



FIRM CAPITAL PROPERTY TRUST

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CAPITAL PRESERVATION • DISCIPLINED INVESTING

**MD&A**  
MANAGEMENT  
DISCUSSION  
AND ANALYSIS

THIRD QUARTER 2016  
SEPTEMBER 30, 2016



## MANAGEMENT DISCUSSION & ANALYSIS

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*The following management's discussion and analysis ("MD&A") of the financial condition and results of operations of Firm Capital Property Trust ("FCPT" or the "Trust") should be read in conjunction with the Trust's unaudited condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 and September 30, 2015, and audited annual consolidated financial statements for the year ended December 31, 2015 and December 31, 2014. This MD&A has been prepared taking into account material transactions and events up to and including November 3, 2016. 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 2016 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 is 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 focused on the following real estate asset classes:

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

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

## MANAGEMENT DISCUSSION & ANALYSIS

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

Net Operating Income (“**NOI**”), Stabilized NOI, Earnings Before Interest, Taxes, Depreciation & Amortization (“**EBITDA**”), Funds from Operations (“**FFO**”), Adjusted Funds from Operations (“**AFFO**”), FFO Payout Ratio, AFFO Payout Ratio and Debt/Gross Book Value (“**GBV**”) are non-GAAP measures commonly used by Canadian real estate investment trusts as an indicator of financial performance. “**GAAP**” means generally accepted accounting principles described by the Chartered Professional Accountants of 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. EBITDA is defined as NOI plus interest, dividend and other income less general and administrative expenses and less unit based compensation expenses.

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

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

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

### THIRD QUARTER AND YEAR-TO-DATE HIGHLIGHTS

- Rental revenue for the three months ended September 30, 2016 was \$4.2 million, an 11% sequential increase and 29% increase over June 30, 2016 and September 30, 2015,

## MANAGEMENT DISCUSSION & ANALYSIS

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respectively. Rental revenue for the nine months ended September 30, 2016 was \$11.7 million, a 27% increase over September 30, 2015;

- On a cash basis, NOI for the three months ended September 30, 2016 was \$2.4 million, a 10% sequential increase and 27% increase over June 30, 2016 and September 30, 2015, respectively. Cash NOI for the nine months ended September 30, 2016 was \$6.7 million, a 26% increase over September 30, 2015;
- Excluding a gain on sale generated from the sale of two properties from the Centre Ice Retail Portfolio, FFO and AFFO for the three months ended September 30, 2016 were \$1.3 million and \$1.4 million, respectively, an 8% and 13% sequential increase over the three months ending June 30, 2016 and a 6% and 23% increase over the three months ending September 30, 2015. For the nine months ended September 30, 2016, FFO and AFFO were \$3.7 million and \$3.7 million, respectively, a 13% and 20% increase over the nine months ending September 30, 2015;
- Excluding a gain on sale generated from the sale of two properties from the Centre Ice Retail Portfolio, FFO and AFFO Per Unit were \$0.105 and \$0.108 for the three months ended September 30, 2016, respectively. For the nine months ended September 30, 2016; FFO and AFFO Per Unit were \$0.317 and \$0.309, respectively;
- Including a gain on sale generated from the sale of two properties from the Centre Ice Retail Portfolio, Adjusted FFO and AFFO Per Unit for the nine months ended September 30, 2016 were \$0.384 and \$0.377, respectively;
- Three Months Ended September 30, 2016 FFO and AFFO payout ratios were 100% and 97%, respectively;
- Nine Months Ended September 30, 2016 Adjusted FFO and AFFO payout ratios were 82% and 84%, respectively;
- Occupancy for the commercial portfolio was 92.8%, a 260 basis point sequential increase over the 90.2% reported at June 30, 2016. Occupancy for the multi-residential portfolio was 92.6%; and
- Conservative leverage profile with Debt / Gross Book Value ("**GBV**") at 49.8%.

## MANAGEMENT DISCUSSION & ANALYSIS

### Financial Highlights

	% Change Over							
	Three Months			Nine Months		Three Months		Nine Months
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015	June 30, 2016	Sept 30, 2015	Sept 30, 2015
Rental Revenue	\$4,228,005	\$3,804,157	\$3,277,289	\$11,671,819	\$9,226,792	11%	29%	27%
NOI								
- IFRS Basis	\$2,506,220	\$2,247,672	\$1,955,829	\$ 6,819,929	\$5,447,886	12%	28%	25%
- Cash Basis	\$2,439,294	\$2,209,927	\$1,925,116	\$ 6,694,262	\$5,328,912	10%	27%	26%
FFO	\$1,317,775	\$1,218,474	\$1,245,318	\$ 3,740,825	\$3,319,534	8%	6%	13%
AFFO	\$1,364,856	\$1,209,959	\$1,110,619	\$ 3,655,244	\$3,036,596	13%	23%	20%
Adjusted FFO*	\$1,317,775	\$1,218,474	\$1,245,318	\$ 4,541,517	\$3,319,534	8%	6%	37%
Adjusted AFFO*	\$1,364,856	\$1,209,959	\$1,110,619	\$ 4,455,936	\$3,036,596	13%	23%	47%
FFO Per Unit	\$ 0.105	\$ 0.107	\$ 0.121	\$ 0.317	\$ 0.345	(2%)	(13%)	(8%)
AFFO Per Unit	\$ 0.108	\$ 0.106	\$ 0.107	\$ 0.309	\$ 0.316	2%	1%	(2%)
Adjusted FFO/Unit*	\$ 0.105	\$ 0.107	\$ 0.121	\$ 0.384	\$ 0.345	(2%)	(13%)	11%
Adjusted AFFO/Unit*	\$ 0.108	\$ 0.106	\$ 0.107	\$ 0.377	\$ 0.316	2%	1%	19%
Distributions/Unit	\$ 0.105	\$ 0.105	\$ 0.100	\$ 0.315	\$ 0.300	-	5%	5%
Payout Ratios								
- FFO	100%	99%	83%	100%	87%			
- AFFO	97%	99%	93%	102%	95%			
- Adjusted FFO	100%	99%	83%	82%	87%			
- Adjusted AFFO	97%	99%	93%	84%	95%			

- Closed on Thickson Place Joint Venture with First Capital Realty:** On September 29, 2016, the Trust completed the acquisition of a 40% interest in Thickson Place, located in Whitby, Ontario. The acquisition price values the property at approximately \$39.5 million (at 100%), excluding transaction costs. As a result of the acquisition, the Trust increased the size of its investment portfolio by approximately 11% to \$157 million.

Thickson Place is a 100% occupied, 104,808 square foot retail property anchored by Metro and LCBO. It is located at 80 Thickson Road South, directly across from Whitby Mall, which the Trust purchased a 40% interest in with the same joint venture partners in June of 2016. Owning the two neighbouring centres provides a strategic benefit and long term synergies. Thickson Place was previously owned 100% by First Capital Realty.

The acquisition of Thickson Place was funded through the Trust's existing cash resources and debt arranged on Whitby Mall. The joint venture is comprised of the Trust for 40%, First Capital Realty for 50%, and 10% is held by a syndicate group. Thickson Place and Whitby Mall will each be managed by First Capital Realty;

- Completed Three Debt Financings for \$51.8 Million:** During and subsequent to quarter end, the Trust completed three debt financings for \$51.8 million. The Trust's pro-rata share in these debt financings was \$21.2 million;

## MANAGEMENT DISCUSSION & ANALYSIS

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- **Completion of Private Placement for Gross Proceeds of \$7.1 Million:** During the quarter, the Trust closed a non-brokered private placements over two closings for \$7.1 million consisting of 1,190,534 units of the Trust at a price of \$6.00 per Trust Unit;
- **Increased Distribution by 4.8%:** On November 1, 2016, the Trust announced that its Board of Trustees approved a 4.8% increase in its monthly distributions to \$0.036666 per unit from \$0.035 per unit. On an annualized basis, this equates to anticipated distributions of \$0.44 per unit up from \$0.42 per unit. These distributions will be paid on or about December 15, 2016 and January 15, 2017 to unitholders of record at the close of business on November 30, 2016 and December 30, 2016, respectively. This is the Trust's fourth distribution increase and represents a cumulative increase of 25.7%;
- **Closed on 1435 Mountain Road for \$4.7 Million:** On November 1, 2016, the Trust acquired a 100% interest in 1435 Mountain Road located in Moncton, New Brunswick. The acquisition price of the property is approximately \$4.7 million, excluding transaction costs. The property is a 100% occupied, 16,372 square foot neighborhood retail property with a mix of national and local tenants. The acquisition was funded through the Trust's existing cash resources and is expected to be immediately accretive to AFFO; and
- **Approved Distributions for January, February and March, 2017:** On November 3, 2016, the Trust announced that it has declared and approved monthly distributions in the amount of \$0.036666 per Trust Unit for unitholders of record on January 31, 2017, February 28, 2017 and March 31, 2017 payable on or about February 15, 2017, March 15, 2017 and April 14, 2017.

