



PRO REAL ESTATE INVESTMENT TRUST

**CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015**

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Independent Auditors' Report

To the Unit Holders of Pro Real Estate Investment Trust:

We have audited the accompanying consolidated financial statements of Pro Real Estate Investment Trust ("the REIT"), and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of comprehensive income, changes in unitholders' equity and cash flows for the years ended December 31, 2015 and 2014, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements:

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of these consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility:

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the REIT's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion:

In our opinion the consolidated financial statements present fairly, in all material respects, the financial position of Pro Real Estate Investment Trust and its subsidiaries as at December 31, 2015 and December 31, 2014 and their financial performance and their cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards.

Montréal, Québec

April 20, 2016



¹ CPA auditor, CA, public accountancy permit No. A122514

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

CAD \$ thousands

	Note	December 31 2015	December 31 2014
ASSETS			
Non-current assets			
Investment properties	6,7	\$ 199,237	\$ 139,242
Property and equipment	8	74	61
		199,311	139,303
Current assets			
Receivables and other	9	3,106	1,610
Cash		777	588
		3,883	2,198
TOTAL ASSETS		\$ 203,194	\$ 141,501
LIABILITIES AND UNITHOLDERS' EQUITY			
Non-current liabilities			
Debt	10	109,526	74,194
Class B LP Units	11	6,644	9,902
Long-term incentive plan	12	1,070	630
Warrants	13	34	200
		117,274	84,926
Current liabilities			
Credit facility	14	8,801	6,761
Debt	10	4,503	1,953
Accounts payable and other liabilities	15	4,619	1,911
Distributions payable		597	417
		18,520	11,042
Total liabilities		135,794	95,968
Unitholders' Equity		67,400	45,533
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		\$ 203,194	\$ 141,501

Subsequent events 26

Approved by the Board

 "signed"
 James W. Beckerleg
 Trustee

 "signed"
 Gérard A. Limoges, CM, FCPA, FCA, Adm.A.
 Trustee

See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

CAD \$ thousands

		Year Ended December 31 2015	Year Ended December 31 2014
	Note		
Property revenue	17,18	\$ 18,190	\$ 9,189
Property operating expenses	18,19	6,983	3,431
Net operating income		11,207	5,758
General and administrative expenses	19	909	531
Long-term incentive plan expense	12	440	446
Depreciation of property and equipment	8	26	24
Interest and financing costs	19	4,330	2,477
Distributions – Class B LP Units	11	854	778
Fair value adjustment – Class B LP Units	11	(1,230)	(979)
Fair value adjustment – investment properties	7	827	(2,235)
Fair value adjustment – Warrants	13	(166)	(420)
Write-off of deferred acquisition costs		68	3
Net comprehensive income		\$ 5,149	\$ 5,133

See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST

CONSOLIDATED STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

CAD \$ thousands except unit and per unit amounts

	Note	Number of Units	Units issued	Cumulative distributions	Retained earnings	Total
Balance, January 1, 2015		19,220,189	\$ 38,318	\$ (2,465)	\$ 9,680	\$ 45,533
Net comprehensive income		-	-	-	5,149	5,149
Transactions with Unitholders:						
Distributions declared - \$0.210 per Unit		-	-	(5,308)	-	(5,308)
Issuance of Units, net of issue costs of \$3,629		9,565,135	18,444	-	-	18,444
Issuance of Units – distribution reinvestment plan	16	258,230	499	-	-	499
Exchange of Class B LP Units for REIT Units	16	1,525,363	3,248	-	-	3,248
Cancellation of Units – normal course issuer bid	16	(87,300)	(165)	-	-	(165)
Balance, December 31, 2015		30,481,617	\$ 60,344	\$ (7,773)	\$ 14,829	\$ 67,400

		Number of Units	Units issued	Cumulative distributions	Retained earnings	Total
Balance, January 1, 2014		7,124,858	\$ 14,482	\$ (138)	\$ 4,547	\$ 18,891
Net comprehensive income		-	-	-	5,133	5,133
Transactions with Unitholders:						
Distributions declared - \$0.210 per Unit		-	-	(2,327)	-	(2,327)
Issuance of Units, net of issue costs of \$3,401		11,459,000	22,382	-	-	22,382
Issuance of Units – distribution reinvestment plan		52,998	112	-	-	112
Exchange of Class B LP Units for REIT Units		583,333	1,342	-	-	1,342
Balance, December 31, 2014		19,220,189	\$ 38,318	\$ (2,465)	\$ 9,680	\$ 45,533

See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST
CONSOLIDATED STATEMENTS OF CASH FLOWS

CAD \$ thousands

		Year Ended December 31 2015	Year Ended December 31 2014
	Note		
Cash provided from (used in):			
Operating activities			
Net comprehensive income		\$ 5,149	\$ 5,133
Items not affecting cash:			
Depreciation of property and equipment	8	26	24
Amortization of financing costs	19	522	323
Long-term incentive plan expense	12	440	446
Straight-line rent adjustment		(70)	(76)
Write-off of deferred acquisition costs		68	-
Fair value adjustment - Class B LP Units	11	(1,230)	(979)
Fair value adjustment - investment properties	7	827	(2,235)
Fair value adjustment - Warrants	13	(166)	(420)
Non-Cash portion of Distributions - Class B LP Units		-	14
Changes in non-cash working capital	20	(1,101)	(2,075)
Net cash provided from operating activities		4,465	155
Financing activities			
Proceeds from the issuance of Units, net of issue costs		15,092	22,955
Boulevard transaction costs	6	(683)	-
Repayment of debt		(4,631)	(7,261)
Increase in debt		27,500	44,126
Increase in credit facility		2,051	-
Repayment of credit facility		-	(2,056)
Repayment of Boulevard credit facilities	6	(1,312)	-
Repayment of Boulevard convertible debentures	6	(3,617)	-
Financing costs		(869)	(710)
Distributions paid on Units		(4,631)	(2,016)
Cancellation of Units - normal course issuer bid		(165)	-
Net cash provided from financing activities		28,735	55,038
Investing activities			
Acquisition of investment properties	6	(33,106)	(55,018)
Additions to investment properties	7	(2,393)	(222)
Net proceeds on disposal of investment property		2,921	-
Leasing commissions	7	(415)	(454)
Acquisition of property and equipment	8	(18)	(11)
Deposits		-	204
Net cash used in investing activities		(33,011)	(55,501)
Change in cash during the year		189	(308)
Cash, beginning of year		588	896
Cash, end of year		\$ 777	\$ 588
Supplemental cash flow information	20		

See accompanying notes to the consolidated financial statements

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CAD \$ thousands except unit and per unit amounts

1. Nature of operations

PRO Real Estate Investment Trust (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 "TSXV") under the symbols PRV.UN and PRV.WT respectively. The principal, registered and head office of the REIT is located at 2000 Peel Street, Suite 758, Montréal, Québec, H3A 2W5.

2. Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financing Reporting Interpretations Committee ("IFRIC").

The consolidated financial statements have been prepared on a historical cost basis with the exception of investment properties, Class B LP Units, Units under long-term incentive plan and the Warrants, which are measured at fair value.

The REIT's reporting and functional currency is Canadian dollars.

These consolidated financial statements include the financial statements of the REIT and its subsidiaries, including partnerships over which the REIT has control.

Control is present when the REIT has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of its returns (the power, directly or indirectly, to control the financial and operational policies of the controlled entity).

On consolidation, all inter-entity transactions and balances have been eliminated.

These consolidated financial statements were authorized for issuance by the Board of Trustees of the REIT on April 20, 2016.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

Property acquisitions and business combinations

Where property is acquired, management considers the substance of the assets and activities acquired in determining whether the acquisition represents the acquisition of a business. The basis of the judgment is set out in Note 4.

Where such acquisitions are not judged to be an acquisition of a business, they are treated as asset acquisitions. The cost to acquire the property is allocated between the identifiable assets and liabilities acquired based on their relative fair values at the acquisition date, and no goodwill arises.

Where acquisitions are judged to be businesses, they are accounted for using the acquisition method. The acquisition is recognized at the aggregate of the consideration transferred, measured on the acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the REIT measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed in the statement of comprehensive income.

When the REIT acquires a business, it makes an assessment of the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the REIT's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through the statement of comprehensive income. Any contingent consideration to be transferred by the REIT will be recognized as a liability at fair value at the acquisition date. Subsequent changes to the fair value of any contingent consideration are recognized in the statement of comprehensive income.

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CAD \$ thousands except unit and per unit amounts

3. Summary of significant accounting policies (continued)

Investment properties

Property is determined to be an investment property when it is principally held to earn rental income or capital appreciation or both. It includes land, buildings, leasehold improvements and direct leasing costs. The REIT applies IAS 40 – Investment Property, and has chosen the fair value method of presenting its investment properties in the consolidated financial statements.

Investment property is measured initially at cost including transaction costs. Transaction costs include expenses such as transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment property is carried at fair value. Gains or losses arising from changes in fair value are included in the statement of comprehensive income during the period in which they arise.

The REIT measures fair value in accordance with IFRS 13, Fair Value measurement. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of investment properties shall reflect market conditions at the end of the reporting period. Fair value is time-specific as of a given date. As market conditions could change, the amounts presented as fair value could be incorrect or inadequate at another date. The fair value of investment properties is based on valuation methods performed by management and third-party appraisers who are members of the Appraisal Institute of Canada.

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

The REIT allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each part separately.

Depreciation of property and equipment is provided over the remaining useful lives of the assets using the declining balance method for furniture and fixtures and computer equipment and on the straight-line method for leasehold improvements as follows:

- Furniture and fixtures – 20%
- Computer equipment – 30%
- Leasehold improvements – over the term of the lease

Depreciation is determined with reference to the asset's cost, estimated useful life and residual value. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate and depreciated over their expected useful life. The asset's residual values, depreciation method and useful lives are reviewed annually and adjusted if appropriate. Assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Cash

Cash includes balances with banks and funds held in trust.

Financial instruments

Non-derivative financial instruments are recognized when the REIT becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the REIT has transferred substantially all risks and rewards of ownership. Non-derivative financial instruments are recognized initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs.

At initial recognition, all financial instruments are measured at fair value and are classified as one of the following:

Financial assets at fair value through profit or loss

Subsequent to initial recognition, financial assets at fair value through profit or loss are measured at fair value and changes therein, are recognized in comprehensive income. The REIT had no assets in this category.

Loans and receivables

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses, with interest recognized on an effective yield basis. Assets in this category include cash and accounts receivable.

Financial liabilities at fair value through profit or loss

Subsequent to initial recognition, financial liabilities at fair value through profit or loss are measured at fair value and changes therein, are recognized in comprehensive income. Liabilities in this category include Class B LP Units, Units under the long-term incentive plan and Warrants.

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CAD \$ thousands except unit and per unit amounts

3. Summary of significant accounting policies (continued)

Other financial liabilities

Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Liabilities in this category include accounts payable and other liabilities, credit facility, distributions payable and debt.

The REIT assesses at the end of each reporting period whether there is objective evidence that a financial asset measured at amortized cost is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are accounted for as part of the respective asset's or liability's carrying value at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument.

Debt is initially recognized at fair value less directly attributable transaction costs. After initial recognition, debt is measured at amortized cost using the effective interest rate ("EIR") method. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR calculation. The amortization is included in interest and financing costs in the statement of comprehensive income.

Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

All derivative instruments, including embedded derivatives, are recorded in the consolidated financial statements at fair value, except for embedded derivatives exempted from derivative accounting treatment.

Fair Value Hierarchy

The REIT classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7 – Financial Instruments: Disclosures. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 ("L1") – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 ("L2") – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 ("L3") – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Unitholders' equity

The REIT's Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities in accordance with IAS 32: Financial Instruments: presentation. In accordance with IAS 32, puttable instruments are to be presented as equity when certain conditions, called the "Puttable Instrument Exemption", are met.

