Management's Discussion & Analysis

Table of Contents

May 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 March 31, 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 first 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 May 6, 2015. Disclosure contained in this MD&A is current to May 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). Units of the REIT trade on the Toronto Stock Exchange under the symbol MR.UN. The REIT is externally managed, administered and operated by Melcor Developments Ltd. (Melcor) pursuant to the Property Management and Asset Management agreements entered into in conjunction with the IPO.

As at May 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 May 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 March 31, 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 did not complete any acquisitions in Q1-2015.

Improve:

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

In Q1-2015, 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.

Q1-2015 Highlights & Key Performance Indicators

Financial Highlights			
	Three months ended March 31		
($000s)	**2015**	2014	△%
Non-Standard KPIs			
Net operating income (NOI)	**10,205**	6,734	52%
Funds from operations (FFO)	**6,303**	4,288	47%
Adjusted funds from operations (AFFO)	**5,178**	3,777	37%
Rental revenue	**16,258**	10,647	53%
Income before fair value adjustments	**3,115**	2,139	46%
Fair value adjustment on investment properties	**(1,809)**	169	nm
Distributions to unitholders	**1,903**	1,541	23%
Cash flows from operations	**3,987**	2,296	74%
Per unit metrics			
Income - diluted	**$0.15**	$0.10	4%
FFO	**$0.24**	$0.23	4%
AFFO	**$0.20**	$0.20	—%
Distributions	**$0.169**	$0.169	—%

	31-Mar-15	31-Dec-14	△%
Total assets ($000s)	**649,664**	657,765	(1)%
Equity ($000s)[1]	**261,853**	261,853	— %
Debt ($000s)[2]	**337,406**	344,694	(2)%
Weighted average interest rate on debt	**3.96%**	3.98%	(1%)
Debt to GBV ratio[3]	**54%**	56%	(4)%
Finance costs coverage ratio[4]	**2.78**	2.94	(5)%
Debt service coverage ratio[5]	**2.75**	2.75	— %

Operational Highlights			
	31-Mar-15	31-Dec-14	△%
Number of properties	**38**	38	— %
Gross leasable area (GLA) (sf)	**2,735,467**	2,735,467	— %
Occupancy % (weighted by GLA)	**93.4%**	92.4%	1%
Retention % (weighted by GLA)	**73.6%**	82.7%	(11)%
Weighted average remaining lease term (years)	**5.49**	5.49	— %
Weighted average base rent (per sf)	**$15.24**	$15.25	— %

(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.

Q1-2015 Highlights:

Our portfolio performance remained stable throughout the first quarter of 2015. The impact of the sharp decline in the price of oil has had a negligible impact on our portfolio, which has been designed to be well diversified in terms of tenant mix with limited direct oil and gas exposure. 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 first quarter include:

- Revenue growth of 53% and AFFO growth of 37% over Q1-2014 as a result of property acquisitions completed over the past year, which grew our portfolio GLA by 55% and contributed to increased diversification in our portfolio mix.
- Improved occupancy, with a quarter end rate of 93.4% as a result of strong leasing activity on new and renewed deals. As at March 31, 2015, we had renewed 33,468 sf of expiring GLA for a current retention rate of 73.6%.
- Improved operating margin of 61% (2014 - 59%) as a result of improved operating efficiency.
- We achieved a 96% on-time response rate for work orders submitted via our signature care program.
- 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.
- We paid distributions of $0.05625 per trust unit in January, February and March for a payout ratio of 84%.
- Subsequent to the quarter, we entered into a new revolving credit facility, increasing the capital available to the REIT to support the execution of our growth strategy.

Consolidated Revenue & Net Operating Income

	Three months ended March 31		
($000s)	**2015**	2014	**△%**
Base rent	**10,056**	6,806	48%
Recoveries	**6,165**	3,955	56%
Other	**367**	318	15%
Amortization of tenant incentives	**(722)**	(541)	33%
Straight-line rent adjustment	**392**	109	260%
Rental revenue	**16,258**	10,647	53%
Operating expenses	**3,116**	2,271	37%
Utilities and property taxes	**3,267**	2,074	58%
Direct operating expenses	**6,383**	4,345	47%
Net rental income	**9,875**	6,302	57%
NOI	**10,205**	6,734	52%
Same-asset NOI	**6,229**	6,165	1%
Operating margin	**61%**	59%	3%

Revenue

Rental revenue for the period increased by $5.61 million or 53% over Q1-2014. This increase was driven by portfolio growth of 55% since March 31, 2014. Rental revenue related to newly acquired properties was $5.65 million (Q1-2014 - $0.14 million). On a same-asset basis, rental revenue grew by $0.11 million or 1% over Q1-2014 as a result of higher occupancy which contributed to an improved expense recovery ratio.