## MANAGEMENT DISCUSSION & ANALYSIS

### PORTFOLIO HIGHLIGHTS

Based on the Trust's pro rata interests as at September 30, 2016, the portfolio consists of 60 commercial properties with a total GLA of 1,369,483 square feet (1,366,094 square feet of Net Leasable Area ("NLA")) and one apartment complex comprised of 135 units.

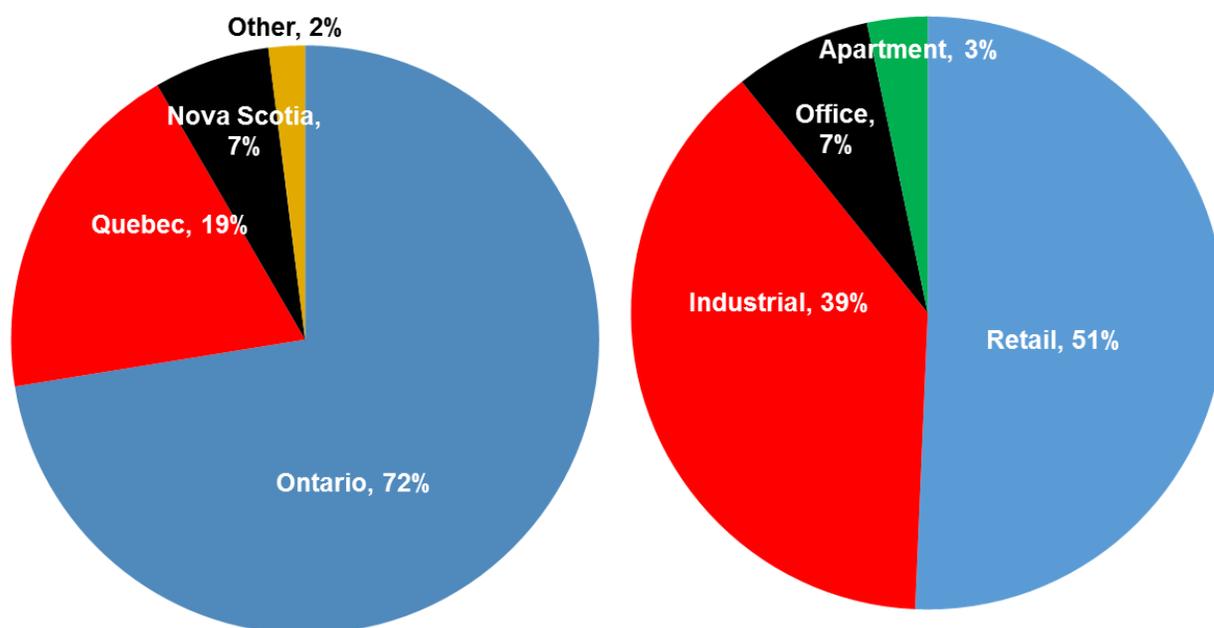
	Gross Leaseable Area	Net Leaseable Area	Occupancy		
			Q3/2016	Q2/2016	Q1/2016
<b>Retail</b>					
Bridgewater, Nova Scotia	46,707	46,707	93.3%	93.3%	91.4%
Brampton, Ontario	36,137	36,137	93.0%	93.0%	93.0%
Hanover, Ontario	19,874	19,874	100.0%	100.0%	100.0%
Pembroke, Ontario	11,247	11,247	100.0%	100.0%	100.0%
Centre Ice Retail Portfolio	147,613	147,613	89.3%	89.3%	88.8%
The Whitby Mall, Ontario	103,282	103,282	95.7%	96.8%	N/A
Thickson Place, Ontario	41,923	41,923	100.0%	N/A	N/A
<b>Total / Weighted Average</b>	<b>406,783</b>	<b>406,783</b>	<b>94.9%</b>	<b>93.2%</b>	<b>91.1%</b>
<b>Office</b>					
Barrie, Ontario	42,884	39,495	67.7%	71.1%	80.9%
The Whitby Mall, Ontario	47,844	47,844	80.5%	84.5%	N/A
<b>Total / Weighted Average</b>	<b>90,728</b>	<b>87,339</b>	<b>74.7%</b>	<b>78.2%</b>	<b>80.9%</b>
<b>Industrial</b>					
Montreal, Quebec	514,949	514,949	90.6%	85.3%	81.0%
Waterloo, Ontario	357,024	357,024	97.2%	97.0%	97.9%
<b>Total / Weighted Average</b>	<b>871,973</b>	<b>871,973</b>	<b>93.3%</b>	<b>90.1%</b>	<b>87.9%</b>
<b>Commercial Total / Wtd. Average</b>	<b>1,369,483</b>	<b>1,366,094</b>	<b>92.8%</b>	<b>90.2%</b>	<b>88.4%</b>
<b>Multi-Residential</b>					
		<b>Units</b>	<b>Occupancy</b>		
Ottawa, Ontario		135	92.6%	94.1%	94.1%
<b>Residential Total / Wtd. Average</b>		<b>135</b>	<b>92.6%</b>	<b>94.1%</b>	<b>94.1%</b>

## MANAGEMENT DISCUSSION & ANALYSIS

### PORTFOLIO DIVERSIFICATION

The portfolio is diversified across geographies and asset classes:

Geographical and Asset Class Portfolio Diversification based on NOI



### TENANT DIVERSIFICATION

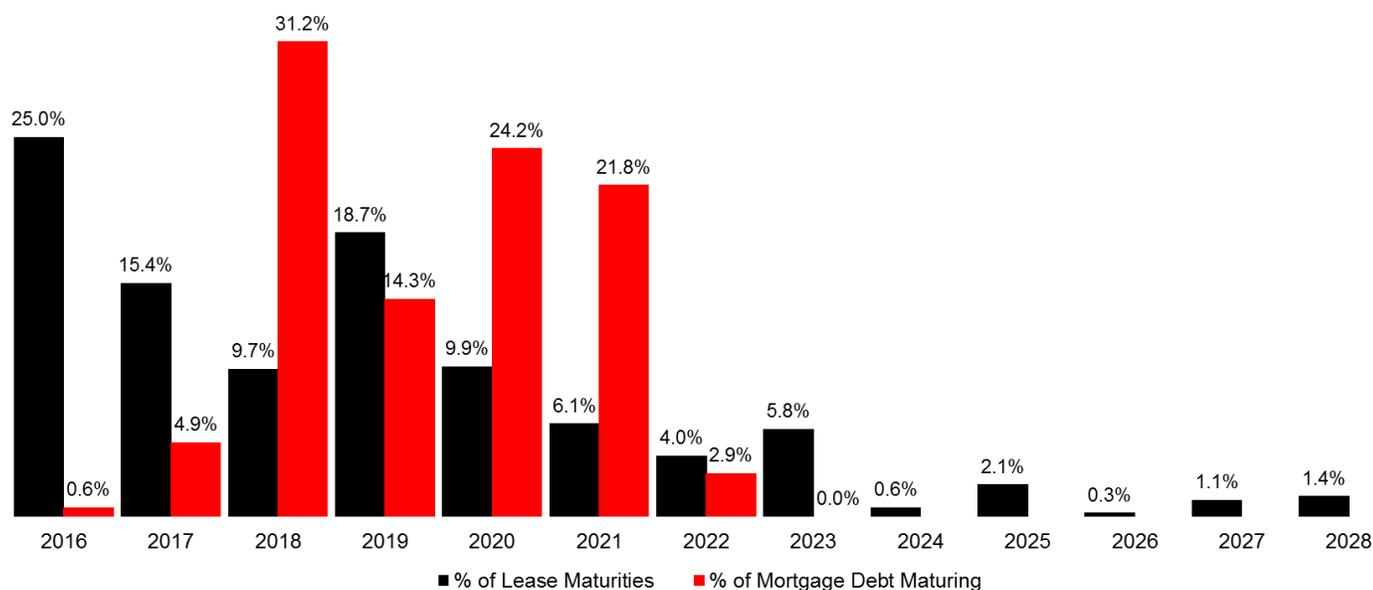
The portfolio is well diversified by tenant profile with no tenant accounting for more than 5.3% of total net rent. Further, the top 10 tenants are largely comprised of creditworthy and large national tenants and account for 23.4% of total net rent:

