



**FIRM CAPITAL PROPERTY TRUST**

**MANAGEMENT DISCUSSION & ANALYSIS  
JUNE 30, 2014**

**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 six months ended June 30, 2014 and the audited annual consolidated financial statements for the year ended December 31, 2013 and for the period from August 30, 2012 (date of formation) to December 31, 2012. This MD&A has been prepared taking into account material transactions and events up to and including August 12, 2014. 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 2014 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 Realty Partners Inc., through a structure focused on an alignment of interests with the Trust, will source, syndicate and participate in investments.

The Trust is externally asset and property managed by Firm Capital Realty Partners Inc. ("FCRPI") and Firm Capital Properties Inc. ("FCPI"), respectively.

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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, 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, 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, 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.

### SECOND QUARTER AND YEAR-TO-DATE (“YTD”) HIGHLIGHTS

- Q2/2014 Stabilized FFO and AFFO of \$0.684 million and \$0.693 million. YTD Stabilized FFO and AFFO of \$1.5 million and \$1.4 million;

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- Q2/2014 Stabilized FFO and AFFO per Unit of \$0.098 and \$0.099 per Unit. YTD Stabilized FFO and AFFO per Unit of \$0.213 and \$0.198 per Unit;
- Q2/2014 Stabilized FFO and AFFO payout ratios of 95% and 94%;
- Q2/2014 Net Operating Income (“**NOI**”) of \$1.2 million, a 2.2% increase over Q1/2014. YTD NOI of \$2.4 million a 108.1% increase over the six month period ended June 30, 2013;
- Strong 93% occupancy is a 110 basis point sequential increase over the 91.9% reported at Q1/2014 and an 80 basis point increase over the 92.2% reported at Q4/2013; and
- Announced the completion of the Centre Ice Retail Portfolio acquisition for \$23.5 million which increased the Trust’s portfolio from 30 to 55 properties and the overall GLA of the Trust’s portfolio by 24%, while improving the overall credit quality of the Trust’s entire portfolio. On a pro forma basis, the Trust expects the Centre Ice Retail Portfolio acquisition to reduce the AFFO payout ratio to approximately 75% on an annualized basis, well below the Trust’s targeted AFFO payout ratio of 85%.

## CURRENT PROPERTY PORTFOLIO & HIGHLIGHTS

### INITIAL PORTFOLIO

On November 29, 2012, the Trust acquired its first portfolio of four, income producing, retail investment properties comprised of 113,965 square feet of gross leasable area (“**GLA**”) located in Ontario and Nova Scotia for approximately \$26.9 million (including transaction costs and net of tenant rental deposits).

### CORE SERVICE PROVIDER PROFESSIONAL BUILDING

On April 9, 2013, the Trust acquired a 42,884 square foot professional services medical building for a purchase price of approximately \$6.9 million (incl. transaction costs and working capital adjustments). The property is located in Barrie, Ontario, on Wellington St. West, a short distance to Highway 400 and the Dunlop Street West intersection. The property has excess development land possibilities.

### MONTREAL INDUSTRIAL PORTFOLIO

On August 1, 2013, the Trust acquired a 50% interest in 25 industrial buildings located in Montreal, Quebec. The acquisition cost of the entire portfolio was \$48.8 million (including closing costs and working capital adjustments). The acquisition cost for the Trust’s 50% interest in the portfolio is \$24.4 million (including transaction costs and working capital adjustments). The portfolio is comprised of 1,029,898 square feet and consists of seventeen multi-tenant and eight single-tenant industrial buildings. The portfolio has in excess of 90 tenants and is in proximity to Pierre Elliott Trudeau Airport as well as the Trans-Canada Highway. 50% of the Portfolio was acquired by the Trust, while the remaining 50% was acquired by an entity associated with FCRPI that consists predominantly of senior management and certain trustees of FCPT.

### 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

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Centre Ice Retail Portfolio was \$33.8 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. The Centre Ice Retail Portfolio is approximately 97% occupied with no significant short term lease maturities. The remaining 30% of the Centre Ice Retail Portfolio was acquired by an entity that consists predominantly of senior management and certain trustees of FCPT.

Based on the Trust's pro rata interest as at June 30, 2014 the property portfolio consists of 55 properties with a total GLA of 833,373 square feet (830,315 square feet of Net Leasable Area ("NLA")).

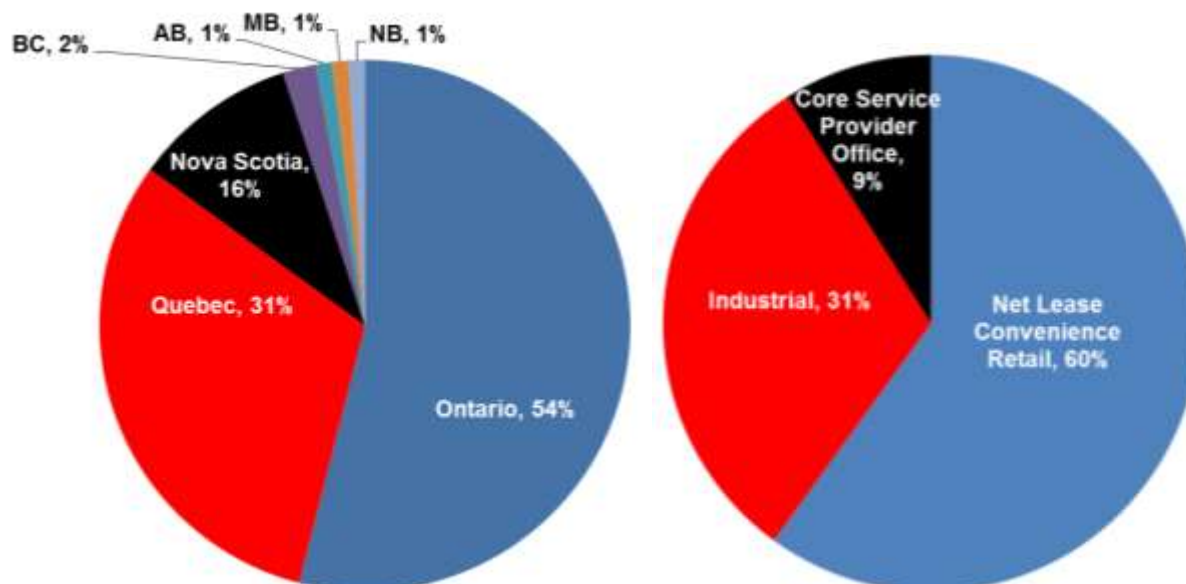
### PORTFOLIO DIVERSIFICATION

The portfolio is well diversified across geographies and asset classes:

			Occupancy			Net Rent PSF		
	Gross Leaseable Area	Net Leaseable Area	Q2/2014	Q1/2014	Q4/2013	Q2/2014	Q1/2014	Q4/2013
<b>Net Lease Convenience Retail</b>								
Bridgewater, Nova Scotia	46,707	46,707	91.4%	91.4%	91.4%	\$ 16.77	\$ 16.77	\$ 16.77
Brampton, Ontario	36,137	36,137	100.0%	100.0%	100.0%	\$ 24.71	\$ 24.71	\$ 24.71
Hanover, Ontario	19,874	19,874	100.0%	100.0%	100.0%	\$ 17.94	\$ 17.94	\$ 17.94
Pembroke, Ontario	11,247	11,247	100.0%	100.0%	100.0%	\$ 12.99	\$ 12.99	\$ 12.62
Centre Ice Retail Portfolio	161,575	161,575	97.2%	-	-	\$ 13.17	-	-
<b>Total / Weighted Average</b>	<b>275,540</b>	<b>275,540</b>	<b>96.9%</b>	<b>96.5%</b>	<b>96.5%</b>	<b>\$ 15.66</b>	<b>\$ 19.12</b>	<b>\$ 7.89</b>
<b>Core Service Provider Office</b>								
Barrie, Ontario	42,884	39,826	96.6%	96.6%	98.7%	\$ 13.97	\$ 13.96	\$ 13.91
<b>Total / Weighted Average</b>	<b>42,884</b>	<b>39,826</b>	<b>96.6%</b>	<b>96.6%</b>	<b>98.7%</b>	<b>\$ 13.97</b>	<b>\$ 13.96</b>	<b>\$ 13.91</b>
<b>Industrial</b>								
Montreal, QC	514,949	514,949	90.4%	90.6%	90.8%	\$ 4.67	\$ 4.54	\$ 4.50
<b>Total / Weighted Average</b>	<b>514,949</b>	<b>514,949</b>	<b>90.4%</b>	<b>90.6%</b>	<b>90.8%</b>	<b>\$ 4.67</b>	<b>\$ 4.54</b>	<b>\$ 4.50</b>
<b>Overall Total / Weighted Average</b>	<b>833,373</b>	<b>830,315</b>	<b>93.0%</b>	<b>91.9%</b>	<b>92.2%</b>	<b>\$ 8.94</b>	<b>\$ 7.74</b>	<b>\$ 7.72</b>

