



PRO REAL ESTATE INVESTMENT TRUST

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION
FOR THE YEAR ENDED DECEMBER 31, 2015**

APRIL 20, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

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A MESSAGE FROM THE CEO

Dear Fellow Unitholders,

I am pleased to report that PROREIT completed a third year of strong expansion in 2015. For the fourth quarter and twelve-month period ended December 31, 2015, we again recorded significant gains in property revenues, net operating income, total assets and adjusted funds from operations, while further diversifying our property and tenant profiles, and our geographic footprint. We completed two major acquisitions in 2015 that added to our critical mass, helping us build a strong, stable platform for future growth, while maintaining a sound balance sheet and stable distributions.

Our growth in 2015 confirms our strategy of acquiring quality assets, chiefly in regional markets, which are less affected by the sharp economic and pricing fluctuations found in other parts of Canada and globally during the year.

2015 Review and Significant Events

Fiscal year 2015 brought significant new growth, generated primarily from new acquisitions, but also from internal development opportunities. We achieved this growth despite significant financial market and economic headwinds caused by the effects of falling oil prices on many regions and businesses across the country.

During the year, we completed two accretive acquisitions that added significantly to assets, property revenue and net operating income (NOI), and to an increase in adjusted funds from operations (AFFO).

On June 30, 2015, PROREIT closed a transaction to acquire seven commercial properties for total consideration of \$40.5 million, representing a going-in capitalization rate of 7.5%. These accretive acquisitions increased total gross leasable area by 41.1% and have had a strong positive impact on net operating income and adjusted funds from operations. The seven properties are anchored by government and high quality national tenants. The \$40.5 million purchase price was financed by the issue of new equity, new first mortgages, the assumption of certain existing mortgages and the issue of a vendor take-back mortgage.

On September 30, 2015, our REIT closed the friendly acquisition of Boulevard Industrial REIT. By way of the acquisition, PROREIT acquired three high quality light industrial buildings in Moncton, New Brunswick, a stable market where we have existing properties and expertise. The properties fit closely into our existing expansion strategy. The acquisition added 236,692 square feet of gross leasable area to the PROREIT portfolio, expanding our total gross leasable area by more than 10%, and increasing PROREIT's assets to more than \$200 million.

The Boulevard transaction, which was carried out by way of a court-approved plan of arrangement through an exchange of units, was accretive to net asset value and to adjusted funds from operations. In addition to the financial and operating benefits of the acquisition, we welcomed Boulevard unitholders to our own base of unitholders. The transaction thus added meaningfully to the liquidity of our units, and to our average daily trading volume, which have increased significantly since the closing of the transaction.

Operating Results and Development Opportunities

As in prior years, PROREIT increased the quality and diversity of our portfolio, adding new government and quality national tenants to our strong tenant profile, and achieved higher occupancy rates. We also moved into the Ontario market for the first time, with the acquisition of two well-leased industrial properties in a strong suburban Toronto market.

At year-end, occupancy rates stood at 95.9%, compared to 95.8% at September 30, 2015 and 93.1% at year-end 2014. The weighted average lease term to maturity remained solid at 6.6 years.

Following our two major acquisitions in 2015, gross leasable area ("GLA") increased 59.9% to 1,669,947 square feet. At year-end our total portfolio consisted of 32 properties, including 16 retail properties representing 525,082 square feet of GLA, four office properties representing 154,357 square feet of GLA, nine industrial properties representing 765,976 square feet of GLA and three commercial mixed use properties representing 224,532 square feet of GLA.

As we have stated in the past, the REIT's properties are mostly situated in prime locations within their respective markets, along major traffic arteries and benefiting from high visibility and easy access. The increasing quality and diversity of the portfolio are enabling us to attract new clients and retain existing tenants.

During 2015, PROREIT actively pursued opportunities to add gross leasable area to our existing space, and to increase occupancy rates across all segments of the portfolio. During the autumn, we began construction on a new 7,200 square foot development at our Hall's Creek property in

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Moncton. The strip mall, which is built on excess land subdivided from another REIT building was completed subsequent to year-end, and was turned over to tenants in March 2016. It is 73% leased at time of writing.

In short, operations are strong, supported by a high-quality tenant base, more than 80% of which consists of government and national tenants with long-term leases. The good leasing performance of 2015 continues into the first quarter of 2016 with more than 67% of the space coming due in 2016 already leased.

Fourth Quarter and Year-end 2015 Financial Results

Our financial results for the fourth quarter and twelve months ended December 31, 2015, reflect our successful acquisition strategy and the quality of our operations. The acquisition of the seven commercial properties in June 2015, and of Boulevard Industrial REIT in September, 2015, led directly to significantly increased property revenues, net operating income ("NOI") and adjusted funds from operations ("AFFO") compared to our results for the fourth quarter and twelve months ended December 31, 2014.

For the fourth quarter, PROREIT recorded property revenue of \$5.558 million, a 62% increase compared to \$3.429 million at December 31, 2014. NOI increased 54% to \$3.371 million, compared to \$2.189 million at the end of the fourth quarter the previous year. The REIT generated AFFO of \$1.863 million or \$0.0546 of AFFO per basic unit, compared to \$1.192 million or \$0.0507 per basic unit at December 31, 2014.

For the twelve months ended December 31, 2015, property revenues rose significantly to \$18.190 million, compared to \$9.189 million for the twelve months ended December 31, 2014. For the same period, net operating income increased to \$11.207 million, compared to \$5.758 million, while AFFO increased strongly to \$6,258 million compared to \$2.944 million for the twelve months ended December 31, 2014. AFFO increased to \$0.2158 per basic unit, compared to \$0.2134 per basic unit.

For the three months ended December 31, 2015, the REIT declared three distributions totalling \$0.0525 per trust unit of the REIT, representing an AFFO payout ratio of 96.1% compared to 103.5% in the fourth quarter of 2014. For the twelve month period, the REIT declared twelve distributions for a total of \$0.21 per unit. The AFFO payout ratio was 97.3% on the basic weighted average of 28,999,052 units outstanding.

At December 31 2015, the total assets of the REIT stood at \$203.19 million compared to \$141.50 million at year-end 2014, an increase of 43.6%.

Debt Profile and Liquidity

PROREIT continues to focus on managing its debt profile and liquidity. The REIT has formally completed the expansion of its operating lines of credit by \$9 million at a marginally lower rate of interest. The successful renegotiation reflects the increased size, quality and stability of the REIT's portfolio. Our debt maturity profile remains strong with no significant maturities this year. PROREIT's first mortgages carry an average contractual rate of 3.71%, down 3 basis points from a year ago and our interest coverage ratio improved to 2.7x compared to 2.4x.

At the time of writing, the dividend reinvestment program participation rate stands at 10% of the outstanding units, a level that helps to increase equity and preserve cash. In addition, the REIT has maintained its normal course issuer bid, by which it can acquire up to 1,411,832 trust units, representing 5% of the REIT's outstanding units over a one-year period.

It is also worth noting that subsequent to year-end, the REIT contracted to sell two excess parcels of land at two New Brunswick properties for a total of approximately \$500,000, the proceeds of which are being added to cash reserves.

Outlook

Because of PROREIT's strategies, operations are stable and cash distributions are consistent and predictable and should remain so for the foreseeable future. Fiscal 2015 being a challenging year for the Canadian economy and for the REIT industry, investors acknowledged our successes as PROREIT was one of the only small capitalization real estate investment trust able to broadly access the market for new equity, including bought deals.

With weak market conditions in late 2015 and the first quarter of 2016, REITs including PROREIT have been trading at sufficient discounts to their net asset value such that raising new capital would be significantly dilutive. However, there has been a rebound in the value of REIT units generally since mid-February, with the index rising approximately 15% to current levels. While large capitalization trusts have led this rebound, PROREIT is seeing substantially increased volume and trading in our units. This increased liquidity brings with it a wide range of new intermediaries and unitholders. We believe this is a sign that its efforts are being recognized by a broader market and is providing a solid foundation when more favourable market pricing returns.

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Management also believes that the above factors, combined with a stabilization of financial markets generally, can contribute to improve the market for smaller cap reits as well and therefore looks forward to the balance of the year with cautious optimism. PROREIT may also look to opportunities to finance acquisitions by way of private placement if opportunities present themselves to issue units to vendors at acceptable price terms as part of the consideration for a property or portfolio purchase.

As President and CEO, I would like to extend my gratitude to my associates and our Trustees for their strong support during a busy year in challenging times. PROREIT's unitholders can be assured that all contribute from the depth of their experience and expertise to every decision we make as we continue on our path to becoming a strong competitor in the Canadian commercial real estate industry.

Sincerely,

James W. Beckerleg
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS

PART I

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	December 31 2015	December 31 2014
Operational data		
Number of properties	32	23
Gross leasable area ("GLA") (square feet)	1,669,947	1,044,095
Occupancy rate ⁽¹⁾	95.9%	93.1%
Weighted average lease term to maturity (years)	6.6	7.6

<i>(CAD \$ thousands except per unit amounts and unless otherwise stated)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
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Financial data				
Property revenue	\$ 5,558	\$ 3,429	\$ 18,190	\$ 9,189
Net operating income (NOI) ⁽²⁾	\$ 3,371	\$ 2,189	\$ 11,207	\$ 5,758
Total assets	\$ 203,194	\$ 141,501	\$ 203,194	\$ 141,501
Debt to gross book value ⁽²⁾	61.28%	59.5%	61.28%	59.5%
Interest coverage ratio ⁽²⁾	2.6x	2.6x	2.7x	2.4x
Debt service coverage ratio ⁽²⁾	1.6x	1.8x	1.6x	1.7x
Weighted average interest rate on mortgage debt	3.71%	3.74 %	3.71%	3.74 %
Funds from Operations (FFO) ⁽²⁾	\$ 1,593	\$ 1,005	\$ 5,460	\$ 2,301
Basic FFO per unit ⁽²⁾⁽³⁾	\$ 0.0467	\$ 0.0428	\$ 0.1883	\$ 0.1668
Diluted FFO per unit ⁽²⁾⁽³⁾	\$ 0.0458	\$ 0.0422	\$ 0.1870	\$ 0.1635
Adjusted Funds from Operations (AFFO) ⁽²⁾	\$ 1,863	\$ 1,192	\$ 6,258	\$ 2,944
Basic AFFO per unit ⁽²⁾⁽³⁾	\$ 0.0546	\$ 0.0507	\$ 0.2158	\$ 0.2134
Diluted AFFO per unit ⁽²⁾⁽³⁾	\$ 0.0535	\$ 0.0501	\$ 0.2143	\$ 0.2091
AFFO payout ratio – Basic ⁽²⁾	96.1%	103.5%	97.3%	98.4%
AFFO payout ratio – Diluted ⁽²⁾	98.1%	104.9%	98.0%	100.4%

⁽¹⁾ Occupancy rate includes lease contracts for future occupancy of currently vacant space. Management believes the inclusion of this committed space provides a more balanced reporting. The committed space at December 31, 2015 was approximately 2,500 square feet of GLA.

⁽²⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

⁽³⁾ Total units consist of Units (as defined herein) and Class B LP Units (as defined herein).

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") sets out PRO Real Estate Investment Trust's (the "REIT") operating strategies, risk profile considerations, business outlook and analysis of its financial performance and condition for the three and twelve month periods ended December 31, 2015. This MD&A should be read in conjunction with the audited consolidated financial statements and accompanying notes for the year ended December 31, 2015 prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

The REIT's reporting currency is the Canadian dollar ("CAD"). All amounts except unit, per unit and square footage amounts and as otherwise stated, are in thousands of CAD and have been rounded to the nearest CAD thousand. This MD&A is current as of April 20, 2016.

Additional information about the REIT can be found in the REIT's filings with securities regulatory authorities, including the REIT's annual information form for the year ended December 31, 2015, which are available on SEDAR at www.sedar.com.

FORWARD-LOOKING STATEMENTS

Certain information in this MD&A contains or incorporates comments that constitute forward-looking statements within the meaning of applicable securities legislation. Statements other than statements of historical fact contained in this MD&A may be forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as “outlook”, “objective”, “may”, “will”, “expect”, “intent”, “estimate”, “anticipate”, “believe”, “should”, “plan”, “continue”, or similar expressions suggesting future outcomes or events. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and the REIT’s objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the plans and objectives of the REIT or the management or board of trustees, or estimates or predictions of actions of customers, suppliers, competitors or regulatory authorities; and statements regarding future economic performance of the REIT. The REIT has based these forward-looking statements on its current expectations about future events. Some specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to (i) the intention of the REIT to pay stable distributions; (ii) the ability of the REIT to execute its growth strategies; (iii) the future financial results of the REIT; (iv) the expected tax treatment of the REIT’s distributions to the unitholders; (v) the ability of the REIT to qualify as a “real estate investment trust”; and (vi) the access of the REIT to the debt markets.

