



**PRO REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION  
FOR THE THREE MONTHS ENDED MARCH 31, 2015**

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**MAY 27, 2015**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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## A MESSAGE FROM THE CEO

### Dear Fellow Unitholders

We are pleased to present our financial results for the first quarter or three months ended March 31, 2015. As we have previously stated, our core strategic objective is accretive growth toward becoming a large capitalization real estate investment trust operating retail, office and industrial properties in Canada. Our operational and financial results in the first quarter demonstrate the progress we have made toward these objectives.

### Significant events in the first quarter

As we reported recently in our year end disclosures, PROREIT assets doubled as a result of the \$65.6 million acquisition of fourteen properties early in the fourth quarter of 2014. The acquisitions had a significant positive impact on our year-end results and now a similarly significant and positive impact on our first quarter results when compared to the first quarter of fiscal 2014.

During the quarter, we completed the integration of the acquisitions we made in October, and worked hard identifying new opportunities for growth, some of which came to fruition after the end of the quarter, as described in our Subsequent Events disclosures below.

Our first quarter results are not completely comparable with the first quarter of 2014 because last year at this time the REIT only owned 9 properties. However, from an external perspective, our strong growth reflects our core objective of acquiring high quality, accretive properties.

### First Quarter 2015 Financial Results

As we reported in our year-end disclosure, our operating performance has yielded solid financial gains on a year-over-year basis. The acquisition of the 14 properties in October 2014 led directly to significantly increased property revenues, net operating income ("NOI") and adjusted funds from operations ("AFFO").

For the three months ended March 31, 2015, PROREIT recorded property revenue of \$3.90 million compared to \$1.87 million in the first quarter of 2014. NOI increased 102% to \$2.36 million in the first quarter compared to \$1.17 million in the first quarter of 2014. In the quarter, the REIT generated AFFO of \$1.33 million or \$0.0558 of AFFO per basic unit compared to \$601,000 or \$0.0574 per basic unit in the first quarter of 2014.

For the three months ended March 31, 2015, the REIT declared three distributions totalling \$0.0525 per trust unit of the REIT. The AFFO payout ratio in the first quarter was 94.1% on a basic weighted average of 23,847,742 units outstanding.

At March 31 2015, the total assets of the REIT stood at \$140.28 million, an increase of 99.5% compared total assets of \$70.33 million at March 31, 2014. Total debt to gross book value was stable at 58.57%, compared to 58.53% at the end of the first quarter in 2014. Interest costs declined during the year, with the weighted average interest rate on mortgage debt improving to 3.75% from 4.14%.

### First Quarter 2015 Operating Results

At PRO REIT, we met all our operational targets in the first quarter, including an increase in the quality and diversity of our portfolio and the achievement of higher occupancy rates and longer average lease terms. At the end of the first quarter, our occupancy rate stood at 92.9%, compared to 89.5% a year earlier, and our average lease term had lengthened to 7.5 years from 6.7 years at March 31, 2014.

By the end of the first quarter, we successfully leased more than 60% of the space coming due in 2015. This number has increased to over 80% as at the date hereof and also subsequent to the end of the first quarter. We entered into a new lease with a major retailer for a previously vacant 22,000 square foot premises in Woodstock, N.B. We are working diligently on additional leasing prospects and also on some additional development opportunities.

At March 31, 2015, gross leasable area ("GLA") stood at 1,014,561 square feet, an increase of 256% compared to March 31, 2014. At March 31, 2015 our total portfolio consisted of 22 properties, including three office properties representing 125,407 square feet of GLA, 12 retail properties representing 432,995 square feet of GLA, four industrial properties representing 231,627 square feet of GLA and three commercial mixed use properties representing 224,532 square feet of GLA. The 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.

### Subsequent Events

On May 19, 2015, PRO REIT announced its intention to acquire a total of 7 commercial properties, the aggregate purchase price of which would be approximately \$40.5 million, excluding closing costs. The completion of the Acquisitions on the terms proposed will be significantly accretive to the REIT's unitholders.

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The purchase price of the Acquisitions is expected to be satisfied by a combination of the following funding sources: i) approximately \$12.5 million in cash; ii) the issuance to the vendors of certain Acquisitions of approximately 0.5 million Class B limited partnership units of PRO REIT Limited Partnership ("Class B LP Units"), a subsidiary of the REIT, at a price of \$2.30 per Class B LP Unit representing in aggregate approximately \$1.2 million; iii) the assumption of approximately \$6.0 million aggregate principal amount of existing mortgage debt; iv) approximately \$19.5 million aggregate principal amount of new mortgage financing; and v) the issuance of a vendor take-back mortgage in the aggregate amount of approximately \$1.3 million in respect of certain Acquisitions. The Acquisitions are subject to customary closing conditions, including with respect to financing and regulatory approvals.