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### Geographical and Asset Class Portfolio Diversification based on NOI



### TENANT DIVERSIFICATION

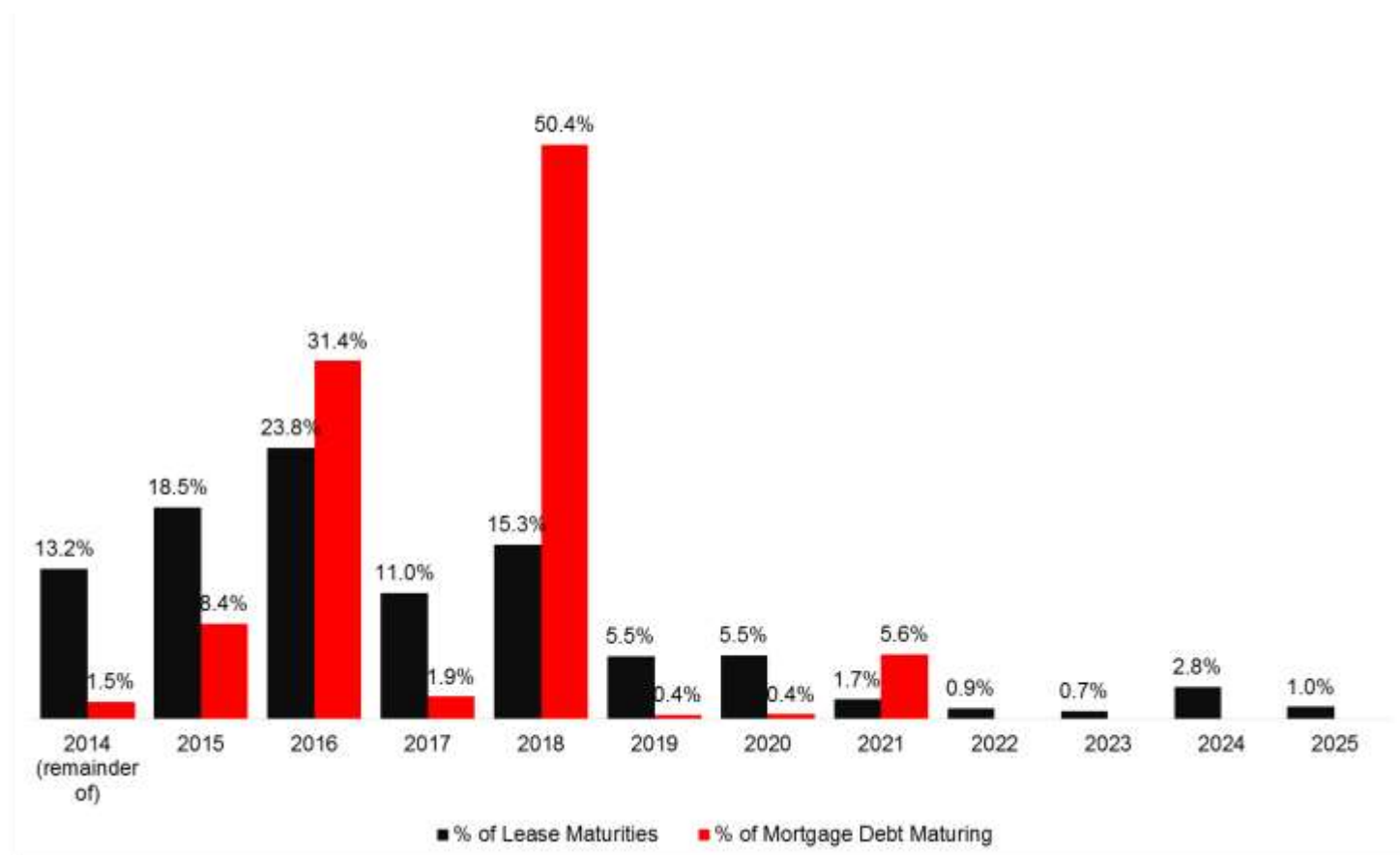
The portfolio is well diversified by tenant profile with no tenant accounting for more than 9.6% of total net rent. Further, the top 10 tenants are largely comprised of credit worthy and large national tenants and account for 31.9% of total net rent and 20.1% of total NLA:

#	Tenant	Location	% of Owned NLA	% of Total Net Rent
1	PPG (Dulux Paints)	12 - ON, NB, MB, AB, BC	4.7%	9.6%
2	Cara Corporation (Kelsey's, Swiss Chalet)	Brampton, ON & Bridgewater, NS	1.3%	3.7%
3	Quebecor Media	Montreal, QC	6.0%	2.9%
4	Staples	Bridgewater, NS	1.8%	2.9%
5	Mark's Work Wearhouse (Canadian Tire)	Hanover, ON	1.2%	2.7%
6	Reitmans	Pembroke, ON & Bridgewater, NS	1.2%	2.5%
7	Easy Home	Hanover, ON & Bridgewater, NS	1.0%	2.1%
8	Boston Pizza	Pembroke, ON & Bridgewater, NS	1.5%	2.0%
9	The Beer Store	Brampton, ON	0.7%	1.9%
10	LifeLabs LP (OMERS)	Barrie, ON	0.8%	1.6%
<b>Total</b>			<b>20.1%</b>	<b>31.9%</b>

### DURATION MATCHED DEBT & LEASE MATURITY PROFILE

The current portfolio has a weighted average lease term to maturity of 3.4 years, which is duration matched with mortgage debt with a weighted average term to maturity of 3.3 years.

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### OCCUPANCY

For Q2/2014, occupancy was 93.0%, a 110 basis points (“**bps**”) sequential increase over the 91.9% reported at Q1/2014 and an 80 bps increase over the 92.2% reported at Q4/2013. The increase over Q1/2014 and Q4/2013 can be attributed to the Centre Ice Retail Portfolio acquisition which has a 97.2% occupancy rate. The remainder of the portfolio occupancy rate was largely unchanged over Q1/2014.

### NET RENTS

For Q2/2014, net rent per square foot was \$8.94 per square foot (“**psf**”), a 15.5% sequential increase over the \$7.74 psf reported at Q1/2014 and a 15.8% increase over the \$7.72 psf reported at Q4/2013. The increase is largely the result of the Centre Ice Retail Portfolio acquisition which has a net rent psf of \$13.17 and FCPT’s active leasing program at the Montreal Industrial portfolio where net rents increased to \$4.67 psf. Net rents for the remainder of the portfolio were largely unchanged over Q1/2014.

## RESULTS OF OPERATIONS

### REVENUE, PROPERTY EXPENSES & NOI

Rental revenue for the three months ended June 30, 2014 was \$2,005,213 in comparison to the \$2,015,208 reported for the three months ended March 31, 2014 and the \$929,668 reported for the three months ended June 30, 2013. Rental revenue for the six months ended June 30, 2014 was \$4,020,421 in comparison to the \$1,744,130 reported for the six months ended June 30, 2013. Rental revenue includes all amounts earned from tenants lease agreements including basic rent, operating cost and realty tax recoveries.

