

Condensed Consolidated Interim Financial Statements of

**FIRM CAPITAL PROPERTY TRUST**

For the Three Months Ended March 31, 2015  
(Unaudited)

# **FIRM CAPITAL PROPERTY TRUST**

For the Three Months Ended March 31, 2015  
(Unaudited)

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The accompanying unaudited condensed consolidated interim financial statements of Firm Capital Property Trust for the three months ended March 31, 2015 have been prepared by and are the responsibility of management. These unaudited condensed consolidated interim financial statements, together with the accompanying notes, have been reviewed and approved by members of Firm Capital Property Trust's audit committee. In accordance with National Instrument 51 – 102, Firm Capital Property Trust discloses that these unaudited condensed consolidated interim financial statements have not been reviewed by Firm Capital Property Trust's auditors.

# FIRM CAPITAL PROPERTY TRUST

Condensed Consolidated Interim Balance Sheet  
(Unaudited)

	Notes	March 31, 2015	December 31, 2014
<b>Assets</b>			
Non-Current Assets:			
Investment Properties	4	\$ 91,393,356	\$ 91,187,752
Current Assets:			
Accounts Receivable		573,192	522,653
Prepaid Expenses, Deposits & Other Assets		614,420	252,057
Marketable Securities		229,698	212,772
Restricted Cash		105,005	84,005
Cash		4,653,144	2,445,297
Total Current Assets		6,175,459	3,516,784
Total Assets		\$ 97,568,815	\$ 94,704,536
<b>Liabilities &amp; Unitholders' Equity</b>			
Current Liabilities:			
Distribution Payable		\$ 314,770	\$ 296,185
Accounts Payable & Accrued Liabilities	5	1,594,446	1,529,899
Bank Indebtedness	6	-	-
Mortgages	7	15,278,406	3,584,731
Total Current Liabilities		17,187,622	5,410,815
Non-Current Liabilities			
Tenant Rental Deposits		612,316	610,731
Mortgages	7	28,426,530	40,501,566
Total Non-Current Liabilities		29,038,846	41,112,297
Total Liabilities		46,226,468	46,523,112
Unitholders' Equity		51,342,347	48,181,424
Total Liabilities and Unitholders' Equity		\$ 97,568,815	\$ 94,704,536

See accompanying Notes to Condensed Consolidated Interim Financial Statements

Approved by the Board of Trustees

(signed) "Robert McKee"      (signed) "Sandy Poklar"

Robert McKee

Sandy Poklar

CEO & Trustee

CFO & Trustee

## FIRM CAPITAL PROPERTY TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

	Notes	March 31, 2015	March 31, 2014
Net Operating Income			
Rental Revenue	9	\$ 2,990,079	\$ 2,015,208
Property Operating	11	(1,283,537)	(795,670)
		\$ 1,706,542	\$ 1,219,538
Other Income			
Interest & Dividend Income		3,116	2,400
Other Income		1,152	-
		\$ 4,268	\$ 2,400
Expenses:			
Finance Costs	10	440,201	286,572
General & Administrative	11	222,399	181,661
Unit-Based Compensation Expense / (Recovery)	8(f)	80,984	(48,051)
		\$ 743,584	\$ 420,182
Income Before Fair Value Adjustments		967,226	801,756
Fair Value Adjustments:			
Investment Properties	4	121,720	469,012
Marketable Securities		16,926	10,966
Net Income & Comprehensive Income		\$ 1,105,872	\$ 1,281,734

See accompanying Notes to Condensed Consolidated Interim Financial Statements

## FIRM CAPITAL PROPERTY TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

	Notes	Trust Units (Note 8)	Retained Earnings	Unitholders' Equity
Unitholders' Equity, December 31, 2013		\$ 27,312,023	\$ 2,248,679	\$ 29,560,702
Issuance of Units, Net of Issuance Costs	8(c)	7,017,914	-	7,017,914
Issuance of Units from Distribution Reinvestment Plan	8(g)	20,016	-	20,016
Net Income & Comprehensive Income		-	1,281,734	1,281,734
Distributions	8(h)	-	(644,531)	(644,531)
Unitholders' Equity, March 31, 2014		\$ 34,349,953	\$ 2,885,882	\$ 37,235,835
Issuance Costs	8(c)	(41,581)	-	(41,581)
Issuance of Units, Net of Issuance Costs	8(d)	9,626,726	-	9,626,726
Issuance of Units from Distribution Reinvestment Plan	8(g)	34,448	-	34,448
Issuance of Units from Unit Purchase Plan	8(g)	1,000	-	1,000
Net Income & Comprehensive Income		-	3,443,908	3,443,908
Distributions	8(h)	-	(2,118,912)	(2,118,912)
Unitholders' Equity, December 31, 2014		\$ 43,970,546	\$ 4,210,878	\$ 48,181,424
Issuance of Units, Net of Issuance Costs	8(e)	2,959,265	-	2,959,265
Issuance of Units from Distribution Reinvestment Plan	8(g)	1,936	-	1,936
Issuance of Units from Unit Purchase Plan	8(g)	1,000	-	1,000
Net Income & Comprehensive Income		-	1,105,872	1,105,872
Distributions	8(h)	-	(907,150)	(907,150)
Unitholders' Equity, March 31, 2015		\$ 46,932,747	\$ 4,409,600	\$ 51,342,347
Trust Units Outstanding				9,443,198