#	Tenant	Location	% of Total Net Rent
1	PPG (Dulux Paints)	8 locations in ON, with 1 in each of NB, MB, AB	5.3%
2	NCR Canada Corp.	Waterloo, ON	3.2%
3	Cara Corporation (Kelsey's, Swiss Chalet)	Brampton, ON & Bridgewater, NS	2.4%
4	Sport Systems Unlimited Corp.	Waterloo, ON	2.1%
5	Quebecor Media	Montreal, QC	1.9%
6	Staples	Bridgewater, NS	1.9%
7	Elmira Pet Products Ltd.	Waterloo, ON	1.7%
8	World Gym	Waterloo, ON	1.7%
9	Metro	Whitby, ON	1.6%
10	Sobeys	Whitby, ON	1.6%
<b>Total</b>			<b>23.4%</b>

### DURATION MATCHED DEBT & LEASE MATURITY PROFILE

The current portfolio has a weighted average lease term to maturity of approximately 3.5 years, which is largely duration matched with mortgage debt with a weighted average term to maturity of approximately 3.1 years.

## MANAGEMENT DISCUSSION & ANALYSIS



### OCCUPANCY

At September 30, 2016, occupancy for the commercial portfolio was 92.8%, a 260 basis point (“bps”) sequential increase over the 90.2% reported at June 30, 2016, but a 58 bp decrease over the 93.4% reported at September 30, 2015. The sequential increase over June 30, 2016 was largely in the retail portfolio with the acquisition of Thickson Place which has a 100% occupancy and the industrial portfolio with the increased occupancy due to strong leasing activity from both the Montreal and Waterloo Industrial Portfolios. This is offset from declines from both the Barrie Medical and Whitby Mall properties. The remainder of the portfolio occupancy rate was largely unchanged. At September 30, 2016, occupancy for the multi-residential portfolio was 92.6%.

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

Commercial net rent per occupied square foot and average multi-residential monthly rent per occupied unit for the past quarters is as follows:

	Sept 30, 2016	June 30, 2016	Mar 31, 2016	Dec 31, 2015
<b>Retail</b>	\$ 16.56	\$ 15.93	\$ 16.40	\$ 16.34
<b>Industrial</b>	\$ 5.47	\$ 5.54	\$ 5.66	\$ 5.60
<b>Office</b>	\$ 13.25	\$ 13.09	\$ 14.16	\$ 14.16
<b>Multi-Residential</b>	\$ 860	\$ 860	\$ 848	\$ 843

## RESULTS OF OPERATIONS

### RENTAL REVENUE

Rental revenue for the three months ended September 30, 2016 was \$4,228,005, an 11% increase over the \$3,804,157 reported for the three months ended June 30, 2016 and a 29% increase over the \$3,277,289 reported for the three months ended September 30, 2015. Rental revenue for the nine months ended September 30, 2016 was \$11,671,819, a 27% increase over the \$9,226,792 reported for the nine months ended months September 30, 2015. Rental revenue includes all amounts earned from tenants’ lease agreements including basic rent, operating costs and realty tax recoveries.

## MANAGEMENT DISCUSSION & ANALYSIS

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Base Rent	\$ 2,759,344	\$ 2,513,432	\$ 2,103,440	\$ 7,603,156	\$ 5,794,699
CAM & Tax Recoveries	1,401,735	1,252,980	1,143,136	3,942,995	3,313,119
Straight Line Rent	68,830	23,212	22,419	114,605	78,618
Free Rent	(1,904)	14,533	8,294	11,062	40,356
<b>Rental Revenue</b>	<b>\$ 4,228,005</b>	<b>\$ 3,804,157</b>	<b>\$ 3,277,289</b>	<b>\$11,671,819</b>	<b>\$ 9,226,792</b>

The sequential variance in comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is largely due to the net occupancy and rental rate improvements and the impact of The Whitby Mall acquisition as outlined above. The variance in comparing the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is largely due to the net occupancy and rental rate improvements as outlined above and the impact of The Whitby Mall and Waterloo Industrial Portfolio acquisitions.

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

### PROPERTY OPERATING EXPENSES

Property operating expenses for the three months ended September 30, 2016 were \$1,721,785, an 11% increase in comparison to the \$1,556,485 reported for the three months ended June 30, 2016 and a 30% increase over the \$1,321,460 reported for the three months ended September 30, 2015. Property operating expenses for the nine months ended September 30, 2016 were \$4,851,890, a 28% increase over the \$3,778,906 reported for the nine months ended September 30, 2015.

Property operating expenses include realty taxes as well as other costs related to maintenance, HVAC, insurance, utilities and property management fees. Property operating expenses consists of the following:

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Realty Taxes	\$ 924,131	\$ 774,660	\$ 721,012	\$ 2,482,417	\$ 2,008,167
Property Management	173,466	188,911	168,102	546,600	478,601
Operating Expenses	624,188	592,914	432,346	1,822,873	1,292,138
<b>Property Operating Expenses</b>	<b>\$ 1,721,785</b>	<b>\$ 1,556,485</b>	<b>\$ 1,321,460</b>	<b>\$ 4,851,890</b>	<b>\$ 3,778,906</b>

## MANAGEMENT DISCUSSION & ANALYSIS

The variance in comparing the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is largely due to the impact of The Whitby Mall and Waterloo Industrial Portfolio acquisitions. Note that property operating expenses can vary due to seasonality.

### NET OPERATING INCOME (“NOI”)

On an IFRS basis, NOI for the three months ended September 30, 2016 was \$2,506,220, a 12% increase in comparison to the \$2,247,672 reported for the three months ended June 30, 2016 and a 28% increase in comparison to the \$1,955,829 reported for the three months ended September 30, 2015. NOI for the nine months ended September 30, 2016 was \$6,819,929, a 25% increase in comparison to the \$5,447,886 reported for the nine months ended September 30, 2015.

On a cash basis (i.e. excluding straight-line and free rent which are non-cash items) (“Cash NOI”), NOI for the three months ended September 30, 2016 was \$2,439,924, a 10% increase over the \$2,209,927 reported for the three months ended June 30, 2016 and a 27% increase over the \$1,925,116 reported for the three months ended September 30, 2015. Cash NOI for the Nine months ended September 30, 2016 was \$6,694,262, a 26% increase in comparison to the \$5,328,912 reported for the nine months ended September 30, 2015.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
<b>Rental Revenue</b>	<b>\$ 4,228,005</b>	<b>\$ 3,804,157</b>	<b>\$ 3,277,289</b>	<b>\$11,671,819</b>	<b>\$ 9,226,792</b>
Property Operating Expenses	(1,721,785)	(1,556,485)	(1,321,460)	(4,851,890)	(3,778,906)
<b>NOI - IFRS Basis</b>	<b>\$ 2,506,220</b>	<b>\$ 2,247,672</b>	<b>\$ 1,955,829</b>	<b>\$ 6,819,929</b>	<b>\$ 5,447,886</b>
Less: Straight-Line Rent	(68,830)	(23,212)	(22,419)	(114,605)	(78,618)
Less: Free Rent	1,904	(14,533)	(8,294)	(11,062)	(40,356)
<b>NOI - Cash Basis</b>	<b>\$ 2,439,294</b>	<b>\$ 2,209,927</b>	<b>\$ 1,925,116</b>	<b>\$ 6,694,262</b>	<b>\$ 5,328,912</b>

### NOI - Cash Basis

**% Change vs. June 30,  
2016**

**10%**

**% Change vs. Sept 30,  
2015**

**27%**

**26%**

The sequential variance in comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is largely due to the net occupancy and rental rate improvements and the impact of The Whitby Mall acquisition as outlined above. The variance in comparing the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is largely due to the net occupancy and rental rate improvements as outlined above and the impact of The Whitby Mall and Waterloo Industrial Portfolio acquisitions.