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	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Base Rent	\$ 1,225,480	\$ 1,199,878	\$ 650,508	\$ 2,425,358	\$ 1,174,874
CAM & Property Tax Recoveries	760,539	794,416	279,160	1,554,955	569,256
Straight Line Rent	19,194	20,914	-	40,108	-
<b>Rental Revenue</b>	<b>\$ 2,005,213</b>	<b>\$ 2,015,208</b>	<b>\$ 929,668</b>	<b>\$ 4,020,421</b>	<b>\$ 1,744,130</b>

The sequential variance in comparing the three months ended June 30, 2014 to the three months ended March 31, 2014 is largely the result of higher operating and realty tax expense recoveries required in Q1/2014 to recover higher operating and realty tax expenses. For the three months ended June 30, 2014, base rent increased by 2.1% over the three months ended March 31, 2014 largely due to the acquisition of the Centre Ice Retail Portfolio and new leasing activity at the Montreal Industrial Portfolio.

The variance in comparing the three and six months ended June 30, 2014 over the three and six months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.

Property operating expenses for the three months ended June 30, 2014 was \$761,544, in comparison to the \$795,670 reported for the three months ended March 31, 2014 and \$288,751 reported for the three months ended June 30, 2013. Property operating expenses for the six months ended June 30, 2014 was \$1,557,214 in comparison to the \$580,007 reported for the six months ended June 30, 2013. Property operating expenses include realty taxes as well as other costs related to maintenance, HVAC, insurance, utilities and property management fees paid to FCPI. Property operating expenses consists of the following:

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Realty Taxes	\$ 479,124	\$ 459,275	\$ 161,901	\$ 942,430	\$ 332,378
Property Management Fees	93,667	87,850	53,072	181,517	89,067
Operating Expenses	188,753	248,545	73,778	433,267	158,562
<b>Property Operating Expenses</b>	<b>\$ 761,544</b>	<b>\$ 795,670</b>	<b>\$ 288,751</b>	<b>\$ 1,557,214</b>	<b>\$ 580,007</b>

The sequential variance in comparing the three months ended June 30, 2014 to the three months ended March 31, 2014 is largely the result of higher operating expenses incurred during Q1/2014 due to the colder than normal winter, offset by higher realty taxes and property management fees largely due to the acquisition of the Centre Ice Retail Portfolio.

The variance in comparing the three and six months ended June 30, 2014 over the three and six months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.



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On an IFRS basis, NOI for the three months ended June 30, 2014 was \$1,243,669, in comparison to the \$1,219,538 reported for the three months ended March 31, 2014 and \$640,917 reported for the three months ended June 30, 2013. NOI for the six months ended June 30, 2014 was \$2,463,207 in comparison to the \$1,164,123 reported for the six months ended June 30, 2013.

On a cash basis (i.e. excluding straight-line rent which is a non-cash item), NOI for the three months ended June 30, 2014 was \$1,224,475, a 2.2% increase over the \$1,198,624 reported for the three months ended March 31, 2014 and a 91.1% increase over the \$640,917 reported for the three months ended June 30, 2013. On a cash basis, NOI for the six months ended June 30, 2014 was \$2,423,099, a 108.1% increase in comparison to the \$1,164,123 reported for the six months ended June 30, 2013.

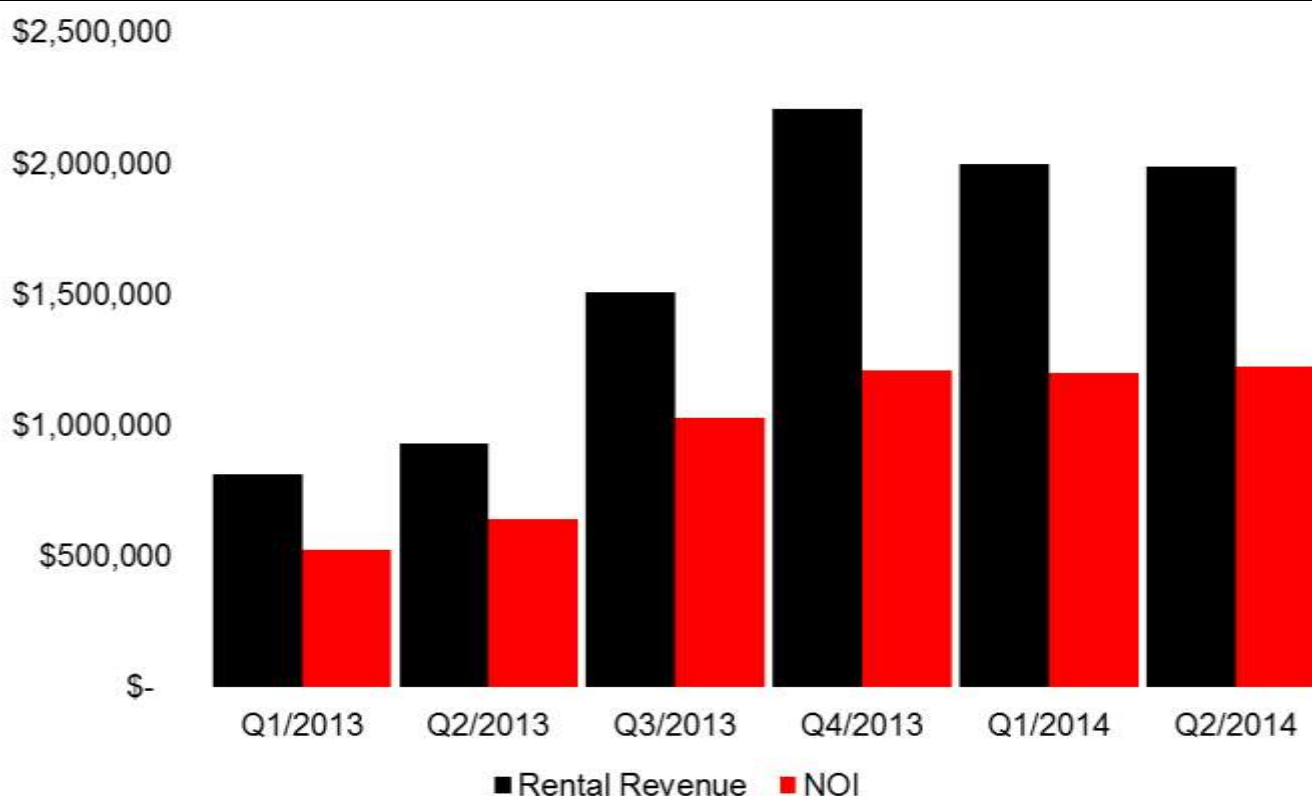
	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<b>Rental Revenue</b>	<b>\$2,005,213</b>	<b>\$2,015,208</b>	<b>\$ 929,668</b>	<b>\$4,020,421</b>	<b>\$1,744,130</b>
Property Operating Expenses	(761,544)	(795,670)	(288,751)	(1,557,214)	(580,007)
<b>NOI - IFRS Basis</b>	<b>\$1,243,669</b>	<b>\$1,219,538</b>	<b>\$ 640,917</b>	<b>\$2,463,207</b>	<b>\$1,164,123</b>
Less: Straight-Line Rent	(19,194)	(20,914)	-	(40,108)	-
<b>NOI - Cash Basis</b>	<b>\$1,224,475</b>	<b>\$1,198,624</b>	<b>\$ 640,917</b>	<b>\$2,423,099</b>	<b>\$1,164,123</b>
<b>% Change vs. March 31, 2014</b>	<b>2.2%</b>				
<b>% Change vs. June 30, 2013</b>	<b>91.1%</b>			<b>108.1%</b>	

On a cash basis, the 2.2% increase in sequential NOI over March 31, 2014 can be attributed to the acquisition of the Centre Ice Retail Portfolio as well as FCPT's active leasing activity at the Montreal Industrial portfolio.

The variance in comparing the three and six months ended June 30, 2014 over the three and six months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.

Since Q1/2013; rental revenue and NOI have steadily increased as a result of the Trust's accretive acquisitions. Quarterly rental revenues and NOI have increased by 144% and 134% to \$2.0 million and \$1.2 million from \$0.8 million and \$0.5 million, respectively.

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### OTHER INCOME

Other income for the three months ended June 30, 2014 was \$6,220, in comparison to the \$2,400 reported for the three months ended March 31, 2014 and \$4,768 reported for the three months ended June 30, 2013. Other income for the six months ended June 30, 2014 was \$8,621 in comparison to the \$71,902 reported for the six months ended June 30, 2013.

Interest income relates to income earned on cash balances. Dividend income relates to dividends received from the marketable securities portfolio.