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# FIRM CAPITAL PROPERTY TRUST

Condensed Consolidated Interim Statements of Cash Flows  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

	Notes	March 31, 2015	March 31, 2014
<b>Cash Flows from (used in) Operating Activities</b>			
Net Income		\$ 1,105,872	\$ 1,281,734
Fair Value Adjustments:			
Investment Properties	4	(121,720)	(469,012)
Marketable Securities		(16,926)	(10,966)
Unit-Based Compensation Expense / (Recovery)	8(f)	80,984	(48,051)
Finance Costs, Net of Other Income		435,933	280,666
Finance Fee Amortization	10	33,773	11,729
Non-Cash Interest Expense	10	(10,706)	(8,224)
Straight Line Rent Adjustment		(30,823)	(20,914)
Free Rent, Net of Amortization		(9,074)	-
<b>Change in Non-Cash Operating Working Capital:</b>			
Accounts Receivable		(19,716)	(93,041)
Prepaid Expenses & Other Assets		(353,289)	(176,208)
Restricted Cash		(21,000)	-
Accounts Payable and Accrued Liabilities		(16,435)	(15,161)
Tenant Rental Deposits		1,584	21,634
Interest Accrual		(2,055)	(51,754)
Deposits		-	(700,001)
		\$ 1,056,402	\$ 2,431
<b>Cash Flows from (used in) Financing Activities</b>			
Issuance of Units, Net of Issuance Costs	8	2,962,201	7,017,914
Repayment of Bank Indebtedness	6	-	(2,510,472)
Mortgages, Repayments	7	(404,428)	(168,873)
Cash Interest Paid, Net of Other Income		(433,878)	(240,641)
Cash Distributions Paid		(888,566)	(581,992)
		\$ 1,235,329	\$ 3,515,936
<b>Cash Flows from (used in) Investing Activities</b>			
Acquisition of Investment Properties and Capital Expenditures, Incl. Closing Costs	3,4	(83,884)	-
		\$ (83,884)	\$ -
Increase in Cash		2,207,847	3,518,367
Cash, Beginning of Period		2,445,297	432,560
Cash, End of Period		\$ 4,653,144	\$ 3,950,927

See accompanying Notes to Condensed Consolidated Interim Financial Statements

# FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

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## 1. The Trust

Firm Capital Property Trust (the “Trust” or the “REIT”) is an unincorporated open-ended real estate investment trust established on August 30, 2012 under the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated November 20, 2012. The Trust is a “mutual fund trust” as defined in the Income Tax Act (Canada), 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. These condensed consolidated interim financial statements were approved by the Board of Trustees on May 4, 2015.

The Trust owns 100% of the outstanding Class A Limited Partnership Units of Firm Capital Property Limited Partnership (“FCPLP”), a limited partnership created under the laws of the Province of Ontario. FCPLP ultimately owns the investment properties through various subsidiaries. The Trust is the reporting issuer trading on the TSX Venture Exchange under the ticker symbol FCD.UN.

## 2. Summary of Significant Accounting Policies

### (a) Statement of Compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard (“IAS”) 34 – Interim Financial Reporting as issued by the International Accounting Standards Board (“IASB”). Accordingly, certain information and note disclosures normally included in annual financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed and accordingly, these financial statements should be read in conjunction with the annual financial statements of the Trust as at and for the year ended December 31, 2014. The condensed consolidated interim financial statements have been prepared using the same accounting policies and methods as those used in the consolidated financial statements for the year ended December 31, 2014. These condensed consolidated interim financial statements have not been audited or reviewed.

### (b) Basis of Consolidation

The condensed consolidated interim financial statements comprise the financial statements of the Trust and its subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting periods as the Trust, using consistent accounting policies. All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

### (c) Basis of Presentation, Measurement and Significant Accounting Policies

The condensed consolidated interim financial statements are prepared on a going concern basis and have been presented in Canadian dollars, which is the Trust’s functional currency. The condensed consolidated interim financial statements are prepared on the historical cost basis with the exception of investment properties, marketable securities, cash and the liabilities related to unit based compensation expense, which are measured at fair value. The accounting policies set out below have been applied consistently as presented in the audited consolidated financial statements as at December 31, 2014. Standards issued but not yet effective for the current accounting period are described in note 2(f).

# FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

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## **(d) Estimates**

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

## **(e) Critical Judgments**

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

## **(f) Future Changes in Accounting Policies**

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

- i. IFRS 7 - Financial Instruments: Disclosures ("IFRS 7") was amended in October 2010. The amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of and risks associated with an entity's continuing involvement in derecognized financial assets and the offsetting of financial assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2018 and are required to be applied in accordance with the standard.
- i. 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 ("FVTPL"). When an entity elects to measure a financial liability at fair value, gains or losses due to changes in the credit risk of the instrument must be recognized in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.
- ii. IFRS 15 – Revenue from Contracts with Customers ("IFRS 15). In May 2014, the IASB issued IFRS 15, which replaces IAS 11 - Construction Contracts, IAS 18 - Revenue and IFRIC 13 - Customer Loyalty Programs, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 is to be applied retrospectively for annual periods beginning on or after January 1, 2017.



# FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

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

### 3. Acquisition of Investment Properties

On June 25, 2014, the Trust acquired a 70% undivided interest in 25 retail buildings comprised of 230,822 square feet located across Canada (the "Centre Ice Retail Portfolio"). The total acquisition cost for the Trust's 70% interest in the portfolio was \$23,473,400 (including transaction costs). In addition, restricted cash of \$42,005, accounts receivables of \$54,272, net of accounts payable of \$537,694, tenant rental deposits of \$145,593 and a mortgage with a face amount of \$10,153,386 (excluding a \$278,506 fair value adjustment in the form of an interest rate buy down) were assumed as part of the acquisition. The remaining 30% was acquired by an entity that is indirectly related to certain trustees of the Trust.

On November 26, 2014, the Trust acquired a 50% undivided interest in a 135 unit multi-residential complex located in Ottawa, Ontario ("Ottawa Apartment Complex"). The total acquisition cost for the Trust's 50% interest in the portfolio was \$5,738,538 (including transaction costs). In addition, accounts receivable of \$9,812, net of tenant rental deposits of \$53,620 and a mortgage with a face amount of \$2,426,029 (net of assumption costs and a \$84,299 fair value adjustment) were assumed as part of the acquisition. The remaining 50% was acquired by an entity that is indirectly related to certain trustees of the Trust.

The acquisitions have been accounted for as asset acquisitions using the acquisition method, with the results of operations included in the Trust's accounts from the date of acquisition. Net assets acquired during the respective periods are as follows:

	Period Ended		Year Ended	
	March 31,		December 31,	
	2015		2014	
Investment Properties, including Acquisition Costs	\$	-	\$	29,296,237
Restricted Cash		-		42,005
Accounts Receivable		-		64,084
Prepaid Expenses		-		-
Accounts Payable		-		(537,694)
Tenant Rental Deposits		-		(199,213)
Assumed Mortgage at Fair Value		-		(12,942,221)
Net Assets Acquired	\$	-	\$	15,723,198
Consideration Paid, Funded By:				
Bank Indebtedness	\$	-	\$	6,133,060
Mortgages		-		4,274,491
Cash		-		5,315,647
	\$	-	\$	15,723,198

# FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

## 4. Investment Properties

	Net Lease Convenience Retail	Core Service Provider Office	Industrial	Multi- Residential	Total
Balance, December 31, 2013	\$ 28,277,451	\$ 7,101,818	\$ 25,009,842	\$ -	\$ 60,389,111
Fair Value Adjustment	146,303	-	322,708	-	469,012
Balance, March 31, 2014	\$ 28,423,754	\$ 7,101,818	\$ 25,332,550	\$ -	\$ 60,858,123
Acquisitions	23,473,400	-	-	5,822,837	29,296,237
Capital Expenditures	35,964	3,373	177,516	-	216,853
Fair Value Adjustment	666,339	(47,886)	282,386	(84,299)	816,540
Balance, December 31, 2014	\$ 52,599,457	\$ 7,057,305	\$ 25,792,452	\$ 5,738,538	\$ 91,187,752
Capital Expenditures	35,147	-	43,128	5,609	83,884
Fair Value Adjustment	300,826	(129,899)	(43,598)	(5,609)	121,720
Balance, March 31, 2015	\$ 52,935,430	\$ 6,927,406	\$ 25,791,982	\$ 5,738,538	\$ 91,393,356

For the period ended March 31, 2015, senior management of the Trust 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 net operating income ("Stabilized NOI"). Stabilized NOI incorporates allowances for vacancy, management fees and structural reserves for tenant inducements and capital expenditures and is capped at a rate deemed appropriate for each investment property. Capitalization rates are based on many factors, including but not limited to the asset location, type, size and quality of the asset and taking into account any available market data at the valuation date.

Investment Properties measured at fair value are categorized by level according to the inputs used. The Trust has classified these inputs as Level 3. 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:

	Net Lease Convenience Retail	Core Service Provider Office	Industrial	Multi- Residential	Weighted Average
<b>Period Ended March 31, 2015</b>					
Capitalization Rate Range	6.5% - 7.75%	7.25%	7.75%	5.98%	7.34%
Weighted Average Capitalization Rate	7.34%	7.25%	7.75%	5.98%	7.34%
Weighted Average Stabilized NOI	\$ 1,192,801	\$ 502,237	\$ 1,998,878	\$ 343,263	\$ 1,315,369

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

# FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
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The fair value of the Trust's investment properties is sensitive to changes in the significant unobservable inputs. Changes in certain inputs would result in a change to the fair value of the Trust's investment properties as set out in the following table:

		Period Ended March 31, 2015	
Weighted Average		Increase/(Decrease) in Valuation	
- Capitalization Rate	25 basis point increase	\$	(3,007,000)
- Capitalization Rate	25 basis point decrease	\$	3,222,000

Generally, an increase in NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI.

