Management's Discussion & Analysis

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November 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 September 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 third 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 November 6, 2015. Disclosure contained in this MD&A is current to November 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 17 "*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 November 6, 2015, Melcor, through an affiliate, holds an approximate 56.7% 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 November 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 September 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. We have not completed any acquisitions through Q3-2015.

Improve:

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

Asset Enhancement:

We continue to execute on opportunities to densify our portfolio. In Q3-2015, we pre-leased a 7,800 sf commercial retail unit (CRU) at a neighbourhood shopping centre in Spruce Grove in Q3-2015. This new CRU is an opportunity to increase GLA at an existing property site. Construction will commence in Q4-2015 with occupancy scheduled for early 2016. In Q2-2015, we completed construction of a 7,500 sf commercial retail unit at neighbourhood shopping centre in Chestermere, increasing the gross leasable area of an existing property.

We continue to work towards achieving BOMA BESt certification in our existing buildings. In October 2015, we achieved BOMA BESt level 2 certification at one downtown Edmonton office building, bringing our total to five certified green and responsible properties. BOMA BESt is the leading environmental certification program for existing buildings in Canada.

Property Management:

We responded to 99% of calls to our signature customer care line within 30 minutes in Q3-2015, exceeding our target of a 95% on time response rate. We use this metric as an indicator of our success in providing responsive care to our customers.

Our property management and building operations teams both achieved customer satisfaction rates of 94% at the six office buildings that were surveyed in Q2-2015. We created an action plan and continue to make improvements to our properties based on feedback received via the surveys.

Q3-2015 Highlights & Key Performance Indicators

Financial Highlights

($000s)	Three months ended September 30 2015	2014	△%	Nine months ended September 30 2015	2014	△%
Non-Standard KPIs						
Net operating income (NOI)	**10,325**	7,164	44 %	**30,912**	21,101	46 %
Funds from operations (FFO)	**6,724**	4,766	41 %	**19,716**	13,485	46 %
Adjusted funds from operations (AFFO)	**5,560**	4,115	35 %	**16,294**	11,767	38 %
Rental revenue	**15,938**	11,074	44 %	**48,519**	32,840	48 %
Income before fair value adjustments	**3,500**	2,442	43 %	**9,941**	6,706	48 %
Fair value adjustment on investment properties	**(3,614)**	(3,840)	(6)%	**(7,322)**	(3,103)	136 %
Distributions to unitholders	**1,895**	1,902	— %	**5,700**	5,225	9 %
Cash flows from operations	**5,026**	2,649	90 %	**10,445**	6,751	55 %
Per unit metrics						
Income - diluted	**$0.10**	$0.02	400 %	**$0.41**	$0.43	(5)%
FFO	**$0.26**	$0.22	18 %	**$0.76**	$0.67	13 %
AFFO	**$0.21**	$0.19	11 %	**$0.63**	$0.59	7 %
Distributions	**$0.17**	$0.17	— %	**$0.51**	$0.51	— %
Payout ratio	**80%**	89%	(10)%	**80%**	86%	(7)%

	30-Sept-15	31-Dec-14	△%
Total assets ($000s)	**648,374**	657,765	(1)%
Equity ($000s)(1)	**260,882**	261,852	— %
Debt ($000s)(2)	**339,672**	344,694	(1)%
Weighted average interest rate on debt	**3.84%**	3.98%	(4%)
Debt to GBV ratio(3)	**55%**	56%	(2%)
Finance costs coverage ratio(4)	**2.86**	2.94	(3)%
Debt service coverage ratio(5)	**2.86**	2.75	4 %

Operational Highlights

	30-Sept-15	31-Dec-14	△%
Number of properties	**38**	38	— %
Gross leasable area (GLA) (sf)	**2,737,837**	2,735,467	— %
Occupancy % (weighted by GLA)	**92.5%**	92.4%	—%
Retention % (weighted by GLA)	**71.1%**	82.7%	(14)%
Weighted average remaining lease term (years)	**5.36**	5.49	(2)%
Weighted average base rent (per sf)	**$15.51**	$15.25	2 %

(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.

Q3-2015 Highlights:

Our portfolio performance remained stable throughout the third quarter of 2015. The stability and diversity of our portfolio with respect to both tenant profile and asset class position the REIT well for managing through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt. At 80%, our payout ratio is a strong indicator of our overall health and our ability to sustain distributions at current rates.

The quality of the properties acquired in 2014, when we added over 1 million sf in GLA through both third party and Melcor pipeline acquisitions, contributed to higher weighted average base rent and improved our overall performance. Same-asset occupancy has also increased since Q4-2014.

We continue to see leasing activity in all asset classes. With nearly 30% (GLA) of leases maturing in 2014 and 2015, we continue to execute our proactive strategy to renew expiring leases and enter new leases and have renewed over 143,000 sf in expiring leases and closed over 107,000 sf in new leases to the end of September. This resulted in increased tenant improvement spending which reduced our net effective rent on a same-asset basis. The market for downtown office space in Edmonton is competitive and tenant improvements in this asset class are the primary contributor to lower net effective rents. Office occupancy is up by 24 bps compared to year-end.

Highlights of our performance in the third quarter include:

- Revenue growth of 44% and AFFO growth of 35% over Q3-2014 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 92.5%. We continue to see leasing activity and renewed 143,515 sf of expiring GLA for a tenant retention rate of 71.1%. We have also closed over 107,000 sf in new lease deals.
- Our focus on managing expenses resulted in improved operating margin of 61% year-to-date (2014 - 60%).
- Achieved a 99% on-time response rate for our signature care program.
- Reduced weighted average interest rate by 4% year-to-date as a result of mortgage re-financings and Class C LP Unit extension.
- We entered into a normal course issuer bid (NCIB) in June 2015. We repurchased and canceled 95,792 trust units during the quarter, decreasing our public float by 1%. Trust units repurchased had an approximate yield of 8.3%, based on an approximate unit price of $8.11 for a total cost of $0.78 million.
- We paid distributions of $0.05625 per trust unit in July, August and September for a quarterly payout ratio of 80%, a reduction of 10% from Q3-2014.
- As at September 30, 2015 we have $0.57 million in cash, $2.39 million in restricted cash and additional capacity under our new revolving credit facility with available credit to a maximum of $35.00 million.