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

Although the REIT believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct, and since forward-looking statements inherently involve risks and uncertainties, undue reliance should not be placed on such statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this MD&A as well as the following (i) the REIT will receive financing on favourable terms; (ii) the future level of indebtedness of the REIT and its future growth potential will remain consistent with the REIT’s current expectations; (iii) there will be no changes to tax laws adversely affecting the REIT’s financing capacity or operations; (iv) the workforce of the REIT will remain stable and consistent with the REIT’s current expectations; (v) the impact of the current economic climate and the current global financial conditions on the REIT’s operations, including its financing capacity, and asset value, will remain consistent with the REIT’s current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting the REIT’s operations; (vii) the performance of the REIT’s investments in Canada will proceed on a basis consistent with the REIT’s current expectations; (viii) conditions in the real estate market, including competition for acquisitions, will be consistent with the current climate; and (ix) capital markets will provide the REIT with readily available access to equity and/or debt.

Certain material risk factors or assumptions are applied in forward-looking statements, and actual results may materially differ from these expressed or implied in such forward-looking statements. The forward-looking statements are subject to inherent uncertainties and risks, including but not limited to, the factors discussed under “Risks and Uncertainties” in this MD&A and those discussed in the REIT’s materials filed with the Canadian securities regulatory authorities from time to time, including those discussed under “Risk Factors” in the REIT’s latest annual information form, available on SEDAR at www.sedar.com. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

The forward-looking statements contained in this MD&A are expressly qualified in their entirety by this cautionary statement. All forward-looking statements in this MD&A are made as of the date of this MD&A. The REIT, except as required by applicable securities laws, does not undertake to update any such forward-looking statements whether as a result of new information, future events or otherwise. For more information on the risk factors that could cause the REIT’s actual results to differ from current expectation, please see “Risks and Uncertainties” in this MD&A.

NON-IFRS AND OPERATIONAL KEY PERFORMANCE INDICATORS

The following non-IFRS and operational key performance indicators are important measures used by management in evaluating the REIT’s underlying operating performance and debt management. These measures are not defined by IFRS, do not have a standardized meaning, may not be comparable with similar measures presented by other income trusts or enterprises and should not be construed as alternatives to other financial measures determined in accordance with IFRS.

Net Operating Income (“NOI”)

NOI is defined by the REIT as revenues from investment properties less property operating expenses such as taxes, utilities, property level general administrative costs, advertising, repairs and maintenance. NOI does not include charges for interest and other amortization. This non-IFRS measurement is an important measure used by the REIT in evaluating property operating performance; however, it is not defined by IFRS, does not have a standard meaning and may not be comparable with similar measures presented by other publicly traded entities. Refer to the table under “Part III – Results of Operations” and the table under “Part V – Summary of Quarterly Results” for the calculation of NOI.

Funds from Operations ("FFO")

FFO is defined by the REIT as net income of the REIT calculated in accordance with IFRS, excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) fair value adjustments and other effects of redeemable units classified as liabilities; (iv) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (v) deferred income tax expense, plus depreciation and amortization and certain other non-cash adjustments, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties. Management believes FFO is an important measure of the REIT's operating performance. This non-IFRS measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income nor cash generated from operating activities, as defined by IFRS, and is not necessarily indicative of cash available to fund the REIT's needs. FFO has been reconciled to net comprehensive income in the table under "Part IV – Distributions and Adjusted Funds from Operations".

Adjusted Funds from Operations ("AFFO")

AFFO is defined by the REIT as FFO of the REIT, subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired, amortization of deferred financing costs, amortization of tenant incentives and leasing costs, straight-line adjustments to rent and compensation expense related to unit-based incentive plans; and (ii) deducting a reserve for normalized maintenance capital expenditures and normalized leasing costs, as determined by the REIT. Other adjustments may be made to AFFO as determined by the Trustees in their discretion. Management believes AFFO is an important measure of the REIT's economic performance and is indicative of the REIT's ability to pay distributions. This non-IFRS measurement is commonly used for assessing real estate performance; however, it does not represent cash generated from operating activities, as defined by IFRS, and is not necessarily indicative of cash available to fund the REIT's needs. AFFO has been reconciled to net comprehensive income in the table under "Part IV – Distributions and Adjusted Funds from Operations" and to Cash flow provided from operating activities in the table under "Part IV – Distributions and Adjusted Funds from Operations – Distributions".

Gross Book Value ("Gross Book Value")

Gross Book Value is a non-IFRS measure defined in the REIT's Declaration of Trust (as defined herein) and is a measure of the REIT's asset base and financial position. Refer to the table under "Part IV – Capitalization and Debt Profile – Debt Ratios" for the calculation of Gross Book Value.

Debt to Gross Book Value ("Debt to Gross Book Value")

Debt to Gross Book Value is a non-IFRS measure and the REIT has adopted an indebtedness ratio guideline which management uses as a measure to evaluate its leverage and the strength of its equity position. Refer to the table under "Part IV – Capitalization and Debt Profile – Debt Ratios" for the calculation of Debt to Gross Book Value.

Adjusted EBITDA

Adjusted EBITDA is a non-IFRS measure and is used by the REIT to monitor the REIT's ability to satisfy and service its debt as well as monitor requirements imposed by the REIT's lenders. Specifically, adjusted EBITDA is used to monitor the REIT's interest coverage ratio and debt service ratio, which the REIT uses to measure its debt profile and assess its ability to satisfy its obligations, including servicing its debt. Adjusted EBITDA represents earnings before interest, income taxes, depreciation and amortization, fair value gains (losses), while also excluding non-recurring items. Refer to the table under "Part IV – Capitalization and Debt Profile – Adjusted EBITDA" for the calculation of the Adjusted EBITDA.

Interest Coverage Ratio ("Interest Coverage Ratio")

Management believes this non-IFRS measurement is an important measure in determining the REIT's ability to service the interest requirements of its outstanding debt. The REIT calculates its Interest Coverage Ratio by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management uses this ratio to measure and limit the REIT's leverage. Refer to the table under "Part IV – Capitalization and Debt Profile – Interest Coverage Ratio" for the calculation of the Interest Coverage Ratio.

Debt Service Coverage Ratio ("Debt Service Coverage Ratio")

The Debt Service Coverage Ratio is determined by the REIT as Adjusted EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects principal repayments and interest expensed during the period. Payments related to prepayment penalties or payments upon discharge of a mortgage are excluded from the calculation. The Debt Service Coverage Ratio is a useful measure and is used by the REIT's management to monitor the REIT's ability to meet annual interest and principal payments. Refer to the table under "Part IV – Capitalization and Debt Profile – Debt Service Coverage Ratio" for the calculation of the Debt Service Coverage Ratio.

PART II

REIT OVERVIEW

The REIT is an unincorporated open ended real estate investment trust established pursuant to a declaration of trust dated February 7, 2013 and amended on March 11, 2013 (as amended from time to time, the "Declaration of Trust") and was established under the laws of the Province of Ontario. The REIT's trust units ("Units") and the REIT's Unit purchase warrants issued under the warrant indenture of the REIT dated September 30, 2014 are listed on the TSX Venture Exchange (the "TSXV") under the symbols "PRV.UN" and "PRV.WT", respectively. The principal, registered and head office of the REIT is located at 2000 Peel Street, Suite 758, Montréal, Quebec, H3A 2W5.

The REIT owns a portfolio of Canadian commercial investment properties, comprised of retail, office, commercial mixed-use and industrial properties. At December 31, 2015, the REIT owned approximately 1.7 million square feet of GLA located in Quebec, Atlantic Canada, Ontario and Western Canada.

OBJECTIVES AND STRATEGIES

Objectives

The objectives of the REIT are to: (i) provide unitholders with stable and growing cash distributions from investments in real estate properties in Canada, on a tax efficient basis; (ii) expand the asset base of the REIT and enhance the value of the REIT's assets to maximize long-term Unit value; and (iii) increase the REIT's net operating income and AFFO per Unit, through internal growth strategies and accretive acquisitions.

Strategy

To meet its objectives, the REIT has implemented the following key strategic elements:

Stable cash distributions

- **High-quality commercial real estate.** The REIT's portfolio is diversified by property type and geography across Quebec, New Brunswick, Nova Scotia, Ontario and Alberta. The majority of the properties are situated in prime locations within their respective markets, along major traffic arteries benefitting from high visibility and access. Management believes the quality and diversity of the portfolio will enable the REIT to attract new tenants and retain existing tenants.
- **Geographical focus on stable Eastern Canadian Markets, with careful growth in Western Canadian Markets.** The REIT targets property acquisitions in primary and secondary markets across Canada, with a particular focus on Quebec, Atlantic Canada, and Ontario in the East, and, selectively Alberta and British Columbia in the West. Management believes that its strategy of focusing on stable markets in Eastern Canada and selective expansion in high growth markets in Western Canada will enable the REIT to assemble a portfolio underpinned by strong and consistently stable economic fundamentals, with exposure to organic growth opportunities.
- **High-quality tenants with long term leases.** The REIT has a diversified tenant profile reflecting an attractive mix of government, national, regional and local tenants as well as a diversified mix of tenants by industry. The REIT's portfolio lease maturities are well staggered into the future. Management of the REIT believes it has fostered strong relationships with its tenants, which management expects to be an important factor in the REIT's ability to attract tenants to new properties or replace leases as vacancies arise in the REIT's properties.

Enhance Value

- **Experienced management team and Board with a proven track record of value creation.** In aggregate, the REIT's executive officers and Trustees have over 100 years of operating, acquisitions, and financing experience in the Canadian real estate industry. They have extensive relationships with a broad network of real estate industry owners and service professionals across Canada, and expect to leverage these relationships to source accretive high-quality acquisitions. Given the management team's experience in the Quebec, Atlantic Canada, Ontario and Western Canadian markets, it possesses a unique and valuable set of skills and relationships that can be leveraged to the benefit of the REIT.
- **Alignment of interests through an efficient management structure, strong corporate governance and significant retained interest.** The REIT is externally managed by an experienced team of real estate professionals utilizing an efficient management structure. Management believes that its interests are aligned with that of unitholders given their low cost and simple management structure relative to industry peers, its pre-determined internalization strategy, and an adherence to strong corporate governance practices, including a Board

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comprised of a majority of independent Trustees, all of whom have experience in the Canadian commercial real estate and capital markets.

- **Strategic relationship with Lotus Crux enhances geographical expertise, especially in Ontario and in Western Canada, and provides a pipeline for future acquisitions and investment opportunities.** The REIT is a party to a strategic investment agreement with Lotus Crux Acquisition LP ("Lotus Crux"), which management of the REIT believes will provide the REIT with enhanced coverage of major Canadian markets, especially in Western Canada, as well as access to Lotus Crux's network of relationships with real estate market participants in these markets, resulting in access to a pipeline of potential acquisition and investment opportunities not otherwise available to the REIT.

Expand the Asset Base

- Internal Growth Strategies

The REIT's internal growth strategy includes the following:

- Nurturing existing tenant relationships, ensuring tenant retention and accommodating tenant growth.
- Increasing rental income and minimizing operating expenses through operating improvements and preventative maintenance programs.
- Pursuing expansion and redevelopment opportunities within the REIT's portfolio.

- External Growth Strategies

The REIT's external growth strategy includes the following:

- Acquiring stable investment properties that are accretive to the REIT.
- Acquiring a broad range of commercial properties within its target markets to maximize diversification within its portfolio.
- Pursuing selective development and expansion opportunities within the REIT's portfolio.
- Strategic relation with Lotus Crux allowing access to a unique pipeline of potential future acquisitions and investments.

SUMMARY OF SIGNIFICANT EVENTS

On March 23, 2015, the REIT completed the sale of 985 Godin, Quebec City, Quebec for a gross sale price of \$3,150. \$2,200 of the net proceeds was used to partially pay down a mortgage payable.

On June 9, 2015, the REIT announced the closing of a public offering of Units (the "2015 Offering"), on a bought deal basis, at a price of \$2.30 per Unit resulting in 7,625,000 Units being issued for a total gross proceeds of \$17.5 million. As part of a series of transactions, the net proceeds of the 2015 Offering were used, among other things, to finance the acquisition of seven properties for an aggregate purchase price of \$40.5 million, the closing of which was announced on June 30, 2015, and to fund a redevelopment of an existing property and for general corporate and working capital purposes. Approximately \$1.2 million of the purchase price for the seven properties was satisfied through the issuance of Class B limited partnership units ("Class B LP Units") of PRO REIT Limited Partnership ("PRLP"), a subsidiary of the REIT, at a price per Class B LP Unit equal to the offering price of the Units under the 2015 Offering.

On July 31, 2015, the REIT announced that it had entered into an arrangement agreement pursuant to which the REIT would acquire, under a plan of arrangement (the "Plan of Arrangement"), all of the outstanding trust units of Boulevard Industrial Real Estate Investment Trust ("Boulevard") in a friendly transaction approved unanimously by the boards of trustees of both the REIT and Boulevard. The Plan of Arrangement was voted upon by Boulevard unitholders and debenture holders at a meeting called for such purpose. The trustees of Boulevard unanimously recommended that Boulevard unitholders vote in favour of the Plan of Arrangement based on advice from a special committee of independent trustees.