## 5. Accounts Payable & Accrued Liabilities

Accounts payable and accrued liabilities as at March 31, 2015 and as at December 31, 2014 are \$1,594,446 and \$1,529,899, respectively, and consist of the following:

	March 31, December 31, 2015 2014	
Professional Fees	\$ 74,441	\$ 58,115
Utilities, Repairs & Maintenance, Other	1,035,309	993,468
Due to Asset & Property Manager (notes 12(a) and 12(b))	42,748	115,297
Accrued Interest Expense	149,148	151,203
Option Liabilities (note 8(f))	292,800	211,816
Accounts Payable & Accrued Liabilities	\$ 1,594,446	\$ 1,529,899

## 6. Bank Indebtedness

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

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

## FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

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

### 7. Mortgages

As at March 31, 2015, total outstanding mortgages stood at \$43,704,936 (\$44,086,297 as at December 31, 2014), (net of unamortized financing costs of \$146,616 (\$162,592 as at December 31, 2014)), offset by a \$357,505 (\$414,433 as at December 31, 2014) fair value adjustment with a weighted average interest rate of approximately 4.2% (4.2% as at December 31, 2014) and weighted average repayment term of approximately 2.8 years (3.0 years as at December 31, 2014). The mortgages are repayable as follows:

	<b>Scheduled Principal Repayments</b>	<b>Debt Maturing During The Period</b>	<b>Total Mortgages Payable</b>	<b>Scheduled Interest Payments</b>
2015	\$ 1,017,449	\$ 2,056,428	\$ 3,073,877	\$ 1,286,898
2016	850,117	11,840,154	12,690,271	1,113,121
2017	832,275	1,750,000	2,582,275	1,031,217
2018	574,188	19,737,909	20,312,097	632,607
2019	200,676	-	200,676	205,706
Thereafter	340,921	4,293,930	4,634,851	327,275
Face Value	\$ 3,815,626	\$ 39,678,421	\$ 43,494,047	\$ 4,596,824
Unamortized Financing Costs			(146,616)	
Fair Value Adjustment on Assumed Mortgages			357,505	
<b>Total Mortgages</b>			<b>\$ 43,704,936</b>	

	<b>March 31, 2015</b>	<b>December 31, 2014</b>
Current:		
Mortgages	\$ 15,160,806	\$ 3,414,286
Unamortized Financing Costs	(58,642)	(52,566)
Fair Value Adjustment on Assumed Mortgages	176,242	223,011
	<b>\$ 15,278,406</b>	<b>\$ 3,584,731</b>
Non-Current:		
Mortgages	\$ 28,333,241	\$ 40,420,170
Unamortized Financing Costs	(87,974)	(110,026)
Fair Value Adjustment on Assumed Mortgages	181,263	191,422
	<b>\$ 28,426,530</b>	<b>\$ 40,501,566</b>
<b>Total Mortgages</b>	<b>\$ 43,704,936</b>	<b>\$ 44,086,297</b>

# FIRM CAPITAL PROPERTY TRUST

Notes to Condensed Consolidated Interim Financial Statements  
For the Three Months Ended March 31, 2015 and March 31, 2014  
(Unaudited)

## 8. Unitholders' Equity

### (a) Issued & Outstanding

	Number of Units	Amount
Balance, December 31, 2013	5,634,000	\$ 27,312,023
Non-Brokered Private Placement (note 8(c))	1,376,780	7,296,934
Less: Issue Costs	-	(279,020)
Issuance of Units from Distribution Reinvestment Plan (note 8(g))	3,777	20,016
Balance, March 31, 2014	7,014,557	\$ 34,349,953
Non-Brokered Private Placement (note 8(d))	1,864,445	9,974,781
Less: Issue Costs	-	(389,636)
Issuance of Units from Distribution Reinvestment Plan (note 8(g))	6,438	34,448
Issuance of Units from Unit Purchase Plan (note 8(g))	198	1,000
Balance, December 31, 2014	8,885,638	\$ 43,970,546
Non-Brokered Private Placement (note 8(e))	557,008	2,979,993
Less: Issue Costs	-	(20,728)
Issuance of Units from Distribution Reinvestment Plan (note 8(g))	358	1,936
Issuance of Units from Unit Purchase Plan (note 8(g))	194	1,000
Balance, March 31, 2015	9,443,198	\$ 46,932,747

### (b) Authorized

In accordance with the Declaration of Trust, the Trust may issue an unlimited number of units (the "Trust Units"). The Board of Trustees of the Trust has discretion in respect to the timing and amounts of distributions. Each Unitholder is entitled on demand to redeem all or any part of the Trust Units registered in the name of the Unitholder at prices determined and payable in accordance with the conditions provided for in the Declaration of Trust.

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

- i. 90% of the "market price" of the Trust Units on the Exchange or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Trust Units were surrendered for redemption; and
- ii. 100% of the "closing market price" on the Exchange or market on which the Trust Units are listed or quoted for trading on the redemption date.

