Management's Discussion & Analysis

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August 6, 2015

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the unaudited condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2015 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2014. The discussion outlines strategies and provides analysis of our financial performance for the second quarter of 2015.

The underlying financial statements in this MD&A, including 2014 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 6, 2015. Disclosure contained in this MD&A is current to August 6, 2015, 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, management information circular and quarterly reports, is available on our website at melcorREIT.ca and on SEDAR at sedar.com.

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CICA 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 15 "*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 2015 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 on pages 27-31 of the 2014 annual report.

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

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.

About 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). Our units 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 and Asset Management agreements entered into in conjunction with the IPO.

As at August 6, 2015, Melcor, through an affiliate, holds an approximate 56.5% 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 6, 2015, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Our Business: Vision, Goals & Strategy

The REIT has an established and diversified portfolio in western Canada. We own 38 income-producing office, retail and industrial properties representing 2.74 million square feet in gross leasable area (GLA) at June 30, 2015. 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 conjunction 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. Together with Melcor, we have a proven track record of doing both.

Acquire:

We continue to actively seek strategic property acquisitions that meet our investment criteria; however, we have not completed any acquisitions through Q2-2015.

Improve:

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

During Q2-2015 we substantially completed construction of a 7,456 sf commercial retail unit (CRU) at Chestermere, increasing the gross leasable area of an existing property.

In Q2-2015, our signature customer care program achieved an on-time response rate of 96% exceeding our target of 95%. We use this metric as an indicator of our success in providing responsive care to our customers.

In January 2015 we received BOMA BESt certification at Princeton Place, bringing our total to 4 BOMA BESt certified Green & Responsible buildings. BOMA BESt is the leading environmental certification program for existing buildings in Canada. We continue to assess our buildings against the BOMA BESt standards.

Q2-2015 Highlights & Key Performance Indicators

Financial Highlights

	Three months ended June 30			Six months ended June 30		
($000s)	**2015**	2014	△%	**2015**	2014	△%
Non-Standard KPIs						
Net operating income (NOI)	**10,382**	7,203	44 %	**20,587**	13,937	48 %
Funds from operations (FFO)	**6,689**	4,431	51 %	**12,992**	8,719	49 %
Adjusted funds from operations (AFFO)	**5,556**	3,875	43 %	**10,734**	7,652	40 %
Rental revenue	**16,323**	11,119	47 %	**32,581**	21,766	50 %
Income before fair value adjustments	**3,326**	2,125	57 %	**6,441**	4,264	51 %
Fair value adjustment on investment properties	**(1,899)**	568	nm	**(3,708)**	737	nm
Distributions to unitholders	**1,902**	1,782	7 %	**3,805**	3,323	15 %
Cash flows from operations	**1,432**	1,806	(21)%	**5,419**	4,102	32 %
Per unit metrics						
Income - diluted	**$0.01**	$0.22	(95)%	**$0.31**	$0.43	(28)%
FFO	**$0.26**	$0.22	19 %	**$0.50**	$0.45	11 %
AFFO	**$0.21**	$0.19	11 %	**$0.41**	$0.39	5 %
Distributions	**$0.169**	$0.169	— %	**$0.338**	$0.338	— %

	30-Jun-15	31-Dec-14	△%
Total assets ($000s)	**653,111**	657,765	(1)%
Equity ($000s)(1)	**261,852**	261,852	— %
Debt ($000s)(2)	**341,616**	344,694	(1)%
Weighted average interest rate on debt	**3.91%**	3.98%	(2%)
Debt to GBV ratio(3)	**55%**	56%	(2)%
Finance costs coverage ratio(4)	**2.82**	2.94	(4)%
Debt service coverage ratio(5)	**2.85**	2.75	4 %

Operational Highlights

	30-Jun-15	31-Dec-14	△%
Number of properties	**38**	38	— %
Gross leasable area (GLA) (sf)	**2,738,212**	2,735,467	— %
Occupancy % (weighted by GLA)	**92.1%**	92.4%	—%
Retention % (weighted by GLA)	**67.6%**	82.7%	(18)%
Weighted average remaining lease term (years)	**5.39**	5.49	(2)%
Weighted average base rent (per sf)	**$15.38**	$15.25	1 %

(1) Calculated as the sum of trust units and Class B LP Units at their book value. Class B LP Units are presented as a financial liability in the condensed interim consolidated financial statements.
(2) Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units and convertible debenture, excluding unamortized discount and transaction costs.
(3) Excluding convertible debentures, Debt to GBV ratio is 49% (December 31, 2014 - 50%)
(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.

Q2-2015 Highlights:

Our portfolio performance remained stable throughout the second quarter of 2015. Our diversified portfolio, with its tenant profile mix, has limited the impact of fluctuating oil prices on our business. We remain focused on executing our proactive strategy to retain tenants by providing exceptional customer care to ensure that we remain their landlord of choice.

Highlights of our performance in the second quarter include:

- Revenue growth of 47% and AFFO growth of 43% over Q2-2014 as a result of property acquisitions completed over the past year, which grew our portfolio GLA by 49% and contributed to increased diversification in our portfolio mix.
- Maintained occupancy at 92.1% compared to 92.4% at December 31, 2014. We continue to see strong leasing activity and renewed 105,013 sf of expiring GLA for a current retention rate of 67.6% at the end of the quarter.
- Continued improvement to operating margin of 61% in Q2-2015 (2014 - 60%) as we look for opportunities to manage expenses.
- Achieved a 96% on-time response rate for work orders submitted via our signature care program.
- Reduced weighted average interest rate by 7 bps as a result of $8.25 million in mortgage re-financing completed in the current low-interest rate environment.
- On May 1, 2015 we entered into a new revolving credit facility with two Western Canadian financial institutions providing the REIT with available credit to a maximum of $35.00 million. The new facility provides a $10.00 million increase in the capital available to the REIT to support the execution of our growth strategy.
- On June 30, 2015 we commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase approximately 5% of its issued and outstanding trust units for cancellation. The REIT believes that its units have been trading in a price range which does not adequately reflect the value of the units in relation to the REIT's current and future business prospects.
- We paid distributions of $0.05625 per trust unit in April, May and June for a quarterly payout ratio of 80%, a reduction of 4 bps from Q1-2015.