To be presented as equity, the Units must meet all of the following conditions required by the Puttable Instrument Exemption: (i) it must entitle the holder to a pro-rata share of the REIT's net assets in the event of the REIT's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) must have identical features; (iv) other than the redemption feature, the Units may contain no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the Units must be based substantially on the profit or loss of the REIT or change in fair value of the Units.

The Units meet the Puttable Instrument Exemption and are classified and accounted for as equity in the statement of financial position. Distributions on Units, if any, are deducted from unitholders' equity.

Payment of distributions

The determination to declare and make payable distributions from the REIT is at the sole discretion of the Board of Trustees of the REIT, and until declared payable by the Board of Trustees of the REIT, the REIT has no contractual requirement to pay cash distributions to unitholders of the REIT or holders of Class B LP Units.

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CAD \$ thousands except unit and per unit amounts

3. Summary of significant accounting policies (continued)

Class B LP Units

The Class B LP Units 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. Class B LP Units 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 Class B LP Units is determined with reference to the market price of Units on the date of measurement. Distributions on Class B LP Units are recognized in the statement of comprehensive income when declared.

Long-term incentive plan

The REIT has adopted a long-term incentive plan which provides for the grant of deferred units ("DU") and restricted units ("RU") of the REIT to directors, employees, trustees and consultants of the REIT and its subsidiaries. The RUs and DUs are considered to be financial liabilities in the statement of financial position because there is a contractual obligation for the REIT to deliver Units upon conversion of the RUs and DUs. As a result of this obligation, the RUs and DUs are exchangeable into a liability as the Units are a liability by definition in accordance with IAS 32 and the Puttable Instrument Exemption does not apply to IFRS 2 – share-based payment ("IFRS 2"). In accordance with IAS 32, the long-term incentive plan is presented as a liability and is measured at fair value in the statement of financial position in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Fair market value is determined with reference to observable market price of the REIT's Units.

The compensation expense relating to the long-term incentive plan is recognized over the vesting period based on the fair value of the Units at the end of each reporting period and includes additional compensation expense relating to additional DUs and RUs issued as a result of distributions on the underlying Units. Once vested, the liability is remeasured at the end of each reporting period and at the date of settlement, with any fair value adjustment recognized in the statement of comprehensive income for the period. Distributions declared on vested DUs and RUs are also recorded in the statement of comprehensive income.

Warrants

Warrants comprise of REIT unit purchase warrants and Class B LP warrants, collectively referred to as "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.

Cancellation of Units under the normal course issuer bid

In the event the REIT repurchases its own Units under the normal course issuer bid ("NCIB"), those Units are deducted from unitholders' equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders' equity.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and risks specific to the obligation. Provisions are re-measured at each financial reporting date using the current discount rate. The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date.

Revenue recognition

The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; straight-line rent receivable, which is included in the carrying amount of the investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. Contingent rental income or percentage rents are recognized when the required level of sales has been achieved. Lease cancellation fees are recognized as revenue when the tenant foregoes the rights and obligations from the use of the space. Lease incentives are recognized on a straight-line basis over the term of the lease, even if the payments are not made on such a basis.

Recoveries from tenants for taxes, insurance and other operating expenses are recognized as service charge income in the period in which the applicable costs are incurred. Services charges and other such receipts are included gross of the related costs in property income, as management considers that the REIT acts as principal in this respect. Recoveries for repair and maintenance costs capitalized with investment property are recognized on a straight-line basis over the expected life of the items. Parking and other incidental revenues are recognized when the services are provided.

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CAD \$ thousands except unit and per unit amounts

3. Summary of significant accounting policies (continued)

Income and capital taxes

The REIT currently qualifies as a “mutual fund trust” for income tax purposes. The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for the REIT’s subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a specified investment flow through (“SIFT”) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT’s taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax. Under the SIFT rules, the new taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). The REIT has reviewed the SIFT rules and has assessed their interpretation and application to the REIT’s assets and income. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes that it meets the REIT Conditions.

However, certain of the REIT’s subsidiaries are incorporated companies. For these companies, the REIT follows the tax liability method for determining income taxes. Under this method, deferred income taxes assets and liabilities are determined according to differences between the carrying amounts and tax bases of specific assets and liabilities. Deferred tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the consolidated financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in the statement of comprehensive income as they occur. It was determined that no current or deferred income tax provisions were required for the periods presented in these consolidated financial statements.

4. Significant accounting judgments, estimates and assumptions

The preparation of the REIT’s consolidated financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities and the disclosure of contingent liabilities, at the date of the consolidated financial statements. The critical estimates and judgments utilized in preparing the REIT’s consolidated financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, determination of the degree of control that exists in determining the corresponding accounting basis and the selection of accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Judgments

In the process of applying the REIT’s accounting policies, management has made the following judgments which have the most significant effect on the amounts recognized in the consolidated financial statements:

- (i) Business combinations and asset acquisitions – The REIT, in general, acquires investment properties as asset acquisitions but at the time of the acquisition also considers whether the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the investment property. Consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.
- (ii) Impairment of assets – Long-lived assets, which include property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the expected future net discounted cash flows from its use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.
- (iii) Leases – The REIT uses judgment in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant, are operating or finance leases. The REIT has determined that all of its leases are operating leases.
- (iv) Income taxes – Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the year. The REIT is a real estate investment trust if it meets the REIT Conditions. The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REITs assets and revenue, and it has determined that it qualifies as a real estate investment trust.

The REIT expects to qualify as a real estate investment trust under the Income Tax Act (Canada); however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would, therefore, be subject to tax.

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2015

CAD \$ thousands except unit and per unit amounts

4. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

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 consolidated financial statements:

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

5. Future applicable accounting standards

Accounting standards issued but not yet applied

The IASB and the IFRIC have issued a number of standards and interpretations with an effective date after the date of these consolidated financial statements. Set out below are only those standards that may have a material impact on the consolidated financial statements in future periods. The REIT is currently evaluating the impact of these future policies on its consolidated financial statements.

