and asset enhancement programs.

In Q2-2014, our signature customer care program achieved an on-time response rate of 96%, exceeding our target of 95%. This compares to 97% in Q1-2014 and 96% in Q4-2013. We use this metric as an indicator of our success in providing responsive care to our customers.

In January 2014 we received BOMA BESt certification on our Westcor property, bringing our total to 3 BOMA BESt certified Green & Responsible buildings at the end of the quarter. BOMA BESt is the leading environmental certification program for existing buildings in Canada. We continue to assess our buildings against the BOMA BESt standards.

Q2-2014 Highlights & Key Performance Indicators

Financial Highlights

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	△%	**2014**	2013	△%
Non-standard KPIs						
Net operating income (NOI)	**7,203**	6,379	13 %	**13,937**	12,721	10 %
Funds from operations (FFO)	**4,431**	4,109	8 %	**8,719**	8,104	8 %
Adjusted funds from operations (AFFO)	**3,902**	3,604	8 %	**7,679**	6,991	10 %
Rental revenue	**11,119**	9,773	14 %	**21,766**	19,461	12 %
Income before fair value adjustments and taxes	**2,125**	2,488	(15)%	**4,264**	5,905	(28)%
Fair value adjustment on investment properties	**568**	1,792	(68)%	**737**	4,386	(83)%
Distributions to unitholders	**1,782**	1,027	74 %	**3,323**	1,027	224 %
Cash flows from operations	**1,806**	2,105	(14)%	**4,102**	9,141	(55)%
Per unit metrics (1)						
Income - diluted	**0.22**	0.20	10 %	**0.43**	0.20	115 %
FFO	**0.22**	0.22	(1)%	**0.45**	0.43	5 %
AFFO	**0.19**	0.19	— %	**0.39**	0.37	5 %
Distributions	**0.169**	0.113	50 %	**0.338**	0.113	199 %

	30-June-14	31-Dec-13	△%
Total assets ($000s)	**476,468**	454,743	5%
Equity ($000s)(2)	**216,852**	186,608	16%
Debt ($000s)(3)	**207,522**	215,601	(4)%
Weighted average interest rate on debt	**3.97%**	3.98%	—%
Debt to GBV ratio	**46%**	51%	(10)%
Finance costs coverage ratio(4)	**2.95**	2.96	—%
Debt service coverage ratio(5)	**2.82**	2.83	—%

Operational Highlights

	30-June-14	31-Dec-13	△%
Number of properties	**32**	29	10 %
Gross leasable area (GLA) (sq. ft.)	**1,837,439**	1,691,920	9 %
Occupancy % (weighted by GLA)	**92.0%**	90.6%	2%
Retention % (weighted by GLA)	**78.3%**	75.5%	4 %
Weighted average remaining lease term (years)	**4.65**	4.75	(2)%
Weighted average base rent (per sq. ft.)	**$16.23**	$16.63	(2)%

(1) The comparative 2013 figures are calculated as if the trust units and Class B LP Units which were issued in 2013 were outstanding during the entire comparative period.
(2) Calculated as the sum of trust units and Class B LP Units at their book value.
(3) Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable and Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, unamortized transaction costs and unamortized discount on bankers acceptance.
(4) Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units.
(5) Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units.

Q2-2014 Highlights:

- **On May 7, 2014 we successfully completed a bought deal issuance of 1,900,000 trust units at $10.65 for gross proceeds of $20.24 million**. The underwriters subsequently exercised their over allotment option for an additional 245,000 trust units at $10.65 for gross proceeds of $2.61 million. The proceeds were used in part to fund two property acquisitions from Melcor, with the remainder used to pay down our revolving credit facility to support future acquisitions and for general trust purposes.
- **We made our first acquisition via our proprietary Melcor pipeline, purchasing two multi-tenant retail properties for a purchase price of approximately $13.50 million (excluding transaction costs).** The properties include **Market Mall**, a 42,586 sq. ft. retail community strip centre in Regina, Saskatchewan and phase three of **Kingsview Market**, a 11,555 sq. ft. retail complex in Airdrie.
- **We also continued to execute on our growth strategy through a strategic third party acquisition, which adheres to our SMART criteria.** We acquired 107 Avenue Building, a 23,432 sq. ft. office building in Edmonton, Alberta for a purchase price of $5.55 million (excluding transaction costs).
- **We continue to focus on property management and asset enhancement initiatives in order to maintain and improve our assets.** These initiatives led to improved occupancy and retention rates during the second quarter, with period end rates of 92.0% and 78.3% respectively. During 2014 we completed 71,754 sq. ft. in new leasing and have renewed 76.8% of the GLA expiring in 2014.
- The successful execution of these strategies contributed to:
    - **Revenue growth of 14% over Q2-2013** as a result of our expanded portfolio. Weighted average base rent (per sq. ft.) and occupancy remained steady during the period. Higher revenue translated into increased **NOI, which grew by 13% over Q2-2013.** Direct operating expenses increased by 15%, primarily as a result of the new property additions in conjunction with timing and allocation differences in the comparative period.
    - **FFO and AFFO of $4.43 million and $3.90 million an 8% increase over Q2-2013.** FFO and AFFO per unit were $0.22 and $0.19 respectively, and consistent over Q2-2013. Growth in FFO and AFFO was offset by the dilutive impact of the trust unit issuance during the period. We continue to pursue third party acquisition opportunities and monitor properties in the Melcor development pipeline to support future growth.
- **Distributions of $0.05625 per trust unit were paid in April, May and June.** Distributions made during Q2-2014 represent a payout ratio of 89%.
- Cash from the issuance of capital and financing of properties during the period provided capital capacity under our revolving credit facility. As at June 30, 2014 we have funds available under our revolving credit facility, providing the REIT with the near term capacity to capitalize on future acquisition opportunities.

