

# **Firm Capital**

**FIRM CAPITAL PROPERTY TRUST**

**MANAGEMENT DISCUSSION & ANALYSIS  
SEPTEMBER 30, 2015**

**TSXV : FCD.UN**

## MANAGEMENT DISCUSSION & ANALYSIS

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*The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Firm Capital Property Trust ("FCPT" or the "Trust") should be read in conjunction with the Trust's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2015 and September 30, 2014, and audited annual consolidated financial statements for the year ended December 31, 2014 and December 31, 2013. This MD&A has been prepared taking into account material transactions and events up to and including November 5, 2015. Additional information about the Trust has been filed with applicable Canadian securities regulatory authorities and is available at [www.sedar.com](http://www.sedar.com) or on our web site at [www.firmcapital.com](http://www.firmcapital.com).*

*Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws including, among others, statements concerning our 2015 objectives and our strategies to achieve those objectives, as well as statements with respect to management's beliefs, estimates, and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "outlook", "objective", "may", "will", "expect", "intent", "estimate", "anticipate", "believe", "should", "plans" or "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.*

*These statements are not guarantees of future performance and are based on our estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under Risks and Uncertainties, which could cause our actual results to differ materially from the forward-looking statements contained in this MD&A. Such risk factors include, but are not limited to, risks associated with real property ownership, availability of cash flow, general uninsured losses, future property acquisitions, environmental matters, tax related matters, debt financing, unitholder liability, potential conflicts of interest, potential dilution, reliance on key personnel, changes in legislation and changes in the tax treatment of trusts. The Trust cannot assure investors that actual results will be consistent with any forward-looking statements and the Trust assumes no obligation to update or revise such forward-looking statements to reflect actual events or new circumstances. All forward-looking statements contained in this MD&A are qualified by this cautionary statement. Although the forward-looking information contained in this MD&A are based upon what management believes are reasonable assumptions, there can be no assurance that actual results will be consistent with these forward-looking statements.*

*All forward-looking statements in this MD&A are qualified by these cautionary statements. Except as required by applicable law, the Trust undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.*

## INTRODUCTION

Firm Capital Property Trust (TSXV : FCD.UN) is focused on creating long-term value for Unitholders through capital preservation and disciplined investing to achieve stable distributable income. In partnership with management and industry leaders, FCPT's plan is to co-own a diversified property portfolio of the following real estate asset classes:

- Multi Residential,
- Industrial & Flex Industrial,
- Net Lease Convenience and Stand Alone Retail, and
- Core Service Provider / Healthcare Professional Office.

In addition to stand alone accretive acquisitions, the Trust will make acquisitions, on a co-ownership basis with strong financial partners and will make joint acquisitions and the acquisition of partial interests from existing ownership groups, in a manner that provides liquidity to those selling owners and professional management for those remaining as partners. Firm Capital Properties Inc., through a structure focused on an alignment of interests with the Trust sources, syndicates and manages investments on behalf of the Trust.

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The Trust is an unincorporated open-ended real estate investment trust established on August 30, 2012 under the laws of the Province of Ontario pursuant to a Declaration of Trust. The Trust is a “mutual fund trust” as defined in the Tax Act, but is not a “mutual fund” within the meaning of applicable Canadian securities legislation. The head office and registered office of the Trust is located at 163 Cartwright Avenue Toronto, Ontario M6A 1V5. The Trust is the reporting issuer trading on the TSX Venture Exchange under the ticker symbol FCD.UN.

Additional information on the Trust and its portfolio is available on the Firm Capital web site at [www.firmcapital.com](http://www.firmcapital.com) or on the SEDAR website at [www.sedar.com](http://www.sedar.com).

### BASIS OF PRESENTATION

The Trust has adopted the International Financial Reporting Standards (“**IFRS**”), as issued by the International Accounting Standards Board as its basis of financial reporting. The Trust’s reporting currency is the Canadian dollar.

Net Operating Income (“**NOI**”), Stabilized NOI, Earnings Before Interest, Taxes, Depreciation & Amortization (“**EBITDA**”), Funds from Operations (“**FFO**”), Adjusted Funds from Operations (“**AFFO**”), FFO Payout Ratio, AFFO Payout Ratio and Debt/Gross Book Value (“**GBV**”) are non-GAAP measures commonly used by Canadian real estate investment trusts as an indicator of financial performance. “**GAAP**” means generally accepted accounting principles described by the Chartered Professional Accountants Canada (“**CPA**”) Handbook - Accounting, which are applicable as at the date on which any calculation using GAAP is to be made. As a public entity, the Trust applies IFRS as described in Part I of the CPA Handbook - Accounting.

The Trust calculates NOI as revenues, prepared in accordance with IFRS, less property operating expenses such as taxes, utilities, repairs and maintenance. NOI does not include charges for interest and amortization. On a cash basis, the Trust excludes non-cash items such as straight-line rent from the calculation of NOI.

The Trust calculates FFO substantially in accordance with the guidelines set out by the Real Property Association of Canada (“**RealPAC**”), as issued in April 2014 for entities adopting IFRS. These guidelines include certain additional adjustments to FFO under IFRS from the previous definition of FFO.

AFFO is calculated as FFO less adjustments for non-cash items, normalized capital expenditures, tenant inducements and leasing charges.

NOI, EBITDA, FFO, AFFO, FFO Payout Ratio, AFFO Payout Ratio and Debt/GBV are not measures defined under IFRS. NOI, FFO and AFFO are not intended to represent operating profits for the period, or from a property, nor should any of these measures be viewed as an alternative to net income, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. Readers should be further cautioned that NOI, EBITDA, FFO and AFFO, FFO Payout Ratio, AFFO Payout Ratio and Debt/GBV as calculated by the Trust may not be comparable to similar measures presented by other issuers.

### THIRD QUARTER HIGHLIGHTS

- Three Months Ended September 30, 2015 FFO and AFFO of \$1.2 million and \$1.1 million is a 12% and 14% sequential increase over the amounts reported for the three months

## MANAGEMENT DISCUSSION & ANALYSIS

ended June 30, 2015 and a 37% and 23% increase over the amounts reported for the three months ended September 30, 2014;

- Nine Months Ended September 30, 2015 FFO and AFFO of \$3.3 million and \$3.0 million are a 39% and 33% increase over the amounts reported for the nine months ended September 30, 2014;
- Three Months ended September 30, 2015 FFO and AFFO per Unit of \$0.121 and \$0.107 per Unit, is a 3% and 4% sequential increase over the three months ended June 30, 2015;
- Nine months ended September 30, 2015 FFO and AFFO per Unit of \$0.345 and \$0.316 are largely unchanged over the nine months ended September 30, 2014;
- Three months ended September 30, 2015 FFO and AFFO payout ratios of 83% and 93%. Nine months ended September 30, 2015 FFO and AFFO payout ratios of 87% and 95%;
- Three months ended September 30, 2015 Cash NOI of \$1.9 million is an 11% sequential increase over the three months ended June 30, 2015 and a 17% increase over the three months ended September 30, 2014. Nine months ended September 30, 2015 Cash NOI of \$5.3 million is a 31% increase over the nine months ended September 30, 2014;
- Commercial portfolio occupancy was 93.4%, a 400 bp increase over June 30, 2015 and a 78 bp increase over September 30, 2014. Multi-Residential Occupancy was 94.1%, a 222 bp increase over June 30, 2015;
- Conservative leverage profile with Debt / Gross Book Value (“**GBV**”) at 47.5%.

### Financial Highlights

	Three Months		Nine Months		% Change	
	Sept 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014	Three months	Nine months
<b>Rental Revenue</b>	\$ 3,277,289	\$ 2,772,254	\$ 9,226,792	\$ 6,792,675	18%	36%
<b>Net Operating Income (NOI)</b>						
- IFRS Basis	\$ 1,955,829	\$ 1,685,256	\$ 5,447,886	\$ 4,147,506	16%	31%
- Cash Basis	\$ 1,925,116	\$ 1,648,534	\$ 5,328,912	\$ 4,070,676	17%	31%
<b>Funds From Operations (FFO)</b>	\$ 1,245,318	\$ 907,553	\$ 3,319,534	\$ 2,393,648	37%	39%
<b>Adjusted Funds From Operations (AFFO)</b>	\$ 1,110,619	\$ 903,995	\$ 3,036,596	\$ 2,286,142	23%	33%
<b>FFO Per Unit</b>	\$ 0.121	\$ 0.129	\$ 0.345	\$ 0.342	(7%)	1%
<b>AFFO Per Unit</b>	\$ 0.107	\$ 0.129	\$ 0.316	\$ 0.327	(17%)	(3%)
<b>Distributions Per Unit</b>	\$ 0.100	\$ 0.092	\$ 0.300	\$ 0.277	9%	8%
<b>FFO Payout Ratio</b>	83%	72%	87%	81%		
<b>AFFO Payout Ratio</b>	93%	72%	95%	85%		

## MANAGEMENT DISCUSSION & ANALYSIS

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- **Closed significant industrial acquisition for \$31.2 million:** On August 27, 2015, the Trust acquired a 70% undivided interest in seven industrial buildings located in Waterloo, Ontario for \$31.2 million (including transaction costs). As a result of the acquisition, the Trust increased the size of its current portfolio to 61 properties;
- **5% distribution increase is third increase and 20% in aggregate increases in less than three years:** As a result of the closing of the acquisition of the industrial portfolio in Waterloo, the Trust declared and approved monthly distributions in the amount of \$0.033333 per Trust Unit for unitholders of record on October 30, 2015 payable on or about November 16, 2015 and \$0.035 per Trust Unit for unitholders of record on November 30, 2015 and December 31, 2015 payable on or about December 15, 2015 and January 15, 2016. This revised distribution is expected to result in a pro forma AFFO payout ratio of below 85% for the Trust;
- **Closed \$11 million non-brokered private placement:** On September 22, 2015, the Trust announced the closing of its previously announced non-brokered private placement for gross proceeds of approximately \$11 million. The Trust issued 1,961,300 trust units at a price of \$5.60 per trust unit. The Trust used the net proceeds to repay the revolving credit facility and to fund future acquisitions; and
- **Approved distributions for January, February and March, 2016:** The Trust also announces that it had declared and approved monthly distributions in the amount of \$0.035 per trust unit for unitholders of record on January 29, 2016, February 26, 2016 and March 31, 2016 payable on or about February 15, 2016, March 15, 2016 and April 15, 2016.