- (i) IFRS 9 – Financial Instruments ("IFRS 9") was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristic of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The REIT is currently evaluating the impact of IFRS 9 on its consolidated financial statements.
- (ii) IFRS 15 - Revenue from Contracts with Customers ("IFRS 15") was issued by the IASB on May 28, 2014. The new standard is effective for fiscal years beginning on or after January 1, 2018 and is to be applied retrospectively. Early adoption is permitted. IFRS 15 will replace IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue – Barter Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The REIT is currently evaluating the impact of IFRS 15 on its consolidated financial statements.
- (iii) IFRS 16 - Leases ("IFRS 16") was issued by the IASB in January 13, 2016. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, Leases, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for on January 1, 2019 with earlier adoption permitted. The REIT is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

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6. Investment property acquisitions

During the year ended December 31, 2015, the REIT acquired the following investment properties:

Investment Property	Location	Property Type	Acquisition Date	Interest Acquired
50 Plaza Boulevard	Moncton, New Brunswick	Retail	June 23, 2015	100%
139 Douglastown Boulevard	Miramichi, New Brunswick	Office	June 23, 2015	100%
209 Carrier Drive	Etobicoke, Ontario	Industrial	June 25, 2015	100%
1870 Albion Road	Etobicoke, Ontario	Industrial	June 25, 2015	100%
325 Vanier Boulevard	Bathurst, New Brunswick	Retail	June 26, 2015	100%
3500 Principale Street	Tracadie-Sheila, New Brunswick	Retail	June 29, 2015	100%
3528 Principale Street	Tracadie-Sheila, New Brunswick	Retail	June 29, 2015	100%
205 Commerce Street	Moncton, New Brunswick	Industrial	September 30, 2015	100%
1070 St. George Boulevard	Moncton, New Brunswick	Industrial	September 30, 2015	100%
1180 St. George Boulevard	Moncton, New Brunswick	Industrial	September 30, 2015	100%

During the year ended December 31, 2014, the REIT acquired the following investment properties:

Investment Property	Location	Property Type	Acquisition Date	Interest Acquired
9002 20 th Street	Edmonton, Alberta	Industrial	October 14, 2014	100%
7405 127 th Avenue	Edmonton, Alberta	Industrial	October 14, 2014	100%
1850 Vanier Boulevard	Bathurst, New Brunswick	Commercial Mixed Use	October 14, 2014	100%
879 Main Street	Beresford, New Brunswick	Retail	October 14, 2014	100%
267 Commerce Street	Beresford, New Brunswick	Retail	October 14, 2014	100%
985 Avenue Godin	Quebec City, Quebec	Industrial	October 16, 2014	100%
11047 Henri Bourassa Boulevard	Quebec City, Quebec	Retail	October 16, 2014	100%
10100 Côte-de-Liesse Road	Lachine, Quebec	Industrial	October 16, 2014	100%
5655 de Marseille Street	Montreal, Quebec	Commercial Mixed Use	October 16, 2014	100%
26 Hymus Boulevard	Pointe-Claire, Quebec	Industrial	October 16, 2014	100%
2466 – 2480 King George Highway	Miramichi, New Brunswick	Retail	October 17, 2014	100%
2485 King George Highway	Miramichi, New Brunswick	Retail	October 17, 2014	100%
8934 – 8944 Commercial Street	New Minas, Nova Scotia	Retail	October 17, 2014	100%
87 Warwick Street	Digby, Nova Scotia	Retail	October 17, 2014	100%

The property acquisitions were all determined to be asset acquisitions.

On September 30, 2015, the REIT completed the acquisition of 100% of the assets and liabilities of Boulevard Industrial REIT (“Boulevard”), a real estate investment trust previously listed on the TSXV, by way of a plan of arrangement. Pursuant to the plan of arrangement, which was approved by the Ontario Superior Court of Justice on September 25, 2015, unitholders of Boulevard received 0.04651 of a REIT unit for each Boulevard unit they held. The acquisition has been accounted for as an asset acquisition and not as a business combination, as no key strategic processes of Boulevard were acquired. The unit consideration issued in the transaction has been valued in reference the fair value of the net assets acquired from Boulevard.

On September 30, 2015, the REIT repaid \$3,617 in cash to the holders of outstanding Boulevard convertible debentures. This represented an amount equal to 101% of the principal amount plus accrued and unpaid interest, plus an additional 30 days of interest. In addition, the REIT also repaid both Boulevard credit facilities in the amount \$1,312 and approximately \$1 million of payables including transaction costs of \$683 (note 10). Upon completion of this transaction, Boulevard units and convertible debentures were delisted from the TSXV.

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6. Investment property acquisitions (continued)

The assets and liabilities acquired are as follows:

	December 31 2015	December 31 2014
Assets		
Investment properties	\$ 60,866	\$ 67,849
Property and equipment	21	-
Other assets	1,321	518
	\$ 62,208	\$ 68,367
Liabilities		
Assumed mortgages	14,049	8,079
Convertible debentures	3,617	-
Credit facilities	1,312	-
Accounts payable and other liabilities	3,344	1,020
	22,322	9,099
Net assets acquired	\$ 39,886	\$ 59,268
Consideration given by the REIT:		
Units issued	\$ 17,866	\$ 17,518
Class B LP Units Issued	1,220	4,250
New mortgage financing	19,500	37,500
Vendor take-back mortgage	1,300	-
	\$ 39,886	\$ 59,268

7. Investment properties

	December 31 2015	December 31 2014
Balance, beginning of year	\$ 139,242	\$ 68,406
Acquisitions	60,866	67,849
Disposal	(3,150)	-
Additions	2,390	222
Leasing commissions	415	454
Straight-line rent adjustment	69	76
Fair value adjustment	(595)	2,235
Balance, end of year	\$ 199,237	\$ 139,242

The fair value is determined on the basis of valuations made by management and by independent external appraisers having appropriate professional qualifications, using recognized valuation techniques, comprising of the discounted cash flow and direct capitalization methods. These methods require certain key assumptions, including rental income, market rents, operating expenses, vacancies, inflation rates, capitalization rates, terminal capitalization rates and discount rates. These rates are determined for each property based on available market information related to the sale of similar buildings within the same geographical locations.