Consolidated Revenue & Net Operating Income

	Three months ended June 30			Six months ended June 30		
($000s)	**2015**	2014	△%	**2015**	2014	△%
Base rent	**10,067**	6,991	44 %	**20,123**	13,797	46 %
Recoveries	**6,128**	4,321	42 %	**12,293**	8,276	49 %
Other	**629**	297	112 %	**996**	615	62 %
Amortization of tenant incentives	**(896)**	(619)	45 %	**(1,618)**	(1,160)	39 %
Straight-line rent adjustment	**395**	129	206 %	**787**	238	231 %
Rental revenue	**16,323**	11,119	47 %	**32,581**	21,766	50 %
Operating expenses	**3,222**	1,984	62 %	**6,338**	4,255	49 %
Utilities and property taxes	**3,220**	2,422	33 %	**6,487**	4,496	44 %
Direct operating expenses	**6,442**	4,406	46 %	**12,825**	8,751	47 %
Net rental income	**9,881**	6,713	47 %	**19,756**	13,015	52 %
NOI	**10,382**	7,203	44 %	**20,587**	13,937	48 %
Same-asset NOI	**6,431**	6,530	(2)%	**12,528**	12,561	— %
Operating margin	**61%**	60%	2 %	**61%**	60%	2 %

Revenue

Rental revenue for the three and six-months ended June 30, 2015 were $5.20 million and $10.82 million higher compared to the same periods in 2014. This increase was driven by portfolio growth of 49% since June 30, 2014. Rental revenue related to newly acquired properties was $5.59 million and $11.24 million during the three and six-month periods respectively (2014 - $0.40 million and $0.54 million). On a same-asset basis, rental revenue was steady over 2014 reflecting stable occupancy and weighted average base rents.

Weighted average base rent increased modestly compared to year end. Changes to our asset class mix as a result of recent acquisitions contributed to the increase, but were offset by lower than average base rents on recently leased space that has been chronically vacant.

Lease-up of suburban office properties and renewals on expiring GLA in 2015 resulted in improved occupancy of 90.9% in the office asset class. This increase was offset by a large tenant vacating one of our industrial buildings in Lethbridge, AB which negatively impacted occupancy by 1% and year-to-date retention rate.

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

	30-Jun-15	31-Dec-14	△%
Weighted average base rent (per sf)	**$15.38**	$15.25	1 %
Weighted average remaining lease term	**5.39**	5.49	(2)%
GLA	**2,738,212**	2,735,467	— %
Occupancy %	**92.1%**	92.4%	0 %
Retention %	**67.6%**	82.7%	(18)%

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. During the three and six-months ended June 30, 2015 recovery revenue increased by $1.81 million and $4.02 million or 42% and 49% over the respective 2014 periods and correlates with the increase in direct operating expenses over 2014. Recoveries on newly acquired properties were $1.73 million and $3.63 million during the three and six-months ended June 30, 2015 (2014 - $0.06 million during the three and six-months).

Other revenue includes parking revenue and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period.

Amortization of tenant incentives increased over 2014 as a result of lease rollovers during 2014, when 17.6% of GLA expired. Straight-line rent adjustments relate to new leases which have escalating rent rates and/or rent-free periods. The increase in straight-line rent adjustments is a result of the new properties acquired late in 2014. As newer properties, these properties generally have longer lease terms and multiple rent escalations. Straight-line rent adjustments fluctuate due to the timing of signed leases.

Direct operating expenses

Direct operating expenses increased by $2.04 million and $4.07 million during the three and six-months ended June 30, 2015. Excluding the impact of the newly acquired properties, direct operating expenses increased by $0.07 million and $0.11 million respectively. On a same-asset basis, property taxes and utilities decreased nominally over 2014 as a result of lower utility costs. Same-asset operating expenses increased by $0.19 million year-to-date as a result of the timing of expenditures incurred.

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 past twelve months led to a 44% increase in NOI over Q2-2014 and 48% year-to-date. Q2-2015 and year-to-date same-asset NOI were steady over 2014. 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)	**2015**	2014	△%	**2015**	2014	△%
Same-asset NOI	**6,431**	6,530	(2)%	**12,528**	12,561	— %
Acquisitions	**3,450**	183		**7,228**	454	
NOI before adjustments	**9,881**	6,713	47 %	**19,756**	13,015	52 %
Amortization of tenant incentives	**896**	619		**1,618**	1,160	
Straight-line rent adjustment	**(395)**	(129)		**(787)**	(238)	
NOI	**10,382**	7,203	44 %	**20,587**	13,937	48 %

Property Analysis

At June 30, 2015 our portfolio included interests in 38 retail, office and industrial income-producing properties located in western Canada for a total of 2,738,212 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at June 30, 2015 by property type:

Property Type	Number of Properties	GLA (sf)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the six-months ended June 30, 2015 ($000s)
Retail	13	949,092	34.6%	287,084	8,367
Office	20	1,567,838	57.3%	313,905	10,875
Industrial	4	221,282	8.1%	28,300	851
Land Lease Community	1	308 lots	n/a	14,850	494
	38	**2,738,212**	**100.0%**	**644,139**	**20,587**

The following table details key financial and operational metrics for each of our asset classes for the quarter ended June 30, 2015:

	Retail		Office		Industrial		Land Lease Community	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Three months ended June 30 ($000s)								
Rental revenue	**6,010**	3,794	**9,373**	6,704	**620**	306	**320**	315
NOI	**4,087**	2,874	**5,636**	3,856	**410**	237	**249**	236
Six months ended June 30 ($000s)								
Rental revenue	**12,174**	7,392	**18,539**	13,138	**1,231**	611	**637**	625
NOI	**8,363**	5,447	**10,879**	7,576	**851**	457	**494**	457
As at June 30								
Weighted average base rent (sf)	**$18.38**	$18.67	**$14.36**	$15.72	**$9.25**	$7.33	**n/a**	n/a
Occupancy	**94.9%**	91.8%	**90.9%**	88.2%	**88.3%**	100.0%	**100.0%**	100.0%

Retail – our 13 retail properties include 5 multi-building retail power centres and 8 neighborhood shopping centres. Retail GLA increased by 43% or 286,742 sf over Q2-2014 through acquisitions. Newly acquired properties contributed $2.36 million and $4.84 million during the three and six-months ended June 30, 2015 (2014 - $0.06 million during the three and six-month period). On a same-asset basis, rental revenue was steady over 2014, with same-asset occupancy holding at 92.0%, offsetting higher amortization of tenant incentives and lower weighted average base rents.

Office – our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Office GLA increased by 50% over Q2-2014. Rental revenue from newly acquired office properties was $2.75 million and $5.44 million during the three and six-months ended June 30, 2015 (2014 - $0.19 million during the three and six-month period). On a same-asset basis, rental revenue was flat.

Industrial – our 4 industrial properties include single and multi-tenant buildings. Industrial GLA increased by 67% over Q2-2014. Rental revenue increased by 101% as a result of portfolio growth. Same-asset rental revenue decreased $0.04 million over 2014 as a result of a large tenant lease expiring in southern Alberta, driving the decrease in occupancy to 88.3%. The vacancy also led to the increase in weighted average base rents as the rental rate on the expiring tenant was below average at $6.50 sf.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at June 30, 2015 (December 31, 2014 – 100%).

Same-asset NOI was steady in our office and retail portfolios. Industrial same-asset NOI decreased over 2015 as a result of an increased vacancy and a lease renewal at one of our Lethbridge, AB properties which included a rent-free period on signing. NOI on our land lease community improved modestly over Q2-2014 as a result of higher pad rates and lower operating costs.