The total amount payable by the Trust, in respect of any Trust Units surrendered for redemption during any calendar month, shall not exceed \$50,000 unless waived at the discretion of the Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Trust Units were tendered for redemption. To the extent the Redemption Price payable in respect of Trust Units surrendered for redemption exceeds \$50,000 in any given month, such excess will be redeemed for cash, and by a distribution in specie of assets held by the Trust on a pro rata basis.

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Notes to Condensed Consolidated Interim Financial Statements  
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**(c) Non-Brokered Private Placement**

On January 27, 2014 and February 7, 2014, the Trust announced the completion of its first and second tranches of a 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.

**(d) Non-Brokered Private Placement**

On November 19, 2014 and December 2, 2014, the Trust announced the completion of its first and second tranches of a non-brokered private placement of Trust Units. 1,864,445 Trust Units were issued at \$5.35 per Trust Unit for gross proceeds of \$10.0 million.

**(e) Non-Brokered Private Placement**

On March 24, 2015, the Trust announced the completion of a non-brokered private placement of Trust Units. 557,008 Trust Units were issued at a price of \$5.35 per Trust Unit for gross proceeds of approximately \$3.0 million.

**(f) Unit-Based Compensation Plan**

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 March 31, 2015, the Trust has 692,500 Trust unit options issued and outstanding consisting of the following issuances:

On November 29, 2012, the Trust granted 415,000 Trust unit options at a weighted average exercise price of \$5.00 per Trust Unit. The unit options fully vested on the date of grant and expire on November 29, 2017. 7,500 of these options were retired, leaving a balance of 407,500 options.

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

Unit-based compensation relates to the aforementioned unit options for the three months ended March 31, 2015 and stands at an expense of \$80,984 (\$48,051 recovery for the three months ended March 31, 2014). Unit-based compensation was determined using the Black-Scholes Model and based on the following assumptions:

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	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Expected Option Life (Years)	1.0	1.0
Risk Free Interest Rate	0.58%	0.96%
Distribution Yield	7.27%	7.69%
Expected Volatility	20.00%	20.00%

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Expected volatility is based in part 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.

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## **(g) Distribution Reinvestment Plan (“DRIP”) and Unit Purchase Plan (“UPP”)**

The Trust has both a DRIP and UPP currently in place. Under the terms of the DRIP, the Trust’s Unitholders may elect to automatically reinvest all or a portion of their regular monthly distributions in additional Trust Units, without incurring brokerage fees or commissions. Trust 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. Trust Units purchased through the DRIP will be acquired either in the open market or be issued directly from the Trust’s treasury based on a floor price to be set at the discretion of the Board of Trustees.

The UPP gives each Unitholder resident in Canada the right to purchase additional Trust Units. Unitholders who elect to receive Trust Units under the DRIP may also enroll in the Trust’s UPP. Under the terms of the UPP, Trust 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 Trust Units that may be issued may not exceed 2% of the Trust Units of the Trust per annum.

For the three months ended March 31, 2015 and March 31, 2014, 358 and 3,777 Trust Units were issued, respectively, from treasury for total gross proceeds of \$1,936 and \$20,016, respectively, to Unitholders who elected to receive their distributions under the DRIP.

For the three months ended March 31, 2015 and March 31, 2014, 194 and nil Trust Units were issued, respectively, from treasury for total gross proceeds of \$1,000 to Unitholders who elected to receive Trust Units under the UPP.

## **(h) Distributions**

For the three months ended March 31, 2015, distributions per unit of \$0.033333 were declared each month commencing in January 31, 2015 through to March 31, 2015 resulting in total distributions declared of \$907,150. For the three months ended March 31, 2014, distributions per unit of \$0.030833 were declared each month commencing in January 31, 2014 through to March 31, 2014 resulting in total distributions declared of \$644,531.

## **9. Revenue**

The Trust currently leases real estate to tenants under operating leases. Future minimum rental income on tenant operating leases over their remaining lease terms is as follows:

Within one year	\$ 6,225,646
Later than one year and not longer than five years	13,932,942
Thereafter	1,810,062
	<hr/>
	\$ 21,968,650

## **10. Finance Costs**

Finance Costs for the three months ended March 31, 2015 and March 31, 2014 are as follows:

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	March 31, 2015	March 31, 2014
Mortgage Interest	\$ 407,271	\$ 267,650
Bank Indebtedness Interest	9,863	15,417
Finance Fee Amortization	33,773	11,729
Non-Cash Interest Expense	(10,706)	(8,224)
Finance Costs	\$ 440,201	\$ 286,572

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

## 11. Property Operating and General & Administrative Expenses

Property operating expenses include realty taxes as well as other costs related to maintenance, HVAC, insurance, utilities and property management fees. General & Administrative expenses include professional fees, public company expenses, office and general, insurance and asset management fees.