## HIGHLIGHTS & RECENT ACQUISITIONS

The Trust generates cash flow from all of its targeted asset classes which include the following:

- **CENTRE ICE RETAIL PORTFOLIO**  
On June 25, 2014, the Trust acquired a 70% undivided interest in 25 retail buildings located across Canada (the “**Centre Ice Retail Portfolio**”). The total acquisition cost of the entire Centre Ice Retail Portfolio was \$33.6 million (including transaction costs). The acquisition cost for the Trust’s 70% interest was \$23.5 million (including transaction costs). The Centre Ice Retail Portfolio is comprised of 230,822 square feet of GLA located across Canada with the majority of the portfolio being located in Ontario. The Centre Ice Retail Portfolio has a weighted average lease term of 3.3 years with the largest tenant being PPG Industries Inc.(PPG:NYSE) an investment grade rated entity accounting for 31% of NOI, operating predominantly under the Dulux Paints brand.
- **OTTAWA APARTMENT COMPLEX**  
On November 26, 2014, the Trust acquired a 50% interest in a 135 unit multi-residential complex located in Ottawa, Ontario. The purchase price was approximately \$11.4 million (including transaction costs), of which the Trust paid approximately \$5.7 million (including transaction costs) for its 50% participation. The complex is comprised of 135 units situated in two multi-residential buildings located in the Carlington sector of Ottawa. The Property has an attractive suite mix consisting of spacious one and two bedroom multi-residential units.

## MANAGEMENT DISCUSSION & ANALYSIS

### WATERLOO INDUSTRIAL PORTFOLIO

- On August 27, 2015, the Trust closed the purchase of a 70% interest in seven industrial buildings located in Waterloo, Ontario (the “**Waterloo Industrial Portfolio**”). The acquisition price for the Waterloo Industrial Portfolio is approximately \$31.2 million, including transaction costs. The capitalization rate is approximately 7%. The Waterloo Industrial Portfolio is comprised of seven multi-tenant industrial buildings totaling 510,034 square feet. The Waterloo Industrial Portfolio has in excess of 40 tenants with a weighted average lease term of approximately 4.0 years and is currently 100% occupied.

Based on the Trust’s pro rata interests as at September 30, 2015, the portfolio consists of 60 commercial properties with a total GLA of 1,189,965 square feet (1,186,576 square feet of Net Leasable Area (“**NLA**”)) and one apartment complex comprised of 135 apartment units.

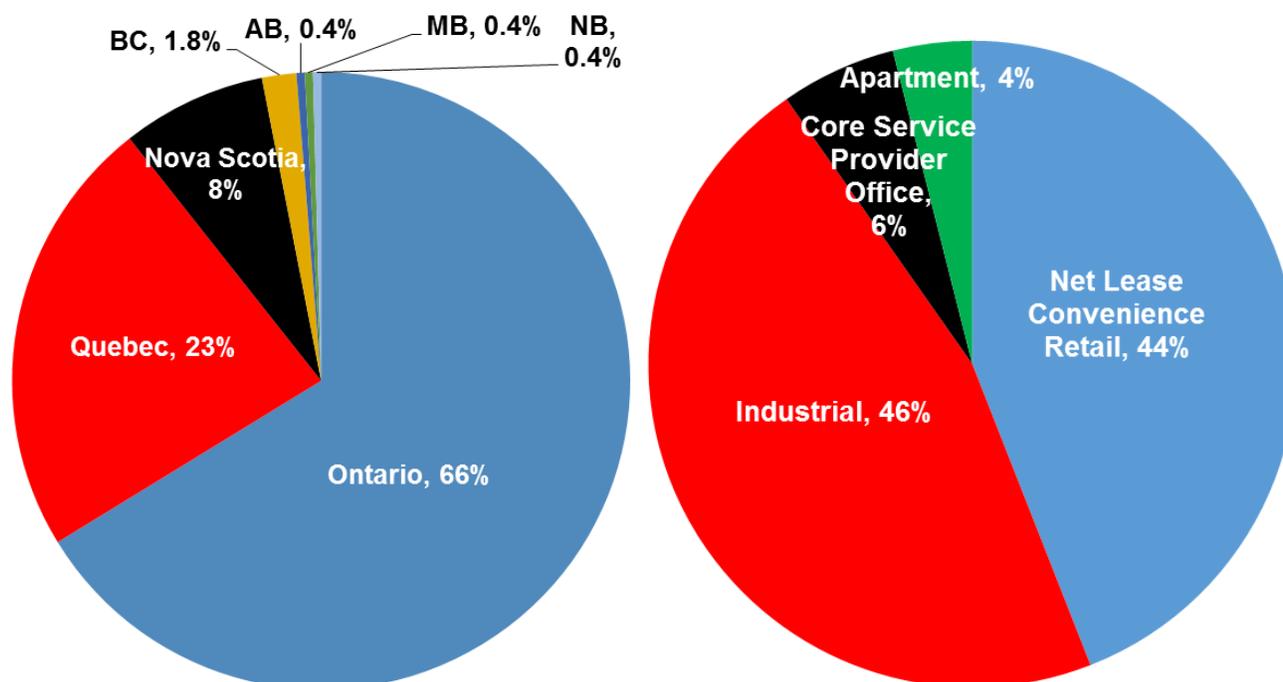
	Gross Leaseable Area	Net Leaseable Area	Occupancy		
			Q3/2015	Q2/2015	Q1/2015
<b>Net Lease Convenience Retail</b>					
Bridgewater, Nova Scotia	46,707	46,707	91.4%	91.4%	91.4%
Brampton, Ontario	36,137	36,137	95.7%	95.7%	95.7%
Hanover, Ontario	19,874	19,874	100.0%	100.0%	100.0%
Pembroke, Ontario	11,247	11,247	100.0%	100.0%	100.0%
Centre Ice Retail Portfolio	161,144	161,144	95.1%	95.1%	95.0%
<b>Total / Weighted Average</b>	<b>275,109</b>	<b>275,109</b>	<b>95.1%</b>	<b>95.1%</b>	<b>95.0%</b>
<b>Core Service Provider Office</b>					
Barrie, Ontario	42,884	39,495	83.2%	87.8%	87.8%
<b>Total / Weighted Average</b>	<b>42,884</b>	<b>39,495</b>	<b>83.2%</b>	<b>87.8%</b>	<b>87.8%</b>
<b>Industrial</b>					
Montreal, Quebec	514,949	514,949	88.7%	86.4%	88.2%
Waterloo, Ontario	357,024	357,024	100.0%	-	-
<b>Total / Weighted Average</b>	<b>871,973</b>	<b>871,973</b>	<b>93.3%</b>	<b>86.4%</b>	<b>88.2%</b>
<b>Commercial Total / Wtd. Average</b>	<b>1,189,965</b>	<b>1,186,576</b>	<b>93.4%</b>	<b>89.4%</b>	<b>90.5%</b>
<b>Multi-Residential</b>		<b>Units</b>	<b>Occupancy</b>		
Ottawa, Ontario		135	94.1%	91.9%	91.9%
<b>Residential Total / Wtd. Average</b>		<b>135</b>	<b>94.1%</b>	<b>91.9%</b>	<b>91.9%</b>

## MANAGEMENT DISCUSSION & ANALYSIS

### PORTFOLIO DIVERSIFICATION

The portfolio is diversified across geographies and asset classes:

Geographical and Asset Class Portfolio Diversification based on NOI



### TENANT DIVERSIFICATION

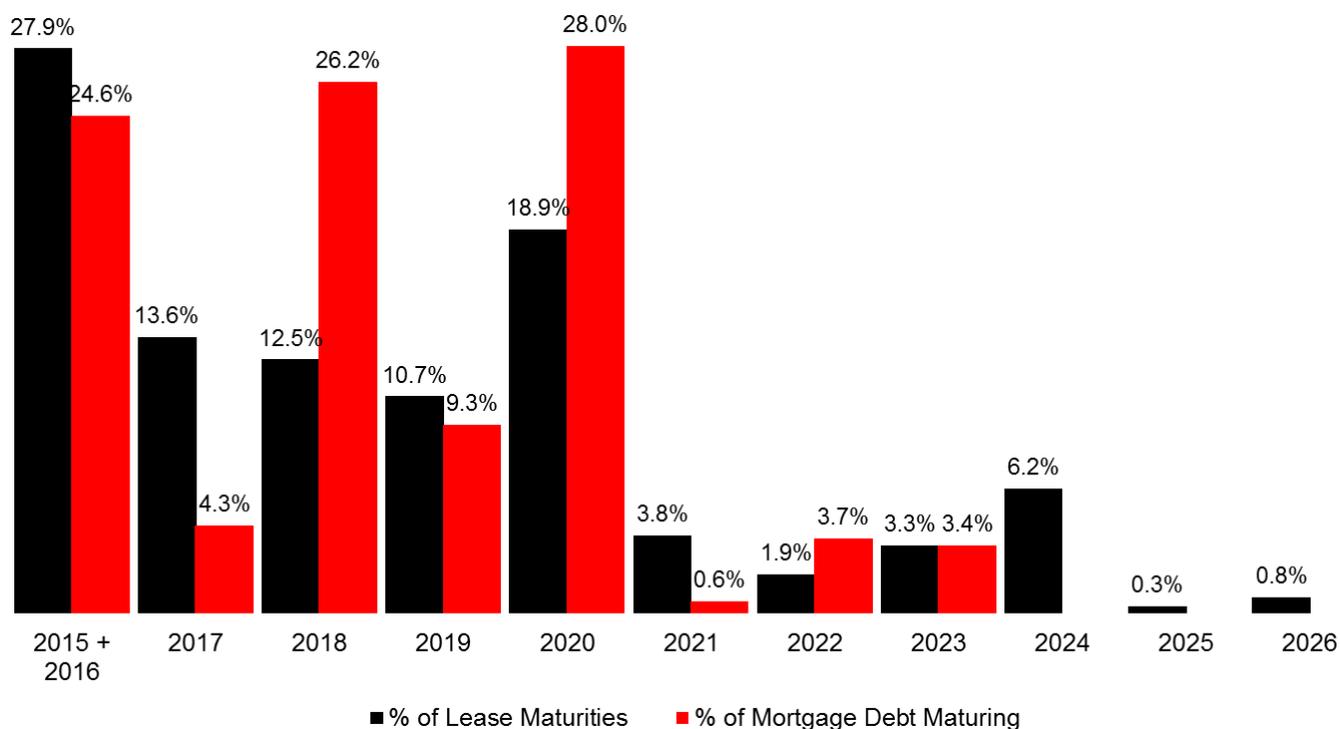
The portfolio is well diversified by tenant profile with no tenant accounting for more than 6.9% of total net rent. Further, the top 10 tenants are largely comprised of credit worthy and large national tenants and account for 27.5% of total net rent:

#	Tenant	Location	% of Total Net Rent
1	PPG (Dulux Paints)	8 locations in ON, with 1 in each of NB, MB, AB, BC	6.9%
2	NCR Canada Corp.	Waterloo, ON	3.8%
3	Cara Corporation (Kelsey's, Swiss Chalet)	Brampton, ON & Bridgewater, NS	2.7%
4	Sport Systems Unlimited Corp.	Waterloo, ON	2.6%
5	Staples	Bridgewater, NS	2.3%
6	Quebecor Media	Montreal, QC	2.0%
7	Mark's Work Wearhouse (Canadian Tire)	Hanover, ON	1.9%
8	World Gym	Waterloo, ON	1.8%
9	Reitmans	Pembroke, ON & Bridgewater, NS	1.8%
10	5N Plus	Montreal, QC	1.7%
<b>Total</b>			<b>27.5%</b>

### DURATION MATCHED DEBT & LEASE MATURITY PROFILE

The current portfolio has a weighted average lease term to maturity of approximately 3.6 years, which is largely duration matched with mortgage debt with a weighted average term to maturity of approximately 3.0 years.