Weighted average base rent decreased modestly compared to year end as we leased challenging, historically vacant office space with lower than average base rents. Lease-up of certain suburban office properties and renewals on expiring GLA in Q1-2015 led to improved occupancy with a quarter end rate of 93.4%.

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

	31-Mar-15	31-Dec-14	△%
Weighted average base rent (per sf)	**$15.24**	$15.25	— %
Weighted average remaining lease term	**5.49**	5.49	— %
GLA	**2,735,467**	2,735,467	— %
Occupancy %	**93.4%**	92.4%	1 %
Retention %	**73.6%**	82.7%	(11)%

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. Q1-2015 recoveries increased by $2.21 million or 56% and direct operating expenses increased by 47% or $2.04 million compared to Q1-2014. Recoveries on newly acquired properties were $1.89 million in Q1-2015 (Q1-2014 - $0.01 million).

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 Q1-2014 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 or 47% over Q1-2014. Excluding the impact of the newly acquired properties, direct operating expenses increased by $0.04 million. On a same-asset basis, property taxes and utilities increased by $0.15 million over Q1-2014. These increases were partially offset by lower utility costs as a result of warmer winter temperatures throughout our operating regions compared to Q1-2014. Same-asset operating expenses decreased by $0.11 million as a result of the timing of expenditures incurred and reclassification of costs related to tenant recoveries from operating expenses to general & administrative expense commencing in Q2-2014.

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 lead to a 52% increase in NOI over Q1-2014. On a same-asset basis, NOI was steady over Q1-2014. 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 March 31		
($000s)	**2015**	2014	△%
Same-asset NOI	**6,229**	6,165	1%
Acquisitions	**3,646**	137	
NOI before adjustments	**9,875**	6,302	57%
Amortization of tenant incentives	**722**	541	
Straight-line rent adjustment	**(392)**	(109)	
NOI	**10,205**	6,734	52%

Property Analysis

At March 31, 2015 our portfolio included interests in 38 retail, office and industrial income-producing properties located in western Canada for a total of 2,735,467 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at March 31, 2015 by property type:

Property Type	Number of Properties	GLA (sf)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the three-months ended March 31, 2015 ($000s)
Retail	13	946,585	34.6%	286,475	4,276
Office	20	1,567,600	57.3%	314,272	5,243
Industrial	4	221,282	8.1%	28,300	441
Land Lease Community	1	308 lots	n/a	14,850	245
	38	**2,735,467**	**100.0%**	**643,897**	**10,205**

	Retail		Office		Industrial		Land Lease Community	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014
Three-months ended March 31 ($000s)								
Rental revenue	**6,164**	3,598	**9,166**	6,434	**611**	305	**317**	310
NOI	**4,276**	2,573	**5,243**	3,720	**441**	220	**245**	221
As at March 31								
Average base rent (sf)	**$18.30**	$19.10	**$14.13**	$15.96	**$8.18**	$6.93	**n/a**	n/a
Occupancy	**96.4%**	89.5%	**90.6%**	84.9%	**97.9%**	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 56% or 338,351 sf over Q1-2014 through acquisitions. Newly acquired properties contributed $2.48 million in Q1-2015 rental revenues (2014 - $nil). On a same-asset basis, rental revenue increased modestly (2%) as a result of improved occupancy.

Office – our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Office GLA increased by 54% over Q1-2014. Rental revenue from newly acquired office properties was $2.70 million in Q1-2015 (2014 - $nil). 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 Q1-2014. Rental revenue increased by 100% as a result of portfolio growth. Same-asset rental revenue was stable compared to Q1-2014 with 100% occupancy and consistent average base rents.

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

Same-asset NOI was steady in our office portfolio, while our retail portfolio realized nominal growth as a result of improved occupancy. Industrial same-asset NOI decreased over Q1-2014 as a result of 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 Q1-2014 as a result of higher pad rates and lower operating costs.