Property Profile

At June 30, 2014 our portfolio includes interests in 32 income-producing retail, office and industrial properties comprising 1,837,439 square feet of GLA located in Western Canada, and a land lease community.

The following table summarizes the composition of our properties at June 30, 2014 by property type:

Property Type	Number of Properties	GLA (sq. ft.)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the six-months ended June 30, 2014 ($000s)
Retail	10	662,350	36.0%	201,465	5,447
Office	18	1,042,506	56.7%	241,150	7,576
Industrial	3	132,583	7.2%	12,200	457
Land Lease Community	1	308 lots	n/a	14,350	457
	32	**1,837,439**	**100.0%**	**469,165**	**13,937**

Retail – our 10 retail properties include multi-building retail power centres and neighborhood shopping centres containing 662,350 sq. ft.

Office – our 18 office properties include low and medium-rise buildings located in strategic urban and suburban centres, containing 1,042,506 sq. ft.

Industrial – our Q1-2014 acquisition of LC Industrial increased our portfolio to three properties and more than doubled our industrial GLA to a total of 132,583 sq. ft.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at June 30, 2014 (December 31, 2013 – 100%).

Portfolio Occupancy - Occupancy at period end was 92.0% compared to 90.6% at the end of 2013. Our tenants include a diversified mix of national, regional and local businesses operating in a variety of industries. This diversified tenant base helps mitigate our exposure to negative trends occurring in any one sector.

Consolidated Revenue & Net Operating Income

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	△%	**2014**	2013	△%
Base rent	**6,991**	6,229	12 %	**13,797**	12,493	10 %
Recoveries	**4,321**	3,658	18 %	**8,276**	7,243	14 %
Other	**297**	332	(11)%	**615**	667	(8)%
Amortization of tenant incentives	**(619)**	(549)	13 %	**(1,160)**	(1,127)	3 %
Straight-line rent adjustment	**129**	103	25 %	**238**	185	29 %
Rental revenue	**11,119**	9,773	14 %	**21,766**	19,461	12 %
Operating expenses	**1,984**	1,830	8 %	**4,255**	3,707	15 %
Utilities and property taxes	**2,422**	2,010	20 %	**4,496**	3,975	13 %
Direct operating expenses	**4,406**	3,840	15 %	**8,751**	7,682	14 %
Net rental income	**6,713**	5,933	13 %	**13,015**	11,779	10 %
NOI	**7,203**	6,379	13 %	**13,937**	12,721	10 %
Same asset NOI	**5,956**	5,933	— %	**11,672**	11,779	(1)%
Operating margin	**60%**	61%	(2)%	**60%**	61%	(2)%

Revenue

Rental revenue in Q2-2014 increased by $1.35 million or 14% over 2013 as a result of GLA growth of 17% over June 2013. On a same-asset basis rental revenue increased by $0.34 million or 3% over the same period in the prior year. Year-to-date rental revenue increased by $2.31 million or 12% over 2013, of which $1.78 million was related to newly acquired properties over the past 12 months.

Weighted average base rent decreased by 2% compared to year-end due to the increase in our industrial GLA, which grew to 7.2% of the total portfolio compared to 3.8% at year-end. Industrial properties typically have lower average base rent (per sq. ft.) when compared to our office and retail properties. Occupancy improved to 92.0% from 90.6% at the end of 2013. Retention also improved to 78.3% at the of Q2-2014 compared to 75.5% at the end of 2013. On a same asset basis base rent and occupancy were consistent with 2013 and reflect stability in the portfolio.