\$66,140 of income was received from the Trust's previous wholly-owned subsidiary ISG Capital Corporation during the six months ended June 30, 2013 and is non-recurring in nature.

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Interest Income	\$ 1,452	\$ 2,400	\$ -	\$ 3,852	\$ 994
Dividend Income	4,768	-	4,768	4,768	4,768
Income: ISG Capital Corporation	-	-	-	-	66,140
<b>Other Income</b>	<b>\$ 6,220</b>	<b>\$ 2,400</b>	<b>\$ 4,768</b>	<b>\$ 8,620</b>	<b>\$ 71,902</b>

### FINANCE COSTS

Finance costs for the three months ended June 30, 2014 was \$284,446, in comparison to the \$286,572 reported for the three months ended March 31, 2014 and \$107,056 reported for the

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three months ended June 30, 2013. Finance costs for the six months ended June 30, 2014 was \$571,018 in comparison to the \$196,789 reported for the six months ended June 30, 2013.

Finance costs are comprised of the following:

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Mortgage Interest	\$ 270,850	\$ 267,650	\$ 72,462	\$ 538,501	\$ 72,462
Bank Indebtedness Interest	13,466	15,417	28,987	28,882	93,904
Finance Fee Amortization	11,446	11,729	5,607	23,175	30,423
Non-Cash Interest Expense	(11,316)	(8,224)	-	(19,540)	-
<b>Finance Costs</b>	<b>\$ 284,446</b>	<b>\$ 286,572</b>	<b>\$ 107,056</b>	<b>\$ 571,018</b>	<b>\$ 196,789</b>

The sequential variance in comparing the three months ended June 30, 2014 to the three months ended March 31, 2014 is largely due to the increase in mortgage interest expense, offset by a decline in bank indebtedness interest expense. The increased mortgage interest expense is due to the assumption and new mortgage financing from the Centre Ice Retail Portfolio acquisition, while the decline in bank indebtedness interest expense was due to the bank indebtedness balance being fully repaid during Q1/2014 due to the partial utilization of funds generated from the issuance of \$7.3 million of trust units as outlined below, but subsequently utilized in part on the closing of the Centre Ice Retail Portfolio acquisition.

The variance in comparing the three and six months ended June 30, 2014 to the three and six months ended June 30, 2013 is due to a combination of mortgages placed on the Hanover and Bridgewater properties and the financings both assumed and placed on the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolio acquisitions, offset by the repayment of the bank indebtedness.

Finance fee amortization relates to fees paid on securing the bank indebtedness (as outlined below) 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 mortgage from the acquisition of the Barrie, Ontario professional services medical building.

The effective average interest rate for the bank indebtedness during for the three months ended June 30, 2014 was approximately 4.4% (4.4% for the three months ended March 31, 2014). As outlined in further detail below, the weighted average interest rate of the mortgages as at June 30, 2014 stands at approximately 4.3%.

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

G&A expenses for the three months ended June 30, 2014 was \$206,376, in comparison to the \$181,661 reported for the three months ended March 31, 2014 and \$109,524 reported for the three months ended June 30, 2013. G&A expenses for the six months ended June 30, 2014 was \$388,037 in comparison to the \$197,457 reported for the six months ended June 30, 2013. Professional fees include legal, audit and tax advisory fees. Asset management fees were paid

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to FCRPI as outlined below. Public company expenses include trustee fees, transfer agent fees, press releases and print media.

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Professional Fees	\$ 34,111	\$ 27,488	\$ 21,163	\$ 61,599	\$ 29,167
Asset Management Fees	118,134	115,109	69,836	233,244	128,778
Public Company Expenses	38,949	26,351	12,995	65,300	29,981
Office & General	12,644	10,175	1,349	22,818	2,964
Insurance	2,538	2,538	4,181	5,076	6,567
<b>General &amp; Administrative</b>	<b>\$ 206,376</b>	<b>\$ 181,661</b>	<b>\$ 109,524</b>	<b>\$ 388,037</b>	<b>\$ 197,457</b>

The sequential variance in comparing the three months ended June 30, 2014 to the three months ended March 31, 2014 is largely the result of overall higher G&A costs incurred in the normal course. The variance in comparing the three and six months ended June 30, 2014 over the three and six months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.

### NET INCOME & COMPREHENSIVE NET INCOME

Net income for the three months ended June 30, 2014 was \$929,118, in comparison to the \$1,281,734 reported for the three months ended March 31, 2014 and \$784,122 reported for the three months ended June 30, 2013. The sequential variance over March 31, 2014 is largely due to higher NOI and other income, offset by higher finance costs, G&A, unit based compensation expense and lower positive fair value adjustments. The variance over the three months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.

Net income for the six months ended June 30, 2014 was \$2,210,852, in comparison to the \$1,619,769 reported for the six months ended June 30, 2013. The variance over the six months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.

Included within Net Income for the three months ended June 30, 2014 is a Fair Value Adjustment with respect to the investment properties of \$253,481 and to the marketable securities of \$(8,702), respectively, in comparison to the \$360,202 and \$(9,635) reported for the three month period ended June 30, 2013. For the six months ended June 30, 2014 and June 30, 2013, these Fair Value Adjustments were \$722,493, \$2,264, \$767,202 and \$(9,635), respectively. This represents the difference between fair values for the investment properties and marketable securities for the various periods.

### FUNDS FROM OPERATIONS ("FFO") & ADJUSTED FUNDS FROM OPERATIONS ("AFFO")

For the three months ended June 30, 2014, FFO per Unit was \$0.098 while AFFO per Unit was \$0.099. Based on distributions paid over that period, FFO and AFFO payout ratios are 95% and 94%, respectively. For the six months ended June 30, 2014, FFO per Unit was \$0.213 while AFFO per Unit was \$0.198. Based on distributions paid over that period, FFO and AFFO payout ratios are 87% and 94%, respectively.

## MANAGEMENT DISCUSSION & ANALYSIS

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<b>Rental Revenue</b>	<b>\$ 2,005,213</b>	<b>\$ 2,015,208</b>	<b>\$ 929,668</b>	<b>\$ 4,020,421</b>	<b>\$ 1,744,130</b>
Less: Property Operating Expenses	(761,544)	(795,670)	(288,751)	(1,557,214)	(580,007)
<b>Net Operating Income (NOI)</b>	<b>\$ 1,243,669</b>	<b>\$ 1,219,538</b>	<b>\$ 640,917</b>	<b>\$ 2,463,207</b>	<b>\$ 1,164,123</b>
Interest Income	1,452	2,400	-	3,852	994
Dividend Income	4,768	-	4,768	4,768	4,768
Income & Gain on Sale of ISG	-	-	-	-	66,140
Less: General & Administrative Expenses	(206,376)	(181,661)	(109,524)	(388,037)	(197,457)
Less: Unit-Based Compensation Expense	(74,728)	48,051	4,450	(26,677)	20,423
<b>EBITDA</b>	<b>\$ 968,785</b>	<b>\$ 1,088,328</b>	<b>\$ 540,611</b>	<b>\$ 2,057,113</b>	<b>\$ 1,058,991</b>
Less: Finance Costs	(284,446)	(286,572)	(107,056)	(571,018)	(196,789)
<b>Funds From Operations (FFO)</b>	<b>\$ 684,339</b>	<b>\$ 801,756</b>	<b>\$ 433,555</b>	<b>\$ 1,486,095</b>	<b>\$ 862,202</b>
Less: Straight-Line Rent Adjustment	(19,194)	(20,914)	-	(40,108)	-
Less: Normalized TI/LCs & Capex	(35,901)	(35,076)	(23,116)	(70,977)	(40,616)
Less: Non-Cash Interest Expense	(11,316)	(8,224)	-	(19,540)	-
Add: Unit-Based Compensation Expense	74,728	(48,051)	(4,450)	26,677	(20,423)
<b>Adjusted Funds From Operations (AFFO)</b>	<b>\$ 692,656</b>	<b>\$ 689,490</b>	<b>\$ 405,989</b>	<b>\$ 1,382,147</b>	<b>\$ 801,163</b>
<b>FFO Per Unit</b>	<b>\$ 0.098</b>	<b>\$ 0.115</b>	<b>\$ 0.099</b>	<b>\$ 0.213</b>	<b>\$ 0.197</b>
<b>AFFO Per Unit</b>	<b>\$ 0.099</b>	<b>\$ 0.099</b>	<b>\$ 0.093</b>	<b>\$ 0.198</b>	<b>\$ 0.183</b>
<b>Distributions Per Unit</b>	<b>\$ 0.092</b>	<b>\$ 0.092</b>	<b>\$ 0.088</b>	<b>\$ 0.185</b>	<b>\$ 0.175</b>
<b>FFO Payout Ratio</b>	<b>95%</b>	<b>80%</b>	<b>89%</b>	<b>87%</b>	<b>89%</b>
<b>AFFO Payout Ratio</b>	<b>94%</b>	<b>93%</b>	<b>95%</b>	<b>94%</b>	<b>96%</b>
<b>Weighted Average Trust Units Outstanding</b>	<b>7,014,752</b>	<b>6,969,088</b>	<b>4,376,368</b>	<b>6,991,669</b>	<b>4,375,740</b>