Regional Analysis

The following table summarizes the composition of our properties at June 30, 2015 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the six-months ended June 30, 2015 ($000s)
Northern Alberta	24	1,616,552	59.2%	412,030	12,347
Southern Alberta	7	754,986	27.4%	167,409	5,745
Saskatchewan & British Columbia	7	366,674	13.4%	64,700	2,495
	38	**2,738,212**	**100.0%**	**644,139**	**20,587**

The following table details key financial and operational metrics for each of our geographic regions for the quarter ended June 30, 2015:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2015	2014	**2015**	2014	**2015**	2014
Three months ended June 30 ($000s)						
Rental revenue	**9,869**	7,452	**4,479**	2,253	**1,975**	1,414
NOI	**6,135**	4,785	**2,916**	1,655	**1,331**	763
Six months ended June 30 ($000s)						
Rental revenue	**19,891**	14,494	**8,864**	4,447	**3,826**	2,825
NOI	**12,347**	9,167	**5,745**	3,246	**2,495**	1,524
As at June 30						
Weighted average base rent (per sq. ft.)	**$16.43**	$16.40	**$14.19**	$18.70	**$13.60**	$13.02
Occupancy %	**92.8%**	90.7%	**89.8%**	97.8%	**93.6%**	89.3%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer. Rental revenue grew 37% over 2014 as a result of property acquisitions completed in 2014, which increased GLA by 34%. During the three and six-month periods newly acquired properties contributed revenues of $2.77 million and $5.64 million respectively (2014 - $0.06 million during the three and six-month periods). Higher occupancy was driven by new property additions, with same-asset occupancy steady over 2014 at 90.9%. On a same-asset basis, higher amortization of tenant incentives and fluctuations in other income drove the decrease in rental revenue.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue increased by 99% over 2014. Property acquisitions completed in the region resulted in GLA growth of 148% and generated $2.32 million and $4.61 million in revenues during the three and six-month periods (2014 - $0.21 million and $0.35 million respectively). Weighted average base rent decreased by $4.51 per sf as a result of new property additions in the region. Rate compression was driven by the increase in industrial GLA and an anchor tenant at Lethbridge Centre which has lower base rents. Excluding the anchor tenant, weighted average base rent was $14.97.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue increased 35% over 2014 as a result of the acquisition of two retail properties in Saskatchewan during 2014, which generated $0.49 million and $0.99 million in revenues during the three and six-months (2014 - $0.13 million during the three and six-month periods). On a same-asset basis, base rent increased due to 15,064 sf in new leases completed over the past twelve months, contributing to the increase in same-asset occupancy to 93.1% and higher weighted average base rents. The increase was partially offset by higher amortization on tenant incentives as a result of increased spending on new and renewing lease deals.

Same-asset NOI decreased in Northern Alberta as a result of a provision for doubtful accounts, while Southern Alberta remained steady. Saskatchewan and British Columbia experienced growth as a result of improved occupancy and weighted average base rents.

General & Administrative Expenses

	Three months ended June 30			Six months ended June 30		
($000s)	**2015**	2014	△%	**2015**	2014	△%
Asset management fee	**379**	273	39 %	**759**	542	40 %
Professional fees	**106**	146	(27)%	**198**	256	(23)%
Public company costs	**49**	43	14 %	**162**	91	78 %
Other	**(20)**	197	(110)%	**171**	133	29 %
	514	659	(22%)	**1,290**	1,022	26%

General & administrative expenses (G&A) for the three and six-months ended June 30, 2015 were $0.51 million (3% of rental revenue) and $1.29 million (4% of rental revenue). The 22% decrease in G&A during Q2-2015 is due to the re-classification of costs as follows:

- During Q2-2015 $0.11 million in provision for doubtful accounts, previously recorded in G&A, was re-classified as direct operating expenses.
- In the comparative period we reclassified costs related to tenant recoveries from operating expenses to G&A, creating a one-off increase in Q2-2014.

Year-to-date G&A increased by $0.27 million or 26% and was not impacted by these income statement re-classifications. The increase in asset management fee reflects portfolio GLA growth of 62% via property acquisitions completed in 2014. Increased market capitalization contributed to higher public company costs. Other expenses fluctuate from period to period due to the timing of costs incurred. G&A will continue to increase as we execute our growth strategy. We expect it to be approximately 5% of rental revenue.

Finance Costs

	Three months ended June 30			Six months ended June 30		
($000s)	**2015**	2014	△%	**2015**	2014	△%
Interest on mortgages payable and revolving credit facility	**2,157**	1,313	64%	**4,229**	2,583	64%
Interest on Class C LP Units	**918**	997	(8)%	**1,874**	2,002	(6)%
Amortization of fair value adjustment on Class C LP Units	**(95)**	(110)	(14)%	**(200)**	(220)	(9)%
Interest on convertible debenture	**462**	—	100 %	**936**	—	100 %
Non-cash finance costs	**149**	63	137 %	**288**	108	167 %
Finance costs before distributions	**3,591**	2,263	59%	**7,127**	4,473	59%
Distributions on Class B LP Units	**2,467**	1,687	46 %	**4,933**	3,295	50 %
Finance costs	**6,058**	3,950	53 %	**12,060**	7,768	55 %

Finance costs for the three and six-months ended June 30, 2015 were $2.11 million and $4.29 million higher compared to the same periods in the prior year. Financing of properties acquired over the past twelve months drove the increase in interest on mortgages payable and revolving credit facility over 2014. Interest on Class C LP Units decreased over the comparative period due to the redemption of 333,100 Class C LP Units in February 2015 for approximately $3.10 million. The maturing Class C LP Units were replaced with mortgage financing at the same loan to value. On December 3, 2014, we issued a convertible debenture for gross proceeds of $34.50 million, which pays a coupon of 5.50% annually. Issuance of the convertible debenture resulted in an increase in the REIT's leverage over the comparative period.

Distributions on Class B LP Units increased by $0.78 million over Q2-2014 and $1.64 million year-to-date as a result of the issuance of 5,085,080 Class B LP Units and increased ownership interest as part of property acquisitions from Melcor completed in 2014.

Non-cash finance costs increased as a result of unwinding of the discount recognized on issuance of the convertible debenture.

As at June 30, 2015 the weighted average interest rate on our revolving credit facility, mortgages payable and Class C LP Units was 3.91%.

Income Taxes

As at June 30, 2015, 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.

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 to measure the 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.

	Three months ended June 30			Six months ended June 30		
($000s, except per unit amounts)	**2015**	2014	**△%**	**2015**	2014	**△%**
Net income for the period	**111**	5,296		**13,402**	6,174	
Add / (deduct)						
Fair value adjustment on investment properties	**1,899**	(568)		**3,708**	(737)	
Fair value adjustment on Class B LP Units	**1,316**	(2,603)		**(10,669)**	(1,173)	
Amortization of tenant incentives	**896**	619		**1,618**	1,160	
Distributions on Class B LP Units	**2,467**	1,687		**4,933**	3,295	
Funds From Operations (FFO)	**6,689**	4,431	51%	**12,992**	8,719	49%
Add / (deduct)						
Straight-line rent adjustments	**(395)**	(129)		**(787)**	(238)	
Non-cash finance costs	**149**	49		**288**	108	
Net impact of amortization of fair value adjustment and interest subsidy(1)	**73**	142		**161**	285	
Normalized capital expenditures(2)	**(321)**	(206)		**(642)**	(407)	
Normalized tenant incentives and leasing commissions(2)	**(639)**	(412)		**(1,278)**	(815)	
Adjusted Funds from Operations (AFFO)	**5,556**	3,875	43%	**10,734**	7,652	40%
FFO/Unit	**$0.26**	$0.22	19%	**$0.50**	$0.45	11%
AFFO/Unit	**$0.21**	$0.19	11%	**$0.41**	$0.39	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.

