



PRO REAL ESTATE INVESTMENT TRUST

**THIRD QUARTER REPORT
TEN MONTH PERIOD ENDED SEPTEMBER 30, 2013**

November 27, 2013

FINANCIAL AND OPERATIONAL HIGHLIGHTS

**3 Months
Ended
September 30
2013**

Operational data	
Number of properties	4
Gross leasable area ("GLA") (square feet)	57,548
Occupancy rate	91.2 %
Weighted average lease term to maturity (years)	10.8
Financial data	
Property revenue	\$ 471,657
Net operating income (NOI) ⁽¹⁾	\$ 300,766
Total assets	\$ 24,174,958
Debt to gross book value ⁽¹⁾	62.08 %

⁽¹⁾ Non-IFRS financial measure. See "Non-IFRS Measures" for definition.

MANAGEMENT'S DISCUSSION AND ANALYSIS

This management discussion and analysis ("MD&A") of the financial condition and results of operations of PRO Real Estate Investment Trust (the "REIT") is for the three month period ended September 30, 2013. This MD&A is based on the financial statements prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB") and using the accounting policies the REIT plans to adopt in its financial statements as at and for the year ending December 31, 2013. The REIT's reporting currency is the Canadian dollar.

This MD&A is current as of November 27, 2013 and should be read in conjunction with the REIT's most recent unaudited condensed consolidated financial statements and accompanying notes for the ten month period ended September 30, 2013.

Information about the REIT can be found in the REIT's filings with securities regulatory authorities, which are available on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

This MD&A contains forward-looking statements. 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", or "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.

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 charges announced or occurring after the forward-looking statements are made.

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 short form prospectus of the REIT dated November 19, 2013. 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 information whether as a result of new information, future events or otherwise. For more

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 FINANCIAL MEASURES

Certain terms used in this MD&A such as net operating income ("NOI") and gross book value ("Gross Book Value") are not measures defined under International Financial Reporting Standards ("IFRS") as issued by the IASB, do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. NOI and Gross Book Value as computed by the REIT may not be comparable to similar measures as reported by other reporting issuers in similar or different industries.

NOI is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's operating performance and uses this measure to assess the REIT's property operating performance on an unlevered basis. NOI is defined as property revenue, which includes rental income plus service charge income, less directly attributable property operating expenses.

Gross Book Value is defined in the Declaration of Trust and is a measure of the value of the REIT's assets. Gross Book Value is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's asset base and financial position.

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 (the "Declaration of Trust") and was established under the laws of the Province of Ontario.

A predecessor trust established under the laws of the Province of Quebec on November 14, 2012 incorporated PRO REIT GP Inc. ("PRGP") on November 14, 2012, and together with PRGP formed PRO REIT Limited Partnership ("PRLP") on November 14, 2012 and then transferred its ownership in PRGP and PRLP to the REIT. The REIT invests primarily in commercial properties.

Taggart Capital Corporation, now known as PRO REIT Management Inc. (the "Company"), was formed as a capital pool company on March 26, 2010 and completed its initial public offering on October 26, 2011. The common shares were listed on the TSX Venture Exchange (the "Exchange") on October 31, 2011. It completed its Qualifying Transaction on January 29, 2013 which involved three components:

- (i) the purchase of a 10,574 square foot two-storey commercial retail property located at 135 Main Street in Moncton, New Brunswick;
- (ii) the introduction of a new management team through the resignation of the then current directors and officers of the Company and the replacement thereof by a new management team and board; and
- (iii) the completion of two separate private placements for aggregate gross proceeds of approximately \$6,583,000 (the "Private Placements"). The Private Placements were comprised of two separate transactions completed through (i) the issuance of 21,108,566 common shares at a price per share of \$0.30, and (ii) the issuance of 1,587,302 common shares at a price per share of \$0.1575.