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

Included within EBITDA for the six months ended June 30, 2013 is \$66,140 of income and gains received from the Trust's former wholly-owned subsidiary ISG Capital Corporation. As this income is non-recurring in nature, FFO on a stabilized basis for the six months ended June 30, 2013 would be \$0.182 and \$0.168 per Unit, respectively. This results in an FFO payout ratio of 96% and 104%, respectively. FFO and AFFO on a stabilized basis for the three and six months ended June 30, 2014 and three months ended March 31, 2014 would remain unchanged.

## MANAGEMENT DISCUSSION & ANALYSIS

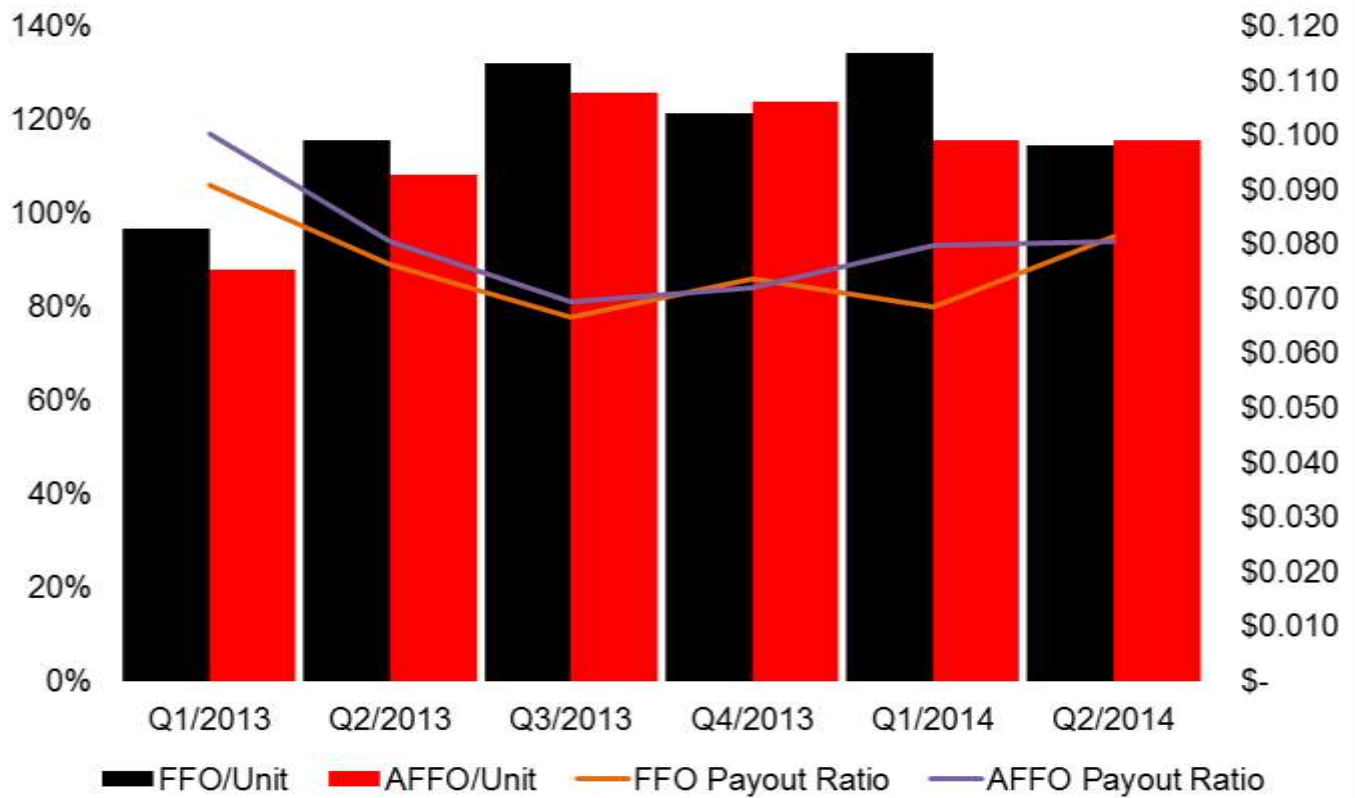
	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
<b>FFO</b>	\$ 684,339	\$ 801,756	\$ 433,555	\$ 1,486,095	\$ 862,202
Income & Gain on Sale of ISG	-	-	-	-	(66,140)
<b>Stabilized FFO</b>	\$ 684,339	\$ 801,756	\$ 433,555	\$ 1,486,095	\$ 796,062
Less: Straight-Line Rent Adjustment	(19,194)	(20,914)	-	(40,108)	-
Less: Normalized T/LLCs & Capex	(35,901)	(35,076)	(23,116)	(70,977)	(40,616)
Less: Non-Cash Interest Expense	(11,316)	(8,224)	-	(19,540)	-
Add: Unit-Based Compensation Expense	74,728	(48,051)	(4,450)	26,677	(20,423)
<b>Stabilized AFFO</b>	\$ 692,656	\$ 689,490	\$ 405,989	\$ 1,382,147	\$ 735,023
<b>Stabilized FFO Per Unit</b>	\$ 0.098	\$ 0.115	\$ 0.099	\$ 0.213	\$ 0.182
<b>Stabilized AFFO Per Unit</b>	\$ 0.099	\$ 0.099	\$ 0.093	\$ 0.198	\$ 0.168
<b>Distributions Per Unit</b>	\$ 0.092	\$ 0.092	\$ 0.088	\$ 0.185	\$ 0.175
<b>Stabilized FFO Payout Ratio</b>	95%	80%	89%	87%	96%
<b>Stabilized AFFO Payout Ratio</b>	94%	93%	95%	94%	104%
<b>Weighted Average Trust Units Outstanding</b>	7,014,752	6,969,088	4,376,368	6,991,669	4,375,740

The sequential variance in Stabilized FFO, Stabilized AFFO and Stabilized FFO per unit for the three months ended June 30, 2014 in comparison to the three months ended March 31, 2014 is largely due to higher unit-based compensation expense as a result of the issuance of 285,000 Trust unit options on June 23, 2014 at a weighted average exercise price of \$5.30 per Trust unit, higher G&A and finance costs, offset by higher NOI and interest income. The variance in comparing the three and six months ended June 30, 2014 over the three and six months ended June 30, 2013 is largely due to the acquisition of the Barrie Medical, Montreal Industrial and Centre Ice Retail Portfolios that occurred during 2013 and Q2/2014.

The sequential variance in the Stabilized AFFO per unit and the Stabilized AFFO payout ratio for the three months ended June 30, 2014 over the three months March 31, 2014 is largely due to higher G&A and finance costs, offset by higher NOI and interest income as well as marginal dilution from the \$7.3 million issuance of trust units as outlined below. On June 25, 2014, the Trust closed on the Centre Ice Retail Portfolio acquisition and as such, only received marginal accretive benefit from the acquisition for Q2/2014. On a pro forma basis, the Trust expects the Centre Ice Retail Portfolio acquisition to reduce the AFFO payout ratio to approximately 75% on an annualized basis, well below the Trust's targeted AFFO payout ratio of 85%.

Since Q1/2013; Stabilized FFO and AFFO per unit have steadily increased, while FFO and AFFO payout ratios have declined well below 100% as a result of the Trust's accretive acquisition program. Stabilized FFO and AFFO have increased by 18% and 32% to \$0.098 and \$0.099 per unit, respectively. Likewise, FFO and AFFO payout ratios have declined to 95% and 94% over that same period.