Regional Analysis

The following table summarizes the composition of our properties at March 31, 2015 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	NOI for the three-months ended March 31, 2015 ($000s)
Northern Alberta	24	1,618,150	59.2%	411,930	6,212
Southern Alberta	7	750,854	27.4%	167,267	2,829
Saskatchewan & British Columbia	7	366,463	13.4%	64,700	1,164
	38	**2,735,467**	**100.0%**	**643,897**	**10,205**

The following table details key financial and operational metrics for each of our geographic regions for the quarter ended March 31, 2015:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2015	2014	**2015**	2014	**2015**	2014
Three months ended March 31 ($000s)						
Rental revenue	**10,022**	7,042	**4,385**	2,194	**1,851**	1,411
NOI	**6,212**	4,382	**2,829**	1,591	**1,164**	761
As at March 31						
Weighted average base rent (per sq. ft.)	**$16.23**	$16.53	**$13.68**	$17.89	**$13.52**	$12.95
Occupancy %	**93.4%**	89.5%	**92.9%**	97.4%	**93.2%**	84.9%

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 42% over Q1-2014 as a result of property acquisitions completed in 2014, which increased GLA by 37%. Newly acquired properties contributed revenues of $2.87 million (2014 - $nil). On a same-asset basis, recoveries on direct operating expenses contributed to rental revenue growth.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere, and in Lethbridge. Rental revenue increased by 100% over Q1-2014. Property acquisitions completed in the region resulted in GLA growth of 156% and generated $2.23 million in revenues (Q1-2014 - $0.14 million). Weighted average base rent decreased by $4.21 per sf as a result of new property additions in the region. Rate compression was driven by an anchor tenant at Lethbridge Centre which has lower base rents. Excluding the anchor tenant, weighted average base rent was $14.33.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue increased 31% over Q1-2014 as a result of the acquisition of two retail properties in Saskatchewan during 2014, which generated $0.49 million in Q1-2015 revenues (2014 - $nil). On a same-asset basis, base rent increased due to increased occupancy of 91.2%. The increase was partially offset by higher amortization on tenant incentives as a result of tenant incentives spending.

Same-asset NOI was steady across the portfolio with nominal growth in Saskatchewan and British Columbia as a result of improved occupancy and weighted average base rents.

General & Administrative Expenses

	Three months ended March 31		
($000s)	**2015**	2014	△%
Asset management fee	**380**	269	41 %
Professional fees	**92**	110	(16)%
Public company costs	**113**	48	135 %
Other	**191**	(64)	(398)%
	776	363	114%

General & administrative expenses for the three-months ended March 31, 2015 were $0.41 million higher compared to the same period in the prior year. The increase in asset management fee reflects $194.58 million in property acquisitions completed in 2014, which grew the

REIT's portfolio GLA by 62%. Increased market capitalization contributed to higher public company costs. Other expenses fluctuate from period to period due to the timing of costs incurred. In Q1-2015 we recorded a provision for doubtful accounts of $0.11 million. During Q2-2014 we reclassified costs related to tenant recoveries from operating expenses to general & administrative expense. General & administrative expense will increase with portfolio growth and we expect it to be approximately 5% of rental revenue.

Finance Costs

	Three months ended March 31		
($000s)	**2015**	2014	**△%**
Interest on mortgages payable and revolving credit facility	**2,072**	1,270	63%
Interest on Class C LP Units	**956**	1,005	(5)%
Amortization of fair value adjustment on Class C LP Units	**(105)**	(110)	(5)%
Interest on convertible debenture	**474**	—	100 %
Non-cash finance costs	**139**	45	209 %
Finance costs before distributions	**3,536**	2,210	60%
Distributions on Class B LP Units	**2,466**	1,608	53 %
Finance costs	**6,002**	3,818	57 %

Finance costs for the three-months ended March 31, 2015 were $2.18 million or 57% higher compared to the same period 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 the comparative period. Interest on Class C LP Units decreased over the comparative period due to the redemption of 333,100 Class C LP Units during the period 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 $0.86 million over Q1-2014 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 during 2014.

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

As at March 31, 2015 the weighted average interest rate on our revolving credit facility, mortgages payable and Class C LP Units was 3.96%.