In connection with the Acquisitions, the REIT also announced a new public offering of its units. On May 19, 2015 PRO REIT announced that it had entered into an agreement to sell to a syndicate of underwriters led by Canaccord Genuity Corp, on a bought deal basis, 7,625,000 trust units at a price of \$2.30 per unit for gross proceeds to the REIT of approximately \$17.5 million. The REIT has also granted the underwriters an over-allotment option to purchase up to an additional 1,143,750 Units on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the Offering. The REIT intends to use the net proceeds from the Offering to partially fund the acquisitions, to fund the partial redevelopment of an existing property of the REIT and the partial repayment of certain indebtedness of the REIT and for general corporate and working capital purposes. The offering is expected to close on or about June 9, 2015 and is subject to customary conditions, including regulatory approval.

This financing was a transformational one for PROREIT as it was a "bought deal" transaction supported by a broad range of Canadian investment banks. Such transactions should allow us more efficient access to capital markets in the future and is an affirmation of investor confidence in our REIT.

### **Outlook**

We believe that the balance of 2015 will continue to be an affirming period for PROREIT.

The commercial real estate sectors in which PROREIT is active should continue to offer attractive acquisition opportunities, especially in the retail and industrial sectors that we currently target, and that are performing well. In the current neutral interest rate environment, the commercial market should continue to thrive.

For PROREIT, these conditions underpin significant potential for new growth in the remainder of 2015. Our focus continues to be the delivery of accretive growth through acquisitions, by expanding deeper into existing geographical markets where the REIT has a presence, and into adjacent markets. This strategy will capitalize on the REIT's market knowledge and help achieve economies of scale.

The acquisitions announced on May 19 are good examples of our ability to execute on this strategy. The acquisitions deepen our presence in the Maritime Provinces, and extends our portfolio footprint into the Greater Toronto Area for the first time.

We are very pleased with the progress we made at PROREIT during the past quarter. Our acquisitions, along with the support that we have received from investors, represent a strong affirmation that we are achieving our growth strategies and objectives, to the benefit of all Unitholders.

(signed) James Beckerleg  
President and Chief Executive Officer

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### PART I

#### FINANCIAL AND OPERATIONAL HIGHLIGHTS

	March 31 2015	March 31 2014
<b>Operational data</b>		
Number of properties	22	9
Gross leasable area ("GLA") (square feet)	1,014,561	396,737
Occupancy rate <sup>(1)</sup>	92.9%	89.5 %
Weighted average lease term to maturity (years)	7.5	6.7
	<b>3 Months Ended March 31 2015</b>	3 Months Ended March 31 2014
<i>(CAD \$ thousands except per unit amounts and unless otherwise stated)</i>		
<b>Financial data</b>		
Property revenue	\$ 3,900	\$ 1,872
Net operating income (NOI) <sup>(2)</sup>	\$ 2,361	\$ 1,170
Total assets	\$ 140,279	\$ 70,334
Debt to gross book value <sup>(2)</sup>	58.57%	58.53%
Weighted average interest rate on mortgage debt	3.75%	4.14%
Funds from Operations (FFO) <sup>(2)</sup>	\$ 1,212	\$ 457
Basic FFO per unit <sup>(2)</sup>	\$ 0.0508	\$ 0.0436
Diluted FFO per unit <sup>(2)</sup>	\$ 0.0500	\$ 0.0426
Adjusted Funds from Operations (AFFO) <sup>(2)</sup>	\$ 1,330	\$ 601
Basic AFFO per unit <sup>(2)</sup>	\$ 0.0558	\$ 0.0574
Diluted AFFO per unit <sup>(2)</sup>	\$ 0.0548	\$ 0.0561
AFFO payout ratio – Basic <sup>(2)</sup>	94.1%	91.4%
AFFO payout ratio – Diluted <sup>(2)</sup>	95.7%	93.6%

<sup>(1)</sup> 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 March 31, 2015 was 11,700 square feet.

<sup>(2)</sup> Non-IFRS financial measure. See "Non-IFRS Financial Measures" for definition.

#### 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 month period ended March 31, 2015. This MD&A is based on financial statements prepared in accordance with International accounting standards ("IAS") 34: Interim Financial Reporting as issued by the International Accounting Standards Board ("IASB"). This MD&A should be read in conjunction with the REIT's condensed consolidated interim financial statements and accompanying notes for the three month period ended March 31, 2015, together with the audited consolidated financial statement and accompanying notes and MD&A for the year ended December 31, 2014.

The REIT's reporting currency is the Canadian dollar. All amounts except unit, per unit amounts and as otherwise stated, have been rounded to the nearest CAD thousands. This MD&A is current as of May 27, 2015.