Our convertible debentures can be converted into trust units at the holder's option and is considered a dilutive instrument. The following table calculates diluted FFO and diluted FFO/Unit:

	Three months ended June 30			Six months ended June 30		
($000s, except per unit amounts)	**2015**	2014	**△%**	**2015**	2014	**△%**
Funds From Operations (FFO)	**6,689**	4,431	51%	**12,992**	8,719	49%
Interest on convertible debenture	**462**	—		**936**	—	
Non-cash finance costs on convertible debenture	**114**	—		**228**	—	
Funds From Operations - Diluted (FFO - Diluted)	**7,265**	4,431	64%	**14,156**	8,719	62%
FFO - Diluted/Unit	**$0.25**	$0.24	4%	**$0.49**	$0.47	4%

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-month periods were $1.90 million and $3.81 million respectively (2014 - $1.78 million and $3.32 million).

Distributions made during the six-months ended June 30, 2015 represent a payout ratio of approximately 82% of AFFO (2014 - 87%). We generate sufficient cash flows from operations in order to sustain our current distribution rate for the foreseeable future. We use AFFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Cash flow from operations for the six-month period was $5.42 million (2014 - $4.10 million), exceeding distributions by $1.61 million (2014 - $0.78 million).

A reconciliation of cash flow from operations to AFFO is as follows:

	Three months ended June 30			Six months ended June 30		
($000s)	**2015**	2014	**△%**	**2015**	2014	**△%**
Cash flows from operations	**1,432**	1,806	(21)%	**5,419**	4,102	32%
Distributions on Class B LP Units	**2,467**	1,687		**4,933**	3,295	
Changes in operating assets and liabilities	**2,449**	748		**1,941**	972	
Interest subsidy	**168**	252		**361**	505	
Normalized capital expenditures	**(321)**	(206)		**(642)**	(407)	
Normalized tenant incentives and leasing commissions	**(639)**	(412)		**(1,278)**	(815)	
Adjusted Funds from Operations (AFFO)	**5,556**	3,875	43 %	**10,734**	7,652	40%

Fair Value of Investment Properties

We carry our investment properties at fair value in accordance with IFRS 13, *Fair value measurement*. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	30-Jun-15	31-Dec-14
Number of properties	**38**	38
Total GLA (sf)	**2,836,565**	2,829,885
GLA (REIT owned %) (sf)	**2,738,212**	2,735,467
Fair value of portfolio ($000s)	**644,139**	644,288
Value per square foot	**$235**	$236
NOI ($000s)	**20,587**	28,581
Weighted average capitalization rate	**6.49%**	6.49%
Weighted average discount rate	**7.70%**	7.69%
Weighted average terminal capitalization rate	**6.77%**	6.77%

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2014. 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, 2015. This resulted in a fair value loss of $3.71 million (year-ended December 31, 2014 - fair value gain of $0.09 million) on investment properties recorded to income during the six-month period. Refer to note 14 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, 2015**	**Year ended December 31, 2014**
Northern Alberta	**(1,420)**	(3,787)
Southern Alberta	**(1,645)**	2,955
Saskatchewan & British Columbia	**(643)**	925
	(3,708)	93

Fair value losses in Northern Alberta were primarily driven by a 25 basis point decrease in terminal capitalization rate and decreased stabilized NOI on one of our downtown Edmonton office properties. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property. Fair value adjustments represent a change of less than 1% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	June 30, 2015			December 31, 2014		
	Min	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.49%**	5.50%	9.00%	6.49%
Terminal capitalization rate	**5.75%**	**9.25%**	**6.77%**	5.75%	9.25%	6.77%
Discount rate	**6.50%**	**10.00%**	**7.70%**	6.50%	10.00%	7.69%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $43.80 million (December 31, 2014 - $43.83 million) while a 50 basis points decrease (-0.5%) would increase it by $51.11 million (December 31, 2014 - $51.15 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)	**2015**	2014	$△	**2015**	2014	$△
Cash from operating activities	**1,432**	1,806	(374)	**5,419**	4,102	1,317
Cash used in investing activities	**(1,879)**	(13,126)	11,247	**(3,564)**	(20,387)	16,823
Cash from (used in) financing activities	**2,476**	7,745	(5,269)	**(6,522)**	10,353	(16,875)
Increase (decrease) in cash and cash equivalents	**2,029**	(3,575)	5,604	**(4,667)**	(5,932)	1,265
Cash and cash equivalents, beginning of the period	**16**	3,575	(3,559)	**6,712**	5,932	780
Cash and cash equivalents, end of the period	**2,045**	—	2,045	**2,045**	—	2,045

Operating activities

Cash from operating activities during the three and six-months ended June 30, 2015 was $0.37 million lower and $1.32 million higher than the respective periods in 2014. Timely collections of receivables led to reduction in amounts outstanding at quarter end; however, higher property taxes payments during Q2-2015 resulted in an increase in other assets and overall net working capital at quarter end. Cash flows from operations excluding changes in working capital increased by $1.33 million and $2.29 million during the three and six-month periods as a result of property acquisitions completed throughout 2014. These newly acquired properties added $3.21 million to NOI in Q2-2015 and $6.79 million year-to-date (2014 - $0.18 million and $0.43 million respectively). These increases were partially offset by an increase in finance costs during the three and six-month periods of $2.11 million and $4.29 million related to newly acquired properties in conjunction with an increase in the REIT's leverage. Issuance of Class B LP Units in 2014 and Melcor's increased ownership interest contributed $0.78 million and $1.64 million of the increase in finance costs during the three and six-months ended June 30, 2015.

Investing activities

We invested $0.94 million on tenant incentives for new and renewed leases in Q2-2015; $2.19 million year-to-date (2014 - $1.09 million and $1.92 million respectively). This investment reflects portfolio growth of 74% since our IPO on May 1, 2013 (based on sf GLA). As at June 30, 2015 we have completed 105,013 sf in renewals for a current retention rate of 67.6%. Timing of lease expiries impacts the level of spending on tenant incentives and leasing costs and will fluctuate from period to period.

We invested $0.94 million in strategic value-adding asset enhancement projects in Q2-2015; $1.44 million year-to-date (2014 - $0.92 million and $1.79 million respectively). This reduction is due to the nature and timing of projects undertaken. Since IPO, we have completed several capital projects that were subsidized by Melcor as a condition of sale. The capital subsidy reduced cash outflows by $0.06 million in 2015 (2014 - $1.19 million). During the quarter construction was substantially completed and partial tenancy commenced on a 7,456 sf commercial retail unit (CRU) at Chestermere Station.