Income Taxes

As at March 31, 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 March 31		
($000s, except per unit amounts)	**2015**	2014	△%
Net income for the period	**13,291**	878	
Add / (deduct)			
Fair value adjustment on investment properties	**1,809**	(169)	
Fair value adjustment on Class B LP Units	**(11,985)**	1,430	
Amortization of tenant incentives	**722**	541	
Distributions on Class B LP Units	**2,466**	1,608	
Funds From Operations (FFO)	**6,303**	4,288	47%
Add / (deduct)			
Straight-line rent adjustments	**(392)**	(109)	
Non-cash finance costs	**139**	59	
Net impact of amortization of fair value adjustment and interest subsidy[1]	**88**	143	
Normalized capital expenditures[2]	**(321)**	(201)	
Normalized tenant incentives and leasing commissions[2]	**(639)**	(403)	
Adjusted Funds from Operations (AFFO)	**5,178**	3,777	37%
FFO/Unit	**$0.24**	$0.23	4%
AFFO/Unit	**$0.20**	$0.20	—%

(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 March 31		
($000s, except per unit amounts)	**2015**	2014	△%
Funds From Operations (FFO)	**6,303**	4,288	47%
Interest on convertible debenture	**474**	—	
Non-cash finance costs	**114**	—	
Funds From Operations - Diluted (FFO - Diluted)	**6,891**	4,288	61%
FFO - Diluted/Unit	**0.24**	0.23	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 period were $1.90 million (2014 - $1.54 million).

Distributions made during the period represent a payout ratio of approximately 84% of AFFO (2014 - 84%). 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 GAAP measure is cash flow from operations. Cash flow from operations for Q1-2015 was $3.99 million (2014 - $2.30 million), exceeding distributions by $2.08 million (2014 - $0.76 million).

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

	Three months ended March 31		
($000s)	**2015**	2014	△%
Cash flows from operations	**3,987**	2,296	74%
Distributions on Class B LP Units	**2,466**	1,608	
Changes in operating assets and liabilities	**(508)**	224	
Interest subsidy	**193**	253	
Normalized capital expenditures	**(321)**	(201)	
Normalized tenant incentives and leasing commissions	**(639)**	(403)	
Adjusted Funds from Operations (AFFO)	**5,178**	3,777	37%

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:

	31-Mar-15	31-Dec-14
Number of properties	**38**	38
Total GLA (sf)	**2,829,885**	2,829,885
GLA (REIT owned %) (sf)	**2,735,467**	2,735,467
Fair value of portfolio ($000s)	**643,897**	644,288
Value per square foot	**$235**	$236
NOI ($000s)	**10,205**	28,581
Weighted average capitalization rate	**6.45%**	6.49%
Weighted average discount rate	**7.68%**	7.69%
Weighted average terminal capitalization rate	**6.75%**	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 March 31, 2015. This resulted in fair value losses of $1.81 million (year-ended December 31, 2014 - fair value gain of $0.09 million) on investment properties recorded to income during the period. Refer to note 13 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)	**Three months ended March 31, 2015**	**Year ended December 31, 2014**
Northern Alberta	**(1,164)**	(3,787)
Southern Alberta	**(266)**	2,955
Saskatchewan & British Columbia	**(379)**	925
	(1,809)	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.

	March 31, 2015			December 31, 2014		
	Min	**Max**	**Weighted Average**	**Min**	**Max**	**Weighted Average**
Capitalization rate	**5.50%**	**9.00%**	**6.45%**	5.50%	9.00%	6.49%
Terminal capitalization rate	**5.75%**	**9.25%**	**6.75%**	5.75%	9.25%	6.77%
Discount rate	**6.50%**	**10.00%**	**7.68%**	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 $43.79 million (December 31, 2014 - $43.83 million) while a 50 basis points decrease (-0.5%) would increase it by $51.10 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 March 31		
($000s)	**2015**	2014	$△
Cash from operating activities	**3,987**	2,296	1,691
Cash used in investing activities	**(1,685)**	(7,261)	5,576
Cash from (used in) financing activities	**(8,998)**	2,608	(11,606)
Decrease in cash and cash equivalents	**(6,696)**	(2,357)	(4,339)
Cash and cash equivalents, beginning of the period	**6,712**	5,932	780
Cash and cash equivalents, end of the period	**16**	3,575	(3,559)

Operating activities

Cash from operating activities increased $1.69 million compared to Q1-2014 due to property acquisitions completed throughout 2014. These newly acquired properties added $3.43 million to NOI in Q1-2015 (2014 - $0.12 million). In addition, lower net working capital in Q1-2015 positively affected cash flow from operating activities by $0.73 million compared to Q1-2014. These increases were partially offset by a $2.18 million increase in finance costs 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 $0.86 million to finance costs.