Consolidated Revenue & Net Operating Income

	Three months ended September 30			Nine months ended September 30		
($000s)	**2015**	2014	△%	**2015**	2014	△%
Base rent	**10,115**	7,123	42 %	**30,238**	20,920	45 %
Recoveries	**5,655**	4,038	40 %	**17,948**	12,314	46 %
Other	**519**	284	83 %	**1,515**	899	69 %
Amortization of tenant incentives	**(758)**	(599)	27 %	**(2,376)**	(1,759)	35 %
Straight-line rent adjustment	**407**	228	79 %	**1,194**	466	156 %
Rental revenue	**15,938**	11,074	44 %	**48,519**	32,840	48 %
Operating expenses	**2,812**	2,187	29 %	**9,150**	6,442	42 %
Utilities and property taxes	**3,152**	2,094	51 %	**9,639**	6,590	46 %
Direct operating expenses	**5,964**	4,281	39 %	**18,789**	13,032	44 %
Net rental income	**9,974**	6,793	47 %	**29,730**	19,808	50 %
NOI	**10,325**	7,164	44 %	**30,912**	21,101	46 %
Same-asset NOI	**6,457**	6,793	(5)%	**18,259**	18,915	(3)%
Operating margin	**63%**	61%	3 %	**61%**	60%	2 %

Revenue

Q3-2015 rental revenue grew by 44% or $4.86 million compared to Q3-2014 and by 48% or $15.68 million for nine months ended September 30, 2015. This increase is a result of the 49% growth in our portfolio since September 30, 2014. Rental revenue related to newly acquired properties was $6.13 million and $17.37 million during the three and nine-month periods respectively (2014 - $0.46 million and $1.10 million). On a same-asset basis, rental revenue decreased over 2014 as a result of tenant improvements on lease renewals and new deals in our office portfolio.

Weighted average base rent was $15.51, a 2% increase over year end. Changes to our asset class mix as a result of acquisitions completed over the past year 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 GLA expiring in 2015 contributed to improved occupancy of 91.4% in the office asset class. This increase was offset by a large tenant vacating one of our industrial buildings in Lethbridge, AB which reduced occupancy by 1% and impacted the year-to-date retention rate. The vacated space was leased to a new tenant during the quarter with a Q4-2015 lease commencement.

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

	30-Sept-15	31-Dec-14	△%
Weighted average base rent (per sf)	**$15.51**	$15.25	2 %
Weighted average remaining lease term	**5.36**	5.49	(2)%
GLA	**2,737,837**	2,735,467	— %
Occupancy %	**92.5%**	92.4%	— %
Retention %	**71.1%**	82.7%	(14)%

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. During the three and nine-months ended September 30, 2015 recovery revenue increased by 40% and 46% over the respective 2014 periods and correlates with the increase in direct operating expenses over 2014 and the increase in GLA.

Other revenue includes parking 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 and 2015 and leasing programs to increase occupancy in 2015. Lower net effective rent reflects market conditions, particularly in our Edmonton office portfolio, however occupancy of Edmonton office space remains steady at 90% and we continue to see leasing activity. 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 $1.68 million compared to Q3-2014 and $5.76 million year-to-date. Excluding the impact of the newly acquired properties, direct operating expenses were steady over 2014. On a same-asset basis, property taxes increased by $0.12 million over 2014 due to increases in appraised property values and utilities decreased as a result of cost savings on certain utility contracts.

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 December 2014 led to a 44% increase in NOI over Q3-2014 and 46% year-to-date. Same-asset NOI declined over 2014 as a result of increased amortization of tenant incentives. Normalizing for amortization of tenant incentives and straight line rent adjustment, same-asset NOI was down by 1% and 3% compared to the three and nine-months ended September 30, 2014. The decrease in same-assets was offset by the increase in our portfolio through acquisitions and strength of those assets culminating in an increase in net rental income of 47% and 50% over the respective three and nine-month periods.

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 September 30			Nine months ended September 30		
($000s)	**2015**	2014	**△%**	**2015**	2014	**△%**
Same-asset NOI	**6,457**	6,793	(5)%	**18,259**	18,915	(3)%
Acquisitions	**3,517**	—		**11,471**	893	
NOI before adjustments	**9,974**	6,793	47 %	**29,730**	19,808	50 %
Amortization of tenant incentives	**758**	599		**2,376**	1,759	
Straight-line rent adjustment	**(407)**	(228)		**(1,194)**	(466)	
NOI	**10,325**	7,164	44 %	**30,912**	21,101	46 %

Property Analysis

At September 30, 2015 our portfolio included interests in 38 retail, office and industrial income-producing properties located in western Canada for a total of 2,737,837 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at September 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 nine months ended September 30, 2015 ($000s)**
Retail	13	948,717	34.6%	286,564	13,059
Office	20	1,567,838	57.3%	312,800	15,804
Industrial	4	221,282	8.1%	27,700	1,322
Land Lease Community	1	308 lots	n/a	14,850	727
	38	**2,737,837**	**100.0%**	**641,914**	**30,912**