The table below summarizes the REIT's average base rent, GLA, occupancy and retention:

	June 30, 2014	Dec 31, 2013	△%
Average base rent (per sq. ft.)	**$16.23**	$16.63	(2)%
Weighted average remaining lease term	**4.65**	4.75	(2)%
GLA	**1,837,439**	1,691,920	9 %
Occupancy %	**92.0%**	90.6%	2 %
Retention %	**78.3%**	75.5%	4 %

Recoveries are amounts recovered from tenants for direct operating expenses incurred during the period and include a nominal administrative charge. During the the three and six-months ended June 30, 2014 recoveries revenue increased by 18% and 14% respectively and correlates with the 14% increase in direct operating expenses over 2013. New property additions since June 2013 contributed to $197 and $375 of the increase, with timing of direct operating expenses on same assets making up the difference. The variance during the three-month period is due to the timing of expenses incurred and allocation differences in the comparative period.

Other revenue is comprised of parking revenue and other miscellaneous revenue. These revenues can fluctuate from period to period.

Direct operating expenses

Direct operating expenses increased by $0.57 million or 15% over Q2-2013. Excluding the impact of the newly acquired properties, direct operating expenses increased by $0.46 million. Timing of operating expenditures and differences in allocations in the comparative period drove the increase over Q2-2013 on a same asset basis. On a same asset basis, utilities and property taxes increased by $0.27 million or 13% due to higher appraised property values compared to Q2-2013. Year-to-date direct operating expenses increased by $1.07 million or 14% when compared to 2013. $0.44 million of this increase is attributable to properties acquired in FY2014. The remainder of the increase reflects the differences in the timing of repairs and maintenance projects and allocations of costs during the period.

NOI and Same Asset NOI

Net operating income ("NOI") and same asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measurement most directly comparable to NOI and same asset NOI is net income.

Property acquisitions completed in the last half of 2013 and first half of 2014 drove the increase in NOI with 13% and 10% growth over 2013 respectively. On a same asset basis, NOI was steady over 2013 with differences in the timing of recoverable operating expenses and allocations in the comparative period negatively affecting the year to date figures. The calculation of same asset NOI is as follows (refer to *Non-standard Measures* for calculation of NOI and reconciliation to net income):

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	△%	**2014**	2013	△%
Same asset NOI	**5,956**	5,933	—%	**11,672**	11,779	(1)%
Acquisitions	**757**	—		**1,343**	—	
NOI before adjustments	**6,713**	5,933	13%	**13,015**	11,779	10 %
Amortization of tenant incentives	**619**	549		**1,160**	1,127	
Straight-line rent adjustment	**(129)**	(103)		**(238)**	(185)	
NOI	**7,203**	6,379	13%	**13,937**	12,721	10 %

Regional Analysis

The following table summarizes the composition of our properties at June 30, 2014 by geographic region:

Geographic Region	Number of Properties	GLA (sq. ft.)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the six-months ended June 30, 2014 ($000s)
Northern Alberta	19	1,207,657	65.7%	305,650	9,167
Southern Alberta	7	304,557	16.6%	108,015	3,246
Saskatchewan & British Columbia	6	325,225	17.7%	55,500	1,524
	32	1,837,439	100.0%	469,165	13,937

The following table details key financial and operational metrics for each of our geographic regions for the quarter ended June 30, 2014:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2014	2013	**2014**	2013	**2014**	2013
Three-months ended June 30 ($000s)						
Rental revenue	**7,452**	6,238	**2,253**	2,088	**1,414**	1,447
NOI	**4,785**	4,007	**1,655**	1,523	**763**	849
Six-months ended June 30 ($000s)						
Rental revenue	**14,494**	12,485	**4,447**	4,103	**2,825**	2,873
NOI	**9,167**	8,201	**3,246**	2,908	**1,524**	1,612
As at June 30						
Weighted average base rent (per sq. ft.)	**$16.40**	$16.39	**$18.70**	$22.20	**$13.02**	$13.07
Occupancy %	**90.7%**	89.1%	**97.8%**	98.0%	**89.3%**	91.7%

Northern Alberta: Rental revenue increased 19% over Q2-2013 and 16% over the first half of 2013. This increase is a result of:

- three property acquisitions in the region, which increased GLA by 6% and contributed revenues of $0.67 million in Q2-2014 and $1.30 million year-to-date,
- improved occupancy, which increased to 90.7% compared to 89.1% last year, and
- variances in non-cash adjustments related to tenant incentives and straight-line rent adjustments.

Southern Alberta: Rental revenue increased by 8% over last year in both the quarter and year-to-date periods. This increase is a direct result of the 6% increase in GLA following two property acquisitions in the region, which contributed revenues of $0.21 million in Q2-2014 and $0.35 million year-to-date. Weighted average base rent decreased by $3.50 per sq. ft. as a result of the LC Industrial acquisition. Industrial properties typically have lower average rents.