Prior to the completion of an arrangement of the Company made pursuant to a plan of arrangement under the Business Corporations Act (Ontario) (the "Arrangement"), approved by the Company's shareholders on March 8, 2013 and the Exchange on March 11, 2013, there were 28,569,368 common shares of the Company issued and outstanding. On April 25, 2013, the Company changed its name to PRO REIT Management Inc. Pursuant to the Arrangement, the Company's shareholders either transferred their common shares to PRLP in consideration for trust units of the REIT ("Units"), and/or in the case of electing shareholders, for Class B limited partnership units ("Class B LP Units") of PRLP and related voting and exchange rights. In addition, outstanding share options to purchase common shares in the Company were exchanged for Unit options having identical terms, subject to the adjustment of the number of units based on the exchange ratio of one Unit for every ten common shares held. The REIT is now the continuing public entity with its Units listed on the Exchange, under the symbol PRV.UN. The principal, registered and head office of the REIT is located at 2000 Peel Street, Suite 758, Montréal, Québec, H3A 2W5.

Pursuant to the Arrangement on March 8, 2013, 23,532,066 common shares of the Company were exchanged for Units on a basis of one Unit for every ten common shares of the Company (2,353,207 Units at a value of \$5,842,386). The remaining 5,037,302 common shares were exchanged for Class B LP Units in PRLP on the basis of one Class B LP Unit for every ten common shares of the Company (503,730 Class B LP Units at a value of \$524,322).

In March 2013, 24,235 Units were issued for a total cash consideration of \$48,470 upon exercise of options granted to an agent in 2011 in relation to a private placement.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF SIGNIFICANT EVENTS

On July 8, 2013, the REIT filed a preliminary short form prospectus with respect to a proposed offering of units, with the aggregate number of units and the price per unit to be determined in context of the market at that time. The proceeds of the offering are intended to fund approximately \$156 million of property acquisitions. On July 30, 2013, on the advice of its advisors, the REIT postponed the offering until the Canadian real estate capital markets demonstrate more stability than shown since the preliminary prospectus was filed.

SUBSEQUENT EVENT

On November 26, 2013, the REIT completed a public offering of 4,622,417 Units at a price of \$2.40 per unit for total gross proceeds of approximately \$11.1 million. The REIT intends to issue an additional \$5.8 million of Class B LP Units to certain property vendors, for a total of \$16.9 million of new equity (or up to \$18.6 million if an over-allotment option is exercised), comprised of \$11.1 million of Units issued pursuant to the offering and \$5.8 million of Class B LP Units. The REIT will use the net proceeds from the offering, issuance of Class B LP Units, cash on hand, an assumed mortgage, a new mortgage and a revolving credit facility to be established, to the fund the purchase of four commercial properties with a gross purchase price of approximately \$39.0 million, excluding closing and transaction costs, and repay certain indebtedness, including approximately \$5 million of the term loan.

RESULTS OF OPERATIONS

	3 Months Ended September 30 2013	3 Months Ended August 31 2012	10 Months Ended September 30 2013	9 Months Ended August 31 2012
Property revenue	\$ 471,657	\$ -	\$ 940,765	\$ -
Property operating expenses	170,891	-	324,257	-
Net operating income	300,766	-	616,508	-
General and administrative expenses	15,279	8,378	159,497	38,344
Long-term incentive plan expense	57,923	-	125,920	-
Depreciation of property and equipment	5,614	-	11,936	-
Interest and financing costs	264,323	-	469,161	-
Fair value adjustment – Class B LP Units	(302,238)	-	860,936	-
Fair value adjustment – investment properties	(533,450)	-	(555,059)	-
Write off of deferred acquisition costs	318,609	-	318,609	-
	(173,940)	8,378	1,391,000	38,344
Net comprehensive income (loss) for the period	\$ 474,706	\$ (8,378)	\$ (774,492)	\$ (38,344)

Overall Analysis

Net operating income ("NOI") for the three months ended September 30, 2013 was \$300,766, compared to the \$249,289 recorded in the second quarter of 2013, an increase of \$51,477. The third quarter NOI was fully impacted by the acquisitions completed in the second quarter of 2013, namely of 449 Principale Street and 1670 Notre Dame Street, both acquired on April 30, 2013.

General and administrative expenses were \$15,279 in the third quarter of 2013, compared to \$94,248 in previous quarter. The favorable variance of \$78,969 is attributed to trustee fees waived for the ten month period ended September 30, 2013, as well as higher professional fees incurred in the second quarter associated with certain reporting requirements. General and administrative expenses include corporate expenses, office expenses, legal and professional fees and other overhead expenses which are indirectly associated with the operation and leasing of investment properties.