Investing activities

We invested $1.25 million on tenant incentives for new and renewed leases in Q1-2015 (Q1-2014 - $0.84 million). This investment reflects portfolio growth of 74% since our IPO on May 1, 2013 (based on sf GLA). As at March 31, 2015 we have completed 33,468 sf in renewals for a current retention rate of 73.6%.

We invested $0.21 million in strategic value-adding asset enhancement projects in Q1-2015 (Q1-2014 - $0.61 million). 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 Q1-2015 (Q1-2014 - $0.47 million).

In the comparative period we invested $6.03 million in our industrial portfolio with the acquisition of LC Industrial.

Financing activities

During Q1-2015 we used cash on hand from Q4-2014 financing activities to repay the $5.00 million outstanding on our revolving credit facility. In addition, we 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 Q1-2014 period we received proceeds of $10.90 million by taking out mortgages on two previously unencumbered properties. Part of these proceeds were used to repay $5.50 million of amounts drawn under the revolving credit facility. We also made $2.20 million in regular principal repayments on mortgages payable and Class C LP Units during Q1-2015 (2014 - $1.51 million).

We continued our monthly distribution of $0.05625 per unit for quarterly distributions of $1.90 million (2014 - $1.54 million).

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 March 31, 2015 we had $0.02 million in cash and cash equivalents and $2.69 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 $35,000 for general purposes, including a $5,000 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 54% as at March 31, 2015 (49% excluding convertible debentures).

As at March 31, 2015, the REIT's total capitalization was $599.26 million and is comprised of:

($000s)	**31-Mar-15**
Revolving credit facility[1]	—
Mortgages payable[1]	217,268
Class C LP Units[2]	85,638
Indebtedness, excluding convertible debenture	302,906
Convertible debenture[3]	34,500
Indebtedness	337,406
Class B LP Units[4]	147,708
Trust units	114,145
Equity	261,853
Total capitalization	**599,259**
Gross Book Value (GBV)[5]	**619,987**
Debt to GBV, excluding convertible debenture (maximum threshold - 60%)	**49%**
Debt to GBV (maximum threshold - 65%)	**54%**

(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 and subsequent asset purchases.

We are also subject to financial covenants on our $25.00 million revolving credit facility. The covenants include a maximum debt to total capital ratio of 60%, a minimum interest coverage ratio of 1.50, and a minimum net book value of unitholders' equity of $140.00 million. As at March 31, 2015, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 54%, interest coverage ratio of 1.65, and a net book value of unitholders' equity of $278.22 million. We also have financial covenants on certain mortgages for investment properties. At March 31, 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 March 31					
($000s)	**Total**	**2015**	**2016**	**2017**	**2018**	**2019**	**Thereafter**
Revolving credit facility	**—**	—	—	—	—	—	—
Mortgages payable	**217,268**	19,592	32,050	5,190	40,394	69,860	50,182
Class C LP Units	**85,638**	21,944	11,180	4,584	13,108	8,064	26,758
Convertible debenture	**34,500**	—	—	—	—	34,500	—
Total	**337,406**	**41,536**	**43,230**	**9,774**	**53,502**	**112,424**	**76,940**
% of portfolio	100%	12%	13%	3%	16%	34%	22%

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	—	—	—	—%	0.08
Mortgages payable	**217,268**	217,268	—	3.77%	5.20
Class C LP Units	**85,638**	85,638	—	3.83%	3.80
Convertible debenture	**34,500**	34,500	—	5.50%	4.75
Total	**337,406**	**337,406**	**—**	**3.96%**	**4.80**

The weighted average interest rate on our debts remained steady at 3.96% (December 31, 2014 - 3.98%) as a result of limited financing activity during the quarter. During Q1-2015 we 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%.

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.