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

	Retail		Office		Industrial		Land Lease Community	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Three months ended Sept 30 ($000s)								
Rental revenue	**6,393**	3,993	**8,587**	6,457	**635**	309	**323**	315
NOI	**4,696**	2,854	**4,925**	3,822	**471**	248	**233**	240
Nine months ended Sept 30 ($000s)								
Rental revenue	**18,567**	11,385	**27,126**	19,595	**1,866**	920	**960**	940
NOI	**13,059**	8,301	**15,804**	11,398	**1,322**	705	**727**	697
As at Sept 30								
Weighted average base rent (sf)	**$18.50**	$18.85	**$14.38**	$15.63	**$9.24**	$7.57	**n/a**	n/a
Occupancy	**96.2%**	95.3%	**91.4%**	87.9%	**88.3%**	100.0%	**100.0%**	100.0%

Retail – our 13 retail properties include 5 multi-building regional power centres and 8 neighborhood shopping centres. Retail GLA increased by 43% or 286,320 sf over Q3-2014 through acquisitions. Rental revenue from newly acquired retail properties was $2.67 million and $7.51 million during the three and nine-months ended September 30, 2015 (2014 - $0.37 million and $0.43 million). On a same-asset basis, rental revenue improved modestly over 2014, with same-asset occupancy holding at 95%, offsetting higher amortization of tenant incentives on lease-up. Same-asset NOI improved as a result of higher base rent on lease renewals and rent steps and lower direct operating expenses.

Office – our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Office GLA increased by 50% over Q3-2014 through acquisitions. Rental revenue from newly acquired office properties was $2.93 million and $8.39 million during the three and nine-months ended September 30, 2015 (2014 - $0.28 million and $0.47 million). On a same-asset basis, rental revenue declined 2% as a result of net effective rent compression on new deals and renewals completed in the Edmonton region, reflecting competitive market conditions. Same-asset NOI decreased as a result of rent compression and lower occupancy on certain properties.

Industrial – our 4 industrial properties include single and multi-tenant buildings. Industrial GLA increased by 67% over Q3-2014 through acquisitions. Rental revenue increased by 103% as a result of this portfolio growth. A large tenant's lease expired and was not renewed in southern Alberta, contributing to a decrease in same-asset rental revenue of $0.33 million and occupancy of 88.3% at quarter end. The vacancy led to the increase in weighted average base rents as the rental rate on the expiring tenant was below average at $6.50 per sf. The space has been released and the new tenant will take occupancy in Q4-2015. Same-asset NOI decreased over 2015 as a result of increased vacancy and a lease renewal in southern Alberta, which included a rent-free period on signing.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at September 30, 2015 (December 31, 2014 – 100%). NOI on our land lease community improved modestly over Q3-2014 as a result of higher pad rates and lower operating costs.

Regional Analysis

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

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the nine months ended Sept 30, 2015 ($000s)
Northern Alberta	24	1,616,552	59.0%	408,857	18,545
Southern Alberta	7	754,611	27.6%	168,357	8,738
Saskatchewan & British Columbia	7	366,674	13.4%	64,700	3,629
	38	**2,737,837**	**100.0%**	**641,914**	**30,912**

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

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2015	2014	**2015**	2014	**2015**	2014
Three months ended September 30 ($000s)						
Rental revenue	**9,625**	7,109	**4,476**	2,347	**1,837**	1,618
NOI	**6,198**	4,450	**2,993**	1,743	**1,134**	971
Nine months ended September 30 ($000s)						
Rental revenue	**29,516**	21,603	**13,340**	6,794	**5,663**	4,443
NOI	**18,545**	13,617	**8,738**	4,989	**3,629**	2,495
As at September 30						
Average base rent (per sf)	**$16.51**	$16.31	**$14.25**	$18.90	**$13.72**	$13.24
Occupancy	**92.9%**	89.3%	**91.6%**	98.7%	**94.7%**	92.5%

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 December 2014, which increased GLA by 34%. Newly acquired properties contributed revenues of $3.26 million and $8.90 million for the three and nine-month periods respectively (2014 - $0.04 million and $0.10 million). Higher occupancy was driven by new property additions, with same-asset occupancy steady over 2014 at 90.7%. On a same-asset basis, lower net effective rent drove the decrease in rental revenue. Same-asset NOI decreased in Northern Alberta as a result of higher amortization of tenant incentives as well as a provision for doubtful accounts earlier in the year.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Property acquisitions resulted in GLA growth of 148% and a rental revenue increase of 96% over 2014 and a $4.65 per sf decrease in weighted average base rent as a result of the increase in industrial GLA and an anchor tenant with lower base rents. Excluding the anchor tenant, weighted average base rent was $15.07. Acquired properties generated $2.45 million and $7.06 million in revenues during the three and nine-month periods (2014 - $0.28 million and $0.63 million respectively). Same-asset NOI remained steady.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue increased 27% over 2014 as a result of the acquisition of two retail properties in Saskatchewan during 2014, which generated $0.42 million and $1.41 million in revenues during the three and nine-months (2014 - $0.24 million and $0.37 million). Same-asset base rent increased due to 18,966 sf in new leases over the past twelve months which contributed to same-asset occupancy of 94.3% and higher weighted average base rents. This 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 increased as a result of improved occupancy and weighted average base rents.

General & Administrative Expenses

	Three months ended September 30			**Nine months ended September 30**		
($000s)	**2015**	2014	**△%**	**2015**	2014	**△%**
Asset management fee	**380**	282	35 %	**1,139**	824	38 %
Professional fees	**57**	60	(5)%	**255**	316	(19)%
Public company costs	**43**	54	(20)%	**205**	145	41 %
Other	**62**	64	(3)%	**233**	197	18 %
	542	460	18%	**1,832**	1,482	24%