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 twelve month period ended December 31, 2014, which are available on SEDAR at [www.sedar.com](http://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",

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“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 forecasted 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](http://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 FINANCIAL MEASURES

Net operating income (“NOI”), funds from operations (“FFO”), adjusted funds from operations (“AFFO”), and gross book value (“Gross Book Value”) are performance measures that are often used by real estate investment trusts. The REIT believes that NOI and FFO are important measures of operating performance, while AFFO is an important measure of economic performance and is indicative of the REIT’s ability to pay distributions. NOI, FFO, AFFO and Gross Book Value are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. These terms are reconciled to the condensed consolidated interim financial statements of the REIT for the three month period ended March 31, 2015 in Part IV of this MD&A.

“NOI” is defined 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.

“FFO” is defined 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.

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"AFFO" is defined 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.

"Gross Book Value" is defined in the Declaration of Trust (as defined herein) and is a measure of the REIT's asset base and financial position.

Management believes that the AFFO of the REIT is a useful performance measure that may assist prospective investors in assessing an investment in trust units of the REIT ("Units"). In particular, 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 REIT intends to analyze its cash distributions against AFFO to assess the stability of its cash distributions to unitholders.

NOI, FFO and AFFO should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS. Management's method of calculating NOI, FFO and AFFO may differ from other issuers' methods of calculating NOI, FFO and AFFO, and accordingly, may not be comparable to the NOI, FFO or AFFO reported by other issuers.

## 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 (the "Declaration of Trust") and was established under the laws of the Province of Ontario. The REIT's Units and REIT unit purchase warrants are listed on the TSX Venture Exchange (the "Exchange") 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, Québec, H3A 2W5.

The REIT owns a portfolio of Canadian commercial investment properties, comprised of retail, office, commercial mixed-use and industrial properties. At March 31, 2015, the REIT owned approximately 1 million square feet of GLA located in Quebec, Atlantic Canada 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 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.

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- **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 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 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 investments 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 EVENT

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.

### SUBSEQUENT EVENTS

On May 20, 2015, the REIT announced a cash distribution of \$0.0175 per Unit for the month of May 2015. The distribution is payable on June 15, 2015 to unitholders of record as at May 29, 2015.

On May 19, 2015, the REIT announced that it had entered into agreements to acquire an aggregate of 7 commercial properties for an aggregate purchase price of \$40.5 million. The purchase price of the acquisitions will be satisfied by a combination of the following funding sources: i) approximately \$12.5 million in cash; ii) the issuance to the vendors of certain Acquisitions of approximately 0.5 million Class B limited



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partnership units of PRO REIT Limited Partnership ("Class B LP Units"), a subsidiary of the REIT, at a price of \$2.30 per Class B LP Unit representing in aggregate approximately \$1.2 million; iii) the assumption of approximately \$6.0 million aggregate principal amount of existing mortgage debt; iv) approximately \$19.5 million aggregate principal amount of new mortgage financing; and v) the issuance of a vendor take-back mortgage in the aggregate amount of approximately \$1.3 million in respect of certain Acquisitions.

In connection with the acquisitions, the REIT also announced that it has entered into an agreement to sell to a syndicate of underwriters led by Canaccord Genuity Corp (collectively, the "Underwriters"), on a bought deal basis, 7,625,000 Units at a price of \$2.30 per Unit for gross proceeds to the REIT of approximately \$17.5 million (the "Offering"). The REIT has also granted the Underwriters an over-allotment option to purchase up to an additional 1,143,750 Units on the same terms and conditions, exercisable at any time, in whole or in part, up to 30 days after the closing of the Offering. The REIT intends to use the net proceeds from the Offering to partially fund the acquisitions, to fund a redevelopment of an existing property, to repay certain indebtedness and for general corporate and working capital purposes.

In addition, vendors of certain of the properties that the REIT intends to acquire have agreed to accept approximately \$1.2 million of Class B LP Units as partial consideration for the sale of such properties. The Class B LP Units will be issued upon the closing of the acquisition of the applicable properties at a price of \$2.30 per Class B LP Unit.

### 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.

### PART III

#### RESULTS OF OPERATIONS

	<b>3 Months Ended March 31 2015</b>	3 Months Ended March 31 2014
<i>(CAD \$ thousands)</i>		
Property revenue	\$ 3,900	\$ 1,872
Property operating expenses	1,539	702
<b>Net operating income (NOI)</b>	<b>2,361</b>	1,170
General and administrative expenses	192	89
Long-term incentive plan expense	(22)	92
Depreciation of property and equipment	6	6
Interest and financing costs	911	532
Distributions – Class B LP Units	239	175
Fair value adjustment – Class B LP Units	230	(1,002)
Fair value adjustment – investment properties	796	44
Fair value adjustment – Warrants	(100)	-
Write-off of deferred acquisition costs	68	-
<b>Net comprehensive income</b>	<b>\$ 41</b>	<b>\$ 1,234</b>

#### Comparison of the Results from Operations

The REIT's results of operations for the three month period ended March 31, 2015 is not directly comparable to the three month period ended March 31, 2014 as the REIT owned nine investment properties March 31, 2014 compared to twenty two properties it owned at March 31, 2015. Notwithstanding the foregoing, year-over-year figures for the three month period ended March 31, 2015 and the three month period ended March 31, 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.