## MANAGEMENT DISCUSSION & ANALYSIS



### OCCUPANCY

At September 30, 2015, occupancy for the commercial portfolio was 93.4%, a 400 basis point (“bps”) increase over the 89.4% reported at June 30, 2015 and a 78 bp increase over the 92.6% reported at September 30, 2014. The increase over the second quarter of 2015 was largely the result of the Waterloo Industrial Portfolio acquisition which is 100% occupied and leasing activity in the Montreal Industrial Portfolio, slightly offset by decreased occupancy in the Core Service Provider Office. In Montreal, the Trust entered into two leases, one long term and one temporary to Elections Canada as a result of the recent federal election. The remainder of the portfolio occupancy rate was largely unchanged over June 30, 2015.

At September 30, 2015, occupancy for the multi-residential portfolio was 94.1%, a 222 bp increase over the 91.9% occupancy reported at June 30, 2015. The Trust has been actively leasing vacant space in this property during this past quarter.

### COMMERCIAL NET RENT AND MULTI-RESIDENTIAL AVERAGE MONTHLY RENT

At September 30, 2015, commercial net rent per square foot was \$8.35 per square foot (“psf”), a decrease over the \$9.11 psf reported at June 30, 2015 and \$8.91 psf reported at September 30, 2014. The decrease is largely the result of the Waterloo Industrial Portfolio acquisition due to the fact that industrial assets typically generate lower net rents.

At September 30, 2015, average rent for the multi-residential portfolio was \$843 per month, a 0.8% increase over the \$836 per month reported at June 30, 2015. A combination of increased leasing activity and rental rate increases on existing tenancies allowed under Ontario’s Annual Guideline Increase or AGI increased average rent.

## MANAGEMENT DISCUSSION & ANALYSIS

### RESULTS OF OPERATIONS

#### RENTAL REVENUE

Rental revenue for the three months ended September 30, 2015 was \$3,277,289, an 11% sequential increase over the \$2,959,424 reported for the three months ended June 30, 2015 and an 18% increase over the \$2,772,254 reported for the three months ended September 30, 2014. Rental revenue for the nine months ended September 30, 2015 was \$9,226,792, a 36% increase over the \$6,792,675 reported for the nine months ended September 30, 2014. Rental revenue includes all amounts earned from tenants lease agreements including basic rent, operating cost and realty tax recoveries.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Base Rent	\$2,103,440	\$1,840,014	\$1,668,283	\$5,794,699	\$4,093,642
CAM & Tax Recoveries	1,143,136	1,071,046	1,067,249	3,313,119	2,622,203
Straight Line Rent	22,419	25,376	36,722	78,618	76,830
Free Rent	8,294	22,988	-	40,356	-
<b>Rental Revenue</b>	<b>\$3,277,289</b>	<b>\$2,959,424</b>	<b>\$2,772,254</b>	<b>\$9,226,792</b>	<b>\$6,792,675</b>

The sequential variance in comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of the Waterloo Industrial Portfolio acquisition and leasing activity in the Montreal Industrial Portfolio, slightly offset by decreased revenue from the Core Service Provider Office due to lower occupancy. The variance in comparing the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is largely due to the acquisitions of the Ottawa Apartment Complex and Waterloo Industrial Portfolio.

Free rent relates to rent free periods provided to certain new and renewal tenants at the Trust's Montreal Industrial, Barrie Medical and Brampton and Centre Ice Retail properties. Under IFRS, the Trust is required to adjust rental revenue by the value of the rent free period and amortize this adjustment out of income over the life of the individual lease.

#### PROPERTY OPERATING EXPENSES

Property operating expenses for the three months ended September 30, 2015 was \$1,321,460, a 13% sequential increase in comparison to the \$1,173,909 reported for the three months ended June 30, 2015 and a 22% increase over the \$1,086,998 reported for the three months ended September 30, 2014. Property operating expenses for the nine months ended September 30, 2015 was \$3,778,906, a 43% increase over the \$2,645,169 reported for the nine months ended September 30, 2014. Property operating expenses include realty taxes as well as other costs related to maintenance, HVAC, insurance, utilities and property management fees. Property operating expenses consists of the following:

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	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Realty Taxes	\$ 721,012	\$ 650,569	\$ 631,575	\$ 2,008,167	\$ 1,574,005
Property Management Fees	168,102	167,106	149,784	478,601	331,301
Operating Expenses	432,346	356,234	305,639	1,292,138	739,863
<b>Property Operating Expenses</b>	<b>\$ 1,321,460</b>	<b>\$ 1,173,909</b>	<b>\$ 1,086,998</b>	<b>\$ 3,778,906</b>	<b>\$ 2,645,169</b>

The sequential variance in comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of the acquisition of the Waterloo Industrial Portfolio. The variance in comparing the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is largely due to the acquisitions of the Ottawa Apartment Complex and Waterloo Industrial Portfolio.

### NET OPERATING INCOME ("NOI")

On an IFRS basis, NOI for the three months ended September 30, 2015 was \$1,955,829, a 10% sequential increase in comparison to the \$1,785,515 reported for the three months ended June 30, 2015 and a 16% increase in comparison to the \$1,685,256 reported for the three months ended September 30, 2014. NOI for the nine months ended September 30, 2015 was \$5,447,886, a 31% increase in comparison to the \$4,147,506 reported for the nine months ended September 30, 2014.

On a cash basis (i.e. excluding straight-line and free rent which are non-cash items) ("Cash NOI"), for the three months ended September 30, 2015 was \$1,925,116, a 11% sequential increase over the \$1,737,151 reported for the three months ended June 30, 2015 and a 17% increase over the \$1,648,534 reported for the three months ended September 30, 2014. Cash NOI for the nine months ended September 30, 2015 was \$5,328,912, a 31% increase in comparison to the \$4,070,676 reported for the nine months ended September 30, 2014.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Rental Revenue	\$ 3,277,289	\$ 2,959,424	\$ 2,772,254	\$ 9,226,792	\$ 6,792,675
Property Operating Expenses	(1,321,460)	(1,173,909)	(1,086,998)	(3,778,906)	(2,645,169)
<b>NOI - IFRS Basis</b>	<b>\$ 1,955,829</b>	<b>\$ 1,785,515</b>	<b>\$ 1,685,256</b>	<b>\$ 5,447,886</b>	<b>\$ 4,147,506</b>
Less: Straight-Line Rent	(22,419)	(25,376)	(36,722)	(78,618)	(76,830)
Less: Free Rent	(8,294)	(22,988)	-	(40,356)	-
<b>NOI - Cash Basis</b>	<b>\$ 1,925,116</b>	<b>\$ 1,737,151</b>	<b>\$ 1,648,534</b>	<b>\$ 5,328,912</b>	<b>\$ 4,070,676</b>

### NOI - Cash Basis

% Change vs. June 30,	11%	
% Change vs. Sept 30,	17%	31%

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The sequential variance in comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of the Waterloo Industrial Portfolio acquisition and leasing activity in the Montreal Industrial Portfolio, slightly offset by decreased revenue from the Core Service Provider Office due to lower occupancy. The variance in comparing the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is largely due to the acquisitions of the Ottawa Apartment Complex and Waterloo Industrial Portfolio.

### OTHER INCOME

Other income for the three months ended September 30, 2015 was \$18,196, in comparison to the \$5,072 reported for the three months ended June 30, 2015 and \$1,484 reported for the three months ended September 30, 2014. Other income for the nine months ended September 30, 2015 was \$27,536 in comparison to the \$10,103 reported for the nine months ended September 30, 2014. Interest income relates to income earned on cash balances. Dividend income relates to dividends received from the marketable securities portfolio.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Interest & Dividend Income	\$ 1,138	\$ 5,072	\$ 1,484	\$ 9,327	\$ 10,103
Other Income	17,058	-	-	18,209	-
<b>Other Income</b>	<b>\$ 18,196</b>	<b>\$ 5,072</b>	<b>\$ 1,484</b>	<b>\$ 27,536</b>	<b>\$ 10,103</b>

### FINANCE COSTS

Finance costs for the three months ended September 30, 2015 was \$503,578, a 12% sequential increase in comparison to the \$451,501 reported for the three months ended June 30, 2015, and a 11% increase in comparison to the \$455,352 reported for the three months ended September 30, 2014. Finance costs for the nine months ended September 30, 2015 was \$1,395,280, a 36% increase comparison to the \$1,026,370 reported for the nine months ended September 30, 2014. Finance costs are comprised of the following:

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Mortgage Interest	\$ 459,519	\$ 404,991	\$ 380,492	\$ 1,271,781	\$ 918,994
Bank Indebtedness Interest	26,847	9,973	62,653	46,683	91,534
Finance Fee Amortization	31,394	47,109	20,285	112,276	43,460
Non-Cash Interest Expense	(14,182)	(10,572)	(8,078)	(35,460)	(27,618)
<b>Finance Costs</b>	<b>\$ 503,578</b>	<b>\$ 451,501</b>	<b>\$ 455,352</b>	<b>\$ 1,395,280</b>	<b>\$ 1,026,370</b>

The sequential variance in comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of two mortgages assumed and drawing temporarily on the bank indebtedness to fund the Waterloo Industrial Portfolio acquisition. The variance in comparing the three and nine months ended September 30, 2015 over the three and

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nine months ended September 30, 2014 is due to increased mortgage interest expense as a result of a combination of mortgage financings assumed on the Waterloo Industrial Portfolio and Ottawa Apartment Complex acquisitions, offset by lower bank indebtedness interest expense as a result of the repayment of the bank indebtedness from proceeds raised from the issuance of equity over this period.