Saskatchewan and BC: Rental revenue decreased by 2% in both the quarter and year-to-date periods as a result of reduced occupancy, which was down 2% due to tenant turnover at a Saskatchewan office property. This was partially offset by the acquisition of Market Mall midway through Q2-2014, which increased GLA by 16% and contributed $0.13 million to rental revenue.

During 2014 same asset NOI was steady across our Northern and Southern Alberta portfolio, with a decrease in Saskatchewan and BC due to higher vacancy.

General & Administrative Expense

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	△%	**2014**	2013	△%
Asset management fee	**273**	167	63 %	**542**	167	225 %
Salaries and benefits	**—**	78	(100%)	**—**	315	(100%)
Professional fees	**146**	95	54 %	**256**	116	121 %
Public company costs	**43**	37	16 %	**91**	37	146 %
Other	**193**	40	383 %	**129**	176	(27)%
	655	417	57%	**1,018**	811	26%

The analysis of the components of general & administrative expense period over period is not meaningful due to the formation of the REIT on May 1, 2013 and the resulting change in cost structure. Higher professional fees during the three and six-months ended June 30, 2014 reflect the higher costs associated with the REIT being a stand-alone publicly traded entity. Increased asset management fee reflects the increase in our portfolio which is charged at an annual rate of 0.25% of gross book value. Other expense fluctuates from period to period due to the timing of costs incurred. During Q2-2014 we reclassified costs related to tenant recoveries from operating expenses to general & administrative expenses. Refer to note 16 of the condensed interim consolidated financial statements for additional discussion on the management fee structure.

Finance Costs

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	△%	**2014**	2013	△%
Interest on mortgages payable and revolving credit facility	**1,313**	1,340	(2%)	**2,583**	3,381	(24%)
Interest on Class C LP Units	**997**	686	45 %	**2,002**	686	192 %
Amortization of fair value adjustments on Class C LP Units	**(110)**	(73)	51%	**(220)**	(73)	201%
Amortization of deferred financing costs	**63**	20	215 %	**108**	20	440 %
Finance costs before distributions	**2,263**	1,973	15%	**4,473**	4,014	11%
Distributions on Class B LP Units	**1,687**	1,072	57 %	**3,295**	1,072	207 %
Finance costs	**3,950**	3,045	30 %	**7,768**	5,086	53 %

Finance costs for the three-months ended June 30, 2014 were $0.91 million or 30% higher compared to the same period in the prior year. Analysis of the components of finance costs is not meaningful due to the formation of the REIT and resulting conversion of certain mortgages into Class C LP Units. Distributions made on Class B LP Units are classified as finance costs, as the units are accounted for as a financial liability measured at fair value through profit and loss. Year-to-date finance costs were $2.68 million or 53% higher than 2013.

Finance costs before distributions on Class B LP Units were 15% and 11% higher during the three and six-months ended June 30, 2014 compared to 2013. The increase reflects higher average indebtedness during the period as a result of property acquisitions completed since June 2013. Lower weighted average interest rates on the Class C LP Units and revolving credit facility partially offset the increase in the principle balance during the period. As at June 30, 2014 the weighted average interest rate on our revolving credit facility, mortgages payable and Class C LP Units was 3.97% based on period end balances.

Income Taxes

As at June 30, 2014, the REIT qualifies as a mutual fund trust within the meaning of the *Income Tax Act* (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

The comparative 2013 period includes income tax expense recognized prior to the IPO and subsequent de-recognition of the tax liability as a result of qualifying for the REIT Exception.

Funds from Operations & Adjusted Funds from Operations

Funds from Operations (FFO) and Adjusted funds from Operations (AFFO) are non-standard measures used in the real estate industry as a measure of operating performance of investment properties. We believe that AFFO is an important measure of economic performance and is indicative of the REIT's ability to pay distributions, while FFO is an important measure of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO and AFFO is net income.