On August 20, 2015, the REIT announced that the TSXV accepted the notice filed by the REIT of its intention to make a normal course issuer bid through the facilities of the TSXV. Pursuant to the notice accepted by the TSXV, the REIT may, during the period commencing August 26, 2015 and ending August 25, 2016, purchase for cancellation, through the facilities of the TSXV and at the market price of the Units at the time of purchase, up to 1,411,832 Units, representing 5% of the REIT's issued and outstanding Units at the beginning of the normal course issuer bid.

On September 30, 2015, the REIT announced that it had closed its previously announced transaction to acquire the outstanding trust units of Boulevard. Pursuant to the Plan of Arrangement, which was approved by the Ontario Superior Court of Justice (Commercial List) on September 25, 2015, unitholders of Boulevard received 0.04651 of a Unit of the REIT for each trust unit of Boulevard they held. On the same date, the REIT also repaid \$3,617 in cash to the holders of outstanding Boulevard convertible debentures. This represented an amount equal to 101% of the principal amount plus accrued and unpaid interest, plus an additional 30 days of interest. In addition, the REIT also repaid both Boulevard credit

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facilities in the total amount of \$1,312 and approximately \$1,000 of payables of Boulevard, including transaction costs of \$683. Upon completion of the transaction, Boulevard units and convertible debentures were delisted from the TSXV.

In December 2015, the REIT renewed and amended its existing \$9 million credit facility for an additional two year term. Under the revised terms of the credit facility, the credit facility is composed of (i) a revolving term facility in an amount of \$10 million and (ii) a non-revolving term construction facility in an amount of \$1.5 million. Upon the completion of the expansion project at the property located at 135 Main Street, Moncton, New Brunswick (a new retail pad development), and subject to the satisfaction by the REIT of certain conditions, the non-revolving term construction facility shall be cancelled and the revolving term facility shall be increased to an amount of \$11.5 million. The advances under the renewed facility bear interest at a rate of prime plus 157.5 basis points or bankers' acceptance rates plus 257.5 basis points, 5 basis points lower than the previous facility.

The REIT has also amended certain terms of its term loan and extended its maturity from April 2016 to February 2018. The term loan availability increased from its previous \$3.5 million to \$10.0 million availability with an interest rate reduction of 75 basis points.

SUBSEQUENT EVENTS

On January 20, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of January 2016. The distribution was paid on February 15, 2016 to unitholders of record as at January 29, 2016.

On February 18, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of February 2016. The distribution was paid on March 15, 2016 to unitholders of record as at February 29, 2016.

On February 18, 2016, following a recommendation of its governance and nominating committee, the REIT granted 255,000 deferred units to certain trustees, officers, consultants and employees pursuant to the LTIP. Trustees are granted DUs in lieu of cash fees. The number of deferred units granted was based on a price of \$2.30 per unit. DUs that are granted and exceed the current limit the LTIP are subject to TSXV approval and, as applicable, ratification by the REIT's unitholders.

On March 21, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of March 2016. The distribution was paid on April 15, 2016 to unitholders of record as at March 31, 2016.

On April 18, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of April 2016. The distribution is payable on May 16, 2016 to unitholders of record as at April 29, 2016.

OUTLOOK

The REIT's focus includes the delivery of growth through acquisitions, by expanding deeper into existing geographical markets where the REIT already has a presence, and expanding into the adjacent markets. This will capitalize on the REIT's existing market knowledge and help achieve economies of scale.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SELECTED ANNUAL INFORMATION

<i>(CAD \$ thousands except share, unit and per unit amounts)</i>	Year Ended December 31 2015	Year Ended December 31 2014	13 Month Period Ended December 31 2013
Property Revenue	\$ 18,190	\$ 9,189	\$ 1,628
NOI ⁽¹⁾	\$ 11,207	\$ 5,758	\$ 1,126
Net comprehensive income	\$ 5,149	\$ 5,133	\$ 4,547
AFFO ⁽¹⁾	\$ 6,258	\$ 2,944	\$ 141
Basic AFFO per unit ⁽²⁾	\$ 0.2158	\$ 0.2134	\$ 0.0442
Diluted AFFO per unit ⁽²⁾	\$ 0.2143	\$ 0.2091	\$ 0.0429
Distributions declared per Unit and Class B LP Unit ⁽³⁾	\$ 0.2100	\$ 0.2100	\$ 0.0198
Basic weighted average number of units ⁽²⁾	28,999,052	13,795,664	3,168,032
Diluted weighted average number of units ⁽²⁾	29,201,270	14,080,690	3,267,448
Total assets	\$ 203,194	\$ 141,501	\$ 70,164
Total non-current liabilities	\$ 117,274	\$ 84,926	\$ 38,845
Interest coverage ratio ^{(1) (4)}	2.7x	2.4x	2.3x
Debt service coverage ratio ^{(1) (4)}	1.6x	1.7x	1.6x

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

⁽²⁾ AFFO per unit is calculated as AFFO divided by the total of the weighted average number of basic or diluted Units, added to the weighted average number of Class B LP Units outstanding during the period.

⁽³⁾ On December 16, 2013, the REIT declared its first distribution of \$0.0198 per Unit and Class B LP Unit for the period of November 26, 2013 to December 31, 2013.

⁽⁴⁾ The interest coverage ratio and debt service coverage ratio for the thirteen month period ended December 31, 2013 was calculated based on the annualized results of the 3 month period ended December 31, 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS

PART III

RESULTS OF OPERATIONS

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Property revenue	\$ 5,558	\$ 3,429	\$ 18,190	\$ 9,189
Property operating expenses	2,187	1,240	6,983	3,431
Net operating income (NOI) ⁽¹⁾	3,371	2,189	11,207	5,758
General and administrative expenses	243	205	909	531
Long-term incentive plan expense	168	130	440	446
Depreciation of property and equipment	7	6	26	24
Interest and financing costs	1,367	849	4,330	2,477
Distributions – Class B LP Units	189	252	854	778
Fair value adjustment – Class B LP Units	(464)	(478)	(1,230)	(979)
Fair value adjustment – investment properties	(506)	(2,399)	827	(2,235)
Fair value adjustment – Warrants	(33)	(420)	(166)	(420)
Write-off of deferred acquisition costs	-	-	68	3
Net comprehensive income	\$ 2,400	\$ 4,044	\$ 5,149	\$ 5,133

⁽¹⁾ See "Non-IFRS and Operational Key Performance Indicators".

Comparison of the Results from Operations

The REIT's results of operations for the three and twelve month periods ended December 31, 2015 are not directly comparable to the three and twelve month periods ended December 31, 2014 as the REIT owned 23 investment properties December 31, 2014 of which 14 were acquired in mid-October 2014 compared to 32 properties owned at December 31, 2015. Notwithstanding the foregoing, year-over-year figures for the three and twelve month periods ended December 31, 2015 and 2014 are presented in this MD&A. The principal reason for the variances between the financial figures presented in such year-over-year periods are the disparity in the number of properties and their respective results of operations during such comparative periods.

Overall Analysis

Property Revenue

Property revenue includes rents from tenants under lease agreement, straight-line rent, percentage rents, property taxes and operating cost recoveries and other incidental income.

For the three and twelve month periods ended December 31, 2015, property revenue increased by \$2,129 and \$9,001 respectively compared to the same periods in 2014. The increase is principally driven by the incremental revenues from the 14 property acquisitions completed mid-October 2014 and the 10 property acquisitions completed in 2015.

Property Operating Expenses

Property operating expenses are expenses directly related to real estate operations and are generally charged back to lessees as provided for in the contractual terms of the leases. Operating expenses include property taxes and public utilities, costs related to indoor and outdoor maintenance, heating, ventilation and air conditioning, elevators, insurance, janitorial services and management and operating fees. The amount of operating expenses that the REIT can recover from its lessees depends on the occupancy rate of the properties and the nature of the existing leases containing clauses regarding the recovery of expenses. The majority of the REIT's leases are net rental leases under which tenants are required to pay their share of the properties' operating expenses.

Property operating expense was \$2,187 and \$6,983 for the three and twelve month periods ended December 31, 2015 respectively. The increase of \$947 and \$3,552 compared to the same periods in 2014 is due to the 14 property acquisitions that closed in the fourth quarter of 2014 and the 10 property acquisitions completed in June and September of 2015, of which three were acquired in connection with the acquisition of Boulevard under the Plan of Arrangement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

General and Administrative Expenses

General and administrative expenses include corporate expenses, office expenses, legal and professional fees, asset management fees and other overhead expenses which are indirectly associated with the operation and leasing of investment properties.

General and administrative expenses for the three month periods ended December 31, 2015 and 2014 were \$243 and \$205 respectively. The marginal increase of \$38 is primarily due to the increase in the contracted asset management fees of \$41.

General and administrative expenses for the year ended December 31, 2015 and 2014 were \$909 and \$531 respectively. The increase of \$378 is due to the increase in professional fees including audit related fees of \$105 and increase in marketing related fees of \$17. The remaining increase is attributed to expenses incurred in the normal course of operations in relation to the increased size of the REIT compared to the same period in 2014 including increases in the contracted asset management fees of \$189.

Long-Term Incentive Plan

Long-term incentive plan expense of \$168 and \$440 during the three and twelve month periods ended December 31, 2015 relates to deferred units which vest over a three year period, and is a non-cash item. The variance in long-term incentive plan expense is explained by the expense of \$276 and \$782 for the three and twelve month periods ended December 31, 2015 offset by a fair value gain of \$108 and \$342 respectively.

Interest and Financing Costs

Interest and financing costs were \$1,367 and \$4,330 for the three and twelve month periods ended December 31, 2015. The increase of \$518 and \$1,853 compared to the same periods in 2014 is primarily a result of the additional interest expense on mortgage financing obtained to acquire the 14 properties in October 2014 (\$45,562 of additional mortgages payable) and 10 properties in 2015 (\$33,621 of additional mortgages payable) offset by the decrease in weighted average contractual rate of the mortgages (3.71% at December 31, 2015 compared to 3.74% at December 31, 2014).

Distributions – Class B LP Units

Distributions on the Class B LP Units were \$189 and \$854 for the three and twelve month periods ended December 31, 2015. The decrease of \$63 and the increase of \$76 compared to the same periods in 2014 is a result of the change in the number of Class B LP Units issued and outstanding. The REIT issued an additional 1,847,826 and 530,436 Class B LP Units in connection with several of the properties acquired in October 2014 and in June 2015 respectively offset by 2,108,696 Class B LP Units in issue that were exchanged into Units of the REIT at the option of the unitholder.

Fair Value Adjustment – Class B LP Units

A fair value gain of \$464 and \$1,230 on the Class B LP Units was recorded in the three and twelve month periods ended December 31, 2015 respectively, resulting from a decrease in the quoted market price of the REIT's publicly traded Units. This is a non-cash item.

Fair Value Adjustment – Investment Properties

The REIT has selected the fair value method to account for real estate classified as investment property and records investment properties at their purchase price including transaction costs (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value gains and losses in the statement of comprehensive income in the quarter in which they occur.

The fair value gain of \$506 for the three month periods ended December 31, 2015 is a result of changes in projected future cash flows, changes in capitalization rates and market rent assumptions on certain of the REIT's properties. The fair value loss of \$827 for the twelve month period ended December 31, 2015 is primarily related to certain non-recoverable capital expenditures and leasing costs incurred.

The REIT calculates fair value using both the discounted cash flow method and direct capitalization method which are generally accepted appraisal methodologies. Fair value is based on, among other things, assumptions of future cash flows in respect of current and future leases, capitalization rates, terminal capitalization rates, discount rates, market rents, tenant inducements and leasing cost assumptions and expected lease rollovers. Fair values are supported by a combination of internal financial information, market data and external independent valuations.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Fair Value Adjustment – Warrants

Warrants comprise of REIT unit purchase warrants and Class B LP warrants, collectively referred to as “Warrants”. The Warrants are measured at fair value and presented as part of non-current liabilities in the statement of financial position, with changes in fair value recorded in the statement of comprehensive income. The fair value of the Warrants is determined with reference to the market price on the date of measurement.

A fair value gain of \$33 and \$166 on the Warrants was recorded in the three and twelve month periods ended December 31, 2015 resulting from a decrease in the quoted market price of the REIT's publicly traded warrants. This is a non-cash item.

Write-off of Deferred Acquisition Costs

Write-off of deferred acquisition costs for the twelve month period ended December 31, 2015 was \$68. These costs represent expenses previously capitalized in relation to specific future acquisitions that are no longer being contemplated.

SEGMENTED ANALYSIS

The REIT's segments include four classifications of investment properties – Retail, Office, Commercial Mixed Use and Industrial. All of the REIT's activities are located in one geographical segment – Canada. The accounting policies followed for each segment are the same as disclosed in the REIT's consolidated financial statements. Operating performance is evaluated by the REIT's management primarily based on NOI, which is defined as property revenue less property operating expenses. General and administrative expenses, depreciation and amortization, interest and financing costs are not allocated to operating segments. Segment assets include investment properties; segment liabilities include mortgages attributable to specific segments, but excludes the REIT's term loans, credit facility and their respective unamortized financing costs. Other assets and liabilities are not attributed to operating segments.