In the comparative period we acquired an office building in Edmonton, AB (107 Avenue Building) for $5.67 million and invested a further $6.03 million in expanding our industrial portfolio with the acquisition of LC Industrial.

Financing activities

During Q2-2015 we drew $5.00 million under our new credit facility in order to fund capital and leasing activity planned for the second and third quarter of 2015. In addition, we re-financed the mortgage on two phases of a retail property for $8.25 million during the quarter, retiring the existing mortgages which had an outstanding principal balance of $6.76 million. Year-to-date we also re-financed $3.10 million of indebtedness on one of our commercial properties by redeeming 333,100 Class C LP Units and issuing a mortgage. During the comparative period we obtained mortgage financing on four recently acquired and previously unencumbered properties for proceeds for $19.01 million. Partial proceeds were used to repay the remaining amounts drawn under the revolving credit facility.

During the comparative period we received $21.25 million from the issuance of 2,145,000 trust units, net of transaction costs. The funds were used to fund acquisitions from Melcor and to reduce the amount outstanding under our revolving credit facility.

We continued our monthly distribution of $0.05625 per unit for quarterly distributions of $1.90 million; $3.81 million year-to-date (2014 - $1.78 million and $3.32 million respectively).

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, 2015 we had $2.05 million in cash and cash equivalents and $2.52 million in restricted cash in addition to funds available under our revolving credit facility.

On May 1, 2015 our revolving credit facility matured with an outstanding balance of $2.00 million. The REIT did not request a one year extension as allowed under the terms of the agreement and canceled the facility effective May 1, 2015. Concurrent with the maturity and cancellation of the REIT's existing credit facility the REIT entered into a new revolving credit facility with two Western Canadian financial institutions. Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of $35.00 million for general purposes, including a $5.00 million swingline sub-facility. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.15% or bankers acceptance plus 2.25% stamping fee. The facility matures May 1, 2018.

Capital Structure

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

Pursuant to the DOT Degree of Leverage Ratio, 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% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the period we were in compliance with the Degree of Leverage Ratio and had a ratio of 55% as at June 30, 2015 (49% excluding convertible debentures).

As at June 30, 2015, the REIT's total capitalization was $603.47 million and is comprised of:

($000s)	**30-Jun-15**
Revolving credit facility(1)	5,000
Mortgages payable(1)	217,240
Class C LP Units(2)	84,876
Indebtedness, excluding convertible debenture	307,116
Convertible debenture(3)	34,500
Indebtedness	341,616
Class B LP Units(4)	147,708
Trust units	114,144
Equity	261,852
Total capitalization	**603,468**
Gross Book Value (GBV)(5)	**621,014**
Debt to GBV, excluding convertible debenture (maximum threshold - 60%)	**49%**
Debt to GBV (maximum threshold - 65%)	**55%**

(1) Debts are presented excluding unamortized transaction costs, discount on bankers acceptance, and fair value adjustment on mortgage.
(2) Class C LP Units excluding unamortized fair value adjustment on Class C LP Units.
(3) Convertible debenture is presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.
(4) Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.
(5) GBV is calculated as the cost of the total assets acquired in the Initial Properties, subsequent asset purchases and development costs.

We are also subject to financial covenants on our $35.00 million revolving credit facility. The covenants include a maximum debt to gross book value ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.50, and a minimum adjusted unitholders' equity of $140.00 million. As at June 30, 2015, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 48%, debt service coverage ratio of 1.65, and an adjusted unitholders' equity of $281.86 million. We also have financial covenants on certain mortgages for investment properties. At June 30, 2015, 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**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Revolving credit facility	**5,000**	5,000	—	—	—	—	—
Mortgages payable	**217,240**	11,416	32,264	5,413	40,624	70,098	57,425
Class C LP Units	**84,876**	21,182	11,180	4,584	13,108	8,064	26,758
Convertible debenture	**34,500**	—	—	—	—	34,500	—
Total	**341,616**	**37,598**	**43,444**	**9,997**	**53,732**	**112,662**	**84,183**
% of portfolio	100%	11%	13%	3%	16%	33%	24%

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, Class C LP Units and convertible debenture bear interest at fixed rates; our revolving credit facility bears interest at variable 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	**5,000**	—	5,000	3.24%	2.84
Mortgages payable	**217,240**	217,240	—	3.70%	4.81
Class C LP Units	**84,876**	84,876	—	3.83%	3.55
Convertible debenture	**34,500**	34,500	—	5.50%	4.51
Total	**341,616**	**336,616**	**5,000**	**3.91%**	**4.44**

The weighted average interest rate on our debts decreased to 3.91% (December 31, 2014 - 3.98%) as a result of re-financing of mortgages. During Q2-2015 we obtained mortgage financing of $8.25 million (presented at JV% interest) on two phases of a retail property at a fixed interest rate of 3.46%. Proceeds were used to retire two existing mortgages with a combined carrying value of $6.76 million and a weighted average interest rate of 5.30%. Year-to-date we also obtained mortgage financing of $3.10 million on one commercial property at a fixed interest rate of 2.48%. Proceeds were used to repay the existing Class C LP Unit liability held by Melcor (333,100 units) with a carrying value of $3.10 million and subsidized interest rate of 4.00%.

Subsequent to quarter, the mortgage that secures Retained Debt relating to one of the Initial Properties was extended from August 1, 2015 to August 1, 2020, and the interest rate of such mortgage of 4.77% (4.00% after the interest rate subsidy paid by Melcor) was reduced to 2.68%. The financing environment remains competitive and we expect to be able to secure new financing on remaining upcoming mortgage renewals in 2015.

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)	Six months ended June 30, 2015	Year ended December 31, 2014
FFO	**12,992**	**17,907**
Principal repayments on Mortgages payable	3,016	3,441
Principle repayments on Class C LP Units	1,538	3,059
Debt service coverage ratio	**2.85**	**2.75**
FFO plus finance costs	20,119	27,126
Finance costs(1)	7,127	9,219
Finance costs coverage ratio	**2.82**	**2.94**

(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 June 30, 2015 we commenced a normal course issuer bid (NCIB) to buy back our trust units. We are entitled to purchase up to 563,750 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. We believe that our units have been trading in a price range which does not adequately reflect the value of the units in relation to our current and future business prospects. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on June 29, 2016.

No units were repurchased in Q2-2015.