	Three months ended March 31	
($000s)	**2015**	2014
FFO	**6,303**	**4,288**
Principal repayments on Mortgages payable	1,502	752
Principle repayments on Class C LP Units	786	753
Debt service coverage ratio	**2.75**	**2.85**
FFO plus finance costs	9,839	6,498
Finance costs[(1)]	3,536	2,210
Finance costs coverage ratio	**2.78**	**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.

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

	March 31, 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**		
($000s except per unit amount)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue	**16,258**	11,669	11,074	11,119	10,647	10,070	9,794	9,773
Net income	**13,291**	9,481	2,693	5,296	878	7,466	5,945	44,492
Income per unit	**$ 1.18**	$ 0.88	$ 0.24	$ 0.52	$ 0.10	$ 0.51	$ 0.65	$ 2.38

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 March 31, 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 March 31, 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 March 31		
($000s)	**2015**	2014	△%
Net income for the period	**13,291**	878	
Net finance costs	**5,984**	3,800	
Fair value adjustment on Class B LP Units	**(11,985)**	1,430	
Fair value adjustment on investment properties	**1,809**	(169)	
General and administrative expenses	**776**	363	
Amortization of tenant incentives	**722**	541	
Straight-line rent adjustment	**(392)**	(109)	
NOI	**10,205**	6,734	52%

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-months ended March 31, 2015

(Unaudited)

Condensed Interim Consolidated Statements of Financial Position

As at March 31, 2015

(Unaudited)

($000s)	March 31, 2015	December 31, 2014
ASSETS		
Current Assets		
Cash and cash equivalents	**16**	6,712
Accounts receivable	**2,168**	2,877
Other assets (note 4)	**894**	943
	3,078	10,532
Non-Current Assets		
Restricted cash	**2,689**	2,945
Investment properties (note 3 and 13)	**628,694**	630,003
Other assets (note 4)	**15,203**	14,285
	646,586	647,233
TOTAL ASSETS	**649,664**	657,765
LIABILITIES		
Current Liabilities		
Revolving credit facility	**—**	4,958
Accounts payable	**1,359**	1,297
Distribution payable	**1,456**	1,456
Accrued liabilities and other payables (note 5)	**6,041**	6,295
Class C LP Units (note 7)	**22,772**	25,825
Mortgages payable (note 6)	**21,187**	20,957
	52,815	60,788
Non-Current Liabilities		
Accrued liabilities and other payables (note 5)	**1,374**	1,360
Class B LP Units (note 8 and 13)	**126,281**	138,266
Class C LP Units (note 7)	**63,990**	64,923
Mortgages payable (note 6)	**195,276**	194,002
Convertible debenture	**31,894**	31,780
Derivative financial liability (note 13)	**185**	185
TOTAL LIABILITIES	**471,815**	491,304
UNITHOLDERS' EQUITY	**177,849**	166,461
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**649,664**	657,765

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Income and Comprehensive Income

For the three-months ended March 31

(Unaudited)

($000s)	2015	2014
Rental revenue (note 10 and 12)	**16,258**	10,647
Direct operating expenses (note 12)	**(6,383)**	(4,345)
Net rental income	**9,875**	6,302
General and administrative expenses (note 12)	**(776)**	(363)
Fair value adjustment on investment properties (note 3 and 13)	**(1,809)**	169
Fair value adjustment on Class B LP Units (note 8 and 13)	**11,985**	(1,430)
Income before finance costs	**19,275**	4,678
Interest income	**18**	18
Finance costs (note 11 and 12)	**(6,002)**	(3,818)
Net finance costs	**(5,984)**	(3,800)
Net income and comprehensive income	**13,291**	878
Basic earnings per trust unit	**$1.18**	$0.10
Diluted earnings per trust unit	**$0.15**	$0.10

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

As at March 31, 2015

(Unaudited)

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2014	11,275,000	103,959	40,196	22,306	166,461
Net income for the period	—	—	—	13,291	13,291
Distributions to unitholders	—	—	—	(1,903)	(1,903)
Balance at March 31, 2015	11,275,000	103,959	40,196	33,694	177,849

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2013	9,130,000	82,709	36,823	11,086	130,618
Net income for the period	—	—	—	878	878
Distributions to unitholders	—	—	—	(1,541)	(1,541)
Balance at March 31, 2014	9,130,000	82,709	36,823	10,423	129,955

See accompanying notes to the condensed interim consolidated financial statements.