<i>(CAD \$ thousands)</i>	Retail		Office		Commercial Mixed Use		Industrial		Total
	\$	%	\$	%	\$	%	\$	%	\$
3 months ended December 31, 2015									
Property revenue	2,460	44.3	797	14.3	781	14.1	1,520	27.3	5,558
Net operating income (NOI) ⁽¹⁾	<u>1,550</u>	<u>46.0</u>	<u>335</u>	<u>9.9</u>	<u>485</u>	<u>14.4</u>	<u>1,001</u>	<u>29.7</u>	<u>3,371</u>
 3 months ended December 31, 2014									
Property revenue	1,615	47.1	603	17.6	718	20.9	493	14.4	3,429
Net operating income (NOI) ⁽¹⁾	<u>1,054</u>	<u>48.2</u>	<u>287</u>	<u>13.1</u>	<u>454</u>	<u>20.7</u>	<u>394</u>	<u>18.0</u>	<u>2,189</u>
 <i>(CAD \$ thousands)</i>									
Year Ended December 31, 2015									
Investment properties	87,322	43.9	21,628	10.8	28,857	14.5	61,430	30.8	199,237
Mortgages payable	48,658	46.0	3,931	3.7	11,918	11.3	41,133	39.0	105,640
Property revenue	8,428	46.3	2,892	15.9	3,030	16.7	3,840	21.1	18,190
Net operating income (NOI) ⁽¹⁾	<u>5,181</u>	<u>46.2</u>	<u>1,379</u>	<u>12.3</u>	<u>1,883</u>	<u>16.8</u>	<u>2,764</u>	<u>24.7</u>	<u>11,207</u>
 Year Ended December 31, 2014									
Investment properties	69,067	49.6	15,568	11.2	28,857	20.7	25,750	18.5	139,242
Mortgages payable	38,100	50.5	1,557	2.1	12,265	16.3	23,414	31.1	75,336
Property revenue	4,258	46.2	2,482	28.9	1,956	19.9	493	5.0	9,189
Net operating income (NOI) ⁽¹⁾	<u>2,852</u>	<u>49.6</u>	<u>1,244</u>	<u>21.6</u>	<u>1,268</u>	<u>22.0</u>	<u>394</u>	<u>6.8</u>	<u>5,758</u>

⁽¹⁾ Non-IFRS measure. See “Non-IFRS and Operational Key Performance Indicators”.

The main driver for the increase in revenues, NOI, fair values of investment properties and mortgages payables in the Retail, Office, Commercial Mixed Use and Industrial segments is the acquisition of the 14 properties in October 2014 and the acquisition of the 10 properties in 2015. The REIT completed the sale of 985 Godin, an industrial property, during the three month period ended March 31, 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Retail segment consists of 16 properties (December 31, 2014 – 12 properties), having a total GLA of approximately 525,000 square feet (December 31, 2014 - ~433,000 square feet).

The Office segment consists of 4 properties (December 31, 2014 – 3 properties), having a total GLA of approximately 154,000 square feet (December 31, 2014 - ~125,000 square feet).

The Commercial Mixed Use segment consists of 3 properties (December 31, 2014 – 3 properties), having a total GLA of approximately 225,000 square feet (December 31, 2014 - ~225,000 square feet).

The Industrial segment consists of 9 properties (December 31, 2014 – 5 properties), having a total GLA of approximately 766,000 square feet (December 31, 2014 – ~261,000 square feet).

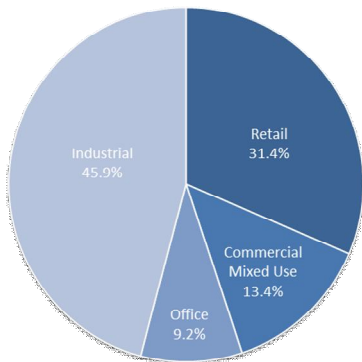
PORTFOLIO PROFILE

At December 31, 2015, the REIT's portfolio consisted of 32 properties, located in prime locations within their respective markets, representing a total GLA of 1,669,947 square feet. The increase of 625,852 square feet compared to December 31, 2014 is a result of the acquisition of 14 properties completed in October 2014, the acquisition of 7 properties completed in June 2015, and the acquisition of 3 properties in September 2015 offset by the sale of 1 property in March 2015. Change in occupancy rates at December 31, 2015 compared to December 31, 2014 is primarily a result of the property acquisitions in October 2014, June 2015 and September 2015.

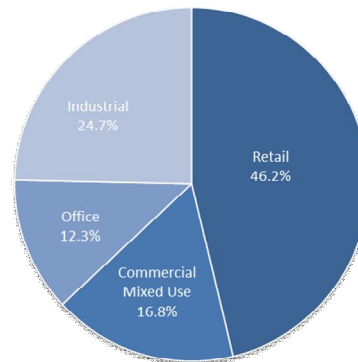
<i>(CAD \$ thousands unless otherwise stated)</i>	Year Ended / At December 31, 2015				Year Ended / At December 31, 2014			
	# of Properties	Occupancy ⁽¹⁾	GLA (sq. ft.)	NOI	# of Properties	Occupancy	GLA (sq. ft.)	NOI
Retail	16	95.1%	525,082	\$ 5,181	12	88.9%	432,995	\$ 2,852
Office	4	87.8%	154,357	1,883	3	85.0%	125,407	1,244
Commercial Mixed Use	3	95.0%	224,532	1,379	3	97.6%	224,532	1,268
Industrial	9	98.4%	765,976	2,764	5	100.0%	261,161	394
Total	32	95.9%	1,669,947	\$ 11,207	23	93.1%	1,044,095	\$ 5,758

⁽¹⁾ Occupancy rate includes lease contracts for future occupancy of currently vacant space. Management believes the inclusion of this committed space provides a more balanced reporting. The committed space at December 31, 2015 was approximately 2,500 square feet of GLA.

**GLA by Asset Class
December 31, 2015**



**NOI by Asset Class
Year Ended December 31, 2015**



MANAGEMENT'S DISCUSSION AND ANALYSIS

PART IV

LIQUIDITY AND CAPITAL RESOURCES

Cash flows from operating activities, available funding under the REIT's credit facility and cash on hand represent the primary sources of liquidity to fund distributions, debt service, capital expenditures, tenant inducements and leasing costs. The REIT's cash flow from operations is dependent upon the rental occupancy levels, the rental rates on its leases, the collectability of rent from its tenants, recoveries of operating costs and operating costs. Material changes in these factors may adversely affect the REIT's net cash flows from operating activities and liquidity (see "Risks and Uncertainties" section).

The REIT expects to be able to meet all of its obligations as they become due in the short-term and the long-term. The REIT expects to have sufficient liquidity as a result of cash on hand, cash flow from operating activities and the ability to raise equity.

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Cash provided from (used in):				
Operating activities	\$ 1,354	\$ (1,737)	\$ 4,465	\$ 155
Financing activities	(1,729)	31,884	28,735	55,038
Investing activities	(954)	(54,539)	(33,011)	(55,501)
Change in cash during the period	(1,329)	(24,392)	189	(308)
Cash, beginning of period	2,106	24,980	588	896
Cash, end of period	\$ 777	\$ 588	\$ 777	\$ 588

Three Month Period Ended December 31, 2015

Cash flows from operating activities relate primarily to the collection of rent and payment of operating expenses. The cash provided from operating activities of \$1,354 for the fourth quarter 2015 was impacted mainly by the timing of cash receipts and settlement of payables.

Cash used in financing activities during the three month period ended December 31, 2015 of \$1,729 is attributed to an increase in debt of \$1,000, increase in the credit facility of \$351 offset by the repayment of debt of \$771, distributions paid of \$1,446, cancellation of Units of \$165, additional issue costs of \$151 from the acquisition of Boulevard (see "Summary of Significant Events" section) and financing costs incurred of \$547.

Cash used in investing activities of \$954 during the fourth quarter of 2015 primarily consists of non-recoverable capital expenditures and leasing costs.

Year Ended December 31, 2015

Cash flows from operating activities relate primarily to the collection of rent and payment of operating expenses. The cash provided from operating activities of \$4,465 for the twelve month period ended December 31, 2015 was impacted mainly by the timing of cash receipts and settlement of payables.

Cash provided by financing activities during the twelve month period ended December 31, 2015 of \$28,735 is attributed to the closing of the 2015 Offering of \$15,092, repayment of Boulevard convertible debentures, repayment of Boulevard credit facilities and the payment of Boulevard transaction costs totaling \$5,612 (see "Summary of Significant Events" section), increase in debt of \$27,500, increase in the credit facility of \$2,051 offset by the repayment of debt of \$4,631, distributions paid of \$4,631, cancellation of Units of \$165 and financing costs incurred of \$869.

Cash used in investing activities of \$33,011 during the twelve month period ended December 31, 2015 primarily consists of 7 property acquisitions of \$33,106, capital expenditures and leasing costs of \$2,808 offset by the net proceeds of sale of \$2,921 associated with the sale of 985 Godin in March 2015.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITALIZATION AND DEBT PROFILE

<i>(CAD \$ thousands)</i>	December 31 2015
Mortgages payable (net of financing costs of \$1,035)	\$ 104,340
Term loans (net of financing costs of \$611)	8,389
Vendor take-back mortgage	1,300
Credit facility (net of financing costs of \$75)	8,801
Class B LP Units	6,644
Warrants	34
Unitholders' equity	67,400
Total Capitalization	\$ 196,908

The REIT has a revolving credit facility of \$10,000 plus an additional \$1,500 in construction financing available for a new retail pad development which bears interest at prime plus 157.5 basis points or bankers' acceptance rate plus 257.5 basis points. The credit facility is secured by a pool of first and second charges on certain investment properties with a fair value of approximately \$24,027 at December 31, 2015.

As at December 31, 2015, all mortgages payable were at fixed rates with a weighted average contractual rate of approximately 3.71% (December 31, 2014 – 3.74%). The mortgages payable are secured by first charges on certain investment properties with a fair value of approximately \$186,066 at December 31, 2015 (December 31, 2014 - \$126,232).

The first term loan is interest bearing only at the rate greater of 7.75% or the financial institution prime rate plus 4.25% per annum. The term loan is secured by a pool of second and third charges on certain investment properties with a fair value of approximately \$65,377 at December 31, 2015.

In connection with the acquisition of Boulevard (see "Summary of Significant Events" section), the REIT entered into a second term loan in the amount of \$6 million bearing interest at 8.00% per annum and matures in March 2017 with an option to extend the term by an additional 18 months. This term loan is secured by a pool of second charges on certain investment properties with a fair value of approximately \$18,400 (December 31, 2014 - \$Nil) and was used to repay Boulevard's convertible debentures in the amount of \$3,617, two credit facilities in the total amount of \$1,312 and approximately \$1 million in payables of Boulevard including transaction costs of \$683.

The vendor take-back mortgage is interest bearing only at 3.5% per annum and matures in September 2016.

The mortgages payable, term loans and vendor take-back mortgage are repayable no later than 2025.

Contractual Obligations

The following table represents the REIT's contractual obligations at December 31, 2015:

<i>(CAD \$ thousands)</i>	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Due within:						
Debt principal instalments	\$ 3,203	\$ 3,267	\$ 3,086	\$ 2,371	\$ 1,817	\$ 3,232
Debt principal maturities	1,300	7,336	21,912	27,002	10,705	30,444
Debt interest	3,915	3,665	3,218	2,270	1,762	2,619
Credit facility	8,876	-	-	-	-	-
Accounts payable and other liabilities	4,619	-	-	-	-	-
Rent	5	-	-	-	-	-
	\$ 21,918	\$ 14,268	\$ 28,216	\$ 31,643	\$ 14,248	\$ 36,295

The REIT expects to have sufficient liquidity as a result from cash flow from operating activities and the ability to raise equity.

Debt Ratios

The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The REIT objective is to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account availability of financing and market conditions, and the financial characteristics of each property.

The REIT's other objectives when managing capital on a long-term basis include enhancing the value of the assets and maximizing unit value through the ongoing active management of the REIT's assets, expanding the asset base through acquisitions of additional properties and the re-development of projects which are leased to creditworthy tenants, and generating sufficient returns to provide unitholders with stable and growing cash distributions. The REIT's strategy is driven by policies as set out in the Declaration of Trust, as well as requirements from certain lenders.

The requirements of the REIT's operating policies as outlined in the Declaration of Trust include requirements that the REIT will not:

- (a) incur or assume indebtedness on properties in excess of 75% of the property's market value; and
- (b) incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 70% of Gross Book Value.

Gross Book Value is calculated as follows:

<i>(CAD \$ thousands unless otherwise stated)</i>	December 31 2015
Total assets, including investment properties stated at fair value	\$ 203,194
Accumulated depreciation on property and equipment	68
Gross Book Value ⁽¹⁾	203,262
Debt, excluding unamortized financing costs	\$ 115,675
Credit facility, excluding unamortized financing costs	8,876
Debt	\$ 124,551
Debt, as above, as a percentage of Gross Book Value ⁽¹⁾	61.28%

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

The REIT complied with all financial covenants during the three and twelve month periods ended December 31, 2015.