General & administrative expenses (G&A) for the three and nine-months ended September 30, 2015 were $0.54 million (3% of rental revenue) and $1.83 million (4% of rental revenue). The asset management fee increase reflects portfolio GLA growth of 62%. Year-to-date professional fees were higher in the comparative period as a result of capital market activity. 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 September 30			Nine months ended September 30		
($000s)	**2015**	2014	**△%**	**2015**	2014	**△%**
Interest on mortgages payable and revolving credit facility	**2,050**	1,250	64%	**6,279**	3,833	64%
Interest on Class C LP Units	**875**	989	(12)%	**2,749**	2,991	(8)%
Amortization of fair value adjustment on Class C LP Units	**(82)**	(110)	(25)%	**(282)**	(330)	(15)%
Interest on convertible debenture	**474**	—	100 %	**1,410**	—	100 %
Non-cash finance costs	**160**	52	208 %	**448**	160	180 %
Finance costs before distributions	**3,477**	2,181	59%	**10,604**	6,654	59%
Distributions on Class B LP Units	**2,466**	1,725	43 %	**7,399**	5,020	47 %
Finance costs	**5,943**	3,906	52 %	**18,003**	11,674	54 %

Finance costs for the three and nine-months ended September 30, 2015 were $2.04 million and $6.33 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 and reduction of the interest rate on extension of 2,195,911 Class C LP Units in August 2015. 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 $0.74 million over Q3-2014 and $2.38 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 September 30, 2015 the weighted average interest rate on our revolving credit facility, mortgages payable and Class C LP Units was 3.84%.

Income Taxes

As at September 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 September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2015**	2014	△%	**2015**	2014	△%
Net income for the period	**11,287**	2,693	**319 %**	**24,689**	8,867	**178 %**
Add / (deduct)						
Fair value adjustment on investment properties	**3,614**	3,840	(6)%	**7,322**	3,103	136 %
Fair value adjustment on Class B LP Units	**(11,401)**	(4,091)	179 %	**(22,070)**	(5,264)	319 %
Amortization of tenant incentives	**758**	599	27 %	**2,376**	1,759	35 %
Distributions on Class B LP Units	**2,466**	1,725	43 %	**7,399**	5,020	47 %
Funds From Operations (FFO)	**6,724**	4,766	41 %	**19,716**	13,485	46 %
Add / (deduct)						
Straight-line rent adjustments	**(407)**	(228)	79 %	**(1,194)**	(466)	156 %
Non-cash finance costs	**160**	52	208 %	**448**	160	180 %
Net impact of amortization of fair value adjustment and interest subsidy(1)	**48**	139	(65)%	**209**	424	(51)%
Normalized capital expenditures(2)	**(323)**	(205)	58 %	**(965)**	(612)	58 %
Normalized tenant incentives and leasing commissions(2)	**(642)**	(409)	57 %	**(1,920)**	(1,224)	57 %
Adjusted Funds from Operations (AFFO)	**5,560**	4,115	35 %	**16,294**	11,767	38 %
FFO/Unit	**$0.26**	$0.22	18 %	**$0.76**	$0.67	13 %
AFFO/Unit	**$0.21**	$0.19	11 %	**$0.63**	$0.59	7 %

(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 are considered a dilutive instrument. The following table calculates diluted FFO and diluted FFO/Unit:

	Three months ended September 30			Nine months ended September 30		
($000s, except per unit amounts)	**2015**	2014	△%	**2015**	2014	△%
Funds From Operations (FFO)	**6,724**	4,766	41%	**19,716**	13,485	46%
Interest on convertible debenture	**474**	—		**1,410**	—	
Non-cash finance costs on convertible debenture	**114**	—		**342**	—	
Funds From Operations - Diluted (FFO - Diluted)	**7,312**	4,766	53%	**21,468**	13,485	59%
FFO - Diluted/Unit	**$0.26**	$0.22	18%	**$0.75**	$0.65	15%

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 nine-month periods were $1.90 million and $5.70 million respectively (2014 - $1.90 million and $5.23 million).

Distributions made during the nine-months ended September 30, 2015 represent a payout ratio of approximately 80% of AFFO (2014 - 86%). 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 nine-month period was $10.45 million (2014 - $6.75 million), exceeding distributions by $4.75 million (2014 - $1.53 million).

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

	Three months ended September 30			Nine months ended September 30		
($000s)	**2015**	2014	**△%**	**2015**	2014	**△%**
Cash flows from operations	**5,026**	2,649	90%	**10,445**	6,751	55%
Distributions on Class B LP Units	**2,466**	1,725		**7,399**	5,020	
Changes in operating assets and liabilities	**(1,097)**	106		**844**	1,078	
Interest subsidy	**130**	249		**491**	754	
Normalized capital expenditures	**(323)**	(205)		**(965)**	(612)	
Normalized tenant incentives and leasing commissions	**(642)**	(409)		**(1,920)**	(1,224)	
Adjusted Funds from Operations (AFFO)	**5,560**	4,115	35%	**16,294**	11,767	38%

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-Sept-15	31-Dec-14
Number of properties	**38**	38
Total GLA (sf)	**2,835,816**	2,829,885
GLA (REIT owned %) (sf)	**2,737,837**	2,735,467
Fair value of portfolio ($000s)	**641,914**	644,288
Value per square foot	**$234**	$236
NOI ($000s)	**30,912**	28,581
Weighted average capitalization rate	**6.52%**	6.49%
Weighted average discount rate	**7.71%**	7.69%
Weighted average terminal capitalization rate	**6.80%**	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 September 30, 2015. This resulted in a fair value loss of $7.32 million (year-ended December 31, 2014 - fair value gain of $0.09 million) on investment properties recorded to income during the nine-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)	**Nine months ended September 30, 2015**	**Year ended December 31, 2014**
Northern Alberta	**(5,695)**	(3,787)
Southern Alberta	**(989)**	2,955
Saskatchewan & British Columbia	**(638)**	925
	(7,322)	93