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For the three month period ended March 31, 2015, property revenue was \$3,900 compared to \$1,872 for the same period in 2014. The increase of \$2,028 is primarily driven by the incremental revenues of approximately \$2 million from the most recent acquisition of 14 properties completed in October 2014.

### **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.

For the three month period ended March 31, 2015, property operating expenses were \$837 higher compared to the same period in 2014. The increase is due to the incremental operating expenses of associated with the most recent acquisition of 14 properties completed in October 2014.

### **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 March 31, 2015 and March 31, 2014 were \$192 and \$89 respectively. The majority of the increase is due to increases in the contracted asset management fees in relation to the properties acquired in October 2014. Asset management fees for the three month period ended March 31, 2015 was approximately \$41 higher than the same period in 2014. The remaining increase is mainly due to additional professional fees not incurred in the first quarter of 2014.

### **Long-Term Incentive Plan**

Long-term incentive plan expense of (\$22) during the three month period ended March 31, 2015 relates to deferred and restricted 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 \$87 for the three month period ended March 31, 2015 offset by the fair value gain of \$109.

### **Interest and Financing Costs**

Interest and financing costs of \$911 for the three month period ended March 31, 2015 was higher by \$379 compared to the three month period ended March 31, 2014. This increase is primarily a result of the additional interest expense on mortgage financing obtained to acquire the 14 properties in October 2014 (\$37,500 of additional mortgages payable).

### **Distributions – Class B LP Units**

Distributions on the Class B LP Units were \$64 higher for the three month period ended March 31, 2015, compared to the three month period ended March 31, 2014. The increase in distributions resulted from the increase in the number of Class B LP Units issued and outstanding. The REIT issued an additional 1,847,826 Class B LP Units in connection with several of the properties acquired in October 2014 offset by 750,000 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 loss of \$230 on the Class B LP Units was recorded in the three month period ended March 31, 2015 resulting from a increase in the quoted market price of the REIT's publically traded Units.

### **Fair Value Adjustment – Investment Properties**

The REIT has selected the fair value method to account for real estate classified as investment property and records 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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The fair value loss of \$796 reflects the loss associated with the sale of 985 Godin of approximately \$150 and the capital expenditures and leasing costs of \$630 incurred during the first quarter of 2015.

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.

### 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 \$100 was recorded in the three month ended March 31, 2015 resulting from a decrease in the quoted market price of the REIT's publically traded warrants.

### Write-off of Deferred Acquisition Costs

Write-off of deferred acquisition costs for the three month period ended March 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 condensed consolidated interim 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 loan, credit facility and their respective unamortized financing costs. Other assets and liabilities are not attributed to operating segments.

	Retail		Office		Commercial Mixed Use		Industrial		Total	
	\$	%	\$	%	\$	%	\$	%	\$	
<i>(CAD \$ thousands)</i>										
<b>3 months ended March 31, 2015</b>										
Property revenue	1,812	46.5	651	16.7	804	20.6	633	16.2	3,900	
Net operating income	1,076	45.6	307	13.0	490	20.7	488	20.7	2,361	
3 months ended March 31, 2014										
Property revenue	842	45.0	629	33.6	401	21.4	-	-	1,872	
Net operating income	596	50.9	303	25.9	271	23.2	-	-	1,170	
<i>(CAD \$ thousands)</i>										
<b>At March 31, 2015</b>										
Investment properties	69,067	50.8	15,568	11.4	28,857	21.2	22,600	16.6	136,092	
Mortgages payable	37,800	52.0	1,536	2.1	11,703	16.1	21,672	29.8	72,711	
At 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	

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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. The REIT completed the sale of 985 Godin, an industrial property, during the three month period ended March 31, 2015.

The Retail segment consists of 12 properties (March 31, 2014 – 5 properties), having a total gross leasable area of approximately 433,000 square feet (March 31, 2014 - ~172,000 square feet).

The Office segment consists of 3 properties (March 31, 2014 – 3 properties), having a total gross leasable area of approximately 125,000 square feet (March 31, 2014 - ~125,000 square feet).