At December 31, 2015 external appraisals were obtained for investment properties with an aggregate fair value of \$196,993 (December 31, 2014 - \$137,054) and management's internal valuations was used for investment properties with an aggregate fair value of \$2,244 (December 31, 2014 - \$2,188).

Significant assumptions made to determine the fair value of the investment properties are set out as follows:

At December 31, 2015	Retail	Office	Commercial Mixed Use	Industrial
Capitalization rate	6.0% - 8.5%	7.3% - 11.4%	6.5% - 8.3%	6.3% - 8.0%
Terminal capitalization rate	6.0% - 9.3%	7.0% - 10.8%	6.8% - 7.8%	6.5% - 8.0%
Discount rate	6.8% - 10.3%	7.5% - 11.5%	7.0% - 8.5%	7.0% - 8.3%

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7. Investment properties (continued)

At December 31, 2014	Retail	Office	Commercial Mixed Use	Industrial
Capitalization rate	6.0% - 8.3%	7.5% - 11.4%	6.5% - 8.3%	6.3% - 7.5%
Terminal capitalization rate	6.0% - 9.3%	7.3% - 10.8%	6.8% - 7.8%	7.0% - 8.0%
Discount rate	6.8% - 10.3%	8.3% - 11.5%	7.0% - 8.5%	7.5% - 8.5%

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the capitalization rates, terminal capitalization rates and discount rates would result in a change to the fair value of the REIT's investment properties as set out in the following table:

	Impact of 25-basis points			
	December 31, 2015		December 31, 2014	
	Increase	Decrease	Increase	Decrease
Capitalization rate	\$ (7,038)	\$ 6,563	\$ (4,610)	\$ 4,944
Terminal capitalization rate	\$ (3,320)	\$ 4,180	\$ (2,312)	\$ 2,682
Discount rate	\$ (3,200)	\$ 3,880	\$ (2,294)	\$ 2,548

8. Property and equipment

Cost	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Balance, January 1, 2015	\$ 28	\$ 35	\$ 40	\$ 103
Additions	19	19	1	39
Balance, December 31, 2015	\$ 47	\$ 54	\$ 41	\$ 142
Accumulated depreciation				
Balance, January 1, 2015	\$ 8	\$ 11	\$ 23	\$ 42
Depreciation	4	8	14	26
Balance, December 31, 2015	\$ 12	\$ 19	\$ 37	\$ 68
Carrying value, December 31, 2015	\$ 35	\$ 35	\$ 4	\$ 74

Cost	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Balance, January 1, 2014	\$ 23	\$ 29	\$ 40	\$ 92
Additions	5	6	-	11
Balance, December 31, 2014	\$ 28	\$ 35	\$ 40	\$ 103
Accumulated depreciation				
Balance, January 1, 2014	\$ 4	\$ 4	\$ 10	\$ 18
Depreciation	4	7	13	24
Balance, December 31, 2014	\$ 8	\$ 11	\$ 23	\$ 42
Carrying value, December 31, 2014	\$ 20	\$ 24	\$ 17	\$ 61

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9. Receivables and other

	December 31 2015	December 31 2014
Accounts receivable	\$ 987	\$ 633
Prepaid taxes	817	604
Prepaid other	652	266
Deposits	176	107
Other receivables	474	-
	\$ 3,106	\$ 1,610

10. Debt

	December 31 2015	December 31 2014
Mortgages payable (net of financing costs of \$1,035)	\$ 104,340	\$ 75,336
Term loans (net of financing costs of \$611)	8,389	811
Vendor take-back mortgage	1,300	-
Total	114,029	76,147
Debt (current)	4,503	1,953
Non-current debt	\$ 109,526	\$ 74,194

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

The first term loan is to finance acquisitions and fund deposits on future acquisitions with a maximum available of \$10 million. The term loan is interest bearing only at the rate greater of 7.75% or the financial institution prime rate plus 4.25% per annum and matures February 2018. At December 31, 2015, advances under the term loan amounted to \$3,000 (December 31, 2014 - \$1,000). The term loan is secured by a pool of second and third charges on certain investment properties with a fair value of approximately \$65,377 at December 31, 2015 (December 31, 2014 - \$64,703).

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

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

Interest expense was \$3,513 for the year ended December 31, 2015 (\$1,792 for the year ended December 31, 2014). The REIT is required under the terms of specific debt agreements to maintain debt to service coverage ratios. The REIT was in compliance at December 31, 2015.

The debt is repayable no later than 2025 as follows:

	Due within							
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later	Total	
Principal instalments	\$ 3,203	\$ 3,267	\$ 3,086	\$ 2,371	\$ 1,817	\$ 3,232	\$ 16,976	
Principal maturities	1,300	7,336	21,912	27,002	10,705	30,444	98,699	
Sub-total debt	4,503	10,603	24,998	29,373	12,522	33,676	115,675	
Financing costs	(622)	(494)	(221)	(116)	(93)	(100)	(1,646)	
Total	\$ 3,881	\$ 10,109	\$ 24,777	\$ 29,257	\$ 12,429	\$ 33,576	\$ 114,029	

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11. Class B LP Units

	December 31, 2015		December 31, 2014	
	Class B LP Units	Amount	Class B LP Units	Amount
Outstanding, beginning of year	4,605,723	\$ 9,902	3,341,230	\$ 8,019
Issuance of Class B LP Units – Acquisitions	530,436	1,220	1,847,826	4,204
Exchange of Class B LP Units for REIT Units (note 16)	(1,525,363)	(3,248)	(583,333)	(1,342)
Fair value adjustment		(1,230)		(979)
Outstanding, end of year	3,610,796	\$ 6,644	4,605,723	\$ 9,902

The Class B LP Units are exchangeable into Units on a one-for-one basis for Units at any time at the option of the holder. During the year ended December 31, 2015 1,525,363 Class B LP Units in issue were exchanged into REIT Units (note 16).

The Class B LP Units are entitled to distributions equal to distributions declared on Units, on a one-to-one basis. Distributions on Class B LP Units are recognized in the statement of comprehensive income when declared. Distributions of \$0.210 per Class B LP Unit were declared during the year ended December 31, 2015 (\$0.210 for the year ended December 31, 2014).