Fair value losses in Northern Alberta were primarily driven by an increase in terminal capitalization rate of between 25 to 75 basis points and decreased stabilized NOI on certain Edmonton area 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 approximately 1% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	September 30, 2015			December 31, 2014		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	**5.50%**	**9.00%**	**6.52%**	5.50%	9.00%	6.49%
Terminal capitalization rate	**5.75%**	**9.25%**	**6.80%**	5.75%	9.25%	6.77%
Discount rate	**6.50%**	**10.00%**	**7.71%**	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 $43.56 million (December 31, 2014 - $43.83 million) while a 50 basis points decrease (-0.5%) would increase it by $50.79 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 September 30			Nine months ended September 30		
($000s)	**2015**	2014	△$	**2015**	2014	△$
Cash from operating activities	**5,026**	2,649	2,377	**10,445**	6,751	3,694
Cash used in investing activities	**(2,011)**	(2,458)	447	**(5,575)**	(22,845)	17,270
Cash from (used in) financing activities	**(4,486)**	1,709	(6,195)	**(11,008)**	12,062	(23,070)
Increase (decrease) in cash and cash equivalents	**(1,471)**	1,900	(3,371)	**(6,138)**	(4,032)	(2,106)
Cash and cash equivalents, beginning of the period	**2,045**	—	2,045	**6,712**	5,932	780
Cash and cash equivalents, end of the period	**574**	1,900	(1,326)	**574**	1,900	(1,326)

Operating activities

Cash from operating activities was up by 90% compared to Q3-2014 and by 55% year-to-date. Property acquisitions completed in 2014 contributed to an increase in cash flows from operations (excluding changes in working capital) of $1.17 million compared to Q3-2014 and $3.46 million year-to-date. These newly acquired properties added $4.00 million to NOI in Q3-2015 and $10.78 million year-to-date (2014 - $0.44 million and $0.87 million respectively). These increases were partially offset by an increase in finance costs during the three and nine-month periods of $2.04 million and $6.33 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 $0.74 million and $2.38 million of the increase in finance costs during the three and nine-months ended September 30, 2015.

Investing activities

We invested $0.96 million on tenant incentives for new and renewed leases in Q3-2015 and $3.15 million year-to-date (2014 - $1.26 million and $3.18 million respectively). This investment reflects our strategy of maintaining occupancy as close to 30% of our leases matured in 2014 and 2015. As at September 30, 2015 we have completed 143,515 sf in renewals for a 2015 retention rate of 71.1%. Timing of lease expiries impacts the level of spending on tenant incentives and leasing costs and will fluctuate from period to period.

We invested $1.05 million in strategic value-adding asset enhancement projects in Q3-2015 and $2.49 million year-to-date (2014 - $1.82 million and $3.61 million respectively). Some of this investment went towards the construction of a 7,456 sf CRU to densify an existing regional power centre in southern Alberta. Asset enhancement investments fluctuate based on 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 - $1.82 million).

In 2014 we completed the acquisition of Market Mall in Regina, SK and phase three of Kingsvew 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. Earlier in 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) with a $6.03 million acquisition.

Financing activities

During Q3-2015 we renewed the mortgages on two properties with a principal balance of $4.44 million for $nil net proceeds. Year-to-date we re-financed the mortgage on two phases of a retail property for $8.25 million, retiring the existing mortgages which had an outstanding principal balance of $6.76 million. During 2015 we also retired $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 of $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 in Q3-2015 and $5.70 million year-to-date (2014 - $1.90 million and $5.23 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 September 30, 2015 we had $0.57 million in cash and cash equivalents and $2.39 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. We cancelled the facility effective May 1, 2015 and 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 September 30, 2015 (49% excluding convertible debentures).

As at September 30, 2015, the REIT's total capitalization was $600.55 million and is comprised of:

($000s)	**30-Sept-15**
Revolving credit facility[1]	5,395
Mortgages payable[1]	215,684
Class C LP Units[2]	84,093
Indebtedness, excluding convertible debenture	305,172
Convertible debenture[3]	34,500
Indebtedness	339,672
Class B LP Units[4]	147,708
Trust units	113,174
Equity	260,882
Total capitalization	**600,554**
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 September 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 $272.04 million. We also have financial covenants on certain mortgages for investment properties. At September 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 September 30					
($000s)	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Revolving credit facility	**5,395**	5,395	—	—	—	—	—
Mortgages payable	**215,684**	5,483	33,963	5,494	40,708	70,184	59,852
Class C LP Units	**84,093**	3,122	12,071	5,655	13,915	9,088	40,242
Convertible debenture	**34,500**	—	—	—	—	34,500	—
Total	**339,672**	**14,000**	**46,034**	**11,149**	**54,623**	**113,772**	**100,094**
% of portfolio	100%	4%	14%	3%	16%	33%	30%

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	**5,395**	—	5,395	3.85%	2.59
Mortgages payable	**215,684**	215,684	—	3.70%	4.88
Class C LP Units	**84,093**	84,093	—	3.52%	4.49
Convertible debenture	**34,500**	34,500	—	5.50%	4.25
Total	**339,672**	**334,277**	**5,395**	**3.84%**	**4.68**

The weighted average interest rate on our debts decreased to 3.84% (December 31, 2014 - 3.98%) as a result of renewal and re-financing of mortgages.

During Q3-2015 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 4.77% (4.00% after the interest rate subsidy paid by Melcor) was reduced to 2.68%. Also, during the quarter we renewed two mortgages with a principal balance of $4.44 million at 3.22% down from a weighted average interest rate of 4.44%.

Year-to-date 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%.

The financing environment remains competitive and we expect to be able to secure new financing on remaining upcoming mortgage renewals in 2015 at favourable rates.

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)	Nine months ended Sept 30, 2015	Year ended December 31, 2014
FFO	**19,716**	**17,907**
Principal repayments on Mortgages payable	4,572	3,441
Principle repayments on Class C LP Units	2,321	3,059
Debt service coverage ratio	**2.86**	**2.75**
FFO plus finance costs	30,320	27,126
Finance costs(1)	10,604	9,219
Finance costs coverage ratio	**2.86**	**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 expires on June 29, 2016.

During the quarter, we purchased and canceled 95,792 trust units at a cost of $0.78 million. As at September 30, 2015 an additional 467,958 trust units may be repurchase by the REIT under the NCIB.