Finance fee amortization relates to fees paid on securing the Facility and the Trust's various mortgages. Non-cash interest expense relates to the fair value adjustment to interest expense required as a result of the assumed mortgages from the acquisition of the Core Service Provider Professional Building and the Ottawa Apartment Complex.

As outlined below, the weighted average interest rate of the mortgages as at September 30, 2015 stands at approximately 3.8%.

### GENERAL AND ADMINISTRATIVE ("G&A") EXPENSES

G&A expenses for the three months ended September 30, 2015 was \$260,255, a 3% sequential increase in comparison to the \$252,150 reported for the three months ended June 30, 2015 and an 11% increase in comparison to the \$234,978 reported for the three months ended September 30, 2014. G&A expenses for the nine months ended September 30, 2015 was \$734,804, an 18% increase in comparison to the \$622,057 reported for the nine months ended September 30, 2014. Professional fees include legal, audit and tax advisory fees. Public company expenses include trustee fees, transfer agent fees, press releases and print media.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Professional Fees	\$ 16,607	\$ 28,619	\$ 39,596	\$ 55,127	\$ 101,195
Asset Management Fees	198,439	181,657	159,214	546,396	392,458
Public Company Expenses	25,766	27,090	27,000	81,167	92,300
Office & General	16,683	12,024	6,630	43,834	28,490
Insurance	2,760	2,760	2,538	8,280	7,614
<b>General &amp; Administrative</b>	<b>\$ 260,255</b>	<b>\$ 252,150</b>	<b>\$ 234,978</b>	<b>\$ 734,804</b>	<b>\$ 622,057</b>

The sequential variance in comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of higher asset management fees due to the Waterloo Industrial Portfolio acquisition. The variance in comparing the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is largely due to overall increased costs to operate the Waterloo Industrial Portfolio and Ottawa Apartment Complex acquisitions.

### NET INCOME & COMPREHENSIVE NET INCOME ("NET INCOME")

Net income for the three months ended September 30, 2015 was \$2,983,278, in comparison to the \$3,572,509 reported for the three months ended June 30, 2015 and \$1,242,267 reported for the three months ended September 30, 2014. Net income for the nine months ended September 30, 2015 was \$7,661,659, in comparison to the \$3,453,119 reported for the nine months ended September 30, 2014.

The sequential variance in comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of the Waterloo Industrial Portfolio acquisition, leasing activity in the Montreal Industrial Portfolio and an overall higher fair value

## MANAGEMENT DISCUSSION & ANALYSIS

adjustment for the investment properties, slightly offset by decreased revenue from the Core Service Provider Office and higher asset management fees due to the Waterloo Industrial Portfolio acquisition. The variance in comparing the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is largely due to the acquisitions of the Ottawa Apartment Complex and Waterloo Industrial Portfolio and an overall higher fair value adjustment for the investment properties.

### FUNDS FROM OPERATIONS (“FFO”) & ADJUSTED FUNDS FROM OPERATIONS (“AFFO”)

For the three months ended September 30, 2015, FFO per Unit was \$0.121 while AFFO per Unit was \$0.107. Based on distributions paid over that period, FFO and AFFO payout ratios are 83% and 93%, respectively. For the nine months ended September 30, 2015, FFO per Unit was \$0.345 while AFFO per Unit was \$0.316. Based on distributions paid over that period, FFO and AFFO payout ratios are 87% and 95%, respectively.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
<b>Rental Revenue</b>	\$ 3,277,289	\$ 2,959,424	\$ 2,772,254	\$ 9,226,792	\$ 6,792,675
Less: Property Operating Expenses	(1,321,460)	(1,173,909)	(1,086,998)	(3,778,906)	(2,645,169)
<b>Net Operating Income (NOI)</b>	\$ 1,955,829	\$ 1,785,515	\$ 1,685,256	\$ 5,447,886	\$ 4,147,506
Interest & Dividend Income	1,138	5,072	1,484	9,327	10,103
Other Income	17,058	-	-	18,209	-
Less: G&A Expense	(260,255)	(252,150)	(234,978)	(734,804)	(622,057)
Less: Unit-Based Compensation	35,126	20,054	(88,857)	(25,804)	(115,534)
<b>EBITDA</b>	\$ 1,748,895	\$ 1,558,491	\$ 1,362,905	\$ 4,714,814	\$ 3,420,018
Less: Finance Costs	(503,578)	(451,501)	(455,352)	(1,395,280)	(1,026,370)
<b>Funds From Operations (FFO)</b>	\$ 1,245,318	\$ 1,106,990	\$ 907,553	\$ 3,319,534	\$ 2,393,648
Less: Straight-Line Rent	(22,419)	(25,376)	(36,722)	(78,618)	(76,830)
Less: Free Rent	(8,294)	(22,988)	-	(40,356)	-
Less: T/LCs & Capex	(54,678)	(49,815)	(47,615)	(154,309)	(118,592)
Less: Non-Cash Interest	(14,182)	(10,572)	(8,078)	(35,460)	(27,618)
Add: Unit-Based Compensation	(35,126)	(20,054)	88,857	25,804	115,534
<b>Adjusted Funds From Operations (AFFO)</b>	\$ 1,110,619	\$ 978,185	\$ 903,995	\$ 3,036,596	\$ 2,286,142
<b>FFO Per Unit</b>	\$ 0.121	\$ 0.117	\$ 0.129	\$ 0.345	\$ 0.342
<b>AFFO Per Unit</b>	\$ 0.107	\$ 0.104	\$ 0.129	\$ 0.316	\$ 0.327
<b>Distributions Per Unit</b>	\$ 0.100	\$ 0.100	\$ 0.092	\$ 0.300	\$ 0.277
<b>FFO Payout Ratio</b>	83%	85%	72%	87%	81%
<b>AFFO Payout Ratio</b>	93%	97%	72%	95%	85%
<b>Weighted Average Trust Units Outstanding</b>	10,331,936	9,449,598	7,016,879	9,616,424	7,000,011

## MANAGEMENT DISCUSSION & ANALYSIS

The difference between FFO and AFFO is the deduction for straight-line rent, free rent, reserves for TIs/LCs, capital expenditures and the non-cash interest expense component for all assumed mortgages, offset by the add back for unit-based compensation expense. Under RealPAC, unit-based compensation expense is deducted for FFO, but added back for purposes of reporting AFFO by the Trust.

The sequential variance in comparing FFO and AFFO for the three months ended September 30, 2015 over the three months ended June 30, 2015 is largely the result of the Waterloo Industrial Portfolio acquisition, leasing activity in the Montreal Industrial Portfolio, slightly offset by decreased revenue from the Core Service Provider Office and higher asset management fees due to the Waterloo Industrial Portfolio acquisition. The variance in comparing FFO and AFFO for the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is largely due to the acquisitions of the Ottawa Apartment Complex and Waterloo Industrial Portfolio.

The sequential variance in FFO per Unit and AFFO per Unit when comparing the three months ended September 30, 2015 over the three months ended June 30, 2015 is due to the net overall change in FFO and AFFO as outlined above, offset by the impact of issuing trust units during Q3/2015 and not deploying the cash raised into acquisitions. The variance in FFO per Unit and AFFO per Unit when comparing the three and nine months ended September 30, 2015 over the three and nine months ended September 30, 2014 is due to the net overall change in FFO and AFFO as outlined above, offset by the impact of issuing trust units during Q1/2015 and Q3/2015 and not deploying the cash raised into acquisitions.

### *DISTRIBUTIONS*

For the nine months ended September 30, 2015, distributions per unit of \$0.033333 were declared each month commencing in January 31, 2015 through to September 30, 2015 resulting in total distributions declared of \$2,863,409. For the nine months ended September 30, 2014, distributions per unit of \$0.030833 were declared each month commencing in January 31, 2014 through to September 30, 2014 resulting in total distributions declared of \$1,942,486.

Since the Trust's inception in Q4/2012, distributions have been raised three times:

- On October 31, 2013, the Trust announced its first distribution increase of 5.7% to \$0.030833 per unit from \$0.029166 per unit. On an annualized basis, this equated to anticipated distributions of \$0.37 per unit up from \$0.35 per unit.
- On October 20, 2014, the Trust announced its second distribution increase in less than one year with an 8.1% increase in its monthly distributions to \$0.033333 per unit from \$0.030833 per unit. On an annualized basis this equated to anticipated distributions of \$0.40 per unit up from \$0.37 per unit.
- On August 27, 2015, as a result of the acquisition of the Waterloo Industrial Portfolio, the Trust formally increased its annualized cash distribution by a further 5% to \$0.42 per Trust Unit per annum or \$0.035 per Trust Unit per month from \$0.40 per Trust Unit per annum commencing in November, 2015 payable in December, 2015.

Including the August 27<sup>th</sup> distribution increase, the total increase in distribution's since the Trust's inception is 20%.

## MANAGEMENT DISCUSSION & ANALYSIS

The policy of the Trust is to pay cash distributions on or about the 15th day of each month to Unitholders of record on the last business day of the preceding month. Distributions paid to Unitholders who are non-residents of Canada will be subject to Canadian withholding tax.