## MANAGEMENT DISCUSSION & ANALYSIS

### OTHER INCOME

Other income for the three months ended September 30, 2016 was \$1,375, in comparison to the \$14,645 reported for the three months ended June 30, 2016 and \$18,196 reported for the three months ended September 30, 2015. Other income for the nine months ended September 30, 2016 was \$966,991 in comparison to the \$27,536 reported for the nine months ended September 30, 2015. Interest income relates to income earned on cash balances. Dividend income relates to dividends received from the marketable securities portfolio.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Investment Properties Gain	\$ -	\$ -	\$ -	\$ 931,000	\$ -
Interest & Dividend Income	1,296	14,645	1,138	35,912	9,327
Other Income	79	-	17,058	79	18,209
<b>Other Income</b>	<b>\$ 1,375</b>	<b>\$ 14,645</b>	<b>\$ 18,196</b>	<b>\$ 966,991</b>	<b>\$ 27,536</b>

On January 13, 2016 and January 28, 2016, the Trust completed the sale of its interest in two unencumbered properties from the Centre Ice Retail Portfolio totaling 19,330 square feet to various third parties for gross proceeds of approximately \$2.8 million (\$2.7 million net of closing costs). As a result of the sale, a gain of approximately \$0.9 million was generated and is reflected in Other Income.

### FINANCE COSTS

Finance costs for the three months ended September 30, 2016 was \$585,095 a 2% decrease in comparison to the \$598,848 reported for the three months ended June 30, 2016, but a 16% increase in comparison to the \$503,578 reported for the three months ended September 30, 2015. Finance costs for the nine months ended September 30, 2016 was \$1,788,551, a 28% increase in comparison to the \$1,395,280 for the nine months ended September 30, 2015. Finance costs are comprised of the following:

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Mortgage Interest	\$ 520,820	\$ 550,907	\$ 459,519	\$ 1,641,855	1,271,781
Bank Indebtedness Interest	27,884	22,593	26,847	60,450	46,683
Finance Fee Amortization	55,661	44,827	31,394	144,681	112,276
Non-Cash Interest Expense	(19,270)	(19,479)	(14,182)	(58,435)	(35,460)
<b>Finance Costs</b>	<b>\$ 585,095</b>	<b>\$ 598,848</b>	<b>\$ 503,578</b>	<b>\$ 1,788,551</b>	<b>\$ 1,395,280</b>

The sequential variance in comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is largely the result of the positive impact of refinancing the first mortgages that encumbered the Centre Ice Retail Portfolio aggregating \$11.8 million (5.12% weighted average interest rate) for one new first mortgage with a Canadian Chartered Bank for \$16.6 million at a 2.92% interest rate, offset by higher bank indebtedness interest expense due to

## MANAGEMENT DISCUSSION & ANALYSIS

the acquisition of The Whitby Mall. The variance in comparing the three and nine months ended September 30, 2016 over three and nine months ended September 30, 2015 is largely due to The Whitby Mall and Waterloo Industrial Portfolio acquisitions.

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, Ottawa Apartment Complex and Waterloo Industrial Portfolio.

As outlined below, the weighted average interest rate of the mortgages as at September 30, 2016 stands at approximately 3.1%.

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

G&A expenses for the three months ended September 30, 2016 was \$401,855, a 21% increase in comparison to the \$332,023 reported for the three months ended June 30, 2016 and a 54% increase in comparison to the \$260,255 reported for the three months ended September 30, 2015. G&A expenses for the nine months ended September 30, 2016 was \$1,161,786, a 58% increase in comparison to the \$734,804 reported for the nine months ended September 30, 2015.

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Professional Fees	\$ 27,354	\$ 29,467	\$ 16,607	\$ 72,735	\$ 55,127
Asset Management Fees	283,575	224,300	198,439	844,972	546,396
Public Company Expenses	37,407	36,672	25,766	110,705	81,167
Office & General	50,751	38,816	16,683	125,069	43,834
Insurance	2,768	2,768	2,760	8,305	8,280
<b>General &amp; Administrative</b>	<b>\$ 401,855</b>	<b>\$ 332,023</b>	<b>\$ 260,255</b>	<b>\$ 1,161,786</b>	<b>\$ 734,804</b>

The sequential increase in comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is largely the result of higher asset management fees due to the acquisition of The Whitby Mall. The variance in comparing the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is largely due to The Whitby Mall and Waterloo Industrial Portfolio acquisitions and overall higher administrative costs to operate the Trust.

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

Net income for the three months ended September 30, 2016 was \$1,349,820, in comparison to the \$1,258,342 reported for the three months ended June 30, 2016 and \$2,983,278 reported for the three months ended September 30, 2015. Net income for the nine months ended September 30, 2016 was \$4,690,025, in comparison to the \$7,661,659 reported for the nine months ended September 30, 2015.

The sequential variance in comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is largely due to the net occupancy and rental rate improvements

## MANAGEMENT DISCUSSION & ANALYSIS

and the impact of The Whitby Mall acquisition as outlined above, offset by lower fair value adjustments for the investment properties.

The variance in comparing the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is largely due to the net occupancy and rental rate improvements as outlined above and the impact of The Whitby Mall and Waterloo Industrial Portfolio acquisitions, offset by overall higher expenses and a lower fair value adjustment for the investment properties.

### SUMMARIZED OPERATING RESULTS

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

	<b>Rental</b>		<b>Total</b>		
	<b>Revenue</b>	<b>Other Income</b>	<b>Revenue</b>	<b>NOI</b>	<b>Net Income</b>
<b>Q3/2016</b>	\$ 4,228,005	\$ 1,375	\$ 4,229,380	\$ 2,506,220	\$ 1,349,820
<b>Q2/2016</b>	\$ 3,804,157	\$ 14,645	\$ 3,818,802	\$ 2,247,672	\$ 1,258,342
<b>Q1/2016</b>	\$ 3,639,657	\$ 950,971	\$ 4,590,628	\$ 2,066,037	\$ 2,081,861
<b>Q4/2015</b>	\$ 3,779,471	\$ 48,362	\$ 3,827,833	\$ 2,218,943	\$ 1,739,256
<b>Q3/2015</b>	\$ 3,277,289	\$ 18,196	\$ 3,295,485	\$ 1,955,829	\$ 2,983,278
<b>Q2/2015</b>	\$ 2,959,424	\$ 5,072	\$ 2,964,496	\$ 1,785,515	\$ 3,572,509
<b>Q1/2015</b>	\$ 2,990,079	\$ 4,268	\$ 2,994,347	\$ 1,706,542	\$ 1,105,872
<b>Q4/2014</b>	\$ 2,969,865	\$ 9,676	\$ 2,979,541	\$ 1,783,986	\$ 1,272,521

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

For the three months ended September 30, 2016, FFO per Unit was \$0.105 while AFFO per Unit was \$0.108. Based on distributions paid over that period, FFO and AFFO payout ratios are 100% and 97%, respectively.

For the nine months ended September 30, 2016, FFO per Unit was \$0.317 while AFFO per Unit was \$0.309. Based on distributions paid over that period, FFO and AFFO payout ratios are 100% and 102%, respectively. Including the impact from the gain generated from the Centre Ice Retail Portfolio disposition, FFO per Unit was \$0.384 while AFFO per Unit was \$0.377. Based on distributions paid over that period, FFO and AFFO payout ratios are 82% and 84%, respectively.