Financial Measures

In addition to the REIT's level of indebtedness calculated in accordance with the REIT's Declaration of Trust, management also monitors certain financial measures, which include the (i) interest coverage ratio, and (ii) the debt service coverage ratio. All of these measures are non-IFRS measures.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adjusted EBITDA

Adjusted EBITDA is used by the REIT to monitor the REIT's ability to satisfy and service its debt as well as monitor requirements imposed by the REIT's lenders. Specifically, adjusted EBITDA is used to monitor the REIT's interest coverage ratio and debt service ratio, which the REIT uses to measure its debt profile and assess its ability to satisfy its obligations, including servicing its debt.

The following is a calculation of the Adjusted EBITDA for the three and twelve month periods ended December 31, 2015 and 2014:

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Net comprehensive income	\$ 2,400	\$ 4,044	\$ 5,149	\$ 5,133
Interest and financing costs	1,367	849	4,330	2,477
Depreciation of property and equipment	7	6	26	24
Fair value adjustment – Class B LP Units	(464)	(478)	(1,230)	(979)
Fair value adjustment – investment properties	(506)	(2,399)	827	(2,235)
Fair value adjustment – Warrants	(33)	(420)	(166)	(420)
Distributions – Class LP Units	189	252	854	778
Straight line rent	(16)	(19)	(70)	(76)
Long-term incentive plan expense	168	130	440	446
Non-recurring items	-	-	68	3
Adjusted EBITDA ⁽¹⁾	\$ 3,112	\$ 1,965	\$ 10,228	\$ 5,151

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

Interest coverage ratio

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The interest coverage ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management utilizes this ratio to measure and limit the REIT's leverage.

The following is a calculation of the interest coverage ratio for the three and twelve month periods ended December 31, 2015 and 2014:

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Adjusted EBITDA ⁽¹⁾	\$ 3,112	\$ 1,965	\$ 10,228	\$ 5,151
Interest expense	\$ 1,194	\$ 750	\$ 3,806	\$ 2,136
Interest Coverage Ratio ⁽¹⁾	2.6x	2.6x	2.7x	2.4x

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

Debt service coverage ratio

The debt service coverage ratio is determined as adjusted EBITDA divided by the debt service requirements for the period, whereby the debt service requirements reflects principal repayments and interest expensed during the period. Payments related to prepayment penalties or payments upon discharge of a mortgage are excluded from the calculation. The debt service coverage ratio is a useful measure and is used by the REIT's management to monitor the REIT's ability to meet annual interest and principal payments.

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following is a calculation of the debt service coverage ratio for the three and twelve month periods ended December 31, 2015 and 2014:

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Adjusted EBITDA ⁽¹⁾	\$ 3,112	\$ 1,965	\$ 10,228	\$ 5,151
Interest expense	\$ 1,194	\$ 750	\$ 3,806	\$ 2,136
Principal repayments	\$ 771	\$ 356	\$ 2,431	\$ 949
Debt Service Requirements	\$ 1,965	\$ 1,106	\$ 6,237	\$ 3,085
Debt Service Coverage Ratio ⁽¹⁾	1.6x	1.8x	1.6x	1.7x

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

DISTRIBUTIONS AND ADJUSTED FUNDS FROM OPERATIONS

<i>(CAD \$ thousands except unit, per unit amount and unless otherwise stated)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Net comprehensive income for the period	\$ 2,400	\$ 4,044	\$ 5,149	\$ 5,133
Add:				
Depreciation of property and equipment	7	6	26	24
Distributions – Class B LP Units	189	252	854	778
Fair value adjustment – investment properties	(506)	(2,399)	827	(2,235)
Fair value adjustment – Class B LP Units	(464)	(478)	(1,230)	(979)
Fair value adjustment – Warrants	(33)	(420)	(166)	(420)
FFO ⁽¹⁾	\$ 1,593	\$ 1,005	\$ 5,460	\$ 2,301
Deduct:				
Straight-line rent adjustment	(16)	(19)	(70)	(76)
Maintenance capital expenditures	-	-	-	(5)
Stabilized leasing costs	(56)	(20)	(162)	(48)
Add:				
Long-term incentive plan	168	130	440	446
Amortization of financing costs	174	96	522	323
Write-off of deferred acquisition costs	-	-	68	3
AFFO ⁽¹⁾	\$ 1,863	\$ 1,192	\$ 6,258	\$ 2,944
Basic FFO per unit ^{(1) (2)}	0.0467	0.0428	0.1883	0.1668
Diluted FFO per unit ^{(1) (2)}	0.0458	0.0422	0.1870	0.1635
Basic AFFO per unit ^{(1) (2)}	0.0546	0.0507	0.2158	0.2134
Diluted AFFO per unit ^{(1) (2)}	0.0535	0.0501	0.2143	0.2091
Distributions declared per Unit and Class B LP Unit	0.0525	0.0525	0.2100	0.2100
AFFO payout ratio – Basic ⁽¹⁾	96.1%	103.5%	97.3%	98.4%
AFFO payout ratio – Diluted ⁽¹⁾	98.1%	104.9%	98.0%	100.4%
Basic weighted average number of units ⁽²⁾	34,105,778	23,514,566	28,999,052	13,795,664
Diluted weighted average number of units ⁽²⁾	34,817,535	23,824,148	29,201,270	14,080,690

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

⁽²⁾ FFO and AFFO per unit is calculated as FFO or AFFO, as the case may be, divided by the total of the weighted number of basic or diluted units, added to the weighted average number of Class B LP Units outstanding during the period.

The increase in FFO of \$588 and \$3,159 and the increase in AFFO of \$671 and \$3,314 for the three and twelve month periods ended December 31, 2015, respectively compared to the same period in 2014 is directly related to the acquisition of the 14 properties in October 2014 and the 10 properties acquired in the second and the third quarters of 2015. Basic and diluted AFFO per Unit were 0.0546 and 0.0535 respectively for the three month period ended December 31, 2015, with a corresponding basic and diluted payout ratio of 96.1% and 98.1% respectively. The

MANAGEMENT'S DISCUSSION AND ANALYSIS

improvement in the AFFO payout ratio compared to the same periods in 2014 was primarily driven by the accretive property acquisitions completed during 2014 and 2015.

Distributions

The REIT's Board of Trustees has full discretion with respect to the timing and extent of distributions, including the adoption, amendment or revocation of any distribution policy. In determining the amount of monthly cash distributions paid to unitholders, the Board of Trustees applies discretionary judgment to forward-looking cash flow information, including forecasts and budgets. Management considers AFFO to be a meaningful measure of cash flow performance because it more clearly measures normalized and stabilized cash flow, as opposed to cash flow from operating activities calculated in accordance with IFRS, which reflects seasonal fluctuations in working capital and other items. The excess of AFFO over cash distributions represents a measure of operating cash flow retained in the business.

It is the REIT's intention to make distributions to unitholders at least equal to the amount of net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for current income taxes.

The REIT has implemented a distribution reinvestment plan ("DRIP") pursuant to which holders of Units or Class B LP Units may elect to have their cash distributions of the REIT or PRLP automatically reinvested in additional Units at a 3% discount to the weighted average closing price of the Units for the last five trading days preceding the applicable distribution payment date on which trades of the Units were recorded.

The distributions declared during the three and twelve month periods ended December 31, 2015 resulted in 95,416 and 276,474 Units issued or issuable under the DRIP respectively.

Distributions of \$0.0525 and \$0.2100 per Unit and Class B LP Unit were declared during the three and twelve month periods ended December 31, 2015 and 2014. Distributions were paid on or about the 15th day of the month following the declaration.

The following reconciles AFFO to cash flows from operating activities reported in the consolidated financial statements:

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Cash flow provided from operating activities	\$ 1,354	\$ (1,737)	\$ 4,465	\$ 155
Add (deduct):				
Changes in non-cash working capital	376	2,719	1,101	2,075
Distributions – Class B LP Units	189	252	854	778
Non-cash portion of Distributions – Class B LP Units	-	(22)	-	(14)
Stabilized leasing costs	(56)	(20)	(162)	(48)
Maintenance capital expenditures (non-recoverable)	-	-	-	(5)
Write-off of deferred acquisition costs	-	-	-	3
Adjusted Funds From Operations (AFFO) ⁽¹⁾	\$ 1,863	\$ 1,192	\$ 6,258	\$ 2,944

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

MANAGEMENT'S DISCUSSION AND ANALYSIS

The table below illustrates the REIT has sufficient AFFO to sustain its cash distributions:

<i>(CAD \$ thousands)</i>	3 Months Ended December 31 2015	3 Months Ended December 31 2014	Year Ended December 31 2015	Year Ended December 31 2014
Adjusted Funds From Operations (AFFO) ⁽¹⁾	\$ 1,863	\$ 1,192	\$ 6,258	\$ 2,944
Total distributions paid or payable in cash – Units and Class B LP Units	1,624	1,176	5,637	2,962
Less: incremental distributions related to the Units issued from the 2014 Offering and Concurrent Private Placement ⁽²⁾	-	(100)	-	(301)
	1,624	\$ 1,076	5,637	2,661
Excess of AFFO over adjusted distributions paid or payable	\$ 239	\$ 116	\$ 621	\$ 283

⁽¹⁾ Non-IFRS measure. See "Non-IFRS and Operational Key Performance Indicators".

⁽²⁾ The REIT declared distributions payable of \$0.0175 per Unit on the 11,459,000 Units issued September 30, 2014 in connection with a public offering and concurrent private placement (the "2014 Offering and Concurrent Private Placement"). These Units were issued to partially finance the acquisition of 14 properties which closed in October 2014. As such the incremental NOI from these properties is absent for the three and nine month periods ended September 30, 2014.

For the three and twelve month periods ended December 31, 2015 and 2014, the REIT's AFFO did not exceed the distributions paid.

The REIT has estimated that distributions to be made for the year ended December 31, 2015 represent an approximate 100% return of capital.

ISSUED AND OUTSTANDING SECURITIES AND NORMAL COURSE ISSUER BID

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units (the "Special Voting Units").

Units

Each Unit confers the right to one vote at any meeting of unitholders and to participate pro rata in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders have the right to require the REIT to redeem their Units on demand in accordance with the Declaration of Trust. The Units have no par value. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall cease and the holder thereof shall be entitled to receive a price per Unit ("Redemption Price"), as determined by a formula outlined in the Declaration of Trust. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

Total Units outstanding as of April 20, 2016 were 30,617,522.

Class B LP Units and Special Voting Units

Special Voting Units have no economic entitlement in the REIT, but entitle the holder to one vote per Special Voting Unit at any meeting of the unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of Class B LP Units. A Special Voting Unit will be issued in tandem with each Class B LP Unit issued.

The Class B LP Units are issued by PRLP and holders of Class B LP Units are entitled to receive distributions equal to those provided to holders of Units. The Class B LP Units are indirectly exchangeable on a one-for-one basis for Units at any time at the option of their holder, unless the exchange would jeopardize the REIT's status as a "mutual fund trust" under the Income Tax Act (Canada) (the "Tax Act"). The Class B LP Units are presented as a financial liability in the statement of financial position.

Total Class B LP Units outstanding as of April 20, 2016 were 3,610,796.

Warrants

Each whole REIT unit purchase warrant entitles the holder to purchase one Unit of the REIT upon exercise. As the Units of the REIT are puttable instruments, the REIT unit purchase warrants meet the definition of a financial liability under IAS 32.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Each whole Class B LP warrant entitles the holder to purchase one Class B LP Unit of PRLP upon exercise. The Class B LP warrants issued by one of the REIT's limited partnerships under control, are classified as "financial liabilities", as they are indirectly exchangeable into Units of the REIT on a one-for-one basis at any time at the option of the holder.

The Warrants are measured at fair value and presented as part of non-current liabilities in the statement of financial position, with changes in fair value recorded in the statement of comprehensive income. The fair value of the Warrants is determined with reference to the market price on the date of measurement. Upon exercise, the carrying amount of the liability representing the fair value of the Warrants on the exercise date will be reclassified to unitholders' equity. As of October 2014, the warrants of the REIT are traded on the TSXV under the symbol "PRV.WT".

Total Warrants outstanding as of April 20, 2016 were:

# of REIT Units purchase warrants	# of Class B LP warrants	Total
5,785,312	923,913	6,709,225

Deferred Units and Restricted Units

The REIT has a long term incentive plan pursuant to which it may grant deferred units or restricted units to its trustees and senior officers and certain of its employees and consultants. Units are issued to participants in the plan upon vesting of the deferred units or restricted units, unless deferred in accordance with the terms of the plan.

Total deferred units and restricted units outstanding as of April 20, 2016 were respectively 1,097,528 and Nil.

Normal Course Issuer Bid

Pursuant to a notice accepted by the TSXV, the REIT may, during the period commencing August 26, 2015 and ending August 25, 2016, purchase for cancellation, through the facilities of the TSXV and at the market price of the REIT's Units at the time of purchase, up to 1,411,832 Units, representing 5% of the REIT's issued and outstanding Units at the beginning of the normal course issuer bid. The actual number of Units that may be purchased and the timing of any such purchases will be determined by the REIT, and will be made in accordance with the requirements of the TSXV. The REIT is making the normal course issuer bid because it believes that the market price of the Units does not always reflect their underlying value, and that purchasing Units for cancellation may from time to time be an appropriate use of available resources and in the best interests of the REIT. Unitholders can obtain a copy of the notice filed with TSXV, without charge, by contacting the REIT at 514-933-9552. For the year ended December 31, 2015, the REIT repurchased and cancelled 87,300 Units for \$165.