The excess of cash flow from operating activities over distributions and net income and comprehensive income over distributions for the three months ended September 30, 2015, June 30, 2015 and September 30, 2014 and nine months ended September 30, 2015 and September 30, 2014 are outlined below:

	Three Months Ended			Nine Months Ended	
	Sept 30, 2015	June 30, 2015	Sept 30, 2014	Sept 30, 2015	Sept 30, 2014
Cash Flow From Operating Activities	\$ 2,289,670	\$ 1,210,894	\$ 1,311,105	\$ 4,556,967	\$ 3,142,638
Net Income & Comprehensive Income	\$ 2,983,278	\$ 3,572,509	\$ 1,242,267	\$ 7,661,659	\$ 3,453,119
Distributions	\$ 1,011,309	\$ 944,950	\$ 649,054	\$ 2,863,409	\$ 1,942,486
Excess of Cash Flow From Operating Activities Over Distributions	\$ 1,278,361	\$ 265,944	\$ 662,051	\$ 1,693,557	\$ 1,200,152
Excess of Net Income & Comprehensive Income Over Distributions	\$ 1,971,969	\$ 2,627,559	\$ 593,213	\$ 4,798,250	\$ 1,510,633

## SUMMARIZED OPERATING RESULTS

Rental revenue, other income, total revenue, NOI and net income for the past eight quarters for the Trust are as follows:

	Rental Revenue	Other Income	Total Revenue	NOI	Net Income
<b>Q3/2015</b>	\$ 3,277,289	\$ 18,196	\$ 3,295,485	\$ 1,955,829	\$ 2,983,278
<b>Q2/2015</b>	\$ 2,959,424	\$ 5,072	\$ 2,964,496	\$ 1,785,515	\$ 3,572,509
<b>Q1/2015</b>	\$ 2,990,079	\$ 4,268	\$ 2,994,347	\$ 1,706,542	\$ 1,105,872
<b>Q4/2014</b>	\$ 2,969,865	\$ 9,676	\$ 2,979,541	\$ 1,783,986	\$ 1,272,521
<b>Q3/2014</b>	\$ 2,772,254	\$ 1,484	\$ 2,773,738	\$ 1,685,256	\$ 1,242,267
<b>Q2/2014</b>	\$ 2,005,213	\$ 6,220	\$ 2,011,433	\$ 1,243,669	\$ 929,118
<b>Q1/2014</b>	\$ 2,015,208	\$ 2,400	\$ 2,017,608	\$ 1,219,538	\$ 1,281,734
<b>Q4/2013</b>	\$ 2,265,159	\$ 6,160	\$ 2,271,319	\$ 1,266,373	\$ 1,057,578

## INVESTMENT PROPERTIES

As at September 30, 2015, the Trust's property portfolio consists of 61 properties with a fair value of \$126.9 million, in comparison to the \$91.2 million reported for the year ended December 31, 2014. The variance is largely the result of the Waterloo Industrial Portfolio acquisition, a \$4.3 million increase in fair market value predominately due to capitalization rate compression and \$0.2 million increase in capitalized expenditures and leasing costs incurred during the period. The investment portfolio valuation is allocated by property type as follows:

## MANAGEMENT DISCUSSION & ANALYSIS

	Net Lease Convenience Retail	Core Service Provider Office	Industrial	Multi- Residential	Total
<b>Balance, December 31, 2013</b>	<b>\$ 28,277,451</b>	<b>\$ 7,101,818</b>	<b>\$ 25,009,842</b>	<b>\$ -</b>	<b>\$ 60,389,111</b>
Acquisitions	23,473,400	-	-	-	23,473,400
Capital Expenditures	28,707	1,878	45,734	-	76,319
Fair Value Adjustment	332,941	38,615	711,279	-	1,082,835
<b>Balance, September 30, 2014</b>	<b>\$ 52,112,499</b>	<b>\$ 7,142,311</b>	<b>\$ 25,766,855</b>	<b>\$ -</b>	<b>\$ 85,021,665</b>
Acquisitions	-	-	-	5,822,837	5,822,837
Capital Expenditures	7,257	1,495	131,782	-	140,534
Fair Value Adjustment	479,701	(86,501)	(106,185)	(84,299)	202,716
<b>Balance, December 31, 2014</b>	<b>\$ 52,599,457</b>	<b>\$ 7,057,305</b>	<b>\$ 25,792,452</b>	<b>\$ 5,738,538</b>	<b>\$ 91,187,752</b>
Acquisitions	-	-	31,177,756	-	31,177,756
Capital Expenditures	96,497	-	90,160	48,001	234,658
Fair Value Adjustment	4,433,936	(127,282)	78,385	(48,001)	4,337,037
<b>Balance, September 30, 2015</b>	<b>\$ 57,129,890</b>	<b>\$ 6,930,023</b>	<b>\$ 57,138,753</b>	<b>\$ 5,738,538</b>	<b>\$ 126,937,204</b>

For the period ended September 30, 2015, senior management of the Trust valued the Investment Properties using independent third party appraisals for both the Brampton, Ontario and Centre Ice Retail Portfolio and the overall capitalization method for the remaining properties. Investment properties are valued on a highest and best use basis. For all of the Trust's investment properties the current use is considered the best use. Fair value was determined by applying a capitalization rate to stabilized net operating income ("Stabilized NOI"). Stabilized NOI incorporates allowances for vacancy, management fees and structural reserves for tenant inducements and capital expenditures and is capped at a rate deemed appropriate for each investment property. Capitalization rates are based on many factors, including but not limited to the asset location, type, size and quality of the asset and taking into account any available market data at the valuation date. Investment Properties measured at fair value are categorized by level according to the inputs used. The Trust has classified these inputs as Level 3. Significant unobservable inputs in Level 3 valuations are as follows:

Period Ended September 30, 2015	Net Lease Convenience Retail	Core Service Provider Office	Industrial	Multi- Residential	Weighted Average
Capitalization Rate Range	5.66% - 7.75%	7.25%	6.48% - 7.70%	5.98%	6.88%
Weighted Average Cap. Rate	6.77%	7.25%	7.04%	5.98%	6.88%
Weighted Average NOI	\$ 1,198,637	\$ 502,427	\$ 2,009,807	\$ 343,263	\$ 1,488,406

## MANAGEMENT DISCUSSION & ANALYSIS

Year Ended December 31, 2014	Net Lease	Core Service		Multi- Residential	Weighted Average
	Convenience Retail	Provider Office	Industrial		
Capitalization Rate Range	6.5% - 7.75%	7.25%	7.75%	5.98%	7.41%
Weighted Average Cap. Rate	7.46%	7.25%	7.75%	5.98%	7.41%
Weighted Average NOI	\$ 1,217,366	\$ 511,655	\$ 1,998,915	\$ 343,263	\$ 1,329,509

### CURRENT ASSETS

Current assets as at September 30, 2015, June 30, 2015 and December 31, 2014 consist of the following:

	Sept 30, 2015	June 30, 2015	Dec 31, 2014
Accounts Receivable	\$ 703,921	\$ 635,304	\$ 522,653
Prepaid Expenses, Deposits & Other Assets	871,104	872,654	252,057
Marketable Securities	196,786	226,313	212,772
Restricted Cash	102,709	126,005	84,005
Cash	4,094,986	4,012,803	2,445,297
	<b>\$ 5,969,506</b>	<b>\$ 5,873,079</b>	<b>\$ 3,516,784</b>

Accounts receivable consist mainly of tenant receivables, straight line rent adjustments and Harmonized Sales Tax (“HST”) and Quebec Sales Tax (“QST”) recoveries from the Canada Revenue Agency and Revenue Quebec, respectively. Prepaid expenses, deposits and other assets consist mainly of prepaid property taxes, insurance, utility deposits, deferred financing costs related to the Facility and the capitalization of free rent provided to tenants as required under IFRS. Marketable securities consist of securities the Trust has acquired for investment purposes. Restricted cash represents a tenant inducement and leasing commission reserve required under one of the Centre Ice Retail Portfolio mortgages that is drawn upon when either a tenant inducement or leasing commission is paid on Centre Ice Retail leasing activity.

### BANK INDEBTEDNESS

On November 29, 2012, the Trust entered into a Revolving Operating Facility (the “Facility”) with a Canadian Chartered Bank fully secured by first charges against certain investment properties. The total amount available under the Facility is \$8.0 million. The interest rate is based on a calculated formula using the Canadian Chartered Bank’s Prime Lending Rate. Amounts drawn under the Facility are due to be repaid at the maturity date on November 29, 2016.

Bank Indebtedness as at September 30, 2015 (with comparatives as at December 31, 2014) is as follows:

## MANAGEMENT DISCUSSION & ANALYSIS

	Sept 30, 2015	Dec 31, 2014
Bank Indebtedness, Opening	\$ -	\$ 2,510,472
Add: Net Draws / (Repayments)	-	(2,464,756)
Less: Finance Fees	-	4,090
Add: Amortization - Finance Fees	-	(49,806)
<b>Bank Indebtedness, Closing</b>	<b>\$ -</b>	<b>\$ -</b>

### MORTGAGES PAYABLE

As at September 30, 2015, total outstanding mortgages stood at \$63,065,660 (\$44,086,297 as at December 31, 2014), (net of unamortized financing costs of \$133,456 (\$162,592 as at December 31, 2014)), offset by a \$408,123 (\$414,433 as at December 31, 2014) fair value adjustment with a weighted average interest rate of approximately 3.8% (4.2% as at December 31, 2014) and weighted average repayment term of approximately 3.0 years (3.0 years as at December 31, 2014). The mortgages are repayable as follows:

	Scheduled Principal Repayments	Debt Maturing During The Period	Total Mortgages Payable	Scheduled Interest Payments
2015	\$ 487,812	\$ -	\$ 487,812	\$ 589,605
2016	1,429,774	13,847,080	15,276,855	1,744,224
2017	1,403,163	1,750,000	3,153,163	1,588,987
2018	1,162,030	19,737,909	20,899,939	1,173,423
2019	805,975	-	805,975	729,065
Thereafter	546,656	21,620,594	22,167,249	497,759
<b>Face Value</b>	<b>\$ 5,835,411</b>	<b>\$ 56,955,583</b>	<b>\$ 62,790,993</b>	<b>\$ 6,323,063</b>
Unamortized Financing Costs			(133,456)	
Fair Value Adjustment on Assumed Mortgages			408,123	
<b>Total Mortgages</b>			<b>\$ 63,065,660</b>	

## MANAGEMENT DISCUSSION & ANALYSIS

	Sept 30, 2015	Dec 31, 2014
Current:		
Mortgages	\$ 15,421,350	\$ 3,414,286
Unamortized Financing Costs	(45,042)	(52,566)
Fair Value Adjustment on Assumed Mortgages	122,595	223,011
	<b>\$ 15,498,903</b>	<b>\$ 3,584,731</b>
Non-Current:		
Mortgages	\$ 47,369,643	\$ 40,420,170
Unamortized Financing Costs	(88,414)	(110,026)
Fair Value Adjustment on Assumed Mortgages	285,528	191,422
	<b>\$ 47,566,757</b>	<b>\$ 40,501,566</b>
	<b>\$ 63,065,660</b>	<b>\$ 44,086,297</b>

### ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at September 30, 2015, June 30, 2015 and December 31, 2014 consist of the following:

	Sept 30, 2015	June 30, 2015	Dec 31, 2014
Professional Fees	\$ 61,375	\$ 49,250	\$ 58,115
Utilities, Repairs & Maintenance, Other	1,415,064	1,017,083	993,468
Due to Asset & Property Manager	71,743	68,414	115,297
Accrued Interest Expense	201,187	147,307	151,203
Option Liabilities	237,620	272,746	211,816
	<b>\$ 1,986,989</b>	<b>\$ 1,554,800</b>	<b>\$ 1,529,899</b>

Professional fees represent amounts payable for legal, audit and advisory fees. Utilities, Repairs & Maintenance, Other consist of utility costs, property taxes, repairs and maintenance, GST/HST payables to CRA and QST payables to Revenue Quebec. Due to Asset & Property Manager represent amounts payable to Firm Capital Realty Partners Inc. ("FCRPI") and Firm Capital Properties Inc. ("FPCI") as outlined below. Option liabilities relate to the unit option plan as outlined below.