## MANAGEMENT DISCUSSION & ANALYSIS

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
<b>Rental Revenue</b>	\$ 4,228,005	\$ 3,804,157	\$ 3,277,289	\$ 11,671,819	\$ 9,226,792
Less: Property Operating Expenses	(1,721,785)	(1,556,485)	(1,321,460)	(4,851,890)	(3,778,906)
<b>Net Operating Income (NOI)</b>	\$ 2,506,220	\$ 2,247,672	\$ 1,955,829	\$ 6,819,929	\$ 5,447,886
Interest & Div. Income	1,296	14,645	1,138	35,912	9,327
Other Income	79	-	17,058	79	18,209
Less: G&A Expense	(401,855)	(332,023)	(260,255)	(1,161,786)	(734,804)
Less: Unit-Based Comp.	(202,869)	(112,973)	35,126	(295,066)	(25,804)
Add: Performance Fee Attributable To Gain	-	-	-	130,308	-
<b>EBITDA</b>	\$ 1,902,870	\$ 1,817,322	\$ 1,748,895	\$ 5,529,376	\$ 4,714,814
Less: Finance Costs	(585,095)	(598,848)	(503,578)	(1,788,551)	(1,395,280)
<b>FFO</b>	\$ 1,317,775	\$ 1,218,474	\$ 1,245,318	\$ 3,740,825	\$ 3,319,534
Less: Straight-Line Rent	(68,830)	(23,212)	(22,419)	(114,605)	(78,618)
Less: Free Rent	1,904	(14,533)	(8,294)	(11,062)	(40,356)
Less: TI/LCs & Capex	(69,592)	(64,264)	(54,678)	(196,544)	(154,309)
Less: Non-Cash Interest	(19,270)	(19,479)	(14,182)	(58,435)	(35,460)
Add: Unit-Based Comp.	202,869	112,973	(35,126)	295,066	25,804
<b>AFFO</b>	\$ 1,364,856	\$ 1,209,959	\$ 1,110,619	\$ 3,655,244	\$ 3,036,596
Add: Gain on Sale of Investment Properties	-	-	-	931,000	-
Less: Performance Fee Attributable To Gain	-	-	-	(130,308)	-
<b>Adjusted FFO*</b>	\$ 1,317,775	\$ 1,218,474	\$ 1,245,318	\$ 4,541,517	\$ 3,319,534
<b>Adjusted AFFO*</b>	\$ 1,364,856	\$ 1,209,959	\$ 1,110,619	\$ 4,455,936	\$ 3,036,596
<b>FFO Per Unit</b>	\$ 0.105	\$ 0.107	\$ 0.121	\$ 0.317	\$ 0.345
<b>AFFO Per Unit</b>	\$ 0.108	\$ 0.106	\$ 0.107	\$ 0.309	\$ 0.316
<b>Adjusted FFO Per Unit*</b>	\$ 0.105	\$ 0.107	\$ 0.121	\$ 0.384	\$ 0.345
<b>Adjusted AFFO Per Unit*</b>	\$ 0.108	\$ 0.106	\$ 0.107	\$ 0.377	\$ 0.316
<b>Distributions Per Unit</b>	\$ 0.105	\$ 0.105	\$ 0.100	\$ 0.315	\$ 0.300
<b>FFO Payout Ratio</b>	100%	99%	83%	100%	87%
<b>AFFO Payout Ratio</b>	97%	99%	93%	102%	95%
<b>Adjusted FFO Payout Ratio*</b>	100%	99%	83%	82%	87%
<b>Adjusted AFFO Payout Ratio*</b>	97%	99%	93%	84%	95%
* = Includes gain on sale of assets					
<b>Outstanding</b>	12,595,883	11,432,498	10,331,936	11,817,041	9,616,424

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

Excluding the impact from the gain on sale, the sequential variance in FFO and AFFO when comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is largely due to the net occupancy and rental rate improvements and the impact of The Whitby Mall acquisition as outlined above. The variance in FFO and AFFO when comparing the

## **MANAGEMENT DISCUSSION & ANALYSIS**

three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is largely due to the net occupancy improvements as outlined above and the impact of The Whitby Mall and Waterloo Industrial Portfolio acquisitions.

The sequential variance in FFO per Unit and AFFO per Unit when comparing the three months ended September 30, 2016 over the three months ended June 30, 2016 is due to the net overall change in FFO and AFFO as outlined above.

The variance in FFO per Unit and AFFO per Unit when comparing the three and nine months ended September 30, 2016 over the three and nine months ended September 30, 2015 is due to the net overall change in FFO and AFFO as outlined above, offset by the impact of issuing Trust Units from both non-brokered private placements and the DRIP and not deploying the cash immediately into acquisitions.

### ***DISTRIBUTIONS***

For the nine months ended September 30, 2016, distributions of \$0.035 per unit were declared each month commencing in January 2016 through to September 2016, resulting in total distributions declared of \$3,722,830. For the nine months ended September 30, 2015, distributions of \$0.033333 per unit were declared each month commencing in January 31, 2015 through to September 30, 2015 resulting in total distributions declared of \$2,863,409.

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

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

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

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 or shortfall of cash flow from operating activities over distributions and net income and comprehensive income over distributions are outlined below:

## MANAGEMENT DISCUSSION & ANALYSIS

	Three Months Ended			Nine Months Ended	
	Sept 30, 2016	June 30, 2016	Sept 30, 2015	Sept 30, 2016	Sept 30, 2015
Cash Flow From Operating Activities	\$ 2,871,979	\$ 735,435	\$ 2,289,670	\$ 5,218,627	\$ 4,556,967
Net Income & Comprehensive Income	\$ 1,349,820	\$ 1,258,342	\$ 2,983,278	\$ 4,690,025	\$ 7,661,659
Distributions	\$ 1,322,668	\$ 1,200,319	\$ 1,011,309	\$ 3,722,830	\$ 2,863,409
Excess / (Shortfall) of Cash Flow From Operating Activities Over Distributions	\$ 1,549,311	\$ (464,884)	\$ 1,278,361	\$ 1,495,797	\$ 1,693,557
Excess of Net Income & Comprehensive Income Over Distributions	\$ 27,152	\$ 58,023	\$ 1,971,969	\$ 967,195	\$ 4,798,250

## INVESTMENT PROPERTIES

As at September 30, 2016, the Trust's property portfolio consists of 61 properties with a fair value of \$157.0 million, in comparison to the \$127.5 million reported for the year ended December 31, 2015. The variance is largely the result of the acquisitions of The Whitby Mall and Thickson Place, a \$0.14 million increase in fair market value and a \$0.2 million increase in capitalized expenditures and leasing costs incurred during the period, offset by the disposition of the two Centre Ice Retail Portfolio assets. The investment portfolio valuation is allocated by property type as follows:

	Retail & Commercial	Core Service Provider Office	Industrial	Multi- Residential	Total
<b>Balance, Dec 31, 2014</b>	<b>\$ 52,599,457</b>	<b>\$ 7,057,305</b>	<b>\$ 25,792,452</b>	<b>\$ 5,738,538</b>	<b>\$ 91,187,752</b>
Acquisitions	-	-	31,177,756	-	31,177,756
Capital Expenditures	96,497	-	90,160	48,001	234,658
Fair Value Adjustment	4,433,936	(127,282)	78,385	(48,001)	4,337,037
<b>Balance, Sept 30, 2015</b>	<b>\$ 57,129,890</b>	<b>\$ 6,930,023</b>	<b>\$ 57,138,753</b>	<b>\$ 5,738,538</b>	<b>\$ 126,937,204</b>
Acquisitions	-	-	-	-	-
Capital Expenditures	8,685	1,164	11,975	53	21,877
Fair Value Adjustment	321,386	(21,703)	255,267	(53)	554,897
<b>Balance, Dec 31, 2015</b>	<b>\$ 57,459,961</b>	<b>\$ 6,909,484</b>	<b>\$ 57,405,995</b>	<b>\$ 5,738,538</b>	<b>\$ 127,513,978</b>
Acquisition	30,857,156	-	-	-	30,857,156
Dispositions	(1,767,500)	-	-	-	(1,767,500)
Capital Expenditures	103,523	34,490	51,519	22,939	212,472
Fair Value Adjustment	142,738	(377,129)	401,485	(22,939)	144,155
<b>Balance, Sept 30, 2016</b>	<b>\$ 86,795,879</b>	<b>\$ 6,566,846</b>	<b>\$ 57,858,999</b>	<b>\$ 5,738,538</b>	<b>\$ 156,960,261</b>

## MANAGEMENT DISCUSSION & ANALYSIS

For the period ended September 30, 2016, senior management of the Trust valued the Investment Properties using independent third party appraisals for the Brampton, Ontario, Pembroke, Ontario and Centre Ice Retail Portfolio and the overall capitalization method for the remaining properties. Investment properties are valued on a highest and best use basis. For all of the Trust's investment properties the current use is considered the best use. Fair value was determined by applying a capitalization rate to stabilized net operating income ("Stabilized NOI"). Stabilized NOI incorporates allowances for vacancy, management fees and structural reserves for tenant inducements and capital expenditures and is capped at a rate deemed appropriate for each investment property. Capitalization rates are based on many factors, including but not limited to the asset location, type, size and quality of the asset and taking into account any available market data at the valuation date.