MANAGEMENT'S DISCUSSION AND ANALYSIS

FINANCIAL INSTRUMENTS

The REIT does not acquire, hold or issue derivative financial instruments for trading purposes. The following table presents the classification, measurement subsequent to initial recognition, carrying values and fair values (where applicable) of financial assets and liabilities.

Classification	Measurement	Carrying Value December 31 2015	Fair Value December 31 2015
Loans and Receivables			
Cash (a)	Amortized cost	\$ 777	\$ 777
Receivables and other excluding prepaid expenses, deposits and other receivables (a)	Amortized cost	987	987
		\$ 1,764	\$ 1,764
Financial Liabilities Through Profit and Loss			
Class B LP Units	Fair value (L2)	\$ 6,644	\$ 6,644
Long-term incentive plan	Fair value (L2)	1,070	1,070
Warrants	Fair value (L1)	34	34
		\$ 7,748	\$ 7,748
Other Financial Liabilities			
Accounts payable and other liabilities (a)	Amortized cost	\$ 4,619	\$ 4,619
Credit facility (a)	Amortized cost	8,801	8,801
Distributions payable (a)	Amortized cost	597	597
Debt (b)	Amortized cost	114,029	114,029
		\$ 128,046	\$ 128,046

(a) Short-term financial instruments, comprising cash, accounts receivable, accounts payable and other liabilities, credit facility and distributions payable are carried at amortized cost which, due to their short-term nature, approximates their fair value.

(b) Long-term financial instruments consist of debt. The fair value of debt is based upon discounted future cash flows using discount rates, adjusted for the REIT's own credit risk, that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the REIT might pay or receive in actual market transactions.

The fair value of the Class B LP Units and long-term incentive plan are estimated based on the market trading prices of the Units (Level 2).

Off Balance Sheet Arrangements

The REIT had no off balance sheet arrangements.

PART V

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures over Financial Reporting

Management of the REIT, consisting of the President and Chief Executive Officer and the Chief Financial Officer, are responsible for establishing and maintaining appropriate information systems, procedures and controls to ensure that (i) material information related to the REIT including its consolidated subsidiaries is made known to them by others particularly during the period in which interim filings are being prepared, and (ii) information required to be disclosed by the REIT in its annual filings, interim filings or other reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported on a timely basis and within the time period specified by the securities legislation.

Internal Controls over Financial Reporting

As a result of the REIT's limited staffing levels, internal controls which rely on segregation of duties in many cases are not appropriate or possible. Due to resource constraints, the REIT does not have sufficient size and scale to warrant the hiring of additional staff to correct this potential weakness at this time. To help mitigate the impact of this potential weakness, the REIT is highly reliant on the performance of compensating procedures, management's review and approval, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the Board of Trustees. During the period, the REIT made no material changes to its systems of internal controls over financial reporting.

MANAGEMENT'S DISCUSSION AND ANALYSIS

As a venture issuer, the REIT is not required to certify the design and evaluation of the REIT's disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), and as such has not completed such an evaluation. Unitholders should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

In addition, ICFR cannot provide absolute assurance of achieving financial reporting objectives because of their inherent limitations. ICFR is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting in human failures. ICFR also can be circumvented by collusion or improper management override. Because of such limitations, there is risk that material misstatements may not be prevented or detected on a timely basis by ICFR. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

RISKS AND UNCERTAINTIES

The REIT is exposed to various risks and uncertainties which include, but are not limited to, the risks and uncertainties outlined below. Readers should also refer to the other risks and uncertainties discussed in the REIT's materials filed with the Canadian securities regulatory authorities from time to time, including those discussed under "Risk Factors" in the REIT's latest annual information form, available on SEDAR at www.sedar.com.

Real Property Ownership

All real property investments are subject to a degree of risk. Such investments are affected by general economic conditions, such as availability of long-term mortgage funds, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors. The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants.

Diversification Risk

The REIT's revenues will be sensitive to the ability of the REIT's key tenants to meet their rent obligations and the REIT's ability to collect rent from these tenants. Approximately 32% of GLA of the portfolio of properties of the REIT is comprised of single-tenant properties. In the event that such tenants were to terminate their tenancies or become insolvent, the REIT's financial results would be materially adversely affected. Until the REIT is in a position to acquire more assets and further diversify its tenant base, the REIT will take certain steps to mitigate any credit risk by closely monitoring its tenants' compliance with the terms of their respective leases and to report any issues as soon as they are identified.

The REIT has a limited number of tenants and therefore the amount of cash distributions to unitholders may be largely dependent on income derived from rent paid by such tenants. In the event that a key tenant defaults on or ceases to satisfy its payment obligations under its lease, the business, operating results, financial condition and distributions of the REIT could be adversely affected and there would be a negative effect on the REIT.

The REIT expects to generate the majority of its base rental revenue from its 10 largest tenants. Accordingly, revenue will be dependent on the ability of those tenants to meet rent payments. If any of the 10 largest tenants default on their rent obligations, the REIT's financial condition and operations could be adversely affected. Until the REIT is in a position to acquire more assets and further diversify its tenant base, the REIT will take certain steps to mitigate any credit risk by closely monitoring its tenants' compliance with the terms of their respective leases and to report any issues as soon as they are identified.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. In certain cases and in certain jurisdictions, tenants may have the contractual or statutory right to terminate the leases prior to the expiration of their term, upon certain conditions. In the event that a lease was terminated prior to its term, the terms of any subsequent lease may be less favourable to the REIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as a lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the REIT's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the REIT. Costs may be incurred in making improvements or repairs required by a new tenant. The failure to rent unleased space on economically favourable lease terms on a timely basis or at all would likely have an adverse effect on the financial condition of the REIT.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dependence on the Manager and Key Personnel

The REIT is dependent upon Labec Realty Advisors Inc. (the "Manager") for operational and administrative services relating to the REIT's business, pursuant to a management agreement entered into with the Manager (the "Management Agreement"). Should the Manager terminate the Management Agreement, the REIT may be required to engage the services of another external property and asset manager. The REIT may be unable to engage a property and asset manager on acceptable terms, in which case, the REIT's operations and cash available for distribution may be adversely affected. In addition, the success of the REIT is highly dependent on the services of certain key personnel, including in particular, James W. Beckerleg and Gordon G. Lawlor, the Manager's principals who are also the President and Chief Executive Officer and the Chief Financial Officer, respectively, of the REIT. There can be no assurances that the REIT, through the Manager, will be able to retain its existing key personnel, attract qualified executives or adequately fill new or replace existing senior management positions or vacancies created by expansion, turnover or otherwise. The loss of the services of any one or more of the REIT's key personnel or the inability to retain, attract or fill any such personnel or positions or vacancies could have an adverse effect on the REIT and adversely impact the REIT's financial condition and decrease the amount of cash available for distribution.

Fixed Costs

The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution to unitholders. Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. Costs may also be incurred in making improvements or repairs to property required by a new tenant and income may be lost as a result of any prolonged delay in attracting suitable tenants to the vacant space.

The timing and amount of capital expenditures by the REIT will indirectly affect the amount of cash available for distribution to unitholders.

Financial Risks and Leverage

The REIT is subject to the risks associated with debt financing, including the risk that the REIT's cash flows will be insufficient to meet required payments of principal and interest, the risk that existing mortgages will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness.

If the REIT is unable to refinance its indebtedness on acceptable terms, or at all, it might be forced to dispose of one or more of its properties on disadvantageous terms, which might result in losses. Such losses could have a material adverse effect on the REIT's business, financial condition, results of operations or cash flows.

Furthermore, if a property is mortgaged to secure the payment of indebtedness and the REIT is unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all of which could result in lost revenues and asset value to the REIT.

The degree to which the REIT is leveraged could have important consequences to unitholders, including: (i) the REIT's ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the REIT's cash flow may be dedicated to the payment of the principal of, and interest on, its indebtedness, thereby reducing the amount of funds available for the payment of distributions to unitholders; and (iii) certain of the REIT's borrowings will be at variable rates of interest which exposes the REIT to the risk of increased interest rates. The REIT's ability to make scheduled payments of the principal of, or interest on, or to refinance, its indebtedness will depend on its future cash flow, which is subject to the financial performance of properties in the REIT's portfolio, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the REIT's control. The credit facility of the REIT also contains covenants that require it to maintain certain financial ratios on a consolidated basis. If the REIT does not maintain such ratios, its ability to make distributions will be limited.

Liquidity of Real Property Investments

Real property investments are relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the ability of the REIT to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT was to be required to liquidate its real property investments, the proceeds might be significantly less than the aggregate carrying value of such properties.

Current Global Capital Market Conditions

Continued concerns about the uncertainty over whether the economy will be adversely affected by inflation, deflation or stagflation and the systematic impact of increased unemployment, volatile energy costs, geographical issues, the availability and cost of credit to the Canadian mortgage market and a distressed commercial real estate market have contributed to increased market volatility and weakened business and consumer confidence. This difficult operating environment could adversely affect the REIT in various ways, some of which are:

MANAGEMENT'S DISCUSSION AND ANALYSIS

- (a) Carrying value of properties – The current global market conditions could result in tenants not fulfilling their lease obligations, or not renewing their leases at the end of the lease term, or not paying their rent on time, and the REIT may experience longer than normal times in filling vacancies. These circumstances could result in an impairment in the carrying value of the properties which would affect reported income.
- (b) Tenants – The current global market conditions may result in certain tenants or classes of tenants or properties having above-normal business failures resulting in higher than normal vacancies or higher than normal amounts of uncollectible rents. A substantial portion of the REIT's costs are relatively fixed. Excessive vacancies or uncollectible rents could have an adverse effect on the REIT's and its subsidiaries operations and cash flows required to meet those fixed costs.
- (c) Unit price – The current global capital market conditions have resulted in significant reductions in the trading value of securities prices in the various stock markets. The current market conditions reduce the value of any securities issued as part consideration for acquisitions, and make it difficult to raise additional capital through public and/or private securities issues. The reduced availability of equity funding could reduce the REIT's ability to further grow and expand its operations.

Acquisition and Development

The REIT's external growth prospects depend in large part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. If the REIT is unable to manage its growth and integrate its acquisitions effectively, its business, operating results and financial condition could be adversely affected. While consistent with the REIT's strategy and in the normal course, the REIT is engaged in discussions with respect to possible acquisitions of properties, there can be no assurance that any of these discussions will result in a definitive agreement and, if they do, what the terms and timing of any acquisition would be.

The success of the acquisition activities of the REIT will be determined by numerous factors, including the ability of the REIT to identify suitable acquisition targets; to obtain adequate financing related to such acquisitions on reasonable terms, the level of competition for acquisition opportunities and the REIT's ability to obtain adequate purchase prices and terms; and, in turn, the ability to effectively integrate and operate the acquired properties and the financial performance of such properties after acquisition.

Acquired properties may not meet financial or operational expectations due to unexpected costs associated with acquiring the property, as well as the general investment risks inherent in any real estate investment or acquisition (see "Real Property Ownership"). Moreover, newly acquired properties may require significant management attention or capital expenditures that would otherwise be allocated to existing properties. Any failure by the REIT to identify suitable candidates for acquisition or to operate the acquired properties effectively may have a material adverse effect on the business, results of operations and financial condition of the REIT.

Acquisition and development agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of the REIT. Representations and warranties given by such third parties to the REIT may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Moreover, properties acquired by the REIT may not meet expectations of operational or financial performance due to unexpected costs associated with developing an acquired property, as well as the general investment risks inherent in any real estate investment.

Potential Conflicts of Interest

Certain of the Trustees and executive officers of the REIT are also directors and officers of other entities, or are otherwise engaged, and will continue to be engaged, in activities that may put them in conflict with the business strategy of the REIT. Consequently, there exists the possibility for such Trustees and executive officers to be in a position of conflict. Pursuant to the Declaration of Trust, all decisions to be made by the Trustees which involve the REIT are required to be made in accordance with their duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the unitholders. In addition, the Trustees and officers of the REIT are required to declare their interests in, and such Trustees are required to refrain from voting on, any matter in which they may have a material conflict of interest.