	Three-months ended June 30			Six-months ended June 30		
($000s, except per unit amounts)	**2014**	2013	△%	**2014**	2013	△%
Net income for the period	**5,296**	44,492		**6,174**	49,308	
Add / (deduct)	—	—				
Fair value adjustment on investment properties	**(568)**	(1,792)		**(737)**	(4,386)	
Fair value adjustment on Class B LP Units	**(2,603)**	1,244		**(1,173)**	1,244	
Amortization of tenant incentives	**619**	549		**1,160**	1,127	
Distributions on Class B LP Units	**1,687**	1,072		**3,295**	1,072	
Non-recurring current income taxes on formation of the REIT	—	(871)		—	—	
Deferred income taxes	—	(40,585)		—	(40,261)	
Funds From Operations (FFO)	**4,431**	4,109	8 %	**8,719**	8,104	8%
Add / (deduct)						
Straight-line rent adjustment	**(129)**	(103)		**(238)**	(185)	
Amortization of deferred financing costs	**63**	20		**108**	20	
Accretion on decommissioning obligation	**13**	15		**27**	30	
Net impact of amortization of fair value adjustment and interest subsidy(1)	**142**	111		**285**	111	
Normalized capital expenditures(2)	**(206)**	(183)		**(407)**	(363)	
Normalized tenant incentives and leasing commissions(2)	**(412)**	(365)		**(815)**	(726)	
Adjusted Funds from Operations (AFFO)	**3,902**	3,604	8 %	**7,679**	6,991	10%
FFO/Unit	**0.22**	0.22	(1)%	**0.45**	0.43	5%
AFFO/Unit	**0.19**	0.19	— %	**0.39**	0.37	5%

(1) Adjustment includes the following: amortization of the fair value adjustment recognized on the Class C LP Unit liability; and usage of the interest rate subsidy provided by Melcor as part of the transfer of the Initial Properties.

(2) Represents 3% and 6% of annual NOI for capital expenditures and tenant incentives and leasing commissions respectively. Amounts are net of usage of the capital expenditure subsidy provided by Melcor as part of the transfer of Initial Properties. Amounts presented in the comparative and pre-acquisition periods are based on the respective percentages of annual NOI for comparative purposes.

Distributions

In order to continue to qualify for the 'REIT Exception' as provided under the SIFT rules, we must allocate substantially all taxable income. As such, we allocate monthly distributions to unitholders as determined and approved by the Board of Trustees. We made monthly distributions to unitholders at a rate of $0.05625 per unit, representing $0.675 per unit on an annualized basis. Distributions to unitholders during the three and six-months ended June 30, 2014 were $1.78 million and $3.32 million respectively (year-ended December 31, 2013 - $4.11 million). Distributions made during the three and six-months ended June 30, 2014 represent a payout ratio of approximately 89% and 87% of AFFO respectively.

Fair Value of Investment Properties

We carry our investment properties at fair value in accordance with IAS 40, *Investment property*. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	June 30, 2014	Dec 31, 2013
Number of properties	**32**	29
Total GLA (sq. ft)	**1,931,629**	1,786,447
GLA (REIT owned %) (sq. ft.)	**1,837,439**	1,691,920
Fair value of portfolio ($000s)	**469,165**	440,349
Weighted average capitalization rate	**6.42%**	6.41%
Weighted average discount rate	**7.58%**	7.57%
Weighted average terminal capitalization rate	**6.71%**	6.69%

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2013. We obtained updated market data and considered whether changes to any valuation model variables resulted in significant changes to any of the property fair values at June 30, 2014. This resulted in fair value gains of $0.74 million (year-ended December 31, 2013 - $16.95 million) on investment properties recorded to income during the period. Refer to note 17 of the condensed interim consolidated financial statements for additional information on the calculation of fair value adjustments.

A breakdown of our fair value adjustment on investment properties by geographical region are as follows:

($000s)	**Six months ended June 30, 2014**	Year ended December 31, 2013
Northern Alberta	**1,181**	7,969
Southern Alberta	**(386)**	6,178
Saskatchewan & British Columbia	**(58)**	2,806
	737	16,953

Fair value gains in Northern Alberta were primarily driven by a fair value gain on the 107 Avenue Building acquired in 2014, where fair value exceeded the purchase price. In addition, we realized fair value gains on our 2013 acquired properties Liberty Crossing and Coast Home Centre due to a decrease in capitalization rates. Net fair value losses in Southern Alberta were primarily driven by a decrease in occupancy on one of our retail CRUs and reflects vacancy during the lease-up period and the costs associated with securing a new tenant. This was partially mitigated by a fair value gain on Kingsivew Market phase three over the purchase price.

Decreased fair value adjustments over 2013 reflects capitalization rate stabilization and continued capital investment across the portfolio.

Fair values are most sensitive to changes in capitalization rates.

	June 30, 2014			December 31, 2013		
	Min	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.42%**	5.50%	9.00%	6.41%
Terminal capitalization rate	**5.75%**	**9.25%**	**6.71%**	5.75%	9.25%	6.69%
Discount rate	**6.50%**	**10.00%**	**7.58%**	6.50%	10.00%	7.57%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $33.91 million (December 31, 2013 - $31.88 million) while a 50 basis points decrease (-0.5%) would increase it by $39.64 million (December 31, 2013 - $37.28 million).