Investment Properties measured at fair value are categorized by level according to the inputs used. The Trust has classified these inputs as Level 3. With the exception of the acquisition and disposition of investment properties as further described in note 3 and 4 of these condensed consolidated interim financial statements, 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:

Period Ended September 30, 2016	Core Service				Weighted Average
	Retail & Commercial	Provider Office	Industrial	Multi- Residential	
Capitalization Rate Range	5.01% - 7.50%	7.00%	6.48% - 7.50%	5.98%	6.67%
Weighted Average Cap. Rate	6.50%	7.00%	6.95%	5.98%	6.67%
Weighted Average NOI	\$ 1,053,748	\$ 459,679	\$ 2,010,719	\$ 343,263	\$ 1,356,690

Year Ended December 31, 2015	Core Service				Weighted Average
	Retail & Commercial	Provider Office	Industrial	Multi- Residential	
Capitalization Rate Range	5.66% - 7.50%	7.25%	6.48% - 7.70%	5.98%	6.87%
Weighted Average Cap. Rate	6.74%	7.25%	7.04%	5.98%	6.87%
Weighted Average NOI	\$ 1,196,370	\$ 500,938	\$ 2,019,278	\$ 343,263	\$ 1,492,096

On January 13, 2016 and January 28, 2016, the Trust completed the sale of its interest in two unencumbered properties from the Centre Ice Retail Portfolio totaling 19,330 square feet to various third parties for gross proceeds of approximately \$2.8 million (\$2.7 million net of closing costs). The condensed consolidated interim financial statements carried these properties in assets held for sale at their fair value as at December 31, 2015, which was approximately \$1.8 million. As a result, a gain of approximately \$0.9 million was generated from the sale of these two properties.

### CURRENT ASSETS

Current assets as at September 30, 2016, June 30, 2016 and December 31, 2015 consist of the following:

## MANAGEMENT DISCUSSION & ANALYSIS

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	Sept 30, 2016	June 30, 2016	December 31, 2015
Accounts Receivable	\$ 1,420,326	\$ 1,040,644	\$ 794,442
Prepaid Expenses, Deposits & Other Assets	1,317,498	1,693,440	470,640
Marketable Securities	-	177,849	178,655
Restricted Cash	-	-	123,709
Cash & Cash Equivalents	-	-	3,947,376
Assets Held For Sale	-	-	1,767,500
	<b>\$ 2,737,824</b>	<b>\$ 2,911,933</b>	<b>\$ 7,282,322</b>

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

### **BANK INDEBTEDNESS**

On November 29, 2012, the Trust entered into a Revolving Operating Facility (the “Facility”) with a Canadian Chartered Bank (the “Bank”) fully secured by first charges against certain investment properties. The total amount available under the Facility was \$8.0 million. On June 9, 2016, the Bank increased the total amount available under the Facility to \$10.0 million. The interest rate is based on a calculated formula using the Bank’s Prime Lending Rate. Amounts drawn under the Facility are due to be repaid at the maturity date on May 31, 2018. Bank Indebtedness as at September 30, 2016 and December 31, 2015 was approximately \$4.3 million and nil, respectively.

### **MORTGAGES**

As at September 30, 2016, total outstanding mortgages stood at \$75,252,537 (\$62,491,804 as at December 31, 2015), (net of unamortized financing costs of \$404,787 (\$170,023 as at December 31, 2015), offset by a \$285,528 (\$358,645 as at December 31, 2015) fair value adjustment with a weighted average interest rate of approximately 3.1% (3.8% as at December 31, 2015) and weighted average repayment term of approximately 3.1 years (2.8 years as at December 31, 2015). The mortgages are repayable as follows:

## MANAGEMENT DISCUSSION & ANALYSIS

	Scheduled Principal Repayments	Debt Maturing During The Period	Total Mortgages Payable	Scheduled Interest Payments
2016	\$ 474,217	\$ -	\$ 474,217	\$ 599,090
2017	1,936,336	1,750,000	3,686,336	2,356,006
2018	1,677,584	21,874,977	23,552,561	1,836,161
2019	1,302,999	9,500,000	10,802,999	1,302,664
2020	927,942	17,326,664	18,254,606	788,482
Thereafter	130,447	18,470,629	18,601,076	169,313
<b>Face Value</b>	<b>\$ 6,449,525</b>	<b>\$ 68,922,270</b>	<b>\$ 75,371,795</b>	<b>\$ 7,051,716</b>
Unamortized Financing Costs			(404,787)	
Fair Value Adjustment on Assumed Mortgages			285,528	
<b>Total Mortgages</b>			<b>\$ 75,252,537</b>	

	Sept 30, 2016	Dec 31, 2015
Current:		
Mortgages	\$ 1,920,397	\$ 15,278,029
Unamortized Financing Costs	(122,108)	(48,798)
Fair Value Adjustment on Assumed Mortgages	74,948	92,177
	\$ 1,873,237	\$ 15,321,408
Non-Current:		
Mortgages	\$ 73,451,398	\$ 47,025,153
Unamortized Financing Costs	(282,679)	(121,225)
Fair Value Adjustment on Assumed Mortgages	210,581	266,468
	\$ 73,379,300	\$ 47,170,396
	<b>\$ 75,252,537</b>	<b>\$ 62,491,804</b>

On January 4, 2016, the Trust refinanced the first mortgages that encumbered the Centre Ice Retail Portfolio for one new first mortgage with a Canadian Chartered Bank. The \$23.7 million first mortgage is a fixed 2.92% interest rate mortgage that matures on January 4, 2021. The Trust's pro-rata share of the new first mortgage is \$16.6 million. As a result of the refinancing, the Trust received net cash proceeds of approximately \$4.7 million.

On September 9, 2016, the Trust refinanced the first mortgage that encumbered one of the Montreal Industrial properties with a new first mortgage with a Canadian Chartered Bank. The \$4.5 million first mortgage is a fixed 2.72% interest rate mortgage that matures on August 1, 2018. The Trust's pro-rata share of the new first mortgage is \$2.25 million. As a result of the refinancing, the Trust received net cash proceeds of approximately \$0.2 million.

On September 27, 2016, the Trust financed The Whitby Mall with a non-revolving senior secured term credit facility with a Canadian Chartered Bank. The \$23.8 million first mortgage is a variable rate loan with an interest rate based on the Canadian Chartered Bank's Prime Lending Rate or

## MANAGEMENT DISCUSSION & ANALYSIS

Bankers Acceptance Rate plus a spread. The Trust's pro-rata share of the new first mortgage is \$9.5 million. As a result of the financing, the Trust received net cash proceeds of approximately \$9.5 million.

### ACCOUNTS PAYABLE & ACCRUED LIABILITIES

Accounts payable and accrued liabilities as at September 30, 2016, June 30, 2016 and December 31, 2015 consist of the following:

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	Sept 30, 2016	June 30, 2016	December 31, 2015
Professional Fees	\$ 73,932	\$ 49,250	\$ 58,193
Utilities, Repairs & Maintenance, Other	2,340,007	1,721,836	1,401,389
Due to Asset & Property Manager	228,399	200,140	77,292
Accrued Interest Expense	133,527	179,805	193,102
Option Liabilities	681,050	478,180	385,983
	<b>\$ 3,456,915</b>	<b>\$ 2,629,211</b>	<b>\$ 2,115,959</b>

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

### UNIT OPTION PLAN & OPTION LIABILITIES

Under the Trust's unit option plan, the aggregate number of unit options reserved for issuance at any given time shall not exceed 10% of the number of outstanding Trust Units. As at September 30, 2016, the Trust has 1,197,500 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 year ended December 31, 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.

On August 15, 2016, the Trust granted 505,000 Trust unit options at a weighted average exercise price of \$6.05 per Trust Unit. The unit options fully vested on the date of grant and expire on August 15, 2021.