12. Long-term incentive plan

	Number of Restricted Units (RUs)	Number of Deferred Units (DUs)	Total
At January 1, 2014	-	126,667	126,667
Restricted Units and Deferred Units granted	-	182,915	182,915
Reinvested distributions	-	28,114	28,114
At December 31, 2014	-	337,696	337,696
Restricted Units and Deferred Units granted	-	402,175	402,175
Reinvested distributions	-	75,533	75,533
At December 31, 2015	-	815,404	815,404
Vested	-	154,787	154,787
Unvested	-	660,617	660,617
Total	-	815,404	815,404

	Year Ended December 31 2015	Year Ended December 31 2014
At fair value, beginning of year	\$ 630	\$ 184
Expense (unvested):		
Amortization, RUs and DUs	686	418
Reinvested distributions, RUs and DUs	96	37
Fair value adjustment, RUs and DUs	(342)	(9)
Total expense - unvested RUs and DUs	440	446
At fair value, end of year	\$ 1,070	\$ 630

For the year ended December 31, 2015, 441,931 DUs were granted to Trustees and key management personnel. For the year ended December 31, 2014, 161,466 DUs were granted to Trustees and key management personnel.

The REIT has adopted a long-term incentive plan which provides for the grant of DUs and RUs of the REIT to directors, employees, trustees and consultants of the REIT and its subsidiaries. The maximum number of Units to be issued is 1,047,532.

Each RU represents the right to receive one Unit upon vesting of the RU. Vesting of the RUs will occur in full at the end of a three year period as follows: one-third of the RUs granted in any year will vest at the start of the fiscal year immediately following the grant ("initial vesting date"), subject to provisions for earlier vesting upon the occurrence of certain events; one-third will vest on the first anniversary of the initial vesting date; the final one-third will vest on the 2nd anniversary of the initial vesting period. Upon vesting of the RUs the holder of the RUs will receive one Unit in respect of each vested RU.

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12. Long-term incentive plan (continued)

Each DU represents the right to receive one Unit upon the holder of the DU ceasing to be employed by the REIT, provided that the DU is vested (or is deemed to be vested) at such time. Vesting of the DUs will occur in full at the end of a three year period as follows: one-third of the DUs granted in any year will vest at the start of the fiscal year immediately following the grant ("initial vesting date"), subject to provisions for earlier vesting upon the occurrence of certain events; one-third will vest on the first anniversary of the initial vesting date; the final one-third will vest on the 2nd anniversary of the initial vesting period.

For the year ended December 31, 2015, 477,708 DUs were granted at an average unit price of \$2.23. For the year ended December 31, 2014, 211,029 DUs were granted at an average unit price of \$2.37.

13. Warrants

	Number of REIT unit purchase warrants	Number of Class B LP warrants	Total
At January 1, 2014	-	-	-
Warrants issued	5,729,500	923,913	6,653,413
At December 31, 2014	5,729,500	923,913	6,653,413
Warrants issued	55,812	-	55,812
At December 31, 2015	5,785,312	923,913	6,709,225

Each Warrant entitles the holder to acquire one Unit of the REIT. 6,653,413 Warrants can be exercised any time before March 31, 2017 at an exercise price of \$2.65. The remaining 55,812 Warrants can be exercised no later than March 26, 2016 at an exercise price of \$3.66 per unit.

In connection with the acquisition of Boulevard (note 6), the REIT issued 55,812 warrants on September 30, 2015 of the REIT in exchange for the outstanding Boulevard warrants.

As at December 31, 2015, the warrants were re-measured based on the quoted closing price of the warrants

	Year Ended December 31 2015	Year Ended December 31 2014
At fair value, beginning of year	\$ 200	\$ -
Issuance of Warrants	-	620
Fair value adjustment	(166)	(420)
At fair value, end of year	\$ 34	\$ 200

14. Credit facility

The REIT has a revolving credit facility of \$10.0 million plus an additional \$1.5 million in construction financing available for a new retail pad development which bears interest at prime plus 157.5 basis points or bankers' acceptance rate plus 257.5 basis points. The credit facility is secured by a pool of first and second charges on certain investment properties with a fair value of approximately \$24,027 at December 31, 2015 (December 31, 2014 - \$23,603). At December 31, 2015, the REIT had \$8,876 outstanding on the revolving credit facility and unamortized financing costs of \$75.

The REIT is required under the credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity at all times. At December 31, 2015, the REIT was compliant with all financial covenants under the revolving credit facility.

15. Accounts payable and other liabilities

	December 31 2015	December 31 2014
Accounts payable	\$ 2,046	\$ 877
Accrued liabilities	1,991	901
Tenant deposits	385	133
Prepaid rent	197	-
	\$ 4,619	\$ 1,911

Included in accounts payable as at December 31, 2015, is an amount of \$41 (December 31, 2014 - \$110) payable to a company controlled by the REIT's management.

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16. Unitholders' equity

	Number of Issued Units	Amount
At January 1, 2014	7,124,858	\$ 14,482
Distribution reinvestment plan ("DRIP")	52,998	112
Issue September 30, 2014 - public offering	11,459,000	25,783
Less: issue costs	-	(3,401)
Exchange of Class B LP Units for REIT Units	583,333	1,342
At December 31, 2014	19,220,189	\$ 38,318
Distribution reinvestment plan ("DRIP")	258,230	499
Issue June 9, 2015 - public offering	7,625,000	17,538
Less: issue costs	-	(2,295)
Exchange of Class B LP Units for REIT Units (note 11)	1,525,363	3,248
Issue September 30, 2015 – Acquisition of Boulevard (note 6)	1,940,135	4,535
Less: issue costs	-	(1,334)
Cancellation of Units – NCIB	(87,300)	(165)
At December 31, 2015	30,481,617	\$ 60,344

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

The Board of Trustees of the REIT (the "Trustees") has discretion in respect to the timing and amounts of distributions.