Liquidity & Capital Resources

We employ a range of strategies to fund operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make distribution payments;
- Fund capital projects; and
- Purchase investment properties.

Cash Flows

The following table summarizes cash flows from operating, investing and financing activities:

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	$△	**2014**	2013	$△
Cash from operating activities	**1,806**	2,105	(299)	**4,102**	9,141	(5,039)
Cash used in investing activities	**(13,126)**	(6,534)	(6,592)	**(20,387)**	(7,377)	(13,010)
Cash from financing activities	**7,745**	8,334	(589)	**10,353**	2,310	8,043
Increase (decrease) in cash and cash equivalents	**(3,575)**	3,905	(7,480)	**(5,932)**	4,074	(10,006)
Cash and cash equivalents, beginning of the period	**3,575**	858	2,717	**5,932**	689	5,243
Cash and cash equivalents, end of the period	—	4,763	(4,763)	—	4,763	(4,763)

Operating activities

Cash from operating activities during the three and six-months ended June 30, 2014 was $0.30 million and $5.04 million lower than 2013. Higher net working capital in Q2-2014 negatively affected cash flow from operating activities by $3.32 million during the six-month period when compared to the same period in the prior year. Distributions on Class B LP Units, which are included in finance costs, reduced cash from operations by an additional $1.69 million and $3.30 million during the three and six-months ended June 30, 2014, compared to $1.07 million in the comparative periods. The decrease in cash flows was partially offset by higher NOI over 2013 as a result of the property acquisitions completed since June 2013.

Investing activities

During the six-months ended June 30, 2014 we acquired an office building in Edmonton, AB (107 Avenue Building) for $5.67 million and expanded our industrial portfolio in Lethbridge, AB (LC Industrial) for $6.03 million. During Q2-2014 we also completed the acquisition of Market Mall in Regina, SK and phase three of Kingsivew Market in Airdrie, AB via our right of first offer (ROFO) on Melcor properties. The $13.50 million purchase price was partially settled through $6.10 million in cash consideration, with the balance fulfilled through the issuance of Class B LP Units.

Our capital asset program for 2014 is well underway with $1.15 million invested in strategic value-adding asset enhancement projects year-to-date, including $0.54 million in Q2-2014.

Following strong leasing activity in 2014, $0.64 million in leasing fees were paid to Melcor under the Property Management Agreement, including $0.38 million in Q2-2014. Leasing activity on both new and renewed leases contributed to higher payments of tenant incentives during the period, with an increase of $0.77 million over Q2-2013 and a year-to-date increase of $1.02 million over 2013. We used $0.72 million of restricted cash to partially fund Q2-2014 investment activities, with $1.19 million used year-to-date. Timing of lease expiries impacts the level of spending on tenant incentives and leasing costs. Higher expenditures during the period reflects 17.6% or 297,298 of our portfolio GLA expiring in 2014, with 76.8% renewed as at June 30, 2014. In addition, we completed 71,754 sq. ft. in new leasing year-to-date.

Financing activities

On May 7, 2014 we received $18.75 million from the issuance of 1,900,000 trust units, net of transaction costs. On May 16, 2014 an additional 245,000 trust units were issued for net proceeds of $2.50 million. The funds were used to fund our acquisitions from Melcor and to reduce the amount outstanding under our revolving credit facility

During 2014 we obtained mortgage financing on four recently acquired and previously unencumbered properties for proceeds of $19.01 million. Partial proceeds were used to repay the remaining amounts drawn under the revolving credit facility. In addition, we made $3.09 million in regular principal repayments on mortgages payable and Class C LP Units during the six-months ended June 30, 2014.

Comparatively, we recognized $55.00 million in proceeds during 2013 on the renewal and refinancing of five properties, extinguished mortgages on four properties totaling a repayment of $13.95 million, and made regular principal repayments on mortgages payable and Class C LP Units of $2.78 million.

We distributed $1.78 million to unitholders during Q2-2014, with year-to-date distributions of $3.32 million.

During the comparative period, we recognized $3.21 million in net distributions from Melcor with year-to-date net distributions of $7.45 million to Melcor. Net distributions from Melcor represent the net financing funded/received by Melcor prior to the formation of the REIT to fund operating and investing activities.

We are able to meet our capital needs through a number of sources, including cash generated from operations, short-term borrowings under our revolving credit facility, mortgage financings, and the issuance of trust units to purchase investment properties.

We believe that internally generated cash flows, supplemented by borrowings through our revolving credit facility and mortgage financings, where required, will be sufficient to cover our normal operating, debt service, distribution and capital expenditure requirements. We regularly review our credit facility limits and manage our capital requirements accordingly.