Unit-based compensation relates to the aforementioned unit options and stands at an expense of \$202,869 and \$295,066 for the three and nine months ended September 30, 2016 (\$35,126 recovery and \$25,804 expense for the three and nine months ended September 30, 2015). Unit-

## MANAGEMENT DISCUSSION & ANALYSIS

based compensation was determined using the Black-Scholes Model and based on the following assumptions:

	As at September 30, 2016	As at September 30, 2015
Expected Option Life (Years)	1.0	1.0
Risk Free Interest Rate	0.54%	0.49%
Distribution Yield	6.94%	7.48%
Expected Volatility	20.00%	20.00%

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.

### UNITHOLDERS' EQUITY

Unitholders' equity as at September 30, 2016 was \$75,350,981 and consists of the following:

	Number of Units	Unitholder's Equity
<b>Unitholders' Equity, December 31, 2014</b>	<b>8,885,638</b>	<b>\$48,181,424</b>
Non-Brokered Private Placement - Q1/2015	557,008	2,979,993
Non-Brokered Private Placement - Q3/2015	1,961,300	10,983,280
Less: Issue Costs	-	(401,450)
Issuance of Units from DRIP	19,053	106,166
Issuance of Units from UPP	194	1,000
Add: Net Income	-	7,661,659
Less: Distributions	-	(2,863,409)
<b>Unitholders' Equity, September 30, 2015</b>	<b>11,423,193</b>	<b>\$66,648,663</b>
Less: Issue Costs	-	(13,387)
Issuance of Units from DRIP	3,883	22,341
Issuance of Units from UPP	-	-
Add: Net Income	-	1,739,256
Less: Distributions	-	(1,180,529)
<b>Unitholders' Equity, December 31, 2015</b>	<b>11,427,076</b>	<b>\$67,216,344</b>
Non-Brokered Private Placement - July 2016	951,634	5,709,804
Non-Brokered Private Placement - August 2016	238,900	1,433,400
Less: Issue Costs	-	(139,814)
Issuance of Units from DRIP	27,311	164,051
Add: Net Income	-	4,690,025
Less: Distributions	-	(3,722,830)
<b>Unitholders' Equity, September 30, 2016</b>	<b>12,644,921</b>	<b>\$75,350,981</b>

## MANAGEMENT DISCUSSION & ANALYSIS

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

On September 22, 2015, the Trust announced the closing of its previously announced non-brokered private placement for gross proceeds of approximately \$11 million. The Trust issued 1,961,300 Trust Units at a price of \$5.60 per Trust Unit.

On July 28, 2016, the Trust completed a non-brokered private placement of Trust Units. 951,634 Trust Units were issued at a price of \$6.00 per Trust Unit for gross proceeds of approximately \$5.7 million.

On August 31, 2016, the Trust completed a non-brokered private placement of Trust Units. 238,900 Trust Units were issued at a price of \$6.00 per Trust Unit for gross proceeds of approximately \$1.4 million.

As at November 3, 2016, there were 12,646,502 Trust Units issued and outstanding.

### RELATED PARTY TRANSACTIONS

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

#### ASSET MANAGEMENT AGREEMENT

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

On October 20, 2015, the terms of the Asset Management and Acquisition Fees changed. For further information, please refer to the notes to the financial statements.

For the nine months ended September 30, 2016 and September 30, 2015, Asset Management Fees were \$684,239 and \$519,631; Acquisition Fees were \$255,375 and \$227,063; Placement Fees were \$17,858 and \$35,107 and Performance Incentive Fees were \$160,733 and \$26,765, respectively.

Asset Management Fees are charged monthly and are based on 0.75% of the first \$300 million of the Gross Book Value (“**GBV**”) of the portfolio. The variance in comparing the nine months ended September 30, 2016 over the nine months ended September 30, 2015 is largely due to the acquisition of The Whitby Mall and the Waterloo Industrial Portfolio.

Acquisition Fees are based on 0.75% of the first \$300 million of aggregate Gross Book Value in respect of new properties acquired in a particular year. The variance in comparing the nine months ended September 30, 2016 over the nine months ended September 30, 2015 is due to the acquisition of The Whitby Mall and Thickson Place in 2016 versus the Waterloo Industrial Portfolio in 2015.

## MANAGEMENT DISCUSSION & ANALYSIS

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Placement Fees are paid on financings undertaken by FCRPI and are based on 0.25% of the aggregate value of all debt and equity financings arranged. Placement fees the nine months ended September 30, 2016 were fees paid as a result of the private placements that occurred in July 18, 2016 and August 31, 2016 versus the nine months ended September 30, 2015, relate to the private placements that closed on March 24, 2015 and September 2015 as outlined above.

Performance Incentive Fees are based on 15% of the excess once AFFO exceeds \$0.40 per unit. The amount reported for the nine months ended September 30, 2016 is largely due to the gain generated from the disposition of the two Centre Ice Retail Portfolio assets as outlined above.

### PROPERTY MANAGEMENT AGREEMENT

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

For the nine months ended September 30, 2016 and September 30, 2015, Property Management Fees were \$546,600 and \$417,750 and Commercial Leasing Fees were \$58,401 and \$60,851, respectively.

### 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 annual consolidated financial statements.

### CAPITAL MANAGEMENT

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

The Trust's Declaration of Trust permits the Trust to incur or assume indebtedness, provided that after giving effect to incurring or assuming any indebtedness (as defined in the Declaration of Trust), the amount of such indebtedness of the Trust is not more than 75% of the gross book value of the Trust's total assets. Gross Book Value (“GBV”) is defined in the Declaration of Trust as "at any time, the book value of the assets of the Trust and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet, plus the amount of accumulated depreciation and amortization in respect of such assets (and related intangible assets) shown

## MANAGEMENT DISCUSSION & ANALYSIS

thereon or in the notes thereto plus the amount of future income tax liability arising out of indirect acquisitions and excluding the amount of any receivable reflecting interest rate subsidies on any debt assumed by the Trust shown thereon or in the notes thereto, or if approved by a majority of the Trustees at any time, the appraised value of the assets of the Trust and its consolidated subsidiaries may be used instead of book value.” As at September 30, 2016 and September 30, 2015, the ratio of such indebtedness to gross book value was 49.8% and 47.5%, respectively, which complies with the requirement in the Declaration of Trust and is consistent with the REIT's objectives.

With respect to the Bank Indebtedness, the Trust must maintain ratios including minimum unitholders' equity, maximum debt/GBV, minimum interest service and debt service coverage ratios. The Trust monitors these ratios and is in compliance with these requirements throughout the three and nine months ended September 30, 2016 and September 30, 2015.

## CONTRACTUAL OBLIGATIONS

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

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	<b>Less than 1</b>			
	<b>Year</b>	<b>1 - 2 Years</b>	<b>&gt;2 Years</b>	<b>Total</b>
Bank Indebtedness	\$ 4,272,987	\$ -	\$ -	\$ 4,272,987
Mortgages	3,238,969	24,474,145	47,658,681	75,371,795
Tenant Rental Deposits	170,644	139,396	612,052	922,092
Distribution Payable	442,573	-	-	442,573
Accounts Payable & Accrued Liabilities	3,456,915	-	-	3,456,915
	<b>\$ 11,582,088</b>	<b>\$ 24,613,541</b>	<b>\$ 48,270,733</b>	<b>\$ 84,466,362</b>

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## DISTRIBUTION REINVESTMENT PLAN & UNIT PURCHASE PLAN

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

### DISTRIBUTION REINVESTMENT PLAN (“DRIP”)

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

Units purchased through the DRIP are acquired at the weighted average closing price of Trust Units in the five trading days immediately prior to the distribution payment date. Units purchased through the DRIP will be acquired either in the open market or be issued directly from FCPT's treasury based on a floor price to be set at the discretion of the board of trustees. Currently, there are 292,644 units reserved under the DRIP.

For the nine months ended September 30, 2016 and September 30, 2015, 27,311 and 19,053 Trust Units were issued, respectively, from treasury for total gross proceeds of

## **MANAGEMENT DISCUSSION & ANALYSIS**

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\$164,051 and \$106,166, respectively, to Unitholders who elected to receive their distributions under the DRIP.

### **UNIT PURCHASE PLAN (“UPP”)**

Unitholders who elect to receive Trust Units under the DRIP may also enroll in the REIT’s new Unit Purchase Plan. The Plan gives each Unitholder who is resident in Canada the right to purchase additional units of the Trust monthly. Under the terms of the Plan, FCPT’s Unitholders may purchase a minimum of \$1,000 of Units on each Monthly Purchase Date and maximum purchases of up to \$12,000 per annum. The aggregate number of Units that may be issued may not exceed 2% of the Units of the Trust per annum.