Units are redeemable at any time, in whole or in part, on demand by the unitholders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the unitholder shall be entitled to receive a price per Unit equal to the lesser of:

- 90% of the "market price" of the Units on the TSXV or market on which the Units are listed or quoted on the trading day prior to the date on which the Units were surrendered for redemption; and
- 100% of the "closing market price" on the TSXV or market on which the Units are listed or quoted for trading on the redemption date.

The total amount payable by the REIT, in respect of any Units surrendered for redemption during any calendar month, shall not exceed \$50 unless waived at the discretion of the Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price payable in respect of Units surrendered for redemption exceeds \$50 in any given month unless waived at the discretion of the Trustees, such excess will be redeemed for cash, and by a distribution *in specie* of assets held by the REIT on a pro rata basis.

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 entitled only 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). In addition, PRLP will be entitled to require the redemption of the Class B LP Units in certain specified circumstances. The Class B LP Units are presented as a financial liability.

On September 30, 2014, the REIT announced the closing of a public offering of Units and a concurrent private placement at a price of \$2.30 per Unit resulting in the issuance of 11,459,000 Units which includes 585,000 Units issued pursuant to the partial exercise of the over-allotment option equally at a price of \$2.30 per Unit. Each Unit issued consisted of one Unit and one half REIT unit purchase warrant. The difference between the gross proceeds of \$26.4 million and the fair value of the REIT unit purchase warrants on initial recognition (note 13) was allocated to the Units. Total underwriting fees and other directly related expenses of approximately \$3.4 million attributable to the issuance of Units was recorded as a reduction of unitholders' equity.

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16. Unitholders' equity (continued)

On June 9, 2015, the REIT announced the closing of a public offering of Units, on a bought deal basis, at a price of \$2.30 per Unit resulting in 7,625,000 Units being issued for a total gross proceeds of \$17.5 million. Total underwriting fees and other directly related expenses of approximately \$2.3 million attributable to the issuance of Units was recorded as a reduction of unitholders' equity.

On September 30, 2015, the REIT completed the acquisition of 100% of the issued and outstanding units of Boulevard by way of a plan of arrangement (note 6). Pursuant to the plan of arrangement, which was approved by the Ontario Superior Court of Justice on September 25, 2015, unitholders of Boulevard received 0.04651 of a REIT unit for each Boulevard unit they held resulting in 1,820,570 Units being issued. In connection with this transaction, the REIT issued an additional 119,565 Units as payment for services rendered. Directly related expenses of approximately \$1.3 million attributable to the issuance of Units was recorded as a reduction of unitholders' equity.

Distribution reinvestment plan

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. Cash undistributed by the REIT upon the issuance of additional Units under the DRIP will be invested in the REIT to be used for future property acquisitions, capital improvements and working capital. Unitholders resident outside of Canada will not be entitled to participate in the DRIP. Upon ceasing to be a resident of Canada, a unitholder must terminate the unitholder's participation in the DRIP.

NCIB

Pursuant to a notice accepted by the TSXV, the REIT may, during the period commencing August 26, 2015 and ending August 25, 2016, purchase for cancellation, through the facilities of the TSXV and at the market price of the REIT's Units at the time of purchase, up to 1,411,832 Units, representing 5% of the REIT's issued and outstanding Units. The actual number of Units that may be purchased and the timing of any such purchases will be determined by the REIT, and will be made in accordance with the requirements of the TSXV. As at December 31, 2015, the REIT repurchased and cancelled 87,300 Units for \$165.

17. Operating leases - REIT as lessor

The REIT has entered into leases with tenants on its investment property portfolio. Commercial property leases typically have initial lease terms ranging between five and twenty years with periodic upward revision of the rental charge according to prevailing market conditions.

	December 31 2015	December 31 2014
Future minimum rentals receivable under operating leases		
Within one year	\$ 14,332	\$ 9,292
Between one and five years	55,449	36,586
After five years	27,891	26,447
	\$ 97,672	\$ 72,325

18. Segmented disclosure

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 by each segment are the same as those disclosed in Note 3. Operating performance is evaluated by the REIT's management primarily based on net operating income, which is defined as property revenue less property operating expenses. General and administrative expenses, depreciation and amortization, interest and financing costs are not allocated to operating segments. Segment assets include investment properties; segment liabilities include mortgages attributable to specific segments, but excludes the REIT's term loans, credit facility and their respective unamortized financing costs. Other assets and liabilities are not attributed to operating segments.

	Retail	Office	Commercial Mixed Use	Industrial	Total
Year ended December 31, 2015					
Property revenue	\$ 8,428	\$ 2,892	\$ 3,030	\$ 3,840	\$ 18,190
Property operating expenses	3,247	1,513	1,147	1,076	6,983
Net operating income	\$ 5,181	\$ 1,379	\$ 1,883	\$ 2,764	\$ 11,207
At December 31, 2015					
Investment properties	\$ 87,322	\$ 21,628	\$ 28,857	\$ 61,430	\$ 199,237
Mortgages payable	\$ 48,658	\$ 3,931	\$ 11,918	\$ 41,133	\$ 105,640

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18. Segmented disclosure (continued)

	Retail	Office	Commercial Mixed Use	Industrial	Total
Year ended December 31, 2014					
Property revenue	\$ 4,258	\$ 2,482	\$ 1,956	\$ 493	\$ 9,189
Property operating expenses	1,406	1,238	688	99	3,431
Net operating income	\$ 2,852	\$ 1,244	\$ 1,268	\$ 394	\$ 5,758
At December 31, 2014					
Investment properties	\$ 69,067	\$ 15,568	\$ 28,857	\$ 25,750	\$ 139,242
Mortgages payable	\$ 38,100	\$ 1,557	\$ 12,265	\$ 23,414	\$ 75,336

19. Supplemental comprehensive income information

Property operating expenses include property taxes, utility costs, repairs and maintenance expenses and other costs directly associated with the operation and leasing of investment properties to tenants.

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.