As at June 30, 2014 we had $4.27 million in restricted cash and available funds under our revolving credit facility. These funds will enable us to capitalize on future acquisition opportunities as well as meet ongoing capital needs.

Capital Structure

We define capital as the total of trust units, Class B LP Units, Class C LP Units, mortgages payable, and amounts drawn under our revolving credit facility.

Pursuant to the DOT, the REIT may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% of Gross Book Value (“GBV”) (“Degree of Leverage Ratio”) (65% including any convertible debentures).

At June 30, 2014, and throughout the period, we were in compliance with the Degree of Leverage Ratio and had a ratio of 46% as at period end. As at June 30, 2014, the REIT’s total capitalization was $424.37 million and is comprised as follows:

($000s)	**June 30, 2014**
Revolving credit facility(1)	—
Mortgages payable(1)	116,457
Class C LP Units(2)	91,065
Indebtedness	207,522
Class B LP Units(3)	102,708
Trust units(4)	114,144
Equity	216,852
Total capitalization	**424,374**
Gross book value (GBV)(5)	**450,362**
Debt to GBV	**46 %**
Maximum threshold(6)	**60 %**

(1) Debts are presented excluding unamortized transaction costs and amounts allocated by management for restricted cash requirements.
(2) Class C LP Units excluding unamortized fair value adjustment on Class C LP Units.
(3) Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.
(4) Trust units are included at their book value.
(5) GBV is calculated as the cost of the total assets acquired in the Initial Properties and subsequent asset purchases.
(6) As prescribed by the operating policies in the DOT (65% including any convertible debentures).

We have an available credit facility based on the minimum of the carrying value and adjusted NOI of specific investment properties to a maximum of $25.00 million. We are subject to financial covenants on our revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders’ equity of $140.00 million. As at June 30, 2014, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 46%, interest coverage ratio of 1.68, and a net book value of unitholders' equity of $250.29 million. We also have financial covenants on certain mortgages for investment properties. At June 30, 2014, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

Indebtedness

Debt Repayment Schedule – the following table summarizes our contractual obligations and illustrates certain liquidity and capital resource requirements:

		As at June 30					
($000s)	**Total**	**2014**	**2015**	**2016**	**2017**	**2018**	**Thereafter**
Revolving credit facility	—	—	—	—	—	—	—
Mortgages payable	116,457	18,690	22,647	14,361	2,076	34,746	23,937
Class C LP Units	91,065	1,546	25,825	11,180	4,584	13,108	34,822
Total	**207,522**	**20,236**	**48,472**	**25,541**	**6,660**	**47,854**	**58,759**
% of portfolio	100%	10%	23%	12%	3%	23%	29%

We ladder the renewal and maturity dates on our borrowings as part of our capital management strategy. This mitigates the concentration of interest rate and financing risk associated with refinancing in any particular period. In addition, we try to match the maturity of our debt portfolio with the weighted average remaining lease term on our properties.

Debt Analysis – our mortgages payable and Class C LP Units bear interest at fixed rates; the following table summarizes the interest rates and terms to maturity:

($000s)	**Total**	**Fixed**	**Variable**	**Weighted average interest rate**	**Weighted average term to maturity**
Revolving credit facility	—	—	—	—%	0.84
Mortgages payable	116,457	116,457	—	4.07%	2.83
Class C LP Units	91,065	91,065	—	3.84%	4.40
Total	**207,522**	**207,522**	—	**3.97%**	**3.51**

The weighted average interest rate on our debts has remained steady since December 31, 2013. During the six-months ended June 30, 2014 we obtained mortgage financing on four recently acquired and previously unencumbered properties for $19.01 million. A portion of these proceeds were used to repay the remaining balance drawn under the revolving credit facility. The weighted average interest rate on new financings obtained during the period was 3.45%.

Two mortgages on one property are up for renewal in Q4-2014. These mortgages have an outstanding principal balance of $17.18 million and a weighted average interest rate of 4.53% as at June 30, 2014. We expect to be able to refinance these mortgages with our lender at lower interest rates based on comparable recent refinancings.

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period. We calculate interest coverage as FFO plus finance costs for the period divided by finance costs expensed during the period, less distributions on Class B LP Units. We consider these measures to be useful in evaluating our ability to service our debts. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

($000s)	**June 30, 2014**	Dec 31, 2013
FFO	**8,719**	15,903
Principal repayments on Mortgages payable	**1,576**	3,653
Principle repayments on Class C LP Units	**1,513**	1,966
Debt service coverage ratio	**2.82**	2.83
FFO plus finance costs(1)	**13,192**	24,025
Finance costs(1)	**4,473**	8,122
Finance costs coverage ratio	**2.95**	2.96

(1) Finance costs excluding finance expense recognized on Class B LP Unit distributions.