Long-term incentive plan expense of \$57,923 in the third quarter of 2013 relates to deferred and restricted units which vest over a three year period, and is a non-cash item. There has been no change in the number of units issued since the second quarter of 2013.

Interest and financing costs increased by \$79,086 compared the second quarter. The third quarter was fully impacted by the mortgage financing and the term loan entered into in the second quarter of 2013.

A favorable fair value adjustment of \$302,238 on the Class B LP Units was recorded in the third quarter of 2013 resulting from a decrease in the quoted market price of the REIT's publically traded Units.

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A fair value gain of \$533,450 was recognized in the third quarter of 2013 on the REIT's investment properties due to updated appraisals dated October 1, 2013 as reported by the REIT's external property appraisers.

Write off of deferred acquisition costs for the three months ended September 30, 2013 was \$318,609. These costs represent expenses previously capitalized in relation to future acquisitions that are no longer being contemplated.

LIQUIDITY AND CAPITAL RESOURCES

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.

	3 Months Ended September 30 2013
Cash provided from (used in):	
Operating activities	\$ (262,862)
Financing activities	189,657
Investing activities	(464,474)
Change in cash during the period	(537,679)
Cash, beginning of period	877,279
Cash, end of period	\$ 339,600

Cash flows from operating activities relate primarily to the collection of rent and payment of operating expenses. The cash used in operating activities of \$262,862 was directly impacted by the decrease in non-cash working capital of \$290,635.

Financing activities during the third quarter of 2013 are directly attributed to the REIT entering into a promissory note of \$250,000. The REIT repaid mortgage principal amounts of \$54,558 and incurred \$5,785 in financing costs.

Cash used in investing activities in the third quarter included \$210,028 of acquisition expenses related to the acquisitions of the investment properties in the first and second quarter of 2013, \$250,000 of deposits made on future investment property acquisitions and \$4,446 of acquisitions of property and equipment.

DEBT PROFILE

Debt

	September 30 2013
Mortgages payable (net of financing charges of \$21,612)	\$ 8,743,760
Term loan (net of financing fees of \$141,450)	5,858,550
Promissory note payable	250,000
Total	\$ 14,852,310

Contractual Obligations

The following table represents the REIT's contractual obligations at September 30, 2013:

Due within:	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Debt principal installments	\$ 226,409	\$ 183,623	\$ 137,309	\$ 143,009	\$ 148,945	\$ 673,612
Debt principal maturities	250,000	3,547,149	6,000,000	-	-	3,705,316
Debt interest	911,998	797,081	490,899	187,699	181,763	675,915
Accounts payable and other liabilities	2,865,183	-	-	-	-	-
Rent	21,828	21,828	10,914	-	-	-
	\$ 4,275,418	\$ 4,549,681	\$ 6,639,122	\$ 330,708	\$ 330,708	\$ 5,054,843

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

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The contractual weighted average interest rate for the three fixed rate mortgages was approximately 4.51%. The term loan is interest bearing only at the rate greater of 8.50% or the financial institution prime rate plus 5.0% per annum. The promissory note bears interest only at 8.5% per annum. The mortgages payable and term loan are secured by first or second charges on specific investment properties and are repayable no later than 2023.

Debt Ratios

The REIT defines its capital as the aggregate of unitholders' equity, Class B LP Units, long-term incentive plan, and debt. 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.

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:

	September 30 2013
Total assets, including investment properties stated at fair value	\$ 24,174,958
Accumulated depreciation on property and equipment	11,936
Gross Book Value	24,186,894
Debt, excluding unamortized financing costs	\$ 15,015,372
Debt, as above, as a percentage of Gross Book Value	62.08%

The REIT is required to maintain debt to service coverage ratios for specific debt which was met at September 30, 2013.

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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 September 30 2013	Fair Value September 30 2013
Loans and Receivables			
Cash (a)	Amortized cost	\$ 339,600	\$ 339,600
Receivable and other excluding prepaid expenses and deferred transaction costs (a)	Amortized cost	334,445	334,445
		\$ 674,045	\$ 674,045
Financial Liabilities Through Profit and Loss			
Class B LP Units	Fair value (L2)	\$ 1,385,258	\$ 1,385,258
Long-term incentive plan	Fair value (L2)	125,920	125,920
		\$ 1,511,178	\$ 1,511,718
Other Financial Liabilities			
Accounts payable and other liabilities (a)	Amortized cost	\$ 2,865,183	\$ 2,865,183
Debt (b)	Amortized cost	14,852,310	14,852,310
		\$ 17,717,493	\$ 17,717,493

- (a) Short-term financial instruments, comprising cash, tenants and other receivables and accounts payable and other liabilities 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.