The following table summarizes the trust units issued and the fully diluted number of units outstanding as at June 30, 2015 and December 31, 2014:

	June 30, 2015		December 31, 2014	
Issued and fully paid units ($000s)	**Units**	**$ Amount**	Units	$ Amount
Balance, beginning of period	**11,275,000**	**114,144**	9,130,000	91,300
Issuance of trust units	**—**	**—**	2,145,000	22,844
Balance, end of period	**11,275,000**	**114,144**	11,275,000	114,144
Dilutive securities				
Class B LP Units(1)	**14,615,878**	**147,708**	14,615,878	147,708
Convertible debenture	**2,727,273**	**34,500**	2,727,273	34,500
Diluted balance, end of period	**28,618,151**	**296,352**	28,618,151	296,352

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

Quarterly Results

	2015		**2014**				**2013**	
($000s except per unit amount)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	**16,323**	16,258	11,669	11,074	11,119	10,647	10,070	9,794
Net income	**111**	13,291	9,481	2,693	5,296	878	7,466	5,945
Income per unit	**$ 0.01**	$ 1.18	$ 0.88	$ 0.24	$ 0.52	$ 0.10	$ 0.51	$ 0.65

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, 2015 in comparison to the December 31, 2014 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, 2015 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)	**2015**	2014	△%	**2015**	2014	△%
Net income for the period	**111**	5,296		**13,402**	6,174	
Net finance costs	**6,041**	3,929		**12,025**	7,729	
Fair value adjustment on Class B LP Units	**1,316**	(2,603)		**(10,669)**	(1,173)	
Fair value adjustment on investment properties	**1,899**	(568)		**3,708**	(737)	
General and administrative expenses	**514**	659		**1,290**	1,022	
Amortization of tenant incentives	**896**	619		**1,618**	1,160	
Straight-line rent adjustment	**(395)**	(129)		**(787)**	(238)	
NOI	**10,382**	7,203	**44%**	**20,587**	13,937	48%

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; and (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination (calculation page 9).

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) non-cash finance costs; (iv) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; and (v) 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 (calculation page 9).

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

Debt to Gross Book Value: is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units and convertible debenture, excluding unamortized discount and transaction costs 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.

MELCOR REAL ESTATE INVESTMENT TRUST

Condensed Interim Consolidated Financial Statements

For the three and six-months ended June 30, 2015

(Unaudited)

Condensed Interim Consolidated Statements of Financial Position

As at June 30, 2015

(Unaudited)

($000s)	June 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	**2,045**	6,712
Accounts receivable	**2,038**	2,877
Other assets (note 4)	**2,368**	943
	6,451	10,532
Non-Current Assets		
Restricted cash	**2,521**	2,945
Investment properties (note 3 and 14)	**627,735**	630,003
Other assets (note 4)	**16,404**	14,285
	646,660	647,233
TOTAL ASSETS	**653,111**	657,765
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 5)	**4,774**	4,958
Accounts payable	**1,024**	1,297
Distribution payable	**1,456**	1,456
Accrued liabilities and other payables (note 6)	**6,381**	6,295
Class C LP Units (note 8)	**22,690**	25,825
Mortgages payable (note 7)	**29,129**	20,957
	65,454	60,788
Non-Current Liabilities		
Accrued liabilities and other payables (note 6)	**1,376**	1,360
Class B LP Units (note 9 and 14)	**127,597**	138,266
Class C LP Units (note 8)	**63,215**	64,923
Mortgages payable (note 7)	**187,219**	194,002
Convertible debenture	**32,007**	31,780
Derivative financial liability (note 14)	**185**	185
TOTAL LIABILITIES	**477,053**	491,304
UNITHOLDERS' EQUITY	**176,058**	166,461
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**653,111**	657,765

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

For the three and six-months ended June 30

(Unaudited)

	Three months ended June 30		Six months ended June 30	
($000s)	**2015**	**2014**	**2015**	**2014**
Rental revenue (note 11 and 13)	**16,323**	11,119	**32,581**	21,766
Direct operating expenses (note 13)	**(6,442)**	(4,406)	**(12,825)**	(8,751)
Net rental income	**9,881**	6,713	**19,756**	13,015
General and administrative expenses (note 13)	**(514)**	(659)	**(1,290)**	(1,022)
Fair value adjustment on investment properties (note 3 and 14)	**(1,899)**	568	**(3,708)**	737
Fair value adjustment on Class B LP Units (note 9 and 14)	**(1,316)**	2,603	**10,669**	1,173
Income before finance costs	**6,152**	9,225	**25,427**	13,903
Interest income	**17**	21	**35**	39
Finance costs (note 12 and 13)	**(6,058)**	(3,950)	**(12,060)**	(7,768)
Net finance costs	**(6,041)**	(3,929)	**(12,025)**	(7,729)
Net income and comprehensive income	**111**	5,296	**13,402**	6,174
Basic earnings per trust unit	**$0.01**	$0.51	**$1.19**	$0.63
Diluted earnings per trust unit	**$0.01**	$0.22	**$0.31**	$0.43

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

As at June 30, 2015

(Unaudited)

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at January 1, 2015	11,275,000	103,959	40,196	22,306	166,461
Net income for the period	—	—	—	13,402	13,402
Distributions to unitholders	—	—	—	(3,805)	(3,805)
Balance at June 30, 2015	11,275,000	103,959	40,196	31,903	176,058

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at January 1, 2014	9,130,000	82,709	36,823	11,086	130,618
Issuance of units	2,145,000	21,250	—	—	21,250
Property purchase from Melcor Developments Ltd.	—	—	125	—	125
Net income for the period	—	—	—	6,174	6,174
Distributions to unitholders	—	—	—	(3,323)	(3,323)
Balance at June 30, 2014	11,275,000	103,959	36,948	13,937	154,844

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

For the three and six-months ended June 30

(Unaudited)

	Three months ended June 30		Six months ended June 30	
($000s)	**2015**	**2014**	**2015**	**2014**
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**111**	5,296	**13,402**	6,174
Non cash items:				
Amortization of tenant incentives (note 4 and 11)	**896**	619	**1,618**	1,160
Straight-line rent adjustments (note 11)	**(395)**	(129)	**(787)**	(238)
Fair value adjustment on investment properties (note 3 and 14)	**1,899**	(568)	**3,708**	(737)
Fair value adjustment on Class B LP Units (note 9 and 14)	**1,316**	(2,603)	**(10,669)**	(1,173)
Amortization of fair value adjustment on Class C LP Units (note 12)	**(95)**	(110)	**(200)**	(220)
Non-cash finance costs (note 12)	**149**	49	**288**	108
	3,881	2,554	**7,360**	5,074
Changes in operating assets and liabilities	**(2,449)**	(748)	**(1,941)**	(972)
	1,432	1,806	**5,419**	4,102
INVESTING ACTIVITIES				
Additions to investment properties	**—**	(11,844)	**—**	(17,871)
Payment of tenant incentives	**(939)**	(1,085)	**(2,187)**	(1,921)
Investment property improvements, development and direct leasing costs	**(940)**	(921)	**(1,440)**	(1,787)
Change in restricted cash	**—**	724	**63**	1,192
	(1,879)	(13,126)	**(3,564)**	(20,387)
FINANCING ACTIVITIES				
Proceeds from issuing units, net of costs	**—**	21,250	**—**	21,250
Change in revolving credit facility	**5,000**	(18,500)	**—**	(24,000)
Proceeds from mortgages payable	**8,250**	8,110	**11,345**	19,010
Repayment of mortgages payable	**(8,278)**	(824)	**(9,780)**	(1,576)
Repayment on Class C LP Units	**(762)**	(760)	**(4,643)**	(1,513)
Change in restricted cash	**168**	251	**361**	505
Distributions to unitholders	**(1,902)**	(1,782)	**(3,805)**	(3,323)
	2,476	7,745	**(6,522)**	10,353
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE PERIOD	**2,029**	(3,575)	**(4,667)**	(5,932)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**16**	3,575	**6,712**	5,932
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**2,045**	—	**2,045**	—

See accompanying notes to the condensed interim consolidated financial statements.