## MANAGEMENT DISCUSSION & ANALYSIS



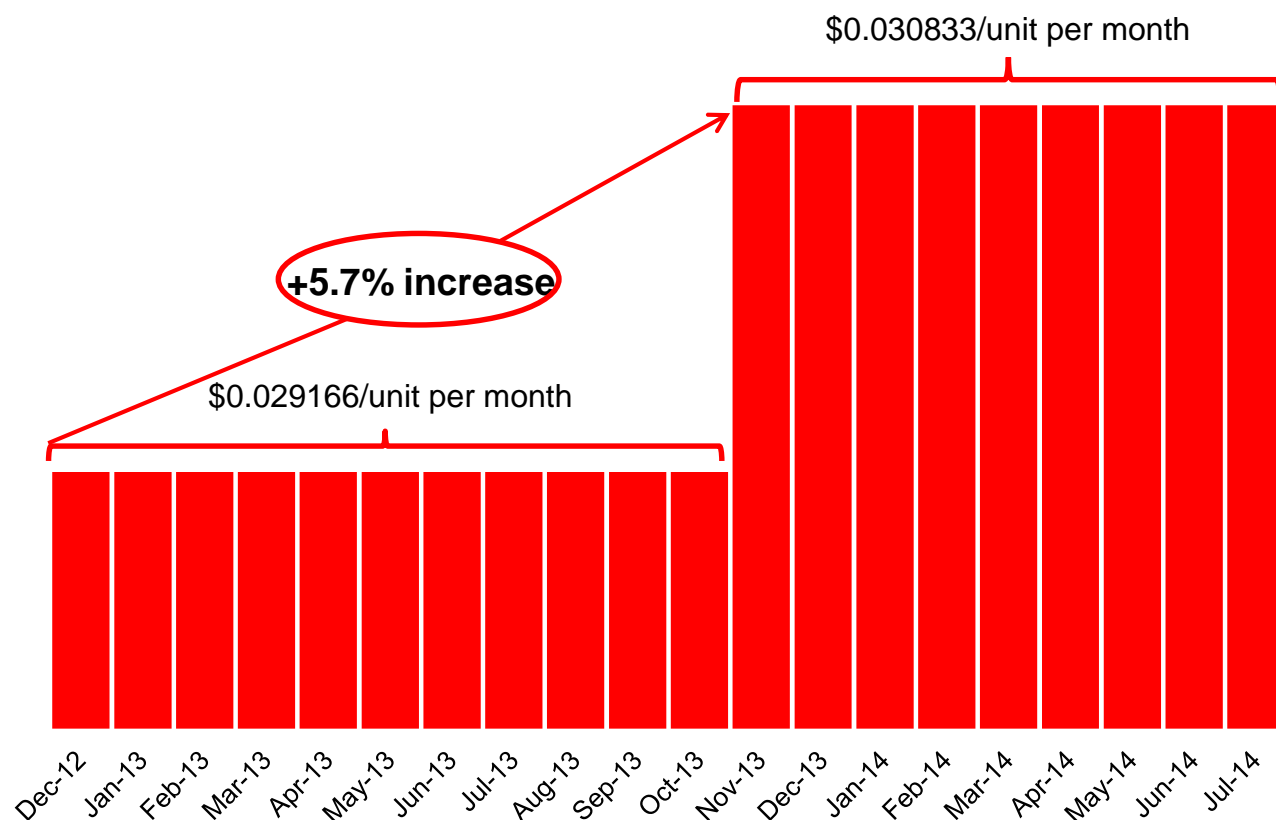
### DISTRIBUTIONS

For the six months ended June 30, 2014, distributions per unit of \$0.030833 were declared each month commencing in January 31, 2014 through to June 30, 2014 resulting in total distributions declared of \$1,293,442. For the six months ended June 30, 2013, distributions per unit of \$0.029166 were declared each month commencing January 31, 2013 through to June 30, 2013 resulting in total distributions declared of \$765,709.

On October 31, 2013, the Trust announced that its Board of Trustees has approved a 5.7% increase in its monthly distributions to \$0.030833 per unit from \$0.029166 per unit. On an annualized basis this equates to anticipated distributions of \$0.37 per unit up from \$0.35 per unit.

Outlined below are historical distributions paid by the Trust since inception in November, 2012.

## 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 / (deficiency) of cash flow from operating activities over distributions and net income and comprehensive income over distributions for the three months ended June 30, 2014, March 31, 2014, June 30, 2013 and six months ended June 30, 2014 and June 30, 2013 are outlined below:

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Cash Flow From Operating Activities	\$ 959,570	\$ 702,432	\$ 648,079	\$ 1,662,000	\$ 917,761
Net Income & Comprehensive Income	\$ 929,118	\$ 1,281,734	\$ 784,122	\$ 2,210,852	\$ 1,619,769
Distributions	\$ 648,911	\$ 644,531	\$ 382,922	\$ 1,293,442	\$ 765,709
Excess of Cash Flow From Operating Activities Over Distributions	\$ 310,659	\$ 57,901	\$ 265,157	\$ 368,558	\$ 152,052
Excess of Net Income & Comprehensive Income Over Distributions	\$ 280,207	\$ 637,203	\$ 401,200	\$ 917,410	\$ 854,060



## MANAGEMENT DISCUSSION & ANALYSIS

### SUMMARIZED OPERATING RESULTS

Rental revenue, other income, total revenue and net income since inception for the Trust are as follows:

	<b>Rental Revenue</b>	<b>Other Income</b>	<b>Total Revenue</b>	<b>Net Income</b>
<b>Q2/2014</b>	\$ 2,005,213	\$ 6,220	\$ 2,011,433	\$ 929,118
<b>Q1/2014</b>	\$ 2,015,208	\$ 2,400	\$ 2,017,608	\$ 1,281,734
<b>Q4/2013</b>	\$ 2,265,159	\$ 6,160	\$ 2,271,319	\$ 1,057,578
<b>Q3/2013</b>	\$ 1,504,844	\$ 50,494	\$ 1,555,338	\$ 1,144,667
<b>Q2/2013</b>	\$ 929,668	\$ 4,768	\$ 934,436	\$ 784,122
<b>Q1/2013</b>	\$ 814,461	\$ 67,134	\$ 881,595	\$ 835,646
<b>Q4/2012</b>	\$ 288,658	\$ 128,557	\$ 417,215	\$ 287,989

### INVESTMENT PROPERTIES

As at June 30, 2014, the Trust's property portfolio consists of 55 properties with a fair value of \$84.6 million, in comparison to the \$60.4 million reported for the year ended December 31, 2013. The variance is the result of the acquisition of the Centre Ice Retail Portfolio during Q2/2014 and increase in the overall fair value of the entire portfolio. The investment portfolio valuation is allocated by property type as follows:

	<b>Net Lease Convenience Retail</b>	<b>Core Service Provider Office</b>	<b>Industrial</b>	<b>Total</b>
Balance, December 31, 2012	\$ 27,205,000	\$ -	\$ -	\$ 27,205,000
Acquisitions	-	6,884,578	-	6,884,578
Fair Value Adjustment	608,387	158,815	-	767,202
Balance, June 30, 2013	\$ 27,813,387	\$ 7,043,393	\$ -	\$ 34,856,780
Acquisitions	-	-	24,408,219	24,408,219
Capital Expenditures	-	-	15,081	15,081
Fair Value Adjustment	464,064	58,425	586,542	1,109,031
Balance, December 31, 2013	\$ 28,277,451	\$ 7,101,818	\$ 25,009,842	\$ 60,389,111
Acquisitions	23,473,400	-	-	23,473,400
Capital Expenditures	-	-	39,861	39,861
Fair Value Adjustment	179,204	14,564	528,725	722,493
<b>Balance, June 30, 2014</b>	<b>\$ 51,930,055</b>	<b>\$ 7,116,382</b>	<b>\$ 25,578,428</b>	<b>\$ 84,624,865</b>

For the six months ended June 30, 2014, senior management of the Trust internally valued the Investment Properties using the overall capitalization method. 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 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.