OUTSTANDING UNITS

As at September 30, 2013, there are 2,377,442 issued and outstanding Units in the capital of the REIT.

CONTROLS AND PROCEDURES

Disclosure Controls and Procedures over Financial Reporting

Management of the REIT, consisting of the President and Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), have evaluated the effectiveness of the REIT's disclosure controls and procedures over financial reporting (as defined National Instrument 52-109 Certification of Disclosure in Issuers' Annual and Interim Filings) to provide reasonable assurance 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 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 securities legislation.

Internal Controls over Financial Reporting

The CEO and CFO are responsible for designing internal controls over financial reporting in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the REIT's financial statements for external purposes in accordance with IFRS as issued by the IASB. The design of the REIT's internal control over financial reporting was assessed as of the date of this MD&A. Based on this assessment, it was determined that certain weaknesses existed in internal controls over financial reporting. As indicative of many small companies, the lack of segregation of duties and effective risk assessment were identified as areas where weaknesses existed. The existence of these weaknesses is to be compensated for by senior management monitoring, which exists. The officers will continue to monitor very closely all financial activities of the REIT and increase the level of supervision in key areas. It is important to note that this issue would also require the REIT to hire additional staff in order to provide greater segregation of duties. Since the increased costs of such hiring could threaten the REIT's financial viability, management has chosen to disclose the potential risk in its filings and proceed with increased staffing only when the budgets

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and work load will enable the action. The REIT has attempted to mitigate these weaknesses, through a combination of extensive and detailed review by the CFO of the financial reports, the integrity and reputation of senior accounting personnel, and candid discussion of those risks with the Board of Trustees.

Inherent limitation

Internal controls over financial reporting cannot provide absolute insurance of achieving financial reporting objectives because of their inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting in human failures. Internal control over financial reporting 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 internal control over financial reporting. 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 section entitled "Risk Factors" in the REIT's filings with securities regulatory authorities, including in its short form prospectus dated November 19, 2013, which are 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 tenants.

Diversification Risk

While the REIT's investment strategy is to acquire properties in order to achieve its investment objective, the portfolio of the REIT is currently not diversified. The REIT's revenues will be sensitive to the ability of the REIT's tenants to meet their rent obligations and the ability of the REIT to collect rent from these tenants. The current portfolio consists of four single-tenant properties. In the event that such tenants were to terminate their tenancies or become insolvent, the REIT's financial results could 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 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.

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 financial results 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 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 results of operations.

Fixed Costs

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 the 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.

Financial Risks and Leverage

The REIT will be 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 long-term debt will not be able to be refinanced or that the terms of such refinancing will not be as favorable as the terms of the 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 impact 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 assignment of rent 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.

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:

- (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.

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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.

Risks Associated with External Management Arrangements

The Management Agreement has an initial term of five years, subject to earlier termination and/or internalization in certain circumstances, and may be renewed for further five year periods on mutual agreement of the Manager and the REIT (subject to approval of a majority of the Independent Trustees).

At the end of the initial five-year term and any five-year renewal term (if so renewed on mutual 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 Québec, Atlantic Canada and Ontario. 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 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. Failure by the REIT to access required capital could adversely impact the REIT's financial condition and results of operations.

Interest Rate Exposure

Certain liabilities of the REIT have fixed and floating interest rate components resulting in an exposure to interest rate fluctuations. These 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 could be materially adversely affected.

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 will be to obtain a Phase I environmental site assessment report ("Phase I 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.

The REIT is not aware of any material non-compliance with environmental laws at any of 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 any of its properties.

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.

Indexation for Inflation and Duration of Lease Contracts

The fixed rents in the lease contracts for the properties 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 Income Tax Act (Canada), 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 currently does not make distributions on the Units. 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, if any, may exceed actual cash available to the REIT from time to time. 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 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.