In addition, Lotus Crux's continuing businesses may lead to conflicts of interest between Lotus Crux and its related parties and the REIT. The REIT may not be able to resolve any such conflicts, and, even if it does, the resolution may be less favourable to the REIT than if it were dealing with a party that was not a significant holder of an interest in the REIT. The agreements that the REIT entered into with Lotus Crux and certain of its related parties may be amended upon agreement between the parties, subject to applicable laws and approval in certain cases of the independent Trustees. Lotus Crux and its related parties are engaged in a wide range of real estate and other business activities and may be involved in real estate transactions that do not satisfy the REIT's investment criteria. Such transactions could include real estate transactions that are not accretive to AFFO per Unit, transactions which involve significant capital expenditure in order to reposition a property, and transactions which may be considered too small.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Significant Ownership by Lotus Crux

To the knowledge of the REIT, Lotus Crux and its related parties collectively hold an interest of approximately 10.1% in the REIT through ownership of, or the control or direction over, Units and Class B LP Units. For so long as Lotus Crux maintains a significant effective interest in the REIT, Lotus Crux benefits from certain contractual rights regarding the REIT, such as pre-emptive rights to maintain its pro rata ownership interest in the REIT and certain nomination rights. As a result, Lotus Crux may have the ability to influence certain matters affecting the REIT. Accordingly, the Units may be less liquid and worth less than they would if Lotus Crux did not have the ability to influence or determine matters affecting the REIT. Additionally, Lotus Crux's effective interest may discourage transactions involving a change of control of the REIT, including transactions in which an investor as a holder of Units might otherwise receive a premium for its Units over the then current market price. If Lotus Crux or any of its related parties sells Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

Risks Associated with External Management Arrangements

At the end of the initial term and any five-year renewal term (if so renewed on mutual agreement) of the Management Agreement, there could be circumstances whereby the fees payable to the Manager under the Management Agreement to carry out its duties thereunder are in excess of those expenses that would be incurred by the REIT on an annual basis if management of the REIT was performed by individuals employed directly by the REIT rather than by the Manager under the Management Agreement but the Management Agreement may not be terminated by the REIT in accordance with the provisions of the agreement. Furthermore, there is a risk that, because of the term and termination provisions of the Management Agreement, the termination of such agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT.

There can be no assurance that the REIT will continue to have the benefit of the Manager's advisory services, including its executive officers, or that the Manager will continue to act as the property and asset manager of the REIT. If the Manager should cease for whatever reason to provide advisory services or be the property and asset manager of the REIT, the REIT may be unable to engage an asset manager and/or property manager on acceptable terms or the cost of obtaining substitute services, whether through an external manager or by internalizing its management, may be greater than the fees the REIT pays the Manager, and this may adversely impact the REIT's ability to meet its objectives and execute its strategy which could materially and adversely affect the REIT's cash flow, operating results and financial condition.

Competition

The real estate market in Canada is highly competitive and fragmented and the REIT will compete for real property acquisitions with individuals, corporations, institutions (Canadian and foreign) and other entities which are seeking or may seek real property investments similar to those desired by the REIT in the same targeted geographical market. An increase in the availability of investment funds or an increase in interest in immovable property investments may increase competition for immovable property investments, thereby increasing purchase prices and reducing the yield on them.

Numerous other developers, managers and owners of properties will compete with the REIT in seeking tenants. Some of the properties owned by the REIT's competitors are better located or less leveraged than the properties owned by the REIT. Some of the REIT's competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on the ability of the REIT to lease space in its properties and on the rents charged or concessions granted, and could adversely affect the revenues of the REIT and its ability to meet its obligations and make cash distributions to its unitholders.

Competition for acquisitions of real properties can be intense and some competitors may have the ability or inclination to acquire properties at a higher price or on terms less favourable than those that the REIT may be prepared to accept. An increase in the availability of investment funds, an increase in interest in real property investments or a decrease in interest rates may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

Geographic Concentration

The REIT expects that its portfolio of income-producing properties will be concentrated in Quebec, Atlantic Canada, and Ontario with selective expansion into Alberta and British Columbia. Consequently, the market value of the REIT's properties and the income generated from them could be negatively affected by changes in local and regional economic conditions. These factors may differ from those affecting the real estate markets in other regions. If real estate conditions in those areas decline relative to real estate conditions in other regions, the REIT's cash flows, operating results and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

General Uninsured Losses

The REIT carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as

MANAGEMENT'S DISCUSSION AND ANALYSIS

wars, terrorism or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. The REIT has insurance for earthquake risks, subject to certain policy limits and deductibles, and will continue to carry such insurance if it is economical to do so. Should an uninsured or underinsured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but the REIT would continue to be obliged to repay any recourse mortgage indebtedness on such properties. Claims against the REIT, regardless of their merit or eventual outcome, may have a material adverse effect on the ability of the REIT to attract tenants or expand its business and will require management to devote time to matters unrelated to the operations of the business.

Access to Capital

The real estate industry is highly capital intensive. The REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, the REIT may not be able to borrow funds due to the limitations set forth in the Declaration of Trust. In addition, global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the re-valuation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. It is possible that financing which the REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular property owned by the REIT or otherwise, may not be available or, if it is available, may not be available on favourable terms to the REIT. Failure by the REIT to access required capital could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution. As well, the degree of leverage could affect the REIT's ability to obtain additional financing in the future.

Interest Rate Exposure

The assets and liabilities of the REIT may have fixed and floating interest rate components resulting in an exposure to interest rate fluctuations. Fluctuations in interest rates will have an impact on the earnings of the REIT. As a result of increased interest rates, the REIT's financial results and condition or operating results could be materially adversely affected. To the extent that the REIT fails to adequately manage these risks, its financial results, and its ability to pay distributions to unitholders and interest payments under its mortgages and its revolving credit facility and future financings may be adversely affected. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties in the future.

Environmental Matters

As an owner of interests in real property in Canada, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters.

Under these laws, the REIT could be held liable for the costs, which may be significant, of removal or remediation of certain hazardous substances, wastes or other regulated substances present in buildings or released or deposited on, in or under its properties or disposed of at other locations. The presence and migration of such substances and the failure to remove or remediate such substances, if any, could adversely affect the REIT's ability to sell its real estate or to borrow using real estate as collateral, and could potentially also result in civil claims for damages, statutory prosecutions, administrative orders or other proceedings against the REIT and in a reduction of property value. Environmental laws and regulations can change rapidly and the REIT may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on its business, financial condition or results of operations.

The REIT's operating policy is to obtain a Phase I environmental site assessment report ("ESA report"), conducted by an independent and experienced environmental consultant, prior to acquiring a property and to have Phase II environmental site assessment work completed where recommended in a Phase I ESA report. Although such environmental site assessments would provide the REIT with some level of assurance about the condition of property, the REIT may become subject to liability for undetected contamination or other environmental conditions at its properties against which the REIT cannot insure, or against which the REIT may elect not to insure, which could negatively impact the REIT's financial condition and results of operations and decrease the amount of cash available for distributions.

The REIT is not aware of any material non-compliance with environmental laws at its properties, and is not aware of any pending or threatened investigations or actions by environmental regulatory authorities or complaints by private parties in connection with its properties. The REIT intends to implement policies and procedures to assess, manage and monitor environmental conditions at its properties to manage exposure to liability. The REIT intends to make the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues and such costs relating to environmental matters may have a material adverse effect on the REIT's business, financial condition or results of operation and decrease the amount of cash available for distribution.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Litigation Risk

In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the REIT and as a result, could have a material adverse effect on the REIT's assets, liabilities, business, financial condition and results of operations. Even if the REIT prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the REIT's business operations, which could adversely affect its financial condition.

Potential Undisclosed Liabilities

The REIT may acquire properties that are subject to existing liabilities, some of which may be unknown at the time of the acquisition or which the REIT may fail to uncover in its due diligence. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims by customers, vendors or other persons dealing with the vendor or predecessor entities (that have not been asserted or threatened to date), tax liabilities, and accrued but unpaid liabilities incurred in the ordinary course of business. While in some instances the REIT may have the right to seek reimbursement against an insurer or another third party for certain of these liabilities, the REIT may not have recourse to the vendor of the properties for any of these liabilities.

Indexation for Inflation and Duration of Lease Contracts

The fixed rents in the lease contracts for the properties of the REIT do not normally provide for adjustments following a general change in prices. As a result, the REIT's revenues adjusted for inflation could be materially adversely affected from an unexpected rise in inflation. The lease contracts typically have terms of up to five years with an option to extend at the sole discretion of the tenant for two to three renewal periods of typically five years, which is shorter than contracts in other markets of where the REIT operates and its revenues might be less stable as a result of contracts that are not promptly renewed. If contracts are not renewed and if the REIT is unable to find new tenants, this could have a materially adverse effect on the business, operating results or financial condition of the REIT.

Limit on Activities

In order to maintain its status as a "mutual fund trust" under the Tax Act, the REIT cannot carry on most active business activities and is limited in these types of investments it may make. The Declaration of Trust contains restrictions to this effect.

Volatile Market Price for Units

The market price for Units may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (i) actual or anticipated fluctuations in the REIT's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (iv) addition or departure of the REIT's executive officers and other key personnel; (v) release or expiration of lock-up or other transfer restrictions on outstanding Units; (vi) sales or perceived sales of additional Units; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; and (viii) news reports relating to trends, concerns, competitive developments, regulatory changes and other related issues in the REIT's industry or target markets.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the REIT's securities may decline even if the REIT's operating results, underlying asset values, or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in limited or no investment in the REIT's securities by those institutions, which could adversely affect the trading price of the REIT's securities. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil exist for a protracted period of time, the REIT's operations could be adversely impacted and the trading price of the REIT's securities may be adversely affected.

Cash Distributions Are Not Guaranteed

The REIT does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit. There can be no assurance regarding the amount of income to be generated by the REIT's properties and future financial performance of the REIT may not meet its future plans or budgets. Distributions made to holders of Units and holders of Class B LP Units, may exceed actual cash available to the REIT from time to time. Although the REIT intends to make cash distributions to unitholders, these cash distributions may be reduced or suspended. The ability of the REIT to make cash distributions and the actual amount distributed are entirely dependent on the operations and assets of the REIT and its subsidiaries, and are subject to various factors including financial performance, obligations under

MANAGEMENT'S DISCUSSION AND ANALYSIS

applicable credit facilities, the sustainability of income derived from anchor tenants and capital expenditure requirements. Cash available to the REIT to fund distributions may be limited from time to time because of such items as principal repayments, tenants' allowances, leasing commissions, capital expenditures and redemptions of Units, if any. The REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items. The market value of the Units will deteriorate if the REIT is unable to continue its distribution levels in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors.

Restrictions on Redemptions

It is anticipated that the redemption right described in the latest annual information form of the REIT under "Description of the Trust and Description of the Units - Redemption Right" will not be the primary mechanism for unitholders to liquidate their investments. The entitlement of unitholders to receive cash upon the redemption of their Units is subject to the following limitations: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed \$50,000 (provided that such limitation may be waived at the discretion of the trustees); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on a stock exchange or traded or quoted on another market which the trustees consider, in their sole discretion, provides fair market value prices for the Units; (iii) the trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, on any market on which the Units are quoted for trading) on the redemption date for more than five trading days during the 10 day trading period commencing immediately after the redemption date; and (iv) the redemption of all of the Units shall not result in the delisting of the Units from the principal stock exchange on which the Units are listed.

Subordination of the Units

In the event of a bankruptcy, liquidation or reorganization of the REIT or any of its subsidiaries, holders of its indebtedness and its trade creditors will generally be entitled to payment of their claims from the assets of the REIT and its subsidiaries before any assets are made available for distribution to the REIT or its unitholders. The Units are subordinated to the debt and other obligations of the REIT and its subsidiaries. The REIT's subsidiaries generate all of the REIT's revenue available for distribution and hold substantially all of the REIT's operating assets.

Tax Related Risk Factors

As of the date hereof, management of the REIT believes the REIT qualifies as a mutual fund trust for income tax purposes. If the REIT were not to so qualify, the consequences could be material and adverse.

The Tax Act contains rules applicable to "SIFT trusts" and "SIFT partnerships" (each as defined in the Tax Act) (the "SIFT Rules") which tax certain publicly traded or listed trusts in a manner similar to Canadian public corporations and treat certain distributions from such trusts as taxable dividends from a taxable Canadian corporation. The SIFT Rules are not applicable to a real estate investment trust that qualifies for the REIT Exception (the exclusion from the definition of "SIFT trust" in the Tax Act, for a trust qualifying as a "real estate investment trust" as defined in subsection 122.1(1) of the Tax Act).

The REIT Exception is comprised of a number of technical tests and the determination as to whether the REIT qualifies for the REIT Exception in any particular taxation year can only be made with certainty at the end of that taxation year. As of the date hereof, management of the REIT believes that the REIT has met the requirements of the REIT Exception from the time of its inception to the date hereof and will continue to meet such requirements throughout 2016 and future years. However, there can be no assurance that the REIT will be able to qualify for the REIT Exception such that the REIT and the unitholders will not be subject to the tax imposed by the SIFT Rules in 2016 or future years.

The likely effect of the SIFT Rules on the market for Units, and on the REIT's ability to finance future acquisitions through the issue of Units or other securities is unclear. If the SIFT Rules apply to the REIT, they may adversely affect the marketability of the Units, the amount of cash available for distributions and the after-tax return to investors.

Nature of Investment

A holder of a Unit or a Class B LP Unit does not hold a share of a corporate body. Unitholders or holders of Class B LP Units do not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of holders of Units and Class B LP Units are based primarily on the Declaration of Trust and the limited partnership agreement of PRLP, respectively. There is no statute governing the affairs of the REIT or PRLP equivalent to the Business Corporations Act (Ontario) which sets out the rights and entitlements of shareholders of corporations in various circumstances. Neither the Units nor the Class B LP Units are "deposits" within the meaning of the Canada Deposit Insurance Corporation Act, nor will they be insured under the provisions of that statute or any other legislation. Furthermore, the REIT is not a trust company and, accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company.