Equity

The REIT is authorized to issue an unlimited number of trust units and an unlimited number of special voting units. Each trust unit represents a holder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of the unitholders and to receive any distributions by the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit. Special voting units may only be issued in connection with securities exchangeable into trust units (including Class B LP Units).

Class B LP Units of the Partnership are economically equivalent to, and exchangeable into, trust units at the option of the holder, and therefore, are considered a dilutive instrument. The Class B LP Units are classified as financial liabilities in accordance with IAS 32, *Financial Instruments – presentation*, due to their puttable feature.

On May 7, 2014 the REIT completed the issuance of 1,900,000 trust units at a price of $10.65 per unit to a syndicate of underwriters, on a bought deal basis, for gross proceeds of $20.24 million. Subsequently, the underwriters exercised their over-allotment option to purchase an additional 245,000 trust units at a price of $10.65 for gross proceeds of $2.61 million. The issuance was qualified under a short form prospectus filed April 30, 2014.

On May 9, 2014 the REIT issued 694,836 Class B LP Units at a price of $10.65 per unit, or $7.40 million, to Melcor as partial consideration for the Acquisition.

The following table summarizes the Units issued and the fully diluted number of Units outstanding as at June 30, 2014 and December 31, 2013:

	June 30, 2014		**December 31, 2013**	
Issued and fully paid units ($000s)	Units	$ Amount	Units	$ Amount
Balance, beginning of period	9,130,000	91,300	—	—
Issuance of Units - IPO	—	—	9,130,000	91,300
Issuance of Units	2,145,000	22,844	—	—
Balance, end of period	11,275,000	114,144	9,130,000	91,300
Dilutive securities	10,225,634	102,708	9,530,798	95,308
Diluted balance, end of period	21,500,634	216,852	18,660,798	186,608

(1) A corresponding number of special voting units are held by Melcor through an affiliate.

Quarterly Results

	2014		2013				2012	
($000s except per unit amount)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**11,119**	10,647	10,070	9,794	9,773	9,688	10,566	9,195
Net income	**5,296**	878	7,466	5,945	44,492	4,816	12,822	6,731
Income per unit(1)	**$ 0.51**	$ 0.10	$ 0.51	$ 0.65	$ 2.38	$ 0.26	$ 0.68	$ 0.36

(1) Calculated as if the trust units were outstanding during the entire period.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Related Party Transactions, Critical Accounting Estimates, Changes in Accounting Policies

There are no material changes to the above titled sections at June 30, 2014 in comparison to the December 31, 2013 annual MD&A.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

Non-standard Measures

Throughout this MD&A, we refer to terms that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below.

Calculations

We use the following calculations in measuring our performance.

Net operating income (NOI): NOI is defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

	Three-months ended June 30			Six-months ended June 30		
($000s)	**2014**	2013	△%	**2014**	2013	△%
Net income for the period	**5,296**	44,492		**6,174**	49,308	
Income tax expense	—	(41,456)		—	(40,261)	
Net finance costs	**3,929**	3,028		**7,729**	5,063	
Fair value adjustment on Class B LP Units	**(2,603)**	1,244		**(1,173)**	1,244	
Fair value adjustment on investment properties	**(568)**	(1,792)		**(737)**	(4,386)	
General and administrative expenses	**659**	417		**1,022**	811	
Amortization of tenant incentives	**619**	549		**1,160**	1,127	
Straight-line rent adjustment	**(129)**	(103)		**(238)**	(185)	
NOI	**7,203**	6,379	13%	**13,937**	12,721	10%

Same asset NOI: this measure compares the NOI, less amortization on tenant incentives, plus straight-line rent adjustment, on assets that have been owned for the entire current and comparative period.

Funds from operations (FFO): FFO is defined as net income in accordance with IFRS, excluding: (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; (vi) deferred income tax expense; and (vii) non-recurring current income taxes on formation of the REIT, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

Adjusted funds from operations (AFFO): AFFO is defined 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 obligation; (v) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; (vi) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to AFFO as determined by the Board in its discretion.

Operating margin: is calculated as net rental income divided by rental revenue.

Debt to Gross Book Value: is calculated as the sum of mortgages payable and Class C LP Units, less unamortized fair value adjustment; divided by the total asset value assumed on acquisition of the Initial Properties plus total assets acquired from third parties subsequently.

Finance costs coverage ratio: is calculated as FFO plus finance costs for the period divided by finance costs expensed during the period, less distributions on Class B LP Units.

Debt service coverage ratio: is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period.

Payout ratio: is calculated as per unit distributions divided by per unit AFFO.