The following table provides an analysis of total interest and financing costs:

	Year Ended December 31 2015	Year Ended December 31 2014
Interest and financing costs		
Amortization of financing costs	\$ 522	\$ 323
Other interest and financing costs	3,808	2,154
	\$ 4,330	\$ 2,477

20. Supplemental cash flow information

	Year Ended December 31 2015	Year Ended December 31 2014
Change in non-cash working capital:		
Receivable and other	\$ (309)	\$ (506)
Deferred acquisition costs	-	(1,569)
Accounts payable and other liabilities	(792)	-
	\$ (1,101)	\$ (2,075)
Interest paid	\$ 3,687	\$ 2,008

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21. Financial instruments

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

Classification	Measurement	Carrying Value December 31 2015	Fair Value December 31 2015	Carrying Value December 31 2014	Fair Value December 31 2014
Loans and Receivables					
Cash (a)	Amortized cost	\$ 777	\$ 777	\$ 588	\$ 588
Receivables and other excluding prepaid expenses, deposits and other receivables (a)	Amortized cost	987	987	633	633
		\$ 1,764	\$ 1,764	\$ 1,221	\$ 1,221
Financial Liabilities Through Profit and Loss					
Class B LP Units	Fair value (L2)	\$ 6,644	\$ 6,644	\$ 9,902	\$ 9,902
Long-term incentive plan	Fair value (L2)	1,070	1,070	630	630
Warrants	Fair value (L1)	34	34	200	200
		\$ 7,748	\$ 7,748	\$ 10,732	\$ 10,732
Other Financial Liabilities					
Accounts payable and other liabilities (a)	Amortized cost	\$ 4,619	\$ 4,619	\$ 1,911	\$ 1,911
Credit facility (a)	Amortized cost	8,801	8,801	6,761	6,761
Distributions payable (a)	Amortized cost	597	597	417	417
Debt (b)	Amortized cost	114,029	114,029	76,147	76,147
		\$ 128,046	\$ 128,046	\$ 85,236	\$ 85,236

- (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).

22. Risk management

The REIT's principal financial liabilities are loans and borrowings. The main purpose of the loans and borrowings is to finance the acquisition and development of the REIT's property portfolio. The REIT has tenants and other receivables, accounts payable and accrued liabilities and cash that arise directly from its operations. In the normal course of its business, the REIT is exposed to market risk, credit risk and liquidity risk that can affect its operating performance.

The REIT's senior management oversees the management of these risks and the Board of Trustees reviews and approves policies for managing each of these risks which are summarized below.

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty meeting its obligations associated with the maturity of financial obligations. The REIT's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing. Liquidity risk also relates to the potential required early retirement of debt.

Management's strategy to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient financial assets to meet its financial liabilities as they fall due, by forecasting cash flows from operations and anticipated investing and financing activities. Wherever possible, the REIT enters into long-term leases with creditworthy tenants which assist in maintaining a predictable cash flow. Management's policy is to ensure adequate funding is available from operations, established lending facilities and other sources, as required.

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22. Risk management (continued)

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

Contractual Obligations	Due within					
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Debt principal instalments	\$ 3,203	\$ 3,267	\$ 3,086	\$ 2,371	\$ 1,817	\$ 3,232
Debt principal maturities	1,300	7,336	21,912	27,002	10,705	30,444
Sub-total	4,503	10,603	24,998	29,373	12,522	33,676
Debt interest	3,915	3,665	3,218	2,270	1,762	2,619
Credit facility	8,876	-	-	-	-	-
Accounts payable and other liabilities	4,619	-	-	-	-	-
Rent	5	-	-	-	-	-
	\$ 21,918	\$ 14,268	\$ 28,216	\$ 31,643	\$ 14,284	\$ 36,295

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. Management has determined that any reasonably likely fluctuation in interest rates on floating rate debt would be insignificant to comprehensive income as most long-term debt is fixed rate.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT's principal assets are commercial properties. Credit risk on tenant receivables comprising accounts receivable of \$987 arises from the possibility that tenants may not fulfill their lease obligations. Management mitigates this credit risk by performing credit checks on prospective tenants, having a large diverse tenant base with varying lease expirations, requiring security deposits on high risk tenants and ensuring that a considerable portion of its property income is earned from national and large anchor tenants. Accounts receivable are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write offs. The REIT performs monthly reviews of its receivables and has determined there is no significant provision for doubtful accounts at December 31, 2015.

Concentration risk

Concentration risk relates to the risk associated with having a significant amount of investment property leased to a single tenant. Concentration risk is mitigated by entering into long-term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The REIT also maintains its assets to a quality standard that would support timely leasing of vacant space.

Environmental risk

As an owner of real estate properties, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in investment properties, or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware of any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, properties. The REIT has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. 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 stringent environmental laws and regulations could have an adverse effect on the financial condition or results of operations.

23. Capital management

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's 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.

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23. Capital management (continued)

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:

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

The REIT was in compliance with the above requirements as well as all required financial covenants at December 31, 2015.

24. Related party transactions

The REIT engaged Labec Realty Advisors Inc. (the "Manager") to perform certain services as outlined below under a management agreement (the "Management Agreement"). The Manager is controlled by the President and Chief Executive Officer and Chief Financial Officer of the REIT.

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

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

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

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

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

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

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

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

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

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

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25. Commitment

The REIT has a lease commitment relating to office space which expires on March 31, 2016. The current commitment in respect of this lease is \$5.

26. Subsequent events

- (a) On January 20, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of January 2016. The distribution was paid on February 15, 2016 to unitholders of record as at January 29, 2016.
- (b) On February 18, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of February 2016. The distribution was paid on March 15, 2016 to unitholders of record as at February 29, 2016.
- (c) On February 18, 2016, following a recommendation of its governance and nominating committee, the REIT granted 255,000 deferred units to certain trustees, officers, consultants and employees pursuant to the LTIP. Trustees are granted DUs in lieu of cash fees. The number of deferred units granted was based on a price of \$2.30 per unit. DUs that are granted and exceed the current limit the LTIP are subject to TSXV approval and, as applicable, ratification by the REIT's unitholders.
- (d) On March 21, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of March 2016. The distribution was paid on April 15, 2016 to unitholders of record as at March 31, 2016.
- (e) On April 18, 2016, the REIT announced a cash distribution of \$0.0175 per Unit for the month of April 2016. The distribution is payable on May 16, 2016 to unitholders of record as at April 29, 2016.