Unitholder Liability

The Declaration of Trust provides that no holder of Units or annuitant or beneficiary of a trust governed by a registered retirement savings plan, a registered retirement income fund, a registered education savings plan or a deferred profit sharing plan, each as defined in the Income Tax Act (Canada), or of any plan of which a holder of Units acts as a trustee or a carrier (an "annuitant") will be held to have any personal liability as such, and that no resort shall be had to, nor shall recourse or satisfaction be sought from, the private property of any holder of Units or annuitant for any liability whatsoever, whether constituting extracontractual or contractual liability or arising in tort, contract or otherwise, to any person in connection with the REIT property or the affairs of the REIT, including for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the REIT or of the Trustees or any obligation which a holder of Units or annuitant would otherwise have to indemnify a Trustee for any personal liability incurred by the Trustee as such ("Trust Liability"). Only the assets of the REIT are intended to be liable and subject to levy or execution for satisfaction of such Trust Liability. Each holder of Units and annuitant will be entitled to be reimbursed out of the assets of the REIT in respect of any payment of such Trust Liability made by such holder of Units or annuitant.

The Declaration of Trust further provides that the Trustees shall cause the operations of the REIT to be conducted, with the advice of counsel, in such a way and in such jurisdictions as to avoid, to the extent they determine practicable and consistent with their fiduciary duty to act in the best interests of the holders of Units, any material risk of liability on the holders of Units for claims against the REIT, and shall, to the extent available on terms which they determine to be practicable, including the cost of premiums, cause the insurance carried by the REIT, to the extent applicable, to cover the holders of Units and annuitants as additional insured. Any written instrument creating an obligation which is or includes the granting by the REIT of a mortgage and, to the extent the Trustees determine it to be practicable and consistent with their fiduciary duties to act in the best interest of the holders of Units, any written instrument which is a material obligation, shall contain a provision that the obligation created is not personally binding upon the Trustees, the holders of Units or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion thereof is bound. Except in case of bad faith or gross negligence on their part, no personal liability will attach under the laws of the Province of Ontario to unitholders or annuitants for contract claims under any written instrument disclaiming personal liability as aforesaid.

However, in conducting its affairs, the REIT will be acquiring immovable property investments, subject to existing contractual obligations, including obligations under hypothecs, mortgages and leases. The Trustees will use commercially reasonable efforts to have any such obligations, other than leases, modified so as not to have such obligations binding upon any of the unitholders or annuitants personally. However, the REIT may not be able to obtain such modification in all cases. If a claim is not satisfied by the REIT, there is a risk that a unitholder or annuitant will be held personally liable for the performance of the obligations of the REIT where the liability is not disavowed as described above. The possibility of any personal liability attaching to unitholders or annuitants under the laws of the Province of Ontario for contract claims where the liability is not so disavowed is remote.

Liability of Holders of Class B LP Units

Holders of Class B LP Units may lose their limited liability in certain circumstances, including by taking part in the control or management of the business of PRLP. The principles of law in the various jurisdictions of Canada recognizing the limited liability of the limited partners of limited partnerships subsisting under the laws of one province but carrying on business in another province have not been authoritatively established. If limited liability is lost, there is a risk that holders of Class B LP Units may be liable beyond their contribution of capital and share of undistributed net income of PRLP in the event of judgment on a claim in an amount exceeding the sum of the net assets of the general partner of PRLP (PRO REIT GP Inc.) and the net assets of PRLP. Holders of Class B LP Units remain liable to return to PRLP for such part of any amount distributed to them as may be necessary to restore the capital of PRLP to the amount existing before such distribution if, as a result of any such distribution, the capital of PRLP is reduced and PRLP is unable to pay its debts as they become due.

Dilution

The number of Units the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units from time to time. Any issuance of Units, including Units issued in consideration for properties acquired by the REIT and grants under the long-term incentive plan, will have a dilutive effect on existing unitholders.

Change of Tax Laws

There can be no assurance that Canadian tax laws, the judicial interpretation thereof, the terms of any income tax treaty applicable to the REIT or its affiliates or the administrative and assessing practices and policies of the Canada Revenue Agency or the Minister of Finance (Canada) will not change in a manner that adversely affects the REIT, its affiliates or unitholders. Any such change could affect the REIT's eligibility for the REIT Exception, increase the amount of tax payable by the REIT or its affiliates, or otherwise adversely affect unitholders by reducing the amount available to pay distributions or changing the tax treatment applicable to unitholders in respect of such distributions.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CRITICAL ACCOUNTING ESTIMATES

In the process of applying the REIT's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognized in the financial statements:

- (i) Valuation of investment properties – Investment properties are presented at fair value at the reporting date. Currently, any change in fair value is determined by management and by independent real estate valuation experts using recognized valuation techniques. The techniques used by management and by independent real estate valuation experts comprise of the discounted cash flow and direct capitalization methods of valuation and includes estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively.
- (ii) Fair value of financial instruments – Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported value of financial instruments.

FUTURE CHANGES IN ACCOUNTING POLICIES

The future changes in accounting policies and future applicable accounting standards are discussed in the REIT's audited consolidated financial statements for the year ended December 31, 2015 and the notes contained therein.

RELATED PARTY TRANSACTIONS

The REIT engaged the Manager to perform certain services as outlined under the Management Agreement. The Manager is controlled by the President and Chief Executive Officer and Chief Financial Officer of the REIT.

The total amount due to the Manager at December 31, 2015 was \$41 (December 31, 2014 - \$110).

In connection with the services provided by the Manager under the Management Agreement, the following amounts will be payable to the Manager, in cash:

- (a) an annual advisory fee payable quarterly, equal to 0.25% of the Adjusted Cost Base of REIT's assets, prorated to take into account any acquisitions or dispositions during any monthly period, where "Adjusted Cost Base" means the book value of the assets of the REIT, as shown on its most recent consolidated statement of financial position, plus the amount of accumulated depreciation and amortization shown thereon, less cash raised by REIT in equity issues which is not yet invested in properties or other assets.

For the year ended December 31, 2015, the costs of these services amounted to \$374 (\$185 for the year ended December 31, 2014).

- (b) an acquisition fee equal to (i) 1.00% of the purchase price paid by the REIT for the purchase of a property, on the first \$100,000 of properties acquired in each fiscal year; (ii) 0.75% of the purchase price paid by the REIT for the purchase price of a property on the next \$100,000 of properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by the REIT for the purchase of a property, on properties in excess of \$200,000 acquired in each fiscal year.

For the year ended December 31, 2015, the costs of these services amounted to \$587 (\$656 for the year ended December 31, 2014).

- (c) a property management fee equal to the then applicable market rate for property management services when such services are not otherwise delegated or subcontracted to third parties.

For the year ended December 31, 2015, the costs of these services amounted to \$26 (\$6 for the year ended December 31, 2014).

During the year ended December 31, 2015, the REIT reimbursed the Manager approximately \$58 for out-of-pocket expenses for services directly related to property acquisitions of the REIT (\$113 for the year ended December 31, 2014).

On September 30, 2014, the REIT entered into a strategic investment agreement (the "Strategic Investment Agreement") with Lotus Crux. Pursuant to the Strategic Investment Agreement, Lotus Crux Acquisition will receive a fee of 0.875% of the purchase cost from the REIT on acquisitions of certain properties owned by Lotus Crux Acquisition or related parties. Lotus Crux Acquisition LP and its related parties have an effective interest in the REIT.

Fees of approximately \$ 158 were paid in year ended December 31, 2015 (\$101 for the year ended December 31, 2014).

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF QUARTERLY RESULTS

<i>(CAD \$ thousands except unit, per unit amounts and as otherwise stated)</i>	3 Months Ended Dec 31 2015	3 Months Ended Sept 30 2015	3 Months Ended Jun 30 2015	3 Months Ended Mar 31 2015	3 Months Ended Dec 31 2014	3 Months Ended Sept 30 2014	3 Months Ended June 30 2014	3 Months Ended Mar 31 2014
Property revenue	\$ 5,558	\$ 4,878	\$ 3,854	\$ 3,900	\$ 3,429	\$ 1,877	\$ 2,011	\$ 1,872
Property operating expenses	2,187	1,816	1,441	1,539	1,240	668	821	702
Net operating income (NOI) ⁽¹⁾	3,371	3,062	2,413	2,361	2,189	1,209	1,190	1,170
General and administrative expenses	243	238	236	192	205	124	113	89
Long-term incentive plan expense	168	185	109	(22)	130	127	97	92
Depreciation of property and equipment	7	7	6	6	6	6	6	6
Interest and financing costs	1,367	1,138	914	911	849	550	546	532
Distributions – Class B LP Units	189	203	223	239	252	175	176	175
Fair value adjustment – Class B LP Units	(464)	(425)	(571)	230	(478)	167	334	(1,002)
Fair value adjustment - investment	(506)	917	(380)	796	(2,399)	51	69	44
Fair value adjustment - Warrants	(33)	200	167	(100)	(420)	-	-	-
Write-off of deferred acquisition costs	-	-	-	68	-	-	3	-
Net comprehensive income (loss)	\$ 2,400	\$ 999	\$ 1,709	\$ 41	\$ 4,044	\$ 9	\$ (154)	\$ 1,234
Debt to Gross Book Value ⁽¹⁾	61.28%	60.84%	58.68%	58.57%	59.50%	44.15%	58.80%	58.53%
FFO ⁽¹⁾	\$ 1,593	\$ 1,501	\$ 1,154	\$ 1,212	\$ 1,005	\$ 408	\$ 431	\$ 457
AFFO ⁽¹⁾	\$ 1,863	\$ 1,736	\$ 1,329	\$ 1,330	\$ 1,192	\$ 575	\$ 576	\$ 601
Basic FFO per unit ^{(1) (2)}	\$ 0.0467	\$ 0.0467	\$ 0.0448	\$ 0.0508	\$ 0.0428	\$ 0.0385	\$ 0.0411	\$ 0.0436
Diluted FFO per unit ^{(1) (2)}	\$ 0.0458	\$ 0.0457	\$ 0.0438	\$ 0.0500	\$ 0.0422	\$ 0.0374	\$ 0.0398	\$ 0.0426
Basic AFFO per unit ^{(1) (2)}	\$ 0.0546	\$ 0.0540	\$ 0.0516	\$ 0.0558	\$ 0.0507	\$ 0.0542	\$ 0.0549	\$ 0.0574
Diluted AFFO per unit ^{(1) (2)}	\$ 0.0535	\$ 0.0529	\$ 0.0505	\$ 0.0548	\$ 0.0501	\$ 0.0527	\$ 0.0531	\$ 0.0561
AFFO payout ratio – Basic ^{(1) (3)}	96.1%	97.2%	101.8% ⁽⁶⁾	94.1%	103.5% ⁽⁵⁾	96.8% ⁽⁴⁾	95.7%	91.4%
AFFO payout ratio – Diluted ^{(1) (3)}	98.1%	99.3%	104.0%	95.7%	104.9%	99.6%	98.8%	93.6%
Number of commercial properties	32	32	29	22	23	9	9	9
GLA (square feet)	1,669,947	1,667,491	1,431,296	1,014,561	1,044,095	396,737	396,737	396,737
Occupancy rate ⁽⁷⁾	95.9%	95.8%	95.9%	92.9%	93.1%	89.5%	89.5%	89.5%
Weighted average lease term to maturity	6.6	6.7	7.2	7.5	7.6	6.8	7.2	6.7

(1) See "Non-IFRS and Operational Key Performance Indicators".

(2) FFO and AFFO per unit is calculated as FFO or AFFO, as the case may be, divided by the total of the weighted number of basic or diluted Units, added to the weighted average number of Class B LP Units outstanding during the period.

(3) The REITs first cash distribution declared was for the period of November 26, 2013 to December 31, 2013.

(4) The REIT declared distributions payable of \$0.0175 per Unit on the 11,459,000 Units issued September 30, 2014 in connection with the Offering and Concurrent Private Placement. These Units were issued to partially finance the acquisition of 14 properties which closed in October 2014. As such the incremental AFFO from these properties is absent for the period of September 1, 2014 to the date of acquisition of the properties (mid-October 2014) (see "Summary of Significant Events" section). On a pro-forma basis, if no distributions were paid on these newly issued Units in September 2014, the AFFO payout ratio would have been approximately 95.7%.

(5) On a pro-forma basis, if the 14 properties were acquired at the beginning of the fourth quarter and the maintenance capital expenditures and stabilized leasing costs were comparable to the other 9 properties, the pro forma AFFO payout ratio would have been approximately 96% for three month period ended December 31, 2014.

(6) On a pro-forma basis, if the 7 properties were acquired the same day as the closing of the June 9, 2015 offering and the maintenance capital expenditures and stabilized leasing costs were comparable to the other 22 properties, the pro forma AFFO payout ratio would have been approximately 94% for three and six month periods ended June 30, 2015.

(7) Occupancy rate includes lease contracts for future occupancy of currently vacant space. Management believes the inclusion of this committed space provides a more balanced reporting. The committed space at December 31, 2015 was approximately 2,500 square feet.