Property operating and General & Administrative expenses for the three months ended March 31, 2015 and March 31, 2014 are as follows:

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	March 31, 2015	March 31, 2014
Realty Taxes	\$ 636,586	\$ 459,275
Property Management Fees	143,393	87,850
Operating Expenses	503,558	248,545
Property Operating Expenses	\$ 1,283,537	\$ 795,670

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	March 31, 2015	March 31, 2014
Professional Fees	\$ 9,901	\$ 27,488
Asset Management Fees	166,301	115,109
Public Company Expenses	28,311	26,351
Office & General	15,126	10,175
Insurance	2,760	2,538
General & Administrative	\$ 222,399	\$ 181,661

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## 12. Related Party Transactions

- (a) Asset Management Agreement

The Trust has entered into an Asset Management Agreement with Firm Capital Realty Partners



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Inc. ("FCRPI"), an entity indirectly related to certain trustees and management of the Trust. The term of the contract is initially ten years and automatically renews for successive five year periods.

As part of the Agreement, FCRPI agrees to provide the following services which include but are not limited to the following: (i) arrange financing, refinancings and structuring of financings for the Trust's Investment Properties and future acquisitions; (ii) identify, recommend and negotiate the purchase price for acquisitions and dispositions; (iii) prepare budgets and financial forecasts for the Trust and future acquisitions; (iv) provider of services of senior management including the CEO and CFO; (v) assist in investor relations for the Trust; (vi) assist the Trust with regulatory and financial reporting requirements (other than services provided by the CFO of the Trust); (vii) assist the Trust with the preparation of all documents, reports data and analysis required by the Trust for its filings and document necessary for its continuous disclosure requirements pursuant to applicable stock exchange rules and securities laws; (viii) attend meetings of Trustees or applicable committees, as requested by the Trust, to present financing opportunities, acquisition opportunities and disposition opportunities; and (ix) arrange and coordinating advertising, promotional, marketing and related activities on behalf of the Trust.

In addition, FCRPI provides a member of the FCRPI's senior management team to act as Vice President, Investment Portfolio Management of the Trust, for a fixed fee of \$25,000 per annum until the Trust's assets are equivalent of \$100 million or more, at which time the Trust shall internalize the position of Vice President, Investment Portfolio Management and the above fee arrangement will be terminated, at which point all costs associated with such employee will be assumed by the Trust.

As compensation for the services, FCRPI is paid the following fees:

(a) Asset Management Fees: The Trust pays the following fees annually:

- I. 0.75% of the first \$100 million of the Gross Book Value of the Properties; and
- II. 0.50% of the Gross Book Value of the Properties in excess of \$100 million.

(b) Acquisition Fees: The Trust pays the following acquisition fees:

- I. 0.75% of the first \$100 million of aggregate Gross Book Value in respect of new properties acquired in a particular year;
- II. 0.65% of the next \$100 million of aggregate Gross Book Value in respect of new properties acquired in such year; and thereafter
- III. 0.50% of the aggregate Gross Book Value of new properties acquired in such year.

(c) Performance Incentive Fees: The Trust pays a fee equivalent to 15% of Adjusted Funds From Operations ("AFFO") once AFFO exceeds \$0.40 per Unit.

(d) Placement Fees: The Trust pays a fee equivalent to 0.25% of the aggregate value of all debt and equity financing arranged by FCRPI.

In addition to the fees outlined above, FCRPI is entitled to reimbursement of all actual expenses incurred in performing its responsibilities under the Asset Management Agreement.

For the three months ended March 31, 2015 and March 31, 2014, Asset Management Fees were \$166,301 and \$115,109; Acquisition Fees were nil and nil; Placement Fees were \$7,649

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and nil and Performance Incentive Fees were nil, respectively.

Asset Management and Performance Incentive Fees are recorded in General & Administrative Expenses while Acquisition and Placement Fees are capitalized to Investment Properties, Mortgages and Unitholders' Equity on the Condensed Consolidated Interim Balance Sheet.

As at March 31, 2015, nil (\$26,371 as at March 31, 2014) was due to FCRPI and has been accounted for in accounts payable and accrued liabilities.

## (b) Property Management Agreement

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

As part of the Agreement, FCPI agrees to provide the following services which include but are not limited to the following: (i) lease the Properties and to obtain tenants from time to time as vacancies occur; (ii) to establish the rent, the duration, the terms and conditions of all leases and renewals thereof; (iii) to enter into agreements to lease and offers to lease in respect of the Properties; (iv) collect all rents, including parking revenues, tenant recoveries, leasehold recoveries and any other revenues or monies accruing to the Properties, or sums which may be receipts due and payable in connection with or incidental to the Properties; (v) maintain the Properties in reasonable operating condition and repair, (vi) arrange for and supervise the making or installation of such maintenance, repairs, improvements (including tenant improvements) and alterations as may be required; (vii) maintain all licenses and permits as required; (viii) collect all rents; (ix) recover all operating costs as required under various tenant lease arrangements; (x) prepare all property operating and capital expenditure budgets; and (xi) undertake, supervise and budget all tenant improvements, construction projects and alterations.

As compensation for the services, FCPI is paid the following fees:

### (a) Property Management Fees: The Trust pays the following fees annually:

- I. Multi-Unit Residential Properties: For each multi-unit residential property with 120 units or less, a fee equal to four percent (4.0%) of Gross Revenues and for each multi-unit residential property with more than 120 units, a fee equal to three and one half percent (3.5%) of Gross Revenues.
- II. Industrial & Commercial Properties: Fee equal to four and one quarter percent (4.25%) of Gross Revenues from the property; provided, however, that for such properties with a single tenant, the fee shall be equal to three percent (3.0%) of Gross Revenues.