For the nine months ended September 30, 2016 and September 30, 2015, nil and 194 Trust Units were issued, respectively, from treasury for total gross proceeds of nil and \$1,000, respectively, to Unitholders who elected to receive Trust Units under the UPP.

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

### **RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF TRUSTEES**

Management is responsible for the information disclosed in this MD&A, and has in place the appropriate information systems, procedures and controls to ensure that the information used internally by management and disclosed externally is materially complete and reliable. In addition, the Trust’s Audit Committee and Board of Trustees provide an oversight role with respect to all public financial disclosures by the Trust, and have reviewed and approved this MD&A and the condensed consolidated interim financial statements as at September 30, 2016 and September 30, 2015.

### ***CONTROLS AND PROCEDURES***

The Trust maintains appropriate information systems, procedures and controls to ensure that information disclosed externally is complete, reliable, and timely. The Trust’s Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their direct supervision of, the design and operating effectiveness of the Trust’s disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings) as at September 30, 2016 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

The Trust has also established adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of the Trust’s financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS. The Trust’s Chief Executive Officer and the Chief Financial Officer assessed, or caused an assessment under their direct supervision, of the design and operating effectiveness of the Trust’s internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings) as at September 30, 2016. Based on that assessment, it was determined that the Trust’s internal controls over financial reporting were appropriately designed

## **MANAGEMENT DISCUSSION & ANALYSIS**

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and were operating effectively. In addition, the Trust did not make any changes to the design of the Trust's internal controls over financial reporting during the three and nine months ended September 30, 2016 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**

Significant accounting policies applied by the Trust are described in note 2 of the Trust's consolidated financial statements for the years ended December 31, 2015 and December 31, 2014 and accordingly should be read in conjunction with them.

### **ESTIMATES**

The preparation of the condensed consolidated interim financial statements requires management to make estimates that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The critical accounting estimates have been set out in the Trust's audited consolidated financial statements for the year ended December 31, 2015, 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, 2015 and accordingly should be read in conjunction with them.

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

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

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

**IFRS 9** - Financial Instruments ("**IFRS 9**") will replace IAS 39 - Financial Instruments: Recognition and Measurement ("**IAS 39**"). IFRS 9 uses a single approach to determine

## MANAGEMENT DISCUSSION & ANALYSIS

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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, 2018.

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

**IFRS 16** - Leases (“**IFRS 16**”). IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 requirements. The effective date for IFRS 16 is January 1, 2019.

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

### SUBSEQUENT EVENTS

The following are events that occurred subsequent to September 30, 2016:

- On October 17, 2016, the Trust distributed monthly cash distributions of \$0.035 per Trust Unit to unitholders of record at the close of business on September 30, 2016.
- On October 17, 2016, the Trust encumbered Thickson Place with a new first mortgage with a Canadian Life Insurance Company. The \$23.5 million first mortgage is a fixed 3.04% interest rate mortgage that matures on November 1, 2026. The Trust’s pro-rata share of the new first mortgage is \$9.4 million.
- On November 1, 2016, the Trust closed on an acquisition of a 100% interest in 1435 Mountain Road located in Moncton, New Brunswick. The acquisition price of the property is approximately \$4.7 million, excluding transaction costs.

## MANAGEMENT DISCUSSION & ANALYSIS

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- On November 1, 2016, the Trust announced that its Board of Trustees approved a 4.8% increase in its monthly distributions to \$0.036666 per unit from \$0.035 per unit. On an annualized basis, this equates to anticipated distributions of \$0.44 per unit up from \$0.42 per unit. These distributions will be paid on or about December 15, 2016 and January 15, 2017 to unitholders of record at the close of business on November 30, 2016 and December 30, 2016, respectively.
- On November 3, 2016, the Trust announced that it has declared and approved monthly distributions in the amount of \$0.036666 per Trust Unit for unitholders of record on January 31, 2017, February 28, 2017 and March 31, 2017 payable on or about February 15, 2017, March 15, 2017 and April 14, 2017.

### RISKS AND UNCERTAINTIES

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

- *LIQUIDITY & GENERAL MARKET CONDITIONS*

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

- *REAL PROPERTY OWNERSHIP AND TENANT RISKS*

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

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of the properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent unleased space in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors. Cash available for distribution will be adversely affected if a significant number of

## MANAGEMENT DISCUSSION & ANALYSIS

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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 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

## MANAGEMENT DISCUSSION & ANALYSIS

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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 are 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 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

## MANAGEMENT DISCUSSION & ANALYSIS

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locations. The existence of such a liability can have a negative impact on the value of the underlying real property.

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

- **LEGAL RISK**

In the normal course of the Trust's operations, whether directly or indirectly, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined in a manner adverse to the Trust and as a result, could have a material adverse effect on the Trust's assets, liabilities, business, financial condition and results of operations. Even if the Trust prevails in any such legal proceeding, the proceedings could be costly and time-consuming and may divert the attention of management and key personnel from the Trust's business operations, which could have a material adverse effect on the Trust's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Trust Units.

- **LEASE ROLLOVER RISK**

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

- **INCOME TAX RISK**

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

The SIFT Rules do not apply to a "real estate investment trust" that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Conditions"). The Trust has reviewed the REIT Conditions and has assessed their interpretation and application to the Trust's assets and liabilities. The Trust believes that it has met the REIT Conditions throughout the relevant periods ended. There can be no assurances, however, that the Trust will continue to be able to satisfy the REIT Conditions in the future such that the Trust will not be subject to the tax imposed by the SIFT Rules.

## MANAGEMENT DISCUSSION & ANALYSIS

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- *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 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

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

- *RETURN RISK*

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

- *POTENTIAL CONFLICTS OF INTEREST*

The Trust is subject to various potential conflicts of interest because the Asset Manager and Property Manager are entities indirectly related to certain trustees and management of the Trust. Further, the Trustees and Officers may co-invest in property acquisitions and 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 are actually, or are perceived to be, in conflict with the interests of the Trust. Accordingly, there can be no guarantee that the Trustees and Officers of the Trust, when acting in a capacity other than a Trustee or Officer of the Trust will act in the best interests of the Trust.

- *RELIANCE ON KEY PERSONNEL AND TRUSTEES*

In assessing the risk of an investment in the Trust Units, potential investors should be aware that they will be relying on the good faith, experience and judgment of the Trustees. Although investments made by the Trust are carefully chosen by the Trustees, there can

## MANAGEMENT DISCUSSION & ANALYSIS

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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 endeavors to minimize losses in this area by ensuring that effective infrastructure and controls exist. These controls are reviewed and if deemed necessary improvements are implemented.

- *RISK RELATED TO INSURANCE RENEWALS*

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

## OUTLOOK

Management expects the continuation of regional differences within the Canadian economy for the remainder of 2016 and into 2017, with stronger fundamentals in Eastern Canada offset by generally weaker fundamentals in Western Canada, particularly in the oil and gas based economies of Alberta and Saskatchewan. These regional differences will be tied to the underlying economic growth forecast of each region. Eastern industrial markets, (most notably Greater Toronto Region and Montreal) which have a heavier concentration of manufacturing and distribution uses, will benefit from stronger export fundamentals resulting from an attractively valued lower Canadian dollar, lower fuel prices and a recovering U.S. economy.

Management continues to believe that the Trust is well positioned with a strong balance sheet that was strengthened with \$7 million in equity raised during Q3/2016. The acquisitions of The Whitby Mall that closed in Q2 and Thicksen Place in Q3 in partnership with First Capital Realty will enhance and diversify the Trust's cash flow. The Trust continues to maintain its cash liquidity

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to take advantage of opportunities as they arise. The Trust continues to target industrial, flex industrial, net lease convenience retail, multi-residential, core service provider and healthcare professional office assets across Canada. We expect to grow predominately through external acquisitions through the remainder of 2016 and into 2017 and will assess each acquisition to ensure they meet our investment objectives but will not grow the portfolio only for the sake of growth. In addition to growth generated by acquisitions, the Trust's growth is expected to come from within the portfolio, through a combination of leasing and build out of existing excess density when feasible over the next several years.

The Trust is committed to remaining focused on its portfolio to preserve and improve the quality of the cash flows through active management and leasing 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.