### UNIT OPTION PLAN & OPTION LIABILITIES

Under the Trust's unit option plan, the aggregate number of unit options reserved for issuance at any given time shall not exceed 10% of the number of outstanding Trust Units. As at September 30, 2015, the Trust has 692,500 Trust unit options issued and outstanding consisting of the following issuances:

On November 29, 2012, the Trust granted 415,000 Trust unit options at a weighted average exercise price of \$5.00 per Trust Unit. The unit options fully vested on the date

## MANAGEMENT DISCUSSION & ANALYSIS

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of grant and expire on November 29, 2017. 7,500 of these options were retired, leaving a balance of 407,500 options.

On June 23, 2014, the Trust granted 285,000 Trust unit options at a weighted average exercise price of \$5.30 per Trust Unit. The unit options fully vested on the date of grant and expire on June 23, 2019.

Unit-based compensation relates to the aforementioned unit options for the three and nine months ended September 30, 2015 and stands at a recovery of \$35,126 and an expense of \$25,804 (expense of \$88,857 and \$115,534 for the three and nine months ended September 30, 2014). Unit-based compensation was determined using the Black-Scholes Model and based on the following assumptions:

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	<b>Sept 30, 2015</b>	<b>Sept 30, 2014</b>
Expected Option Life (Years)	1.0	1.0
Risk Free Interest Rate	0.49%	1.00%
Distribution Yield	7.48%	6.98%
Expected Volatility	20.00%	20.00%

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Expected volatility is based on the historical volatility of the Trust Units. The risk free interest rate of return is the yield on zero-coupon Government of Canada bonds of a term consistent with the expected option life. The fair value of an option under the Trust's unit option plan at the date of grant was \$0.50 and \$0.25 per unit option for the November 29, 2012 and June 23, 2014 issuances, respectively.

### UNITHOLDERS' EQUITY

Unitholders' equity as at September 30, 2015 was \$66,648,663 and consists of the following:

## MANAGEMENT DISCUSSION & ANALYSIS

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	Number of Units	Unitholder's Equity
<b>Unitholders' Equity, December 31, 2013</b>	<b>5,634,000</b>	<b>\$ 29,560,702</b>
Non-Brokered Private Placement - Q1/2014	1,376,780	7,296,934
Less: Issue Costs	-	(320,601)
Issuance of Units from DRIP	7,003	37,115
Issuance of Units from UPP	198	1,000
Add: Net Income	-	3,453,119
Less: Distributions	-	(1,942,486)
<b>Unitholders' Equity, September 30, 2014</b>	<b>7,017,981</b>	<b>\$ 38,085,783</b>
Non-Brokered Private Placement - Q4/2014	1,864,445	9,974,781
Less: Issue Costs	-	(348,055)
Issuance of Units from DRIP	3,212	17,349
Issuance of Units from UPP	-	-
Add: Net Income	-	1,272,523
Less: Distributions	-	(820,957)
<b>Unitholders' Equity, December 31, 2014</b>	<b>8,885,638</b>	<b>\$ 48,181,424</b>
Non-Brokered Private Placement - Q1/2015	557,008	2,979,993
Non-Brokered Private Placement - Q3/2015	1,961,300	10,983,280
Less: Issue Costs	-	(401,450)
Issuance of Units from DRIP	19,053	106,166
Issuance of Units from UPP	194	1,000
Add: Net Income	-	7,661,659
Less: Distributions	-	(2,863,409)
<b>Unitholders' Equity, September 30, 2015</b>	<b>11,423,193</b>	<b>\$ 66,648,663</b>

On January 27, 2014 and February 7, 2014, the Trust announced the completion of its first and second tranches of non-brokered private placement of Trust Units. 1,376,780 trust units were issued at \$5.30 per Trust Unit for gross proceeds of \$7.3 million.

On October 27, 2014 the Trust announced that it was proceeding with a non-brokered private placement to raise up to \$8.0 million and issue up to 1,500,000 trust units at a price of \$5.35 per Trust Unit. As a result of strong demand, the Trust increased the size of this non-brokered private placement and ultimately issued on November 19, 2014 and December 2, 2014, 1,864,445 trust units at a price of \$5.35 per Trust Unit for total gross proceeds of approximately \$10.0 million.

On March 24, 2015, the Trust closed a non-brokered private placement of 557,008 trust units at a price of \$5.35 per Trust Unit for gross proceeds of approximately \$3.0 million. The Trust used the net proceeds to strengthen the Trust's balance sheet and to fund future acquisitions.

On September 22, 2015, the Trust announced the closing of its previously announced non-brokered private placement for gross proceeds of approximately \$11 million. The Trust issued

## **MANAGEMENT DISCUSSION & ANALYSIS**

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1,961,300 trust units at a price of \$5.60 per trust unit. The Trust used the net proceeds to repay the revolving credit facility and to fund future acquisitions; and

As at November 5, 2015, there were 11,423,193 trust units issued and outstanding.

### **RELATED PARTY TRANSACTIONS**

Transactions with related parties are in the normal course of business and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and are measured at fair value.

#### **ASSET MANAGEMENT AGREEMENT**

The Trust has entered into an Asset Management agreement with FCRPI, an entity indirectly related to certain trustees and management of the Trust. The term of the contract is initially ten years and automatically renews for successive five year periods. Details of the Asset Management agreement are posted on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)) and in the notes to the financial statements.

For the nine months ended September 30, 2015 and September 30, 2014, Asset Management Fees were \$519,631 and \$392,458; Acquisition Fees were \$227,063 and \$169,297; Placement Fees were \$35,107 and \$24,630 and Performance Incentive Fees were \$26,765 and nil, respectively.

Asset Management Fees are charged monthly and are based on 0.75% of the first \$100 million of the Gross Book Value (“**GBV**”) of the portfolio. The variance in comparing the nine months ended September 30, 2015 over the nine months ended September 30, 2014 is largely due to the acquisitions of the Ottawa Apartment Complex and Waterloo Industrial Portfolio.

Acquisition Fees are paid on every acquisition and are based on 0.75% of the first \$100 million of GBV of acquisitions. Acquisition fees for the nine months ended September 30, 2015 relate to the Waterloo Industrial Portfolio. For the nine months ended September 30, 2014 relate to the Centre Ice Retail Portfolio.

Placement Fees are paid on financings undertaken by FCRPI and are based on 0.25% of the aggregate value of all debt and equity financings arranged. Placement fees for the nine months ended September 30, 2015 relate to the \$3.0 million private placement that closed on March 24, 2015 and \$11.0 million private placement that closed on September 22, 2015, while for the nine months ended September 30, 2014 relate to the fees paid on the \$7.3 million private placement that closed during Q1/2014 as well as the placement of a new mortgage on the Centre Ice Retail Portfolio.

Performance Incentive Fees are based on 15% of the excess once AFFO exceeds \$0.40 per unit. The amount reported for the nine months ended September 30, 2015 represents the accrual for the period ended September 30, 2015.

#### **PROPERTY MANAGEMENT AGREEMENT**

The Trust has entered into a Property Management agreement with FCPI, an entity indirectly related to certain trustees and management of the Trust. The term of the contract is initially ten years and automatically renews for successive five year periods.

## MANAGEMENT DISCUSSION & ANALYSIS

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Details of the Property Management agreement are posted on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)) and in the notes to the financial statements.

For the nine months ended September 30, 2015 and September 30, 2014, Property Management Fees were \$417,750 and \$309,972 and Commercial Leasing Fees were \$60,851 and \$21,329, respectively.

Property Management Fees are charged monthly. The variance in property management fees for the nine months ended September 30, 2015 over the nine months ended September 30, 2014 is largely due to the acquisition of the Ottawa Apartment Complex and Waterloo Industrial Portfolio.

Commercial leasing and renewal fees are charged on a per lease basis. For the nine months ended September 30, 2015, the Trust entered into new and renewal leases across the entire portfolio while for the nine months ended September 30, 2014, the Trust entered into new and renewal leases at its Montreal Industrial, Barrie Medical and Brampton properties.

### INCOME TAXES

The Trust is a mutual fund trust and a real estate investment trust (a “REIT”) pursuant to the Income Tax Act (Canada) (the “Tax Act”). Under current tax legislation, a REIT is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to Unitholders each year. The Trust is a REIT if it meets prescribed conditions under the Tax Act relating to the nature of its assets and revenue (the “REIT Conditions”). The Trust has reviewed the REIT Conditions and has assessed their interpretation and application.

The Trust intends to qualify as a REIT under the Tax Act and to make distributions not less than the amount necessary to ensure that the Trust will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in the condensed consolidated interim financial statements.

### CAPITAL MANAGEMENT

The Trust's objectives when managing capital are to safeguard the ability to continue as a going concern, and to generate sufficient returns to provide unitholders with stable cash distributions. The Trust's capital currently consists of Bank Indebtedness, Mortgages and Unitholders' equity.

The Trust's Declaration of Trust permits the Trust to incur or assume indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the Trust is not more than 75% of the gross book value of the Trust's total assets. Gross Book Value (“GBV”) is defined in the Declaration of Trust as "at any time, the book value of the assets of the Trust and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown thereon or in the notes thereto plus the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by the Trust shown thereon or in the notes thereto, or if approved by a majority of the Trustees at any time, the appraised value of the assets of the Trust and its consolidated subsidiaries may be used instead of book value." As at September

## MANAGEMENT DISCUSSION & ANALYSIS

30, 2015, December 31, 2014 and September 30, 2014, the ratio of such indebtedness to gross book value was 47.5%, 46.6% and 53.4%, respectively, which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

With respect to the Bank Indebtedness, the Trust must maintain ratios including minimum unitholders' equity, maximum debt/GBV, minimum interest service and debt service coverage ratios. The Trust monitors these ratios and is in compliance with these requirements throughout the three and nine months ended September 30, 2015 and September 30, 2014.