- (b) Commercial Leasing Fees: Where FCPI leases a rental space on commercial terms, FCPI shall be entitled to receive a leasing commission equal to three percent (3.0%) of the net rental payments for the first year of the lease, and one and one half percent (1.5%) of the net rental payments for each year during the balance of the duration of the lease; provided, however, that where a third party broker arranges for the lease of any such property that is not subject to a long term listing agreement, FCPI shall be entitled to reduced commission equal to 50% of the foregoing amounts with respect to such property. No leasing fees will be paid for relocating existing tenants, rewriting leases or

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Expenditures, including the cost of all permits, materials, labour, contracts, and holding over without a lease unless the area or length of term has increased.

- (c) Commercial Leasing Renewal Fees: Renewals of space leased on commercial terms (including lease renewals at the option of the tenant) which are handled exclusively by FCPI shall be subject to a commission payable to FCPI of one half of one percent (0.50%) of the net rental payments for each year of the renewed lease.
- (d) Construction Development Property Management Fees: Where FCPI is requested by the Trust to construct tenant improvements or to renovate same, or where FCPI is requested by the Trust to construct, modify, or reconstruct improvements to, or on, the Properties (collectively, "Capital Expenditures"), FCPI shall receive as compensation for its services with respect thereto a fee equal to five percent (5.0%) of the cost of such Capital Expenditures, including the cost of all permits, materials, labour, contracts, and subcontracts; provided, however, that no such fee shall be payable unless the Capital Expenditures are undertaken following a tendering or procurement process where the total cost of Capital Expenditures exceed \$50,000.

In addition to the fees outlined above, FCPI is entitled to reimbursement of all actual expenses incurred in performing its responsibilities under the Property Management Agreement.

For the three months ended March 31, 2015 and March 31, 2014, Property Management Fees were \$129,060 and \$86,517 and Commercial Leasing Fees were \$14,333 and \$1,333, respectively.

As at March 31, 2015, \$42,748 (\$28,256 as at March 31, 2014) was due to FCPI and has been accounted for in accounts payable and accrued liabilities.

## (c) Lease Agreement

On August 1, 2013, FCPI entered into a lease agreement with the entity that owns the Montreal Industrial Portfolio to lease office space on commercially available terms. For the three months ended March 31, 2015, \$5,580 (\$5,580 for the three months ended March 31, 2014) of base rent was paid on this lease.

## 13. Income Taxes

The Trust currently qualifies as a mutual fund trust and a real estate investment trust ("REIT") for Canadian income tax purposes. Under current tax legislation, income distributed annually by the Trust to unitholders is a deduction in the calculation of its taxable income. As the Trust intends to distribute all of its taxable income to its unitholders, the Trust does not record a provision for current Canadian income taxes.

The Tax Act contains legislations affecting the tax treatment of a specified investment flow-through ("SIFT") trust or partnership (the "SIFT Rules"). A SIFT includes a publicly-listed or traded partnership or trust, such as an income trust.

Under the SIFT Rules, certain distributions from a SIFT are not deductible in computing a SIFT's taxable income, and a SIFT is subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to a Canadian corporation. However, distributions paid by a SIFT as returns of capital should generally not be subject to tax.

The SIFT Rules do not apply to a REIT that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has

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Notes to Condensed Consolidated Interim Financial Statements  
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assessed their interpretation and application to the REIT's assets and revenues. The REIT believes that it has met the REIT Conditions throughout the three months ended March 31, 2015 and March 31, 2014. As a result, the REIT does not recognize any deferred income tax assets or liabilities for income tax purposes.

## 14. Key Management Personnel

Key management personnel include all senior management of the Trust employed by FCRPI and FCPI and Trustees of the Trust. Management salaries are payable by FCRPI under the Asset Management Agreement as reflected in note 12(a).

## 15. Commitments & Contingencies

For the three months ended March 31, 2015 and March 31, 2014, the Trust had no material commitments and contingencies other than those outlined in notes 12(a) and 12(b).

## 16. Capital Management

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

The Trust's Declaration of Trust permits the Trust to incur or assume indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the Trust is not more than 75% of the gross book value of the Trust's total assets. Gross Book Value ("GBV") is defined in the Declaration of Trust as "at any time, the book value of the assets of the Trust and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown thereon or in the notes thereto plus the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by the Trust shown thereon or in the notes thereto, or if approved by a majority of the Trustees at any time, the appraised value of the assets of the Trust and its consolidated subsidiaries may be used instead of book value." As at March 31, 2015 and March 31, 2014, the ratio of such indebtedness to gross book value was 44.8% and 41.8%, respectively, which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

With respect to the Bank Indebtedness, the Trust must maintain ratios including minimum unitholders' equity, maximum debt/GBV, minimum interest service and debt service coverage ratios. The Trust monitors these ratios and is in compliance with these requirements throughout the three months ended March 31, 2015 and March 31, 2014.