Condensed Interim Consolidated Statements of Cash Flows

For the three-months ended March 31

(Unaudited)

($000s)	2015	2014
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the period	**13,291**	878
Non cash items:		
Amortization of tenant incentives (note 4 and 10)	**722**	541
Straight-line rent adjustments (note 10)	**(392)**	(109)
Fair value adjustment on investment properties (note 3 and 13)	**1,809**	(169)
Fair value adjustment on Class B LP Units (note 8 and 13)	**(11,985)**	1,430
Amortization of fair value adjustment on Class C LP Units (note 11)	**(105)**	(110)
Non-cash finance costs (note 11)	**139**	59
	3,479	2,520
Changes in operating assets and liabilities	**508**	(224)
	3,987	2,296
INVESTING ACTIVITIES		
Additions to investment properties	**—**	(6,027)
Payment of tenant incentives (note 4)	**(1,248)**	(836)
Investment property improvements, development and direct leasing costs	**(500)**	(866)
Change in restricted cash	**63**	468
	(1,685)	(7,261)
FINANCING ACTIVITIES		
Change in revolving credit facility	**(5,000)**	(5,500)
Proceeds from mortgages payable	**3,095**	10,900
Repayment of mortgages payable	**(1,502)**	(752)
Repayment on Class C LP Units	**(3,881)**	(753)
Change in restricted cash	**193**	254
Distributions to unitholders	**(1,903)**	(1,541)
	(8,998)	2,608
DECREASE IN CASH & CASH EQUIVALENTS DURING THE PERIOD	**(6,696)**	(2,357)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD	**6,712**	5,932
CASH AND CASH EQUIVALENTS, END OF THE PERIOD	**16**	3,575

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 target markets in 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 12).

As at May 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 May 6, 2015.

3. INVESTMENT PROPERTIES

($000s)	**Three months ended March 31, 2015**	Year ended December 31, 2014
Balance - beginning of period	**630,003**	429,117
Additions		
Direct acquisition	**—**	195,972
Property improvements	**213**	2,743
Property development activities	**80**	640
Direct leasing costs (note 12)	**207**	1,057
Fair value adjustment on investment property (note 13)	**(1,809)**	93
Change in provision	**—**	381
Balance - end of period	**628,694**	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 13.

The cost of investment properties as at March 31, 2015 totalled $406,824 (December 31, 2014 - $406,404).

Presented separately from investment properties is $13,358 (December 31, 2014 - $12,832) in tenant incentives and $1,845 (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)	March 31, 2015	December 31, 2014
Current Assets		
Prepaid expense, and other	**894**	943
Non-Current Assets		
Straight-line rent adjustments	**1,845**	1,453
Tenant incentives	**13,358**	12,832
	15,203	14,285

During the three-month period we provided tenant incentives of $1,248 (2014 - $836) and recorded $722 (2014 - $541) 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. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	March 31, 2015	December 31, 2014
Current Liabilities		
Accrued liabilities and other payables	**6,041**	6,245
Decommissioning obligation	**—**	50
	6,041	6,295
Non-Current Liabilities		
Decommissioning obligation	**1,374**	1,360

6. MORTGAGES PAYABLE

($000s)	March 31, 2015	December 31, 2014
Mortgages amortized over 15-25 years at fixed interest rates	**217,268**	215,675
Unamortized fair value adjustment	**352**	432
Unamortized deferred financing fees	**(1,157)**	(1,148)
	216,463	214,959
Current portion of mortgages payable	**(21,187)**	(20,957)
	195,276	194,002
Interest rate ranges	**(2.48%-5.70%)**	(3.01%-5.70%)

7. 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)	March 31, 2015	December 31, 2014
Class C LP Units amortized over 2-6 years at fixed interest rates	**85,638**	89,519
Unamortized fair value adjustment	**1,124**	1,229
	86,762	90,748
Current portion of Class C LP Units	**(22,772)**	(25,825)
	63,990	64,923
Effective interest rate	**3.83%**	3.84%

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

8. 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 March 31, 2015 and recognized a fair value gain of $11,985 during the three-month period (2014 - fair value loss of $1,430). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 13.

At March 31, 2015 there were 14,615,878 Class B LP Units issued and outstanding at a fair value of $8.64 per unit or $126,281 (December 31, 2014 - 14,615,878 at $9.46 per unit or $138,266).