## MANAGEMENT DISCUSSION & ANALYSIS

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Investment Properties measured at fair value are categorized by level according to the inputs used. The Trust has classified these inputs as Level 3. There have been no transfers into or out of Level 3 in the current year.

Significant unobservable inputs in Level 3 valuations are as follows:

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<b>Six Months Ended June 30, 2014</b>	<b>Net Lease Convenience Retail</b>	<b>Core Service Provider Office</b>	<b>Industrial</b>	<b>Weighted Average</b>
Capitalization Rate Range	6.5% - 8.33%	7.25%	7.75%	7.68%
Weighted Average Capitalization Rate	7.71%	7.25%	7.75%	7.68%
Weighted Average Stabilized NOI	\$ 1,258,496	\$ 515,938	\$ 1,982,328	\$ 1,415,904

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### CURRENT ASSETS

Current assets as at June 30, 2014, March 31, 2014 and December 31, 2013 consist of the following:

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	<b>June 30, 2014</b>	<b>March 31, 2014</b>	<b>December 31, 2013</b>
Accounts Receivable	\$ 372,193	\$ 355,883	\$ 241,928
Prepaid Expenses	230,111	322,807	146,600
Deposits	3,925	703,925	3,924
Marketable Securities	246,386	250,320	239,354
Restricted Cash	42,005	-	-
Cash	709,969	3,950,927	432,560
	<b>\$ 1,604,589</b>	<b>\$ 5,583,863</b>	<b>\$ 1,064,366</b>

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Accounts receivable consist mainly of tenant receivables and Harmonized Sales Tax (“HST”) and Quebec Sales Tax (“QST”) recoveries from the Canada Revenue Agency and Revenue Quebec, respectively.

Prepaid expenses consist mainly of prepaid property taxes and insurance.

Deposits typically consist of utility deposits and amounts paid on potential real estate transactions. The sequential decline over the quarter was the result of the utilization of a deposit on the Centre Ice Retail Portfolio upon acquisition during Q2/2014.

Marketable securities consist of securities the Trust has acquired for investment purposes.

## MANAGEMENT DISCUSSION & ANALYSIS

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.

The sequential decrease in cash over March 31, 2014 is largely due to the closing of the Centre Ice Retail Portfolio acquisition.

### 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 full amount available under the Facility was \$15 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 of November 29, 2014.

Bank Indebtedness as at June 30, 2014 (with comparatives as at December 31, 2013) is as follows:

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	June 30, 2014	December 31, 2013
Bank Indebtedness, Opening	\$ 2,510,472	\$ 5,536,119
Add: Net Draws / (Repayments)	3,564,395	(3,071,363)
Less: Finance Fees	(10,064)	(4,090)
Add: Amortization - Finance Fees	59,870	49,806
<b>Bank Indebtedness, Closing</b>	<b>\$ 6,124,673</b>	<b>\$ 2,510,472</b>

The sequential increase in bank indebtedness over December 31, 2013 is largely due to the acquisition of the Centre Ice Retail Portfolio, whereby proceeds from the Facility were utilized to close on the acquisition.

### MORTGAGES PAYABLE

The acquisition of the Centre Ice Retail Portfolio was financed, in part, with one assumed and one new first mortgage financing for total proceeds of \$18.2 million. The Trust’s pro rata obligation in the assumed and new first mortgage financings is approximately \$12.7 million. The assumed first mortgage financing has a total balance outstanding of \$14.5 million with a weighted average term to maturity of 1.5 years and a 5.3% interest rate. As part of the assumption of this mortgage, a \$0.4 million interest rate pay down was provided by the vendor. The new first mortgage financing has a total balance outstanding of \$3.7 million with a weighted average term to maturity of 1.5 years and a 4.5% interest rate.

As at June 30, 2014, total outstanding mortgages stood at \$40,538,805 (\$27,928,471 as at December 31, 2013) (net of unamortized financing costs of \$153,448 (\$129,264 as at December 31, 2013), offset by a \$434,612 (\$178,812 as at December 31, 2013)) fair value adjustment with a weighted average contractual interest rate of approximately 4.3% and weighted average repayment term of approximately 3.3 years. The mortgages are repayable as follows:

## MANAGEMENT DISCUSSION & ANALYSIS

	Scheduled Principal Repayments	Debt Maturing During The Period	Total Mortgages Payable	Scheduled Interest Payments
2014 (remainder of)	\$ 608,426	\$ -	\$ 608,426	\$ 755,180
2015	1,304,022	2,062,433	3,366,455	1,579,323
2016	749,995	11,889,278	12,639,273	967,979
2017	781,116	-	781,116	886,435
2018	523,529	19,760,880	20,284,409	559,949
Thereafter	379,614	2,198,348	2,577,962	304,462
<b>Face Value</b>	<b>\$ 4,346,702</b>	<b>\$ 35,910,939</b>	<b>\$40,257,641</b>	<b>\$ 5,053,326</b>
Unamortized Financing Costs			(153,448)	
Fair Value Adjustment on Assumed Mortgages			434,612	
<b>Total Mortgages</b>			<b>\$40,538,805</b>	

	June 30, 2014	December 31, 2013
Current:		
Mortgages	\$ 1,176,358	\$ 723,506
Unamortized Financing Costs	(34,107)	(43,365)
Fair Value Adjustment on Assumed Mortgages	218,003	32,456
	\$ 1,360,254	\$ 712,597
Non-Current:		
Mortgages	39,081,283	27,155,417
Unamortized Financing Costs	(119,341)	(85,899)
Fair Value Adjustment on Assumed Mortgages	216,609	146,356
	\$ 39,178,551	\$ 27,215,874
	<b>\$40,538,805</b>	<b>\$ 27,928,471</b>

### ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at June 30, 2014, March 31, 2014 and as at December 31, 2013 are \$1,326,575, \$848,566 and \$911,778, respectively, and consist of the following:

## MANAGEMENT DISCUSSION & ANALYSIS

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	June 30, 2014	March 30, 2014	December 31, 2013
Professional Fees	\$ 44,250	\$ 108,726	\$ 128,965
Utilities, Repairs & Maintenance, Other	993,141	559,694	566,453
Due to Asset & Property Manager	54,462	54,626	44,632
Accrued Interest Expense	86,228	51,754	49,911
Option Liabilities	148,494	73,766	121,817
	<b>\$ 1,326,575</b>	<b>\$ 848,566</b>	<b>\$ 911,778</b>

Professional fees represent amounts payable for legal and audit advisory fees.

Utilities, Repairs & Maintenance, Other consist of utility costs, property taxes, repairs and maintenance, HST payables to CRA and QST payables to Revenue Quebec. The majority of the balance as at June 30, 2014 relates to HST and QST payables, with the remainder comprised of utility costs, property taxes, repairs and maintenance.

Due to Asset & Property Manager represent amounts payable to FCRPI and 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 June 30, 2014, 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 of grant and expire on November 29, 2017. During the six months ended June 30, 2014, 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 six month period June 30, 2014 and stands at an expense of \$26,677. Unit-based compensation was determined based on the change in fair value of the options with the following assumptions:

## MANAGEMENT DISCUSSION & ANALYSIS

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### Six Months Ended June 30, 2014

Expected Option Life (Years)	1.0
Risk Free Interest Rate	1.02%
Distribution Yield	7.40%
Expected Volatility	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 June 30, 2014 was \$37,480,057 and consists of the following:

	Number of Units	Unitholder's Equity
Non-Brokered Private Placement	2,000,000	\$ 10,000,000
ISG Share/Trust Unit Conversion	2,374,467	11,872,335
Less: Issue Costs		(870,795)
Add: Net Income		287,989
Less: Distributions		(127,586)
<b>Unitholders' Equity, December 31, 2012</b>	<b>4,374,467</b>	<b>\$ 21,161,943</b>
Non-Brokered Private Placement	1,250,768	6,378,917
Less: Issue Costs		(113,584)
Issuance of Units from DRIP	8,765	45,150
Add: Net Income		3,822,015
Less: Distributions		(1,733,739)
<b>Unitholders' Equity, December 31, 2013</b>	<b>5,634,000</b>	<b>\$ 29,560,702</b>
Non-Brokered Private Placement	1,376,780	7,296,934
Less: Issue Costs		(316,378)
Issuance of Units from DRIP	4,036	21,389
Add: Net Income		2,210,852
Less: Distributions		(1,293,442)
<b>Unitholders' Equity, June 30, 2014</b>	<b>7,014,816</b>	<b>\$ 37,480,057</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.