1. DESCRIPTION OF THE TRUST

Melcor Real Estate Investment Trust (the ''REIT'' or "we") 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. The REIT began operations on May 1, 2013.

The principal business of the REIT is to acquire, own and manage office, retail and industrial properties in select markets across Western Canada. The REIT is externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement (note 13).

As at August 6, 2015, Melcor, through an affiliate, holds an approximate 56.5% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party.

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. Our trust units are traded on the Toronto Stock Exchange under the symbol "MR.UN".

2. BASIS OF PRESENTATION

These condensed interim consolidated 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*.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2014, which have been prepared in accordance with IFRS as issued by the IASB. These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees on August 6, 2015.

3. INVESTMENT PROPERTIES

($000s)	Six months ended June 30, 2015	Year ended December 31, 2014
Balance - beginning of period	**630,003**	429,117
Additions		
Direct acquisition	**—**	195,972
Property improvements	**862**	2,743
Property development activities	**202**	640
Direct leasing costs	**376**	1,057
Fair value adjustment on investment property (note 14)	**(3,708)**	93
Change in provision	**—**	381
Balance - end of period	**627,735**	630,003

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 14.

The cost of investment properties as at June 30, 2015 totalled $407,844 (December 31, 2014 - $406,404).

Presented separately from investment properties is $14,164 (December 31, 2014 - $12,832) in tenant incentives and $2,240 (December 31, 2014 - $1,453) in straight-line rent adjustments (note 4). The fair value of investment properties has been reduced by these amounts.

4. OTHER ASSETS

($000s)	June 30, 2015	December 31, 2014
Current Assets		
Prepaid expense, and other	**2,368**	943
Non-Current Assets		
Straight-line rent adjustments	**2,240**	1,453
Tenant incentives	**14,164**	12,832
	16,404	14,285

During the six-month period we recorded tenant incentives of $2,950 (2014 - $1,921) and recorded $1,618 (2014 - $1,160) 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.

5. REVOLVING CREDIT FACILITY

On May 1, 2015 we entered into a revolving term facility credit agreement with two Western Canadian financial institutions (the "new facility"). Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of $35,000 for general purposes, including a $5,000 swingline sub-facility. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The facility matures on May 1, 2018, with an extension option of up to three years at the discretion of the lenders. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.15% or bankers acceptance plus 2.25% stamping fee. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the revolving facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. As at June 30, 2015, the carrying value of pledged properties was $57,900. We capitalized $245 in transaction costs associated with the facility, of which $214 was unamortized at June 30, 2015 and is presented net of the outstanding balance. Concurrent with commencement of the new facility we canceled our previous credit facility with two major Canadian chartered banks.

The following table summarizes the components of the balance:

($000s)	June 30, 2015	December 31, 2014
Amount drawn on facility	**5,000**	5,000
Unamortized transaction fees	**(214)**	(39)
Unamortized discount on bankers acceptance	**(12)**	(3)
	4,774	4,958

6. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	June 30, 2015	December 31, 2014
Current Liabilities		
Accrued liabilities and other payables	**6,381**	6,245
Decommissioning obligation	**—**	50
	6,381	6,295
Non-Current Liabilities		
Decommissioning obligation	**1,376**	1,360

7. MORTGAGES PAYABLE

($000s)	June 30, 2015	December 31, 2014
Mortgages amortized over 15-25 years at fixed interest rates	**217,240**	215,675
Unamortized fair value adjustment	**272**	432
Unamortized deferred financing fees	**(1,164)**	(1,148)
	216,348	214,959
Current portion of mortgages payable	**(29,129)**	(20,957)
	187,219	194,002
Interest rate ranges	**(2.48%-5.59%)**	(3.01%-5.70%)

8. CLASS C LP UNITS

Class C LP Units are held by Melcor in consideration of debt retained on certain properties sold to the REIT. Distributions are made on the units in order to permit Melcor to satisfy required principal and interest payments. The Class C LP Units are classified as debt and a portion of the distributions are recognized as interest expense.

($000s)	June 30, 2015	December 31, 2014
Class C LP Units amortized over 2-6 years at fixed interest rates	**84,876**	89,519
Unamortized fair value adjustment	**1,029**	1,229
	85,905	90,748
Current portion of Class C LP Units	**(22,690)**	(25,825)
	63,215	64,923
Effective interest rate	**3.83%**	3.84%

During the six-month period we redeemed 333,100 Class C LP Units (2014 - nil). As at June 30, 2015 we had 9,121,311 Class C LP Units issued and outstanding (December 31, 2014 - 9,454,411).

9. CLASS B LP UNITS

Class B LP Units are held by Melcor as partial consideration for certain properties sold to the REIT. The Class B LP Units are exchangeable at the option of the holder for one trust unit of the REIT and, therefore, are considered a puttable instrument and are required to be accounted for as a financial liability. Each unit is accompanied by one special voting unit which entitles the holder to one vote at any meeting of the unitholders. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units and are included in finance costs.

In accordance with our policy we record Class B LP Units at fair value. We remeasured the Class B LP Units at June 30, 2015 and recognized a fair value gain of $10,669 during the six-month period (2014 - fair value gain of $1,173). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 14.

At June 30, 2015 there were 14,615,878 Class B LP Units issued and outstanding at a fair value of $8.73 per unit or $127,597 (December 31, 2014 - 14,615,878 at $9.46 per unit or $138,266).

10. UNITHOLDERS' EQUITY

On June 30, 2015 we commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase up to 563,750 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on June 29, 2016.

In connection with commencement of the NCIB, the REIT also entered into an automatic purchase plan agreement with a broker to allow for the purchase of trust units under the NCIB at times when the REIT ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods.

Issued and outstanding trust units at June 30, 2015 are 11,275,000 (December 31, 2014 - 11,275,000).

11. RENTAL REVENUE

The components of rental revenue are as follows:

	Three months ended June 30		Six months ended June 30	
($000s)	**2015**	**2014**	**2015**	**2014**
Rental revenue	**16,824**	11,609	**33,412**	22,688
Amortization of tenant incentives (note 4)	**(896)**	(619)	**(1,618)**	(1,160)
Straight-line adjustments	**395**	129	**787**	238
	16,323	11,119	**32,581**	21,766

12. FINANCE COSTS

The components of finance costs are as follows:

	Three months ended June 30		Six months ended June 30	
($000s)	**2015**	**2014**	**2015**	**2014**
Interest on mortgages payable and revolving credit facility	**2,157**	1,313	**4,229**	2,583
Interest on Class C LP Units	**918**	997	**1,874**	2,002
Amortization of fair value adjustment on Class C LP Units	**(95)**	(110)	**(200)**	(220)
Distributions on Class B LP Units (note 13)	**2,467**	1,687	**4,933**	3,295
Interest on convertible debenture	**462**	—	**936**	—
Non-cash finance costs	**149**	63	**288**	108
	6,058	3,950	**12,060**	7,768

Total finance costs paid during the three and six-month period were $5,909 and $11,772 (2014 - $3,997 and $7,880) respectively.