9. UNITHOLDERS' EQUITY

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

10. RENTAL REVENUE

The components of rental revenue are as follows:

For the three months ended March 31 ($000s)	2015	2014
Rental revenue	**16,588**	11,079
Amortization of tenant incentives (note 4)	**(722)**	(541)
Straight-line adjustments	**392**	109
	16,258	10,647

11. FINANCE COSTS

The components of finance costs are as follows:

For the three months ended March 31 ($000s)	2015	2014
Interest on mortgages payable and revolving credit facility	**2,072**	1,270
Interest on Class C LP Units	**956**	1,005
Amortization of fair value adjustment on Class C LP Units	**(105)**	(110)
Distributions on Class B LP Units	**2,466**	1,608
Interest on convertible debenture	**474**	—
Non-cash finance costs	**139**	45
	6,002	3,818

Total finance costs paid during the three month period were $5,863 (2014 - $3,773).

12. 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-month period:

For the three month period ended March 31 ($000s)	2015	2014
Asset Management Agreement		
Base Annual Management Fee	**380**	269
Capital Expenditure Fee	**—**	—
Acquisition Fee	**—**	59
Financing Fee	**—**	—
Property Management Agreement		
Monthly Fee	**482**	287
Lease Fee (note 3)	**207**	258
	1,069	873

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 March 31, 2015 there was $392 (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-month period ended March 31, 2015, $2,466 in distributions were recorded on Class B LP Units held by Melcor (2014 - $1,608). These distributions were recorded as finance costs (note 11). As at March 31, 2015 there was $822 payable to Melcor for the March distribution (December 31, 2014 - $822 for the December distribution).

Also during the three-month period ended March 31, 2015, Melcor, as holder of all Class C LP Units, was paid $1,732 to fund principal and interest payments on the retained debt (2014 - $1,758). These payments were recorded as a reduction of the Class C LP Unit liability and as finance costs. In addition, during the period we redeemed 333,100 Class C LP Units with a carrying value of $3,105.

c) Rental Revenue

For the three-month period ended March 31, 2015 the REIT collected $189 in rental revenue from Melcor and an affiliate for use of office space (2014 - $170). 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 $326 in rental revenue from Melcor as compensation for certain vacant spaces at the properties acquired (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.

13. FAIR VALUE MEASUREMENT

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

The fair value of the 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.

	March 31, 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	**628,694**	**—**	**628,694**	**628,694**	630,003	630,003
Financial liabilities						
Mortgages payable	**—**	**217,268**	**217,268**	**220,276**	215,675	219,492
Class B LP Units	**126,281**	**—**	**126,281**	**126,281**	138,266	138,266
Class C LP Units	**—**	**86,762**	**86,762**	**86,762**	90,748	90,748
Convertible debenture	**—**	**31,894**	**31,894**	**31,894**	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	—	—	628,694	628,694
Financial liabilities				
Derivative financial liability	—	—	185	185
Class B LP Units	126,281	—	—	126,281

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 March 31, 2015 and considered whether changes to any valuation model variables resulted in significant changes to any of the investment property fair values at March 31, 2015. Fair values of investment properties were revised based on the updated data and model variables resulting in fair value loss of $1,809 (2014 - fair value gain of $169) 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.

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 $1,412 (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.

	March 31, 2015			December 31, 2014		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.45%	5.50%	9.00%	6.49%
Terminal capitalization rate	5.75%	9.25%	6.75%	5.75%	9.25%	6.77%
Discount rate	6.50%	10.00%	7.68%	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 $43,787 (December 31, 2014 - $43,828). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $51,098 (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 March 31, 2015 are as follows:

- Volatility - expected volatility as at March 31, 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 March 31, 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 March 31, 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 March 31, 2015 the fair value of the Class B LP Units was $126,281, resulting in a fair value gain of $11,985 for the period (December 31, 2014 - fair value gain of $9,880).

14. SUBSEQUENT EVENTS

Distributions declared

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

Month	Record Date	Distribution Date	Distribution Amount
April 2015	April 30, 2015	May 15, 2015	$0.05625 per unit
May 2015	May 29, 2015	June 15, 2015	$0.05625 per unit
June 2015	June 30, 2015	July 15, 2015	$0.05625 per unit

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. 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. Concurrent with commencement of the new facility we canceled our previous credit facility with two major Canadian chartered banks.