## CONTRACTUAL OBLIGATIONS

The Trust's contractual obligations over the next few years are as follows:

	Less than 1			Total
	Year	1 - 2 Years	> 2 Years	
Bank Indebtedness	\$ -	\$ -	\$ -	\$ -
Mortgages	15,421,350	3,496,479	43,873,164	62,790,993
Tenant Rental Deposits	211,889	133,743	478,997	824,629
Distribution Payable	380,769	-	-	380,769
Accounts Payable & Accrued Liabilities	1,986,989	-	-	1,986,989
	<b>\$ 18,000,997</b>	<b>\$ 3,630,222</b>	<b>\$ 44,352,161</b>	<b>\$65,983,380</b>

## DISTRIBUTION REINVESTMENT PLAN & UNIT PURCHASE PLAN

On February 5, 2013, the Trust announced the commencement of its Distribution Reinvestment Plan ("DRIP") and Unit Purchase Plan (the "UPP").

### DISTRIBUTION REINVESTMENT PLAN ("DRIP")

Under the terms of the DRIP, FCPT's Unitholders may elect to automatically reinvest all or a portion of their regular monthly distributions in additional REIT units, without incurring brokerage fees or commissions.

Units purchased through the DRIP are acquired at the weighted average closing price of trust units in the five trading days immediately prior to the distribution payment date. Units purchased through the DRIP will be acquired either in the open market or be issued directly from FCPT's treasury based on a floor price to be set at the discretion of the board of trustees. Currently, there are 281,723 units reserved under the DRIP.

For the nine months ended September 30, 2015 and September 30, 2014, 19,053 and 7,003 Trust Units were issued, respectively, from treasury for total gross proceeds of \$106,166 and \$37,115, respectively, to Unitholders who elected to receive their distributions under the DRIP.

### UNIT PURCHASE PLAN ("UPP")

Unitholders who elect to receive trust units under the DRIP may also enroll in the REIT's new Unit Purchase Plan. The Plan gives each Unitholder who is resident in Canada the right to purchase additional units of the Trust monthly. Under the terms of the Plan, FCPT's Unitholders may purchase a minimum of \$1,000 of Units on each Monthly Purchase Date and maximum purchases of up to \$12,000 per annum. The aggregate

## MANAGEMENT DISCUSSION & ANALYSIS

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number of Units that may be issued may not exceed 2% of the Units of the Trust per annum.

For the nine months ended September 30, 2015 and September 30, 2014, 194 and 198 Trust Units were issued, respectively, from treasury for total gross proceeds of \$1,000 and \$1,000, respectively, to Unitholders who elected to receive Trust Units under the UPP.

Registered Unitholders may enroll in the DRIP and the Plan by completing a form and submitting to Equity Financial Trust Company at the address set out in the form, or contact the Trust for copies of the forms. Beneficial Unitholders are encouraged to see their broker or other intermediary for enrolment information. The expected level of insider participation by management and trustees of the Trust under the DRIP and the Plan is currently not known. The DRIP and the Plan are subject to certain limitations and restrictions; interested participants are encouraged to review the full text of the DRIP and Plan at [www.firmcapital.com](http://www.firmcapital.com).

### RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF TRUSTEES

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, the Trust's Audit Committee and Board of Trustees provide an oversight role with respect to all public financial disclosures by the Trust, and have reviewed and approved this MD&A and the condensed consolidated interim financial statements as at September 30, 2015 and September 30, 2014.

### *CONTROLS AND PROCEDURES*

The Trust maintains appropriate information systems, procedures and controls to ensure that information disclosed externally is complete, reliable, and timely. The Trust's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Trust's disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30, 2015 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Trust has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Trust's financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The Trust's Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust's internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at September 30 2015. Based on that assessment, it was determined that the Trust's internal controls over financial reporting were appropriately designed and were operating effectively. In addition, the Trust did not make any changes to the design of the Trust's internal controls over financial reporting during the three and nine months ended September 30, 2015 that would have materially affected or would be reasonably likely to materially affect the Trust's internal controls over financial reporting.

## **MANAGEMENT DISCUSSION & ANALYSIS**

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It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

### **SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies applied by the Trust in these condensed consolidated interim financial statements are the same as those applied by the Trust in its audited consolidated financial statements for the year ended December 31, 2014 and accordingly should be read in conjunction with them.

### **ESTIMATES**

The preparation of the condensed consolidated interim financial statements requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The critical accounting estimates have been set out in its audited consolidated financial statements for the year ended December 31, 2014, except as noted herein and accordingly should be read in conjunction with them.

### **CRITICAL JUDGEMENTS**

Critical judgments have been set out in the audited consolidated financial statements for the year ended December 31, 2014 and accordingly should be read in conjunction with them.

### **FUTURE CHANGES IN ACCOUNTING POLICIES**

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2016 and have not been applied in preparing these condensed consolidated interim financial statements. A summary of these standards are as follows:

**IFRS 7** - Financial Instruments: Disclosures ("IFRS 7") was amended in October 2010. The amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of and risks associated with an entity's continuing involvement in derecognized financial assets and the offsetting of financial assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2018 and are required to be applied in accordance with the standard.

**IFRS 9** - Financial Instruments ("IFRS 9") will replace IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments and the contractual cash flow characteristics of

## MANAGEMENT DISCUSSION & ANALYSIS

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the financial assets. IFRS 9 was amended by the IASB in October 2010 to provide guidance on the classification and reclassification of financial liabilities, their measurement, and the presentation of gains and losses on financial liabilities designated as at fair value through profit or loss. When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

**IFRS 15** – Revenue from Contracts with Customers (“IFRS 15). In May 2014, the IASB issued IFRS 15, which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and IFRIC 13 - Customer Loyalty Programs, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS is to be applied retrospectively for annual periods beginning on or after January 1, 2018.

The Trust is currently evaluating the impact of these new and amended standards on its condensed consolidated interim financial statements.

### SUBSEQUENT EVENTS

The following are events occurred subsequent to September 30, 2015:

- On October 15, 2015, the Trust distributed monthly cash distributions of \$0.033333 per Trust unit to unitholders of record at the close of business on September 30, 2015.
- On October 20, 2015, the independent board of trustees approved the following amendments to the Asset Management Agreement with FCRPI:
  - Asset Management Fees: The Trust will pay the following fees annually:
    - 0.75% of the first \$300 million of the Gross Book Value of the Properties; and
    - 0.50% of the Gross Book Value of the Properties in excess of \$300 million.
  - Acquisition Fees: The Trust will pay the following acquisition fees:
    - 0.75% of the first \$300 million of aggregate Gross Book Value in respect of new properties acquired in a particular year;
    - 0.65% of the next \$200 million of aggregate Gross Book Value in respect of new properties acquired in such year; and thereafter
    - 0.50% of the aggregate Gross Book Value of new properties acquired in such year.
- On November 5, 2015, the Trust announced that it has declared and approved monthly distributions in the amount of \$0.035 per trust unit for unitholders of record on January 29, 2016, February 26, 2016 and March 31, 2016 payable on or about February 15, 2016, March 15, 2016 and April 15, 2016.

## MANAGEMENT DISCUSSION & ANALYSIS

### RISKS AND UNCERTAINTIES

The Trust is faced with the following ongoing risk factors, among others, that would affect Unitholders' equity and the Trust's ability to generate returns. All real property investments are subject to elements of risk. General economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises and various other factors affect such investments. The Trust's properties are located across Canada. As a result, our properties are impacted by factors specifically affecting their respective real estate markets. These factors may differ from those affecting the real estate markets in other regions of Canada.

- *LIQUIDITY & GENERAL MARKET CONDITIONS*

The Trust faces the risk associated with general market conditions and their potential consequent effects. Current general market conditions may include, among other things, the insolvency of market participants, tightening lending standards and decreased availability of cash, and changes in unemployment levels, retail sales levels, and real estate values. These market conditions may affect occupancy levels and FCPT's ability to obtain credit on favourable terms or to conduct financings through the public market.

- *REAL PROPERTY OWNERSHIP AND TENANT RISKS*

Real property investments are relatively illiquid. This illiquidity will tend to limit the ability of the Trust to respond to changing economic or investment conditions. If the Trust were to be required to liquidate assets quickly, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances. By specializing in certain types of real estate, the Trust is exposed to adverse effects on that segment of the real estate market and does not benefit from a broader diversification of its portfolio by property class.

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of the properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent unleased space in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors. Cash available for distribution will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be leased on economically favourable lease terms. If properties do not generate revenues sufficient to meet operating expenses, including debt service and capital expenditures, this could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the Trust's properties or revenues to be derived therefrom. Reported estimates of market rent can be seasonal and the significance of any variations from quarter to quarter would materially affect the Trust's annualized estimated gain-to-lease amount. There can be no assurance that upon the expiry or termination of existing leases, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues and it may take a significant amount of time for market rents to be recognized by the Trust due to internal and external limitations on its ability to charge these new market-based rents in the short term.

## MANAGEMENT DISCUSSION & ANALYSIS

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- *COMPETITION*

Many of the sectors in which the Trust operates are highly competitive. The Trust faces competition from many sources, including from other buildings in the immediate vicinity of the properties and the broader geographic areas where the Trust's properties are and will be located. In addition, overbuilding in the geographic areas where the Trust's properties are located may increase the supply of competing properties and may reduce occupancy rates and rental revenues of the Trust and could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

The Trust's ability to make real estate investments in accordance with the Trust's objectives and investment policies depends upon the availability of suitable investments and the general economy and marketplace. Increased competition for acquisitions in the geographies in which the Trust operates from other acquirers of real estate may impact the availability of suitable investments and achievable investment yields for the Trust.

- *CHANGES IN APPLICABLE LAWS*

The Trust's operations will have to comply with numerous federal, provincial and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Non-compliance with laws could expose the Trust to liability.

Lower revenue growth or significant unanticipated expenditures may result from the Trust's need to comply with changes in applicable laws, including (i) laws imposing environmental remedial requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other landlord/tenant laws, or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of the Trust's properties, including changes to building codes and fire and life-safety codes.

- *UNEXPECTED COSTS OR LIABILITIES RELATED TO ACQUISITIONS*

Risks associated with real property acquisitions is that there may be an undisclosed or unknown liability concerning the acquired properties, and the Trust may not be indemnified for some or all of these liabilities. Following an acquisition, the Trust may discover that it has acquired undisclosed liabilities, which may be material. The Trust conducts what it believes to be an appropriate level of investigation in connection with its acquisition of properties and seeks through contract to ensure that risks lie with the appropriate party.