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

	September 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
Repurchase of trust units	**(95,792)**	**(970)**	—	—
Balance, end of period	**11,179,208**	**113,174**	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	**28,522,359**	**295,382**	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**
($000s except per unit amount)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	**15,938**	16,323	16,258	11,669	11,074	11,119	10,647	10,070
Net income	**11,287**	111	13,291	9,481	2,693	5,296	878	7,466
Income per unit	**$ 1.00**	$ 0.01	$ 1.18	$ 0.88	$ 0.24	$ 0.52	$ 0.10	$ 0.51

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 September 30, 2015 in comparison to the December 31, 2014 annual MD&A.

Subsequent event: Agreement to purchase properties from Melcor

On November 6, 2015 the REIT's board of trustees approved the acquisition of interests in two commercial properties (the "Acquisitions") for a purchase price of approximately $15.25 million (excluding closing and transaction costs) from Melcor. The Acquisitions consist of a 50% joint venture interest in a 43,116 sf retail complex developed by Melcor, with construction completed in early 2015, and located in Chestermere, Alberta and a 10,091 sf single tenant industrial building developed by Melcor, with construction completed in 2015, and located in Leduc, Alberta. In connection with the Acquisitions, The REIT, through a 50% joint venture, will obtain approximately $6.25 million (at joint venture interest) of new mortgage financing to partially fund the purchase price. The REIT expects such mortgages will have an interest rate of approximately 3.42% and a maturity date of November 2025. The REIT intends to satisfy the remainder of the purchase price through use of its credit facility. The Acquisitions are expected to close on or about November 12, 2015.

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 September 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 September 30			Nine months ended September 30		
($000s)	**2015**	2014	**△%**	**2015**	2014	**△%**
Net income for the period	**11,287**	2,693	**319 %**	**24,689**	8,867	178%
Net finance costs	**5,932**	3,891	52 %	**17,957**	11,620	55%
Fair value adjustment on Class B LP Units	**(11,401)**	(4,091)	179 %	**(22,070)**	(5,264)	319%
Fair value adjustment on investment properties	**3,614**	3,840	(6)%	**7,322**	3,103	136%
General and administrative expenses	**542**	460	18 %	**1,832**	1,482	24%
Amortization of tenant incentives	**758**	599	27 %	**2,376**	1,759	35%
Straight-line rent adjustment	**(407)**	(228)	79 %	**(1,194)**	(466)	156%
NOI	**10,325**	7,164	**44 %**	**30,912**	21,101	46%

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 10).

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 10).

Net effective rent: is calculated as rental revenue excluding amortization of tenant incentives and straight-line rent adjustments.

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 REIT

MELCOR REAL ESTATE INVESTMENT TRUST

Condensed Interim Consolidated Financial Statements

For the three and nine-months ended September 30, 2015

(Unaudited)

Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2015

(Unaudited)

($000s)	September 30, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	**574**	6,712
Accounts receivable	**1,566**	2,877
Other assets (note 4)	**1,930**	943
	4,070	10,532
Non-Current Assets		
Restricted cash	**2,390**	2,945
Investment properties (note 3 and 14)	**625,172**	630,003
Other assets (note 4)	**16,742**	14,285
	644,304	647,233
TOTAL ASSETS	**648,374**	657,765
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 5)	**5,134**	4,958
Accounts payable	**1,576**	1,297
Distribution payable	**1,451**	1,456
Accrued liabilities and other payables (note 6)	**5,908**	6,295
Class C LP Units (note 8)	**12,332**	25,825
Mortgages payable (note 7)	**30,753**	20,957
	57,154	60,788
Non-Current Liabilities		
Accrued liabilities and other payables (note 6)	**1,392**	1,360
Class B LP Units (note 9 and 14)	**116,196**	138,266
Class C LP Units (note 8)	**72,708**	64,923
Mortgages payable (note 7)	**183,939**	194,002
Convertible debenture	**32,127**	31,780
Derivative financial liability (note 14)	**185**	185
TOTAL LIABILITIES	**463,701**	491,304
UNITHOLDERS' EQUITY	**184,673**	166,461
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**648,374**	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 nine-months ended September 30

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
($000s)	**2015**	**2014**	**2015**	**2014**
Rental revenue (note 11 and 13)	**15,938**	11,074	**48,519**	32,840
Direct operating expenses (note 13)	**(5,964)**	(4,281)	**(18,789)**	(13,032)
Net rental income	**9,974**	6,793	**29,730**	19,808
General and administrative expenses (note 13)	**(542)**	(460)	**(1,832)**	(1,482)
Fair value adjustment on investment properties (note 3 and 14)	**(3,614)**	(3,840)	**(7,322)**	(3,103)
Fair value adjustment on Class B LP Units (note 9 and 14)	**11,401**	4,091	**22,070**	5,264
Income before finance costs	**17,219**	6,584	**42,646**	20,487
Interest income	**11**	15	**46**	54
Finance costs (note 12 and 13)	**(5,943)**	(3,906)	**(18,003)**	(11,674)
Net finance costs	**(5,932)**	(3,891)	**(17,957)**	(11,620)
Net income and comprehensive income	**11,287**	2,693	**24,689**	8,867
Basic earnings per trust unit	**$1.00**	$0.24	**$2.19**	$0.86
Diluted earnings per trust unit	**$0.10**	$0.02	**$0.41**	$0.43

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Unitholders’ Equity

As at September 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
Trust units repurchased (note 10)	(95,792)	(970)	—	193	(777)
Net income for the period	—	—	—	24,689	24,689
Distributions to unitholders	—	—	—	(5,700)	(5,700)
Balance at September 30, 2015	11,179,208	102,989	40,196	41,488	184,673