The Commercial Mixed Use segment consists of 3 properties (March 31, 2014 – 1 property), having a total gross leasable area of approximately 225,000 square feet (March 31, 2014 - ~100,000 square feet).

The Industrial segment consists of 4 properties (March 31, 2014 – Nil), having a total gross leasable area of approximately 232,000 square feet (March 31, 2014 – Nil).

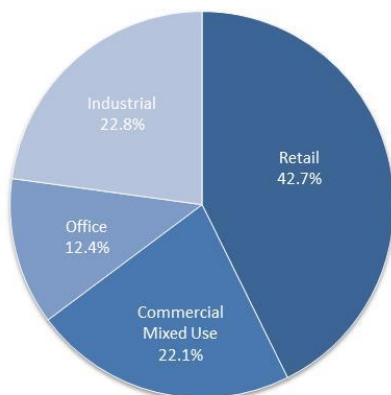
### PORTFOLIO PROFILE

At March 31, 2015, the REIT's portfolio consisted of 22 properties, located in prime locations within their respective markets, representing a total gross leasable area of 1,014,561 square feet. The increase of 617,824 square feet compared to March 31, 2014 is a result of the acquisition of 14 properties completed in October 2014 offset by the sale of 1 property in March 2015. Change in occupancy rates at March 31, 2015 compared to March 31, 2014 is a direct result of the property acquisitions in October 2014.

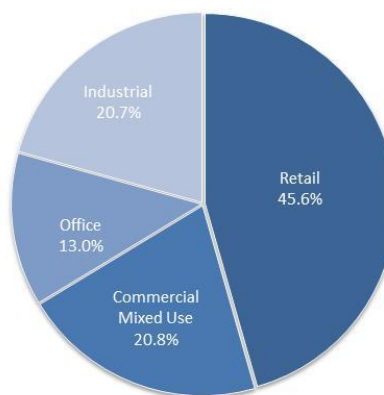
<i>(CAD \$ thousands unless otherwise stated)</i>	3 Months Ended / At March 31, 2015				3 Months Ended / At March 31, 2014			
	# of Properties	Occupancy <sup>(1)</sup>	GLA (sq. ft.)	NOI	# of Properties	Occupancy	GLA (sq. ft.)	NOI
Retail	12	88.9%	432,995	\$ 1,076	5	86.6%	171,795	\$ 596
Office	3	85.0%	125,407	307	3	85.0%	125,407	303
Commercial Mixed Use	3	97.6%	224,532	490	1	100.0%	99,535	271
Industrial	4	100.0%	231,627	488	-	-	-	-
<b>Total</b>	<b>22</b>	<b>92.9%</b>	<b>1,014,561</b>	<b>\$ 2,361</b>	<b>9</b>	<b>89.5%</b>	<b>396,737</b>	<b>\$ 1,170</b>

<sup>(1)</sup> 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 March 31, 2015 was 11,700 square feet.

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



**NOI by Asset Class  
3 Months Ended March 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.

	<b>3 Months Ended March 31 2015</b>	3 Months Ended March 31 2014
<i>(CAD \$ thousands)</i>		
Cash provided from (used in):		
Operating activities	\$ 724	\$ 107
Financing activities	(2,960)	(547)
Investing activities	2,370	(33)
<b>Change in cash during the period</b>	<b>134</b>	<b>(473)</b>
Cash, beginning of period	588	896
<b>Cash, end of period</b>	<b>\$ 722</b>	<b>\$ 423</b>

Cash flows from operating activities relate primarily to the collection of rent and payment of operating expenses. The cash provided from operating activities of \$724 for the first quarter 2015 was impacted mainly by the timing of cash receipts and settlement of payables.

Financing activities during the three month period ended March 31, 2015 of \$2,960 is attributed to the repayment of debt of \$2,682, distributions paid of \$928, partially offset by a draw down on the credit facility of \$650.

Cash used in investing activities of \$2,370 during the first quarter of 2015 primarily consists of \$3,001 net proceeds associated with the sale of 985 Godin, offset by capital expenditures and leasing costs of \$630.

#### CAPITALIZATION AND DEBT PROFILE

	<b>March 31 2015</b>
<i>(CAD \$ thousands)</i>	
Mortgages payable (net of financing costs of \$1,007)	\$ 72,711
Term loan (net of financing costs of \$153)	847
Credit facility (net of financing costs of \$46)	7,429
Class B LP Units	9,766
Warrants	100
Unitholders' equity	45,012
<b>Total Capitalization</b>	<b>\$ 135,865</b>

As at March 31, 2015 all mortgages payable were at fixed rates with a weighted average contractual rate of approximately 3.75% (December 31, 2014 – 3.74%). The mortgages payable are secured by first charges on certain investment properties with a fair value of approximately \$123,082 at March 31, 2015.