- *ACCESS TO CAPITAL*

The real estate industry is highly capital intensive. The Trust 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 Trust will have access to sufficient capital or access to capital on terms favourable to the Trust for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, the Trust 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

## MANAGEMENT DISCUSSION & ANALYSIS

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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. While central banks as well as governments continue attempts to restore liquidity to the global economy, no assurance can be given that the combined impact of the significant re-valuations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world in the near to medium term. These market conditions and unexpected volatility or illiquidity in financial markets may inhibit the Trust's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which the Trust 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 Trust or otherwise, may not be available or, if it is available, may not be available on favourable terms to the Trust. Failure by the Trust to access required capital could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

- ***INTEREST RATE & DEBT FINANCING RISK***

The Trust will be subject to the risks associated with debt financing. There can be no assurance that the Trust will be able to refinance its existing indebtedness on terms that are as or more favourable to the Trust as the terms of existing indebtedness. The inability to replace financing of debt on maturity would have an adverse impact on the financial condition and results of FCPT.

- ***ENVIRONMENTAL RISK***

Environmental and ecological related policies have become increasingly important in recent periods. Under various federal, provincial and municipal laws, an owner or operator of real property could become liable for the cost of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The existence of such a liability can have a negative impact on the value of the underlying real property.

It is our policy to obtain a Phase I environmental audit conducted by a qualified environmental consultant prior to acquiring any additional property, who has the appropriate insurance coverage. In addition, where appropriate, tenant leases generally specify that the tenant will conduct its business in accordance with environmental regulations and be responsible for any liabilities arising out of infractions to such regulations. It is a requirement of our property managers to regularly inspect tenant premises.

- ***LEGAL RISK***

In the normal course of the Trust's operations, whether directly or indirectly, 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 in a manner adverse to the Trust and as a result, could have a material adverse effect on the Trust's assets, liabilities, business, financial condition and results of operations. Even if the Trust prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Trust's business operations, which could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

## MANAGEMENT DISCUSSION & ANALYSIS

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- *LEASE ROLLOVER RISK*

The value of investment properties and the stability of cash flows derived from those properties is dependent upon the level of occupancy and lease rates in those properties. Upon expiry of any lease, there is no assurance that a lease will be renewed on favourable terms, or at all; nor is there any assurance that a tenant can be replaced. A contraction in the Canadian economy would negatively impact demand for space in our properties, consequently increasing the risk that leases expiring in the near term will not be renewed.

- *INCOME TAX RISK*

On December 22, 2007, the SIFT Rules were enacted. Under the SIFT Rules, certain distributions from a SIFT will no longer be deductible in computing a SIFT's taxable income, and a SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax.

The SIFT Rules do 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 Trust has reviewed the REIT Conditions and has assessed their interpretation and application to the Trust's assets and liabilities. The Trust believes that it has met the REIT Conditions throughout the relevant periods ended. There can be no assurances, however, that the Trust will continue to be able to satisfy the REIT Conditions in the future such that the Trust will not be subject to the tax imposed by the SIFT Rules.

- *FIXED COSTS AND INCREASED EXPENSES*

The failure to maintain stable or increasing average monthly rental rates combined with acceptable occupancy levels would likely have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units. Certain significant expenditures, including property taxes, 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. If the Trust is unable to meet mortgage payments on any property, losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale.

The Trust is also subject to utility and property tax risk relating to increased costs that the Trust may experience as a result of higher resource prices as well as its exposure to significant increases in property taxes. There is a risk that property taxes may be raised as a result of re-valuations of properties and their adherent tax rates. In some instances, enhancements to properties may result in significant increases in property assessments following a re-valuation. Additionally, utility expenses, mainly consisting of natural gas and electricity service charges, have been subject to considerable price fluctuations over the past several years. Any significant increase in these resource costs that the Trust cannot charge back to the tenant may have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

The timing and amount of capital expenditures by the Trust will affect the amount of cash available for distributions to holders of Trust Units. Distributions may be reduced, or even eliminated, at times when the Trust deems it necessary to make significant capital or other expenditures.

## MANAGEMENT DISCUSSION & ANALYSIS

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- *UNITHOLDER RISK*

There is a risk that FCPT's Unitholders could become subject to liability. The Declaration of Trust provides that no Unitholder or annuitant under a plan of which a Unitholder acts as Trustee or carrier shall be held to have any personal liability as such, and no resort shall be had to, nor shall recourse or satisfaction be sought from, the private property of any Unitholder or annuitant for any liability whatsoever, in tort, contract or otherwise, to any person in connection with the Trust property or the affairs of the Trust, including, without limitation, for satisfaction of any obligation or claim arising out of or in connection with any contract or obligation of the Trust or of the Trustees or any obligation which a Unitholder or annuitant would otherwise have to indemnify a Trustee for any personal liability incurred by the Trustee as such, but rather the assets of the Trust only are intended to be liable and subject to levy or execution for satisfaction of such liability. Each Unitholder and annuitant under a plan of which a Unitholder acts as Trustee or carrier shall be entitled to be reimbursed out of the assets of the Trust in respect of any payment of a Trust obligation made by such Unitholder or annuitant. The Declaration of Trust further provides that, whenever possible, any written instrument creating an obligation which is or includes the granting by the Trust of a mortgage, and to the extent management of the Trust determines to be practicable, any written instrument which is, in the judgment of management of the Trust, a material obligation, shall contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a Trustee or carrier, or Officers, employees or agents of the Trust, but that only property of the Trust or a specific portion thereof shall be bound; the Trust, however, is not required, but shall use all reasonable efforts, to comply with this requirement in respect of obligations assumed by the Trust upon the acquisition of real property.

Certain provinces have legislation relating to Unitholder liability protection, including British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Québec. To FCPT's knowledge, certain of these statutes have not yet been judicially considered and it is possible that reliance on such statute by a Unitholder could be successfully challenged on jurisdictional or other grounds.

- *DEPENDENCE ON FCRPI AND FCPI*

The Trust's earnings and operations are impacted by the FCRPI's ability to source appropriate real estate investments that provide sufficient yields for investors and FCPI to maintain these real estate investments. The Trust has also entered into long-term contracts with FCRPI and FCPI, as more particularly described in the "Asset Management Agreement" and "Property Management Agreement" both dated November 20, 2012 as posted on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)). The Trust is exposed to adverse developments in the business and affairs of FCRPI and FCPI, since the day to day activities of the Trust are run by FCRPI and FCPI and since all of the Trust's real estate investments are originated by FCRPI.

- *RETURN RISK*

There is no guarantee as to the return an investment in Trust Units of the Trust will generate.

- *POTENTIAL CONFLICTS OF INTEREST*

The Trust is subject to various potential conflicts of interest because the Asset Manager and Property Manager are entities indirectly related to certain trustees and management of the Trust. Further, the Trustees and Officers may co-invest in property acquisitions and

## MANAGEMENT DISCUSSION & ANALYSIS

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investments alongside the Trust. In addition, the Trustees and Officers of the Trust may from time to time deal with parties with whom the Trust may be dealing with, or may be seeking investments similar to those desired by the Trust. Certain Trustees and Officers of the Trust are also employed by entities directly and/or indirectly related to the Asset Manager and Property Manager and are involved in varying real estate related activities including, but not limited to acquisitions, divestitures and management of real estate and real estate related debt and equities.

The Declaration of Trust does not restrict Trustees or Officers of the Trust, the Asset Manager, the Property Manager and/or its affiliates from being engaged (directly or indirectly) in real estate and business transactions in which their individual interests actually, or are perceived to be, in conflict with the interests of Trust. Accordingly, there can be no guarantee that the Trustees and Officers of the Trust, when acting in a capacity other than a Trustee or Officer of the Trust will act in the best interests of the Trust.

- ***RELIANCE ON KEY PERSONNEL AND TRUSTEES***

In assessing the risk of an investment in the Trust Units, potential investors should be aware that they will be relying on the good faith, experience and judgment of the Trustees. Although investments made by the Trust are carefully chosen by the Trustees, there can be no assurance that such investments will earn a positive return in the short- or long-term or that losses may not be suffered by the Trust from such investments.

- ***DILUTION***

The number of Trust Units the Trust is authorized to issue is unlimited. The Trustees have the discretion to issue additional Trust Units in other circumstances, including under the Unit Option Plan. Any issuance of Trust Units may have a dilutive effect to existing Unitholders.

- ***OPERATIONAL RISKS***

Operational risk is the risk that a direct or indirect loss may result from an inadequate or failed technology, from a human process or from external events. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings. Management endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are reviewed and if deemed necessary improvements are implemented.

- ***RISK RELATED TO INSURANCE RENEWALS***

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for catastrophic risks. When the Trust's current and future insurance policies expire, the Trust may encounter difficulty in obtaining or renewing property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (e.g., earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the Trust is able to renew its policies at levels and with limitations consistent with its current policies, the Trust cannot be sure that it will be able to obtain such insurance at premiums that are reasonable. If the Trust is unable to obtain adequate insurance on its properties for certain risks, it could cause the Trust to be in default under specific covenants on certain of its indebtedness or other contractual commitments that it has which require the Trust to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur, or if the Trust were unable to obtain adequate insurance, and its properties experienced damages that would otherwise have been covered by insurance, it could have a material adverse effect on the Trust's

## **MANAGEMENT DISCUSSION & ANALYSIS**

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business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

### **OUTLOOK**

The Trust expects access to the capital markets to remain available to well capitalized entities that have a strong balance sheet and have sufficient cash flows to fund monthly distributions. As well, access to conventional mortgage financing is expected to remain available, however we continue to see tightening of lending criteria from the larger financial institutions.

Management continues to believe that the Trust is well positioned with a strong balance sheet that was recently recapitalized with an \$11 million non-brokered private placement to take advantage of opportunities as they arise such as the recently completed Waterloo Industrial Portfolio acquisition. The Trust continues to target industrial, flex industrial, net lease convenience and stand-alone retail, multi-residential, core service provider and healthcare professional office assets across Canada. We expect to grow predominately through external acquisitions over the next 18 months and will assess each acquisition on its own merits to ensure they meet our investment objectives but will not grow the portfolio only for the sake of growth. In addition to growth generated by acquisitions, the Trust's growth is expected to come from within the portfolio, through a combination of leasing and build out of existing excess density when feasible over the next several years.

The Trust is committed to remaining focused on its portfolio in order to preserve and improve the quality of the cash flows through active management and leasing in order to maintain a stable stream of cash flows. We will continue to focus our acquisition program towards off market and partial interest transactions as we anticipate they will provide the Trust with the best investment opportunities.