($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 trust units	2,145,000	21,250	—	—	21,250
Property purchase from Melcor Developments Ltd.	—	—	125	—	125
Net income for the period	—	—	—	8,867	8,867
Distributions to unitholders	—	—	—	(5,225)	(5,225)
Balance at September 30, 2014	11,275,000	103,959	36,948	14,728	155,635

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

For the three and nine-months ended September 30

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
($000s)	2015	2014	2015	2014
CASH FLOWS FROM (USED IN)				
OPERATING ACTIVITIES				
Net income for the period	**11,287**	2,693	**24,689**	8,867
Non cash items:				
Amortization of tenant incentives (note 4 and 11)	**758**	599	**2,376**	1,759
Straight-line rent adjustments (note 11)	**(407)**	(228)	**(1,194)**	(466)
Fair value adjustment on investment properties (note 3 and 14)	**3,614**	3,840	**7,322**	3,103
Fair value adjustment on Class B LP Units (note 9 and 14)	**(11,401)**	(4,091)	**(22,070)**	(5,264)
Amortization of fair value adjustment on Class C LP Units (note 12)	**(82)**	(110)	**(282)**	(330)
Non-cash finance costs (note 12)	**160**	52	**448**	160
	3,929	2,755	**11,289**	7,829
Changes in operating assets and liabilities	**1,097**	(106)	**(844)**	(1,078)
	5,026	2,649	**10,445**	6,751
INVESTING ACTIVITIES				
Additions to investment properties	**—**	—	**—**	(17,871)
Payment of tenant incentives	**(961)**	(1,262)	**(3,148)**	(3,183)
Investment property improvements, development and direct leasing costs	**(1,051)**	(1,823)	**(2,491)**	(3,610)
Change in restricted cash	**1**	627	**64**	1,819
	(2,011)	(2,458)	**(5,575)**	(22,845)
FINANCING ACTIVITIES				
Proceeds from issuing units, net of costs	**—**	—	**—**	21,250
Change in revolving credit facility	**395**	5,000	**395**	(19,000)
Proceeds from mortgages payable	**—**	—	**11,345**	19,010
Repayment of mortgages payable	**(1,556)**	(870)	**(11,336)**	(2,446)
Repayment on Class C LP Units	**(783)**	(768)	**(5,426)**	(2,281)
Change in restricted cash	**130**	249	**491**	754
Trust units repurchased (note 10)	**(777)**	—	**(777)**	—
Distributions to unitholders	**(1,895)**	(1,902)	**(5,700)**	(5,225)
	(4,486)	1,709	**(11,008)**	12,062
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE PERIOD	**(1,471)**	1,900	**(6,138)**	(4,032)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**2,045**	—	**6,712**	5,932
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**574**	1,900	**574**	1,900

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 November 6, 2015, Melcor, through an affiliate, holds an approximate 56.7% 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 November 6, 2015.

3. INVESTMENT PROPERTIES

($000s)	**Nine months ended September 30, 2015**	Year ended December 31, 2014
Balance - beginning of period	**630,003**	429,117
Additions		
Direct acquisition	**—**	195,972
Property improvements	**1,622**	2,743
Property development activities	**229**	640
Direct leasing costs	**640**	1,057
Fair value adjustment on investment property (note 14)	**(7,322)**	93
Change in provision	**—**	381
Balance - end of period	**625,172**	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 September 30, 2015 totalled $408,895 (December 31, 2014 - $406,404).

Presented separately from investment properties is $14,095 (December 31, 2014 - $12,832) in tenant incentives and $2,647 (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)	September 30, 2015	December 31, 2014
Current Assets		
Prepaid expense, and other	**1,930**	943
Non-Current Assets		
Straight-line rent adjustments	**2,647**	1,453
Tenant incentives	**14,095**	12,832
	16,742	14,285

During the nine-month period we recorded tenant incentives of $3,639 (2014 - $3,183) and recorded $2,376 (2014 - $1,759) 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 September 30, 2015, the carrying value of pledged properties was $58,400. We capitalized $332 in transaction costs associated with the facility, of which $261 was unamortized at September 30, 2015 and is presented net of the outstanding balance. Concurrent with commencement of the new facility we cancelled our previous credit facility with two major Canadian chartered banks.

The following table summarizes the components of the balance:

($000s)	September 30, 2015	December 31, 2014
Amount drawn on facility	**5,395**	5,000
Unamortized transaction fees	**(261)**	(39)
Unamortized discount on bankers acceptance	**—**	(3)
	5,134	4,958

6. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	September 30, 2015	December 31, 2014
Current Liabilities		
Accrued liabilities and other payables	**5,908**	6,245
Decommissioning obligation	**—**	50
	5,908	6,295
Non-Current Liabilities		
Decommissioning obligation	**1,392**	1,360

7. MORTGAGES PAYABLE

($000s)	September 30, 2015	December 31, 2014
Mortgages amortized over 15-25 years at fixed interest rates	215,684	215,675
Unamortized fair value adjustment	191	432
Unamortized deferred financing fees	(1,183)	(1,148)
	214,692	214,959
Current portion of mortgages payable	(30,753)	(20,957)
	183,939	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)	September 30, 2015	December 31, 2014
Class C LP Units amortized over 2-6 years at fixed interest rates	84,093	89,519
Unamortized fair value adjustment	947	1,229
	85,040	90,748
Current portion of Class C LP Units	(12,332)	(25,825)
	72,708	64,923
Effective interest rate	3.52%	3.84%

During the quarter Melcor extended the mortgage that secures retained debt relating to one of the initial properties 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%. Concurrent with the extension of the mortgage we extended the maturity of 2,195,911 Class C LP Units with a current balance of $19,939 from August 1, 2015 to August 1, 2020 at the reduced interest rate of 2.68%. Also, during the nine-month period we redeemed 333,100 Class C LP Units (2014 - nil).

As at September 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 September 30, 2015 and recognized a fair value gain of $22,070 during the nine-month period (2014 - fair value gain of $5,264). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 14.