## MANAGEMENT DISCUSSION & ANALYSIS

As at August 12, 2014, there were 7,014,876 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 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 three months ended June 30, 2014, March 31, 2014 and June 30, 2013, and for the six months ended June 30, 2014 and June 30, 2013, the following fees were paid to FCRPI:

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Asset Management Fees	\$ 118,134	\$ 115,109	\$ 69,836	\$ 233,244	\$ 128,778
Acquisition Fees	169,297	-	50,250	169,297	50,250
Placement Fees	24,630	-	20,825	24,630	20,825
	<b>\$ 312,061</b>	<b>\$ 115,109</b>	<b>\$ 140,911</b>	<b>\$ 427,171</b>	<b>\$ 199,853</b>

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 asset management fees in comparing the three month period ended June 30, 2014 over the three month period ended March 31, 2014 is largely due to the Centre Ice Retail Portfolio acquisition. The variance in comparing the three and six months ended June 30, 2014 over the three and six month period ended June 30, 2013 is largely due to the acquisitions of the Barrie Medical, Montreal Industrial and Centre Ice Retail properties.

Acquisition Fees are paid on every acquisition and are based on 0.75% of the first \$100 million of GBV of acquisitions. The variance in acquisition fees in comparing the three month period ended June 30, 2014 over the three month period ended March 31, 2014 is due to the Centre Ice Retail Portfolio acquisition. The acquisition fees paid during the three and six month period ending June 30, 2013 relate to the Barrie Medical property acquisition.

Placement Fees are paid on financings undertaken by FCRPI and are based on 0.25% of the aggregate value of all debt and financings arranged. The variance in placement fees in comparing the three month period ended June 30, 2014 over the three month period ended March 31, 2014 is largely due to the fees paid on the \$7.3 million private placement

## MANAGEMENT DISCUSSION & ANALYSIS

as well as the placement of the new mortgage financing on the Centre Ice Retail Portfolio. The placement fees paid during the three and six month period ending June 30, 2013 relate to the Barrie Medical property acquisition.

### PROPERTY MANAGEMENT AGREEMENT

The Trust has entered into a Property Management agreement with FCPI, an entity 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 Property Management agreement are posted on SEDAR ([www.SEDAR.com](http://www.SEDAR.com)) and in the notes to the financial statements.

For the three months ended June 30, 2014, March 31, 2014 and June 30, 2013, and for the six months ended June 30, 2014 and June 30, 2013, the following fees were paid to FCPI:

	Three Months Ended			Six Months Ended	
	June 30, 2014	March 31, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Property Management Fees	\$ 86,272	\$ 86,517	\$ 50,235	\$ 172,789	\$ 86,230
Commercial Leasing Fees	7,395	1,333	2,837	8,728	2,837
	<b>\$ 93,667</b>	<b>\$ 87,850</b>	<b>\$ 53,072</b>	<b>\$ 181,517</b>	<b>\$ 89,067</b>

Property Management Fees are charged monthly. The variance in property management fees over the three and six month period ended June 30, 2014 is largely due to the acquisitions of the Montreal Industrial and Centre Ice Retail portfolios in comparison to the three and six month period ended June 30, 2013 which includes just the fees to property manage the net lease convenience retail portfolio and the Barrie Medical property.

Commercial leasing and renewal fees are charged on a per lease basis. During Q2/2014, 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.



## MANAGEMENT DISCUSSION & ANALYSIS

### 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 condensed consolidated interim subsidiaries, as shown on its then most recent condensed consolidated interim 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 condensed consolidated interim subsidiaries may be used instead of book value." As at June 30, 2014 and December 31, 2013, the ratio of such indebtedness to gross book value was 54.1% and 49.5%, respectively, which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

The increase in debt/GBV over Q4/2013 is largely due to the acquisition of the Centre Ice Retail Portfolio.

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 for the three and six month period ending June 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	\$ 6,133,060	\$ -	\$ -	\$ 6,133,060
Mortgages	2,291,653	8,002,864	29,963,124	40,257,641
Tenant Rental Deposits	102,043	93,543	347,470	543,056
Distribution Payable	216,288	-	-	216,288
Accounts Payable & Accrued Liabilities	1,326,575	-	-	1,326,575
	<b>\$ 10,069,619</b>	<b>\$ 8,096,407</b>	<b>\$ 30,310,594</b>	<b>\$48,476,620</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 "**Plan**").

#### DISTRIBUTION REINVESTMENT PLAN ("**DRIP**")

## **MANAGEMENT DISCUSSION & ANALYSIS**

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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 six months ended June 30, 2014 and June 30, 2013, 4,036 and 1,901 Trust Units were issued, respectively, from treasury for total gross proceeds of \$21,389 and \$9,871, respectively, to Unitholders who elected to receive their distributions under the DRIP. No Trust Units were issued under the UPP.

### **UNIT PURCHASE PLAN**

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

For the six months ended June 30, 2014 and June 30, 2013, no trust units were issued under the Unit Purchase Plan.

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 DIRECTORS**

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 June 30, 2014 and June 30, 2013.

### **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

## **MANAGEMENT DISCUSSION & ANALYSIS**

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procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at June 30, 2014 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 June 30, 2014. 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 months ended June 30, 2014 that would have materially affected or would be reasonably likely to materially affect the Trust's internal controls over financial reporting.

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**

The 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, 2013 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 at the date of the financial statements 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, 2013, 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, 2013 and accordingly should be read in conjunction with them.

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

## MANAGEMENT DISCUSSION & ANALYSIS

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A number of new standards, amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2015 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 financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2015 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 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, 2015.

The Trust is currently evaluating the impact of this new and amended standard on its audited annual consolidated financial statements.

### SUBSEQUENT EVENTS

The following are events announced by the Trust subsequent to June 30, 2014:

- On July 15, 2014, the Trust distributed monthly cash distributions of \$0.030833 per Trust unit to unitholders of record at the close of business on June 30, 2014.

### 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

## MANAGEMENT DISCUSSION & ANALYSIS

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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.

- **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

## MANAGEMENT DISCUSSION & ANALYSIS

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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 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

## MANAGEMENT DISCUSSION & ANALYSIS

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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 our practice to regularly inspect tenant premises that may be subject to environmental risk.

- ***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.

- ***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

## MANAGEMENT DISCUSSION & ANALYSIS

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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.

- ***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



## MANAGEMENT DISCUSSION & ANALYSIS

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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 controlled by an insider of the Trust. Further, the Trustees and Officers may co-invest in property acquisitions and 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

## MANAGEMENT DISCUSSION & ANALYSIS

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

## OUTLOOK

Through the remainder of 2014, the Trust expects access to the capital markets to remain open to well capitalized entities that have a strong balance sheet and have sufficient cash flows to fund monthly distributions. Access to conventional mortgage financing is expected to remain strong however we continue to anticipate seeing higher than normal volatility in underlying interest rates but do not expect that rates will significantly be higher than they were in 2013.

While the extreme winter conditions had a negative impact on the Canadian economy during the first half of 2014, management's future expectations for economic growth is that it will be similar or slightly lower to 2013, however, the Trust does not view this as an impediment to our growth or expect it to materially impact our performance in 2014. Management continues to believe that

## **MANAGEMENT DISCUSSION & ANALYSIS**

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the Trust is well positioned with a strong balance sheet to take advantage of opportunities as they arise.

On June 25, 2014, the Trust completed the Centre Ice Retail Portfolio acquisition for \$23.5 million which increased the Trust's portfolio from 30 to 55 properties and the overall GLA of the Trust's portfolio by 24%, while improving the overall credit quality of the Trust's entire portfolio. On a pro forma basis, the Trust expects the Centre Ice Retail Portfolio acquisition to reduce the AFFO payout ratio to approximately 75% on an annualized basis.

The Trust continues to target multi-residential, industrial and flex industrial, net lease convenience and stand-alone retail, core service provider and healthcare professional office assets across Canada. We expect to predominately grow through external acquisitions during 2014 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, however these initiatives will take time to implement. The Trust is committed to remaining focused on its portfolio in order to preserve and improve occupancy levels 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.