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 term loan is secured by a pool of second and third charges on certain investment properties with a fair value of approximately \$64,703 at March 31, 2015.

The mortgages payable and term loan are repayable no later than 2025.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The REIT has a revolving credit facility of \$9.0 million which bears interest at prime plus 162.5 basis points or bankers' acceptance rate plus 262.5 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 \$23,603 at March 31, 2015.

### Contractual Obligations

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

*(CAD \$ thousands)*

Due within:	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Debt principal instalments	\$ 2,041	\$ 2,122	\$ 2,118	\$ 1,779	\$ 1,188	\$ 2,093
Debt principal maturities	-	1,000	1,336	24,573	13,887	22,581
Debt interest	2,799	2,640	2,492	1,936	1,286	2,304
Credit facility	7,475	-	-	-	-	-
Accounts payable and other liabilities	3,389	-	-	-	-	-
Rent	22	-	-	-	-	-
	<b>\$ 15,726</b>	<b>\$ 5,762</b>	<b>\$ 5,946</b>	<b>\$ 28,288</b>	<b>\$ 16,361</b>	<b>\$ 26,978</b>

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.

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>	March 31 2015
Total assets, including investment properties stated at fair value	\$ 140,279
Accumulated depreciation on property and equipment	48
<b>Gross Book Value</b>	<b>140,327</b>
Debt, excluding unamortized financing costs	\$ 74,718
Credit facility, excluding unamortized financing costs	7,475
Debt	\$ 82,193
<b>Debt, as above, as a percentage of Gross Book Value</b>	<b>58.57%</b>

The REIT complied with all financial covenants during the three month period ended March 31, 2015.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**DISTRIBUTIONS AND ADJUSTED FUNDS FROM OPERATIONS**

<i>(CAD \$ thousands except unit, per unit amount and unless otherwise stated )</i>	<b>3 Months Ended March 31 2015</b>	<b>3 Months Ended March 31 2014</b>
<b>Net comprehensive income for the period</b>	<b>\$ 41</b>	<b>\$ 1,234</b>
Add:		
Depreciation of property and equipment	6	6
Distributions – Class B LP Units	239	175
Fair value adjustment – investment properties	796	44
Fair value adjustment – Class B LP Units	230	(1,002)
Fair value adjustment – Warrants	(100)	-
<b>FFO</b>	<b>\$ 1,212</b>	<b>\$ 457</b>
Deduct:		
Straight-line rent adjustment	(18)	(11)
Maintenance capital expenditures	-	(5)
Stabilized leasing costs	(21)	-
Add:		
Long-term incentive plan	(22)	92
Amortization of financing costs	111	68
Write-off of deferred acquisition costs	68	-
<b>AFFO</b>	<b>\$ 1,330</b>	<b>\$ 601</b>
<b>Basic FFO per unit <sup>(1)</sup></b>	<b>0.0508</b>	<b>0.0436</b>
<b>Diluted FFO per unit <sup>(1)</sup></b>	<b>0.0500</b>	<b>0.0426</b>
<b>Basic AFFO per unit <sup>(1)</sup></b>	<b>0.0558</b>	<b>0.0574</b>
<b>Diluted AFFO per unit <sup>(1)</sup></b>	<b>0.0548</b>	<b>0.0561</b>
<b>Distributions declared per Unit and Class B LP Unit</b>	<b>0.0525</b>	<b>0.0525</b>
<b>AFFO payout ratio – Basic</b>	<b>94.1%</b>	<b>91.4%</b>
<b>AFFO payout ratio – Diluted</b>	<b>95.7%</b>	<b>93.6%</b>
<b>Basic weighted average number of units <sup>(1)</sup></b>	<b>23,847,742</b>	<b>10,468,738</b>
<b>Diluted weighted average number of units <sup>(1)</sup></b>	<b>24,249,502</b>	<b>10,713,851</b>

<sup>(1)</sup> 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 and AFFO of \$755 and \$729, respectively compared to the same period in 2014 is directly related to the acquisition of the 14 properties in October 2014.

Basic and diluted AFFO per unit were \$0.0558 and \$0.0548 respectively for the first quarter of 2015, with a corresponding basic and diluted payout ratio of 94.1% and 95.7% respectively. The current AFFO payout ratio is reflective of the revised portfolio of 22 properties compared to 9 properties held in March 2014.

**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.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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 months ended March 31, 2015 resulted in 42,892 Units issued or issuable under the DRIP.