13. RELATED PARTY TRANSACTIONS

The condensed interim consolidated financial statements of the REIT include the following related party transactions with Melcor, and its affiliates, as the controlling unitholder of the REIT:

a) Property and Asset Management Agreements

Pursuant to the terms of the Property and Asset Management Agreements the REIT incurred the following fees during the three and six-month period:

	Three months ended June 30		Six months ended June 30	
($000s)	**2015**	**2014**	**2015**	2014
Asset Management Agreement				
Base Annual Management Fee	**379**	273	**759**	542
Capital Expenditure Fee	**—**	—	**—**	—
Acquisition Fee	**—**	56	**—**	115
Financing Fee	**—**	—	**—**	—
Property Management Agreement				
Monthly Fee	**466**	307	**948**	594
Lease Fee	**167**	382	**374**	640
	1,012	1,018	**2,081**	1,891

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. Acquisition Fees and Lease Fees are capitalized to investment properties. As at June 30, 2015 there was $759 (December 31, 2014 - $271) payable to Melcor related to these fees.

b) Distributions on Class B LP Units and Redemptions of Class C LP Units

During the three and six-month period ended June 30, 2015 $2,467 and $4,933 in distributions were recorded on Class B LP Units held by Melcor (2014 - $1,687 and $3,295). These distributions were recorded as finance costs (note 12). As at June 30, 2015 there was $822 payable to Melcor for the June distribution (December 31, 2014 - $822 for the December distribution).

Also during the three and six-month period ended June 30, 2015, Melcor, as holder of all Class C LP Units, was paid $1,679 and $3,411 to fund principal and interest payments on the retained debt (2014 - $1,758 and $3,516). These payments were recorded as a reduction of the Class C LP Unit liability and as finance costs. In addition, during the six-month period we redeemed 333,100 Class C LP Units with a carrying value of $3,105.

c) Rental Revenue

For the three and six-month period ended June 30, 2015 the REIT collected $230 and $419 in rental revenue from Melcor and an affiliate for use of office space (2014 - $177 and $357). In addition, pursuant to the Head and Bridge Lease Agreements entered into upon closing of a property acquisition from Melcor in 2014, the REIT collected $144 and $378 in rental revenue from Melcor as compensation for certain vacant spaces at the properties acquired for the three and six-month period ended June 30, 2015 respectively (2014 - $nil). These amounts are included in rental revenue.

d) Key Management Remuneration

The REIT does not directly or indirectly pay any compensation to named executive officers of the REIT. The REIT has no employees and is externally managed, administered and operated by Melcor pursuant to the Asset Management Agreement and Property Management Agreement.

All related party transactions occurred in the normal course of operations, at market rates and under normal commercial terms.

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 REIT’s financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, revolving credit facility, accounts payable and distribution payable approximate their fair values based on the short term maturities of these financial instruments.
- fair values of mortgages payable and Class C LP Units are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liability, the conversion feature on our convertible debenture, is estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of Class B LP Units are estimated based on the closing trading price of the REIT’s trust units (Level 1).

In addition, the REIT carries its investment properties 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 REIT’s assets and liabilities carried at fair value and its financial assets and liabilities where carrying value does not approximate fair value.

	June 30, 2015				December 31, 2014	
($000s)	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets						
Investment properties	**627,735**	**—**	**627,735**	**627,735**	630,003	630,003
Financial liabilities						
Mortgages payable	**—**	**217,240**	**217,240**	**217,959**	215,675	219,492
Class B LP Units	**127,597**	**—**	**127,597**	**127,597**	138,266	138,266
Class C LP Units	**—**	**84,876**	**84,876**	**84,876**	90,748	90,748
Convertible debenture	**—**	**32,007**	**32,007**	**32,007**	31,780	31,780
Derivative financial liability	**185**	**—**	**185**	**185**	185	185

The table below analyzes assets and liabilities carried at fair value in the condensed interim consolidated statement of financial position, by the levels in the fair value hierarchy. 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: quote 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.

There were no transfers between the levels of the fair value hierarchy during the period.

($000s)	**Level 1**	**Level 2**	**Level 3**	**Total**
Non-financial assets				
Investment properties	—	—	627,735	627,735
Financial liabilities				
Derivative financial liability	—	—	185	185
Class B LP Units	127,597	—	—	127,597

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, 2014. We obtained updated market data at June 30, 2015 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at June 30, 2015. Fair values of investment properties were revised based on the updated data and model variables resulting in a fair value loss for the six-month period of $3,708 (2014 - fair value gain of $737) recorded as fair value adjustment on investment properties in the statement of 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 significant unobservable inputs in the Level 3 valuations 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 capitalization 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.

(Unaudited - in $000s except unit and per unit amounts)

An increase in the cash flows or stabilized net operating income results in an increase in fair value of investment property whereas an increase in the capitalization rate, discount rate or terminal capitalization rate decreases the fair value of the investment property.

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'.

The REIT's management company, Melcor, lead by Melcor's executive management team, is responsible for determining fair value measurements including verifying all major inputs included in the valuation. Melcor's management, along with the REIT's Audit Committee, discuss the valuation process and key inputs on a quarterly basis.

Weighted average stabilized net operating income for investment properties is $1,465 (December 31, 2014 - $1,414). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	June 30, 2015			December 31, 2014		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.49%	5.50%	9.00%	6.49%
Terminal capitalization rate	5.75%	9.25%	6.77%	5.75%	9.25%	6.77%
Discount rate	6.50%	10.00%	7.70%	6.50%	10.00%	7.69%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $43,798 (December 31, 2014 - $43,828). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $51,107 (December 31, 2014 - $51,148).

Derivative financial liability

Our financial derivative liability is comprised of the conversion feature on our convertible debenture.

The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debenture as at June 30, 2015 are as follows:

- Volatility - expected volatility as at June 30, 2015 was derived from the historical prices of the REIT's trust units. As the REIT was formed on May 1, 2013, price history is limited and we have used the entire historical data up until June 30, 2015. Volatility was 15.17%.
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at June 30, 2015. The credit spread used was 3.76%.

Class B LP Units

Class B LP Units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the trust units at the period end date. At June 30, 2015 the fair value of the Class B LP Units was $127,597, resulting in a fair value gain of $10,669 for the six-month period (December 31, 2014 - fair value gain of $9,880).

15. SUBSEQUENT EVENTS

Distributions declared

On July 15, 2015 we declared a distribution of $0.05625 per unit for the months of July, August and September 2015. The distributions will be payable as follows:

Month	**Record Date**	**Distribution Date**	**Distribution Amount**
July 2015	July 31, 2015	August 17, 2015	$0.05625 per unit
August 2015	August 31, 2015	September 15, 2015	$0.05625 per unit
September 2015	September 30, 2015	October 15, 2015	$0.05625 per unit