## 17. Risk Management & Fair Values

### (a) Risk Management:

In the normal course of business, the Trust is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, are as follows:

#### I. Market Risk

##### (a) Interest Rate Risk:

The Trust is exposed to interest rate risk on its borrowings. It minimizes the risk by restricting debt to 75% of the gross book value of the Trust's gross book value of its assets. The Trust has its bank indebtedness and two mortgage financings under variable rate

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terms.

The following table outlines the impact on interest expense of a 100 basis point increase or decrease in interest rates on the REIT's variable rate debt:

Impact on Interest Expense	March 31, 2015	March 31, 2014
Bank Indebtedness	\$ -	\$ -
Mortgages	63,370	20,935
	\$ 63,370	\$ 20,935

## (b) Credit Risk

The Trust's maximum exposure to credit risk is equivalent to the carrying value of accounts receivable.

The Trust is exposed to credit risk as an owner of real estate in that tenants may become unable to pay the contracted rents. Management mitigates this risk by carrying out appropriate credit checks and related due diligence on the significant tenants. The Trust's properties are diversified across seven Canadian provinces and numerous tenants. The majority of the accounts receivable balance consists largely of tenant receivables and Harmonized Sales Tax ("HST") and Quebec Sales Tax ("QST") receivables. These receivable balances are expected to be collected in due course.

## (c) Liquidity Risk

Liquidity risk is the risk the Trust will not be able to meet its financial obligations as they come due. The Trust manages liquidity by maintaining adequate cash and by having appropriate credit facilities available. The Trust has the ability to access the debt capital markets and is able to receive debt capital as and when required. In addition, the Trust continuously monitors and reviews both actual and forecasted cash flows.

The following are the estimated maturities of the Trust's non-derivative financial liabilities as at March 31, 2015 including bank indebtedness, mortgages, tenant rental deposits, distribution payable, and accounts payable and accrued liabilities.

	Less than 1 Year	1 - 2 Years	>2 Years	Total
Bank Indebtedness (note 6)	\$ -	\$ -	\$ -	\$ -
Mortgages (note 7)	15,160,806	3,185,617	25,147,624	43,494,047
Tenant Rental Deposits	155,900	86,807	369,609	612,316
Distribution Payable	314,770	-	-	314,770
Accounts Payable & Accrued Liabilities (note 5)	1,594,446	-	-	1,594,446
	\$ 17,225,922	\$ 3,272,424	\$ 25,517,233	\$ 46,015,579

## II. Fair values

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The Trust uses a three-level hierarchy that reflects the significance of the inputs used in making fair value measurements of financial instruments carried at fair value. Level 1 of the fair value hierarchy uses quoted market prices in active markets for identical assets or liabilities to determine the fair value of assets and liabilities. Level 2 includes valuations using inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. Level 3 valuations are based on input for the asset or liability that are not based on observable market data.

The fair value of the Trust's cash, restricted cash, accounts receivable, deposits, other assets, distribution payable, tenant rental deposits, and accounts payable and accrued liabilities approximate their carrying amounts due to the relatively short periods to maturity of these financial instruments. Bank indebtedness approximates carrying amounts due to the fact that it is based on floating interest rates.

The fair value of the Trust's financial instruments is summarized in the following table:

	March 31, 2015		December 31, 2014	
	Loans & Receivables / Other Liabilities	FVTPL		
<b>Financial Assets</b>				
Accounts Receivable	\$ 573,192	\$ -	\$	522,653
Deposits & Other Assets	101,000	-		95,926
Marketable Securities	-	229,698		212,772
Restricted Cash	-	105,005		84,005
Cash	-	4,653,144		2,445,297
<b>Financial Liabilities</b>				
Distribution Payable	\$ 314,770	\$ -	\$	296,185
Accounts Payable & Accrued Liabilities (except Option Liabilities)	1,301,646	-		1,318,083
Bank Indebtedness	-	-		-
Tenant Rental Deposits	612,316	-		610,731
Mortgages	43,704,936	-		44,086,297
Option Liabilities	-	292,800		211,816

### III. Fair value hierarchy

Under the fair value hierarchy, financial instruments are measured at fair value on the consolidated balance sheet and the trust liabilities are measured using a Level 1 methodology.

The fair value of the marketable securities is based on quoted market prices (Level 1).

The fair value of the mortgages is estimated based on the present value of future payments, discounted at a yield on a Government of Canada bond with the nearest maturity date to the

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underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage (Level 2). The estimated fair value of the mortgages approximates its carrying value.

The fair value of unit-based compensation relates to unit options granted which are carried at fair value, estimated using the Black-Scholes pricing model for option valuation (Level 3) as outlined in note 8(f).

## 18. Subsequent Events

- (a) On April 15, 2015, the Trust distributed monthly cash distributions of \$0.033333 per Trust unit to unitholders of record at the close of business on March 31, 2015.
- (b) On May 4, 2015, the Trust declared and approved distributions in the amount of \$0.033333 per Trust unit payable on or about August 17, 2015, September 15, 2015 and October 15, 2015 to unitholders of record on July 31, 2015, August 31, 2015 and September 30, 2015 respectively.

## 19. Comparative Figures

Certain comparative figures have been reclassified to conform to the current year's presentation.