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

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

<i>(CAD \$ thousands)</i>	<b>3 Months Ended March 31 2015</b>	3 Months Ended March 31 2014
<b>Cash flow provided from operating activities</b>	<b>\$ 724</b>	<b>\$ 107</b>
Add (deduct):		
Changes in non-cash working capital	<b>388</b>	324
Distributions – Class B LP Units	<b>239</b>	175
Stabilized leasing costs	<b>(21)</b>	-
Maintenance capital expenditures	<b>-</b>	(5)
<b>Adjusted Funds From Operations</b>	<b>\$ 1,330</b>	<b>\$ 601</b>

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

<i>(CAD \$ thousands)</i>	<b>3 Months Ended March 31 2015</b>	3 Months Ended March 31 2014
Adjusted funds from operations	<b>\$ 1,330</b>	<b>\$ 601</b>
Total distributions paid or payable in cash – Units and Class B LP Units	<b>1,162</b>	<b>534</b>
<b>Excess of AFFO over adjusted distributions paid or payable</b>	<b>\$ 168</b>	<b>\$ 67</b>

For the three month periods ended March 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.

### UNITHOLDERS' EQUITY, CLASS B LP UNITS, SPECIAL VOTING UNITS AND WARRANTS

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 May 27, 2015 was 19,461,500.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### 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 Class B LP Units are presented as a financial liability on the condensed consolidated interim financial statements.

Total Class B LP Units outstanding as of May 27, 2015 was 4,439,056.

### 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.

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 are traded on the TSXV under the symbol "PRV.WT".

Total Warrants outstanding as of May 27, 2015 was:

<b># of REIT purchase warrants</b>	<b># of Class B LP warrants</b>	<b>Total</b>
5,729,500	923,913	<b>6,653,413</b>

## 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 March 31 2015	Fair Value March 31 2015
<b>Loans and Receivables</b>			
Cash (a)	Amortized cost	\$ 722	\$ 722
Receivables and other excluding prepaid expenses and deposits (a)	Amortized cost	1,653	1,653
		\$ 2,375	\$ 2,375
<b>Financial Liabilities Through Profit and Loss</b>			
Class B LP Units	Fair value (L2)	\$ 9,766	\$ 9,766
Long-term incentive plan	Fair value (L2)	608	608
Warrants	Fair value (L1)	100	100
		\$ 10,474	\$ 10,474
<b>Other Financial Liabilities</b>			
Accounts payable and other liabilities (a)	Amortized cost	\$ 3,389	\$ 3,389
Credit facility (a)	Amortized cost	7,429	7,429
Distributions payable (a)	Amortized cost	417	417
Debt (b)	Amortized cost	73,558	73,558
		\$ 84,793	\$ 84,793

(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 ("CEO") and the Chief Financial Officer ("CFO"), 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.

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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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 section entitled "Risk Factors" in the REIT's filings with securities regulatory authorities, including in its latest annual information form, which are available on SEDAR at [www.sedar.com](http://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 27% 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 will 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.

#### *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:

- (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.

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- (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.

### *Significant Ownership by Lotus Crux*

To the knowledge of the REIT, Lotus Crux and its related parties collectively hold an interest of approximately 12.2% 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.

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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 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.

### *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 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.

### *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 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 Income Tax Act (Canada) (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 2015 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 2015 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

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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 PRGP 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.

## **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

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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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.

### FUTURE CHANGES IN ACCOUNTING POLICIES

The future changes in accounting policies and future applicable accounting standards are discussed in the REIT's condensed consolidated interim financial statements for the three month period ended March 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 March 31, 2015 was \$96 (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 three month period ended March 31, 2015, the costs of these services amounted to \$78 (\$37 for the three month period ended March 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 three month period ended March 31, 2015, the costs of these services amounted to \$Nil (\$Nil for the three month period ended March 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 three month period ended March 31, 2015, the costs of these services amounted to \$6 (\$Nil for the three month period ended March 31, 2014).

On September 30, 2014, the REIT entered into a strategic investment agreement (the "Strategic Investment Agreement") with Lotus Crux Acquisition LP ("Lotus Crux Acquisition"). 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.

There were no fees paid in the three month periods ended March 31, 2015 and 2014.

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SUMMARY OF QUARTERLY RESULTS**