At September 30, 2015 there were 14,615,878 Class B LP Units issued and outstanding at a fair value of $7.95 per unit or $116,196 (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.

During the quarter, there were 95,792 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of $777. Trust units were reduced by $970 and retained earnings increased by $193. As at September 30, 2015 467,958 additional trust units may be repurchase by the REIT under the current NCIB.

Issued and outstanding trust units at September 30, 2015 are 11,179,208 (December 31, 2014 - 11,275,000).

11. RENTAL REVENUE

The components of rental revenue are as follows:

	Three months ended September 30		Nine months ended September 30	
($000s)	**2015**	**2014**	**2015**	**2014**
Rental revenue	**16,289**	11,445	**49,701**	34,133
Amortization of tenant incentives (note 4)	**(758)**	(599)	**(2,376)**	(1,759)
Straight-line adjustments	**407**	228	**1,194**	466
	15,938	11,074	**48,519**	32,840

12. FINANCE COSTS

The components of finance costs are as follows:

	Three months ended September 30		Nine months ended September 30	
($000s)	**2015**	**2014**	**2015**	**2014**
Interest on mortgages payable and revolving credit facility	**2,050**	1,250	**6,279**	3,833
Interest on Class C LP Units	**875**	989	**2,749**	2,991
Amortization of fair value adjustment on Class C LP Units	**(82)**	(110)	**(282)**	(330)
Distributions on Class B LP Units (note 13)	**2,466**	1,725	**7,399**	5,020
Interest on convertible debenture	**474**	—	**1,410**	—
Non-cash finance costs	**160**	52	**448**	160
	5,943	3,906	**18,003**	11,674

Total finance costs paid during the three and nine-month period were $5,799 and $17,571 (2014 - $3,964 and $11,844) 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 nine-month period:

	Three months ended September 30		Nine months ended September 30	
($000s)	**2015**	**2014**	**2015**	2014
Asset Management Agreement				
Base Annual Management Fee	**380**	282	**1,139**	824
Capital Expenditure Fee	**—**	—	**—**	—
Acquisition Fee	**—**	—	**—**	115
Financing Fee	**—**	—	**—**	—
Property Management Agreement				
Monthly Fee	**489**	316	**1,437**	910
Lease Fee	**266**	430	**640**	1,070
	1,135	1,028	**3,216**	2,919

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 September 30, 2015 there was $296 (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 nine-month period ended September 30, 2015 $2,466 and $7,399 in distributions were recorded on Class B LP Units held by Melcor (2014 - $1,725 and $5,020). These distributions were recorded as finance costs (note 12). As at September 30, 2015 there was $822 payable to Melcor for the September distribution (December 31, 2014 - $822 for the December distribution).

Also during the three and nine-month period ended September 30, 2015, Melcor, as holder of all Class C LP Units, was paid $1,659 and $5,070 to fund principal and interest payments on the retained debt (2014 - $1,757 and $5,273). These payments were recorded as a reduction of the Class C LP Unit liability and as finance costs. In addition, during the nine-month period we redeemed 333,100 Class C LP Units with a carrying value of $3,105.

c) Rental Revenue

For the three and nine-month period ended September 30, 2015 the REIT collected $209 and $628 in rental revenue from Melcor and an affiliate for use of office space (2014 - $177 and $530). 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 $35 and $413 in rental revenue from Melcor as compensation for certain vacant spaces at the properties acquired for the three and nine-month period ended September 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.

	September 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	**625,172**	**—**	**625,172**	**625,172**	630,003	630,003
Financial liabilities						
Mortgages payable	**—**	**215,684**	**215,684**	**215,999**	215,675	219,492
Class B LP Units	**116,196**	**—**	**116,196**	**116,196**	138,266	138,266
Class C LP Units	**—**	**85,040**	**85,040**	**85,040**	90,748	90,748
Convertible debenture	**—**	**32,127**	**32,127**	**32,127**	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	—	—	625,172	625,172
Financial liabilities				
Derivative financial liability	—	—	185	185
Class B LP Units	116,196	—	—	116,196

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 September 30, 2015 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at September 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 nine-month period of $7,322 (2014 - fair value loss of $3,103) 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:

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

- 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.

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 $1,470 (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.

	September 30, 2015			December 31, 2014		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.52%	5.50%	9.00%	6.49%
Terminal capitalization rate	5.75%	9.25%	6.80%	5.75%	9.25%	6.77%
Discount rate	6.50%	10.00%	7.71%	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 $43,563 (December 31, 2014 - $43,828). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $50,794 (December 31, 2014 - $51,148).

Derivative financial liability

Our financial derivative liability is comprised of the conversion feature on our convertible debenture and is categorized as level 3 in the fair value hierarchy.

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

- Volatility - expected volatility as at September 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 September 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 September 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 September 30, 2015 the fair value of the Class B LP Units was $116,196, resulting in a fair value gain of $22,070 for the nine-month period (December 31, 2014 - fair value gain of $9,880).

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

15. SUBSEQUENT EVENTS

Distributions declared

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

Month	Record Date	Distribution Date	Distribution Amount
October 2015	October 30, 2015	November 16, 2015	$0.05625 per unit
November 2015	November 30, 2015	December 15, 2015	$0.05625 per unit
December 2015	December 31, 2015	January 15, 2016	$0.05625 per unit

Agreement to purchase properties from Melcor

On November 6, 2015 the REIT's board of trustees approved the acquisition of interests in two commercial properties (the "Acquisitions") for a purchase price of approximately $15,250 (excluding closing and transaction costs) from Melcor. In connection with the Acquisitions, The REIT, through a 50% joint venture, will obtain approximately $6,250 (at joint venture interest) of new mortgage financing to partially fund the purchase price. The REIT intends to satisfy the remainder of the purchase price through use of its credit facility. The Acquisitions are expected to close on or about November 12, 2015.