Restrictions on Redemptions

It is anticipated that the redemption right described in the management information circular of the Company dated February 15, 2013 under "Declaration of Trust and description of 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 REIT Units shall not result in the delisting of the REIT Units from the principal stock exchange on which the REIT 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

Under the rules applicable to "SIFT trusts" and "SIFT partnerships" (each as defined in the Income Tax Act (Canada)) in the Income Tax Act (Canada) (the "SIFT Rules"), a publicly traded income trust will be considered a SIFT unless it qualifies for the REIT Exception. As discussed under "Certain Canadian Federal Income Tax Considerations" in the final short form prospectus of the REIT dated November 19, 2013, a publicly traded income trust will only qualify for the REIT Exception if assets held by the REIT qualify under specific provisions of the REIT Exception, which rules generally require that each intermediate entity (including partnerships) through which the REIT owns property satisfies the REIT Exception on a stand-alone continuous basis. If each relevant entity (including partnerships) does not qualify continuously for the REIT Exception, the SIFT Rules may have an adverse impact on the REIT and the unitholders, on the value of the Units and the ability of the REIT to undertake financings and acquisitions, and if the SIFT Rules were to apply, distributable cash of the REIT may be materially reduced.

The REIT has been structured to satisfy the REIT Exception and management is confident that it has mechanisms in place to ensure that the REIT (and each intermediate entity (including partnerships) through which it owns property) will continue to satisfy the REIT Exception going forward; however, no assurances can be made in this regard.

The SIFT Rules may also apply to a subsidiary of the REIT that would otherwise qualify as a SIFT unless such subsidiary qualifies as an "excluded subsidiary entity" as defined in the Income Tax Act (Canada). The REIT expects that each subsidiary of the REIT that might otherwise qualify as a SIFT will qualify as an "excluded subsidiary entity" and therefore will not be subject to tax under the SIFT Rules going forward; however, no assurances can be made in this regard.

Nature of Investment

A holder of a Unit or a Class B LP Unit does not hold a share of a body corporate. Unitholders or holders 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 P. 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 PRO REIT GP 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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.

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 the fair value is determined primarily using valuations from independent property appraisers, each in accordance with recognized valuation techniques. The primary technique used is the discounted cash flow method 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 included 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.

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, who are significant unitholders of the REIT.

The total amount due to the Manager at September 30, 2013 was \$197,566.

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 balance sheet, 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 three and ten month periods ended September 30, 2013, the costs of these services amounted to \$11,302 and \$23,400 respectively.

- (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 \$100,000,000 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 \$100,000,000 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 \$200,000,000 acquired in each fiscal year.

For the three and ten month periods ended September 30, 2013, the costs of these services amounted to \$Nil and \$179,350 respectively.

- (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 three and ten month periods ended September 30, 2013, the costs of these services amounted to \$6,184.

During the three and ten month periods ended September 30, 2013, the REIT reimbursed the Manager approximately \$59,000 for out-of pocket expenses for services directly related to future acquisitions of the REIT.

MANAGEMENT'S DISCUSSION AND ANALYSIS

SUMMARY OF 2013 QUARTERLY RESULTS

	3 Months Ended September 30 2013	3 Months Ended June 30 2013	4 Months Ended March 31 2013
Property revenue	\$ 471,657	\$ 389,411	\$ 79,697
Property operating expense	170,891	140,122	13,244
	300,766	249,289	66,453
General and administrative expenses	15,279	94,248	49,970
Long-term incentive plan expense	57,923	57,923	10,074
Depreciation of property and equipment	5,614	5,257	1,065
Interest and financing costs	264,323	185,237	19,601
Fair value adjustment – Class B LP Units	(302,238)	(528,917)	1,692,091
Fair value adjustment - investment properties	(533,450)	14,641	(36,250)
Write off of deferred acquisition costs	318,609	-	-
	(173,940)	(171,611)	1,736,551
Net comprehensive income (loss)	\$ 474,706	\$ 420,900	\$ (1,670,098)
Net operating income ⁽¹⁾	\$ 300,766	\$ 249,289	\$ 66,453
Debt to gross book value ⁽¹⁾	62.08%	63.33%	42.98%
Number of commercial properties	4	4	2
Gross leasable area (square feet)	57,548	57,548	31,786
Occupancy rate	91.2 %	91.2 %	84.1 %
Weighted average lease term to maturity (years)	10.8	11.0	12.1

⁽¹⁾ Non-IFRS financial measure. See "Non-IFRS Measures" for definition.