<i>(CAD \$ thousands except unit, per unit amounts and as otherwise stated)</i>	<b>3 Months Ended Mar 31 2015</b>	3 Months Ended Dec 31 2014	3 Months Ended Sept 30 2014	3 Months Ended June 30 2014	3 Months Ended Mar 31 2014	3 Months Ended Dec 31 2013	3 Months Ended Sep 30 2013	3 Months Ended Jun 30 2013
Property revenue	\$ 3,900	\$ 3,429	\$ 1,877	\$ 2,011	\$ 1,872	\$ 687	\$ 472	\$ 389
Property operating expenses	1,539	1,240	668	821	702	178	171	140
<b>Net operating income (NOI)</b>	<b>2,361</b>	<b>2,189</b>	<b>1,209</b>	<b>1,190</b>	<b>1,170</b>	<b>509</b>	<b>301</b>	<b>249</b>
General and administrative expenses	192	205	124	113	89	95	15	94
Long-term incentive plan expense	(22)	130	127	97	92	58	58	58
Depreciation of property and equipment	6	6	6	6	6	6	6	5
Interest and financing costs	911	849	550	546	532	299	264	185
Distributions – Class B LP Units	239	252	175	176	175	66	-	-
Fair value adjustment – Class B LP Units	230	(478)	167	334	(1,002)	(176)	(302)	(529)
Fair value adjustment - investment properties	796	(2,399)	51	69	44	(5,253)	(533)	15
Fair value adjustment - Warrants	(100)	(420)	-	-	-	-	-	-
Write-off of deferred acquisition costs	68	-	-	3	-	92	319	-
<b>Net comprehensive income (loss)</b>	<b>\$ 41</b>	<b>\$ 4,044</b>	<b>\$ 9</b>	<b>\$ (154)</b>	<b>\$ 1,234</b>	<b>\$ 5,322</b>	<b>\$ 474</b>	<b>\$ 421</b>
<b>Debt to Gross Book Value</b>	<b>58.57%</b>	<b>59.50%</b>	<b>44.15%</b>	<b>58.80%</b>	<b>58.53%</b>	<b>58.90%</b>	<b>62.08%</b>	<b>63.33%</b>
<b>FFO</b>	<b>\$ 1,212</b>	<b>\$ 1,005</b>	<b>\$ 408</b>	<b>\$ 431</b>	<b>\$ 457</b>	<b>\$ (35)</b>	<b>\$ (355)</b>	<b>\$ (88)</b>
<b>AFFO</b>	<b>\$ 1,330</b>	<b>\$ 1,192</b>	<b>\$ 575</b>	<b>\$ 576</b>	<b>\$ 601</b>	<b>\$ 136</b>	<b>\$ 29</b>	<b>\$ (21)</b>
<b>Basic FFO per unit <sup>(1)</sup></b>	<b>\$ 0.0508</b>	<b>\$ 0.0428</b>	<b>\$ 0.0385</b>	<b>\$ 0.0411</b>	<b>\$ 0.0436</b>	<b>\$(0.0062)</b>	<b>\$(0.1232)</b>	<b>\$(0.0305)</b>
<b>Diluted FFO per unit <sup>(1)</sup></b>	<b>\$ 0.0500</b>	<b>\$ 0.0422</b>	<b>\$ 0.0374</b>	<b>\$ 0.0398</b>	<b>\$ 0.0426</b>	<b>\$(0.0062)</b>	<b>\$(0.1232)</b>	<b>\$(0.0305)</b>
<b>Basic AFFO per unit <sup>(1)</sup></b>	<b>\$ 0.0558</b>	<b>\$ 0.0507</b>	<b>\$ 0.0542</b>	<b>\$ 0.0549</b>	<b>\$ 0.0574</b>	<b>\$ 0.0242</b>	<b>\$ 0.0101</b>	<b>\$(0.0073)</b>
<b>Diluted AFFO per unit <sup>(1)</sup></b>	<b>\$ 0.0548</b>	<b>\$ 0.0501</b>	<b>\$ 0.0527</b>	<b>\$ 0.0531</b>	<b>\$ 0.0561</b>	<b>\$ 0.0235</b>	<b>\$ 0.0096</b>	<b>\$(0.0073)</b>
<b>AFFO payout ratio – Basic <sup>(2)</sup></b>	<b>94.1%</b>	<b>103.5% <sup>(4)</sup></b>	<b>96.8% <sup>(3)</sup></b>	<b>95.7%</b>	<b>91.4%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
<b>AFFO payout ratio – Diluted <sup>(2)</sup></b>	<b>95.7%</b>	<b>104.9%</b>	<b>99.6%</b>	<b>98.8%</b>	<b>93.6%</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>
Number of commercial properties	22	23	9	9	9	9	4	4
Gross leasable area (square feet)	1,014,561	1,044,095	396,737	396,737	396,737	396,737	57,548	57,548
Occupancy rate <sup>(5)</sup>	92.9%	93.1%	89.5%	89.5%	89.5%	89.5%	91.2 %	91.2 %
Weighted average lease term to maturity (years)	7.5	7.6	6.8	7.2	6.7	6.9	10.8	11.0

<sup>(1)</sup> 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.

<sup>(2)</sup> The REITs first cash distribution declared was for the period of November 26, 2013 to December 31, 2013.

<sup>(3)</sup> 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%.

<sup>(4)</sup> 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.

<sup>(5)</sup> 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 March 31, 2015 was 11,700 square feet.