

2014

....

RETROCOM REIT

MANAGEMENT'S DISCUSSION & ANALYSIS



REACHING
MILESTONES

Q4

DECEMBER 31, 2014

....



Table of Contents

MANAGEMENT'S DISCUSSION AND ANALYSIS	2
SECTION I – OVERVIEW AND OUTLOOK	4
A. THE REIT'S STRATEGY	4
B. SIGNIFICANT TRANSACTIONS & MANAGEMENT ACTIONS.....	5
C. DEVELOPMENT AND REDEVELOPMENT ACTIVITIES	6
D. PLANNED DISPOSITIONS	7
SECTION II – PORTFOLIO SUMMARY	7
A. PROPERTY PROFILES.....	7
B. OCCUPANCY	9
C. PORTFOLIO DISTRIBUTION – BY PROVINCE.....	10
D. PORTFOLIO DISTRIBUTION – BY PROPERTY TYPE	10
E. TOP 20 TENANTS.....	11
F. LEASE EXPIRY DATA.....	12
SECTION III – LEASING	14
A. OVERVIEW OF LEASING ACTIVITY	14
SECTION IV – INVESTMENT PROPERTIES	16
A. INVESTMENT PROPERTIES.....	16
B. ACQUISITIONS AND DISPOSITIONS OF INVESTMENT PROPERTIES	17
C. MAINTENANCE OF PRODUCTIVE CAPACITY.....	18
SECTION V – FINANCIAL RESULTS	19
A. SELECTED ANNUAL INFORMATION.....	19
B. FUNDS FROM OPERATIONS AND FUNDS FROM OPERATIONS, ADJUSTED	19
C. RESULTS OF OPERATIONS – FOURTH QUARTER.....	21
D. RESULTS OF OPERATIONS - YEAR-TO-DATE	24
E. JOINT VENTURE OPERATIONS	26
F. DISTRIBUTIONS TO UNITHOLDERS	27
G. FINANCIAL RESULTS OF PREVIOUS 8 QUARTERS.....	30
SECTION VI – LIQUIDITY AND CAPITAL RESOURCES	31
A. FINANCIAL COVENANTS	31
B. CASH FLOW INFORMATION	32
SECTION VII – INDEBTEDNESS AND OTHER OBLIGATIONS	33
A. TOTAL INDEBTEDNESS.....	33
B. MORTGAGES.....	33
C. VENDOR TAKE BANK LOAN	33
D. CONVERTIBLE DEBENTURES	34
E. SECURED BANK DEBT	34
SECTION VIII – RELATED PARTY	34
A. EXTENSION OF SC/MRR GROUP'S MINIMUM VOTING ENTITLEMENT.....	34
B. RELATED PARTY APPROVALS	35
C. OTHER RELATED PARTY ACTIVITIES.....	35
SECTION IX – COMMITMENTS AND CONTINGENCIES	36
SECTION X – UNITHOLDERS' EQUITY, CLASS B UNITS AND CONVERTIBLE DEBENTURES	36
SECTION XI – RISKS AND UNCERTAINTIES	37
A. REAL PROPERTY OWNERSHIP	37
B. LEASING	38
C. RETAIL CONCENTRATION	38
D. FINANCING RISK, LEVERAGE & RESTRICTIVE COVENANTS.....	38
E. DISTRIBUTIONS	39
F. DIVERSIFICATION OF INVESTMENTS & MARKET CONCENTRATION	39
G. GOVERNMENT REGULATION & ENVIRONMENTAL MATTERS	39
H. GENERAL UNINSURED LOSSES	40
I. NATURE OF UNITS.....	40
J. MARKET FOR UNITS.....	40
K. TAX RELATED RISKS.....	40
L. UNITHOLDER LIABILITY	41
K. UNITHOLDER HOLDING A SIGNIFICANT NUMBER OF UNITS	41
SECTION XII – ACCOUNTING POLICIES	41
A. SIGNIFICANT ACCOUNTING POLICIES & ESTIMATES	41
B. FUTURE CHANGES IN SIGNIFICANT ACCOUNTING POLICIES	42
SECTION XIII – CONTROLS AND PROCEDURES	42
A. DISCLOSURE CONTROLS AND PROCEDURES	42
B. INTERNAL CONTROLS OVER FINANCIAL REPORTING	43
C. CHANGES IN INTERNAL CONTROLS OVER FINANCIAL REPORTING	43
D. INHERENT LIMITATION.....	43
SECTION XIV – ADDITIONAL INFORMATION	43

Management's Discussion and Analysis

Basis of Presentation

This Management's Discussion and Analysis ("MD&A") is intended to provide readers with an assessment of the performance of the REIT over the three months and year ended December 31, 2014, as well as our financial position and future prospects. In this document, the terms "Retrocom", "Retrocom REIT", "the Trust", "the REIT", "we", "us" and "our" will refer to Retrocom Real Estate Investment Trust. This MD&A should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2014 together with the Consolidated Financial Statements and MD&A for the year ended December 31, 2013. Additional information, including the REIT's Annual Information Form, is available on the SEDAR website at www.sedar.com. This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and includes material information up to **March 26, 2015**.

All dollar amounts in this MD&A are expressed in Canadian dollars.

Financial Measures

Readers are cautioned that certain terms used such as: Funds from Operations ("FFO"), Funds from Operations, Adjusted ("FFO, adjusted"), Funds from Operations, Adjusted per unit ("FFO, adjusted per unit"), Net Operating Income ("NOI"), Interest Coverage Ratio, Debt to Gross Book Value Ratio, Debt Service Coverage Ratio and EBITDA and any related amounts used to measure, compare and explain the operating results and financial performance of the REIT are not recognized terms or amounts under IFRS. The terms are defined in this MD&A and reconciled to the accompanying financial statements. Such terms do not necessarily have a standardized meaning and may not be comparable to similarly titled measures presented by other publicly traded entities.

Forward Looking Statements

This MD&A contains forward-looking statements which reflect management's expectations regarding the REIT's future growth, results of operations, performance, and business prospects and opportunities. These statements relate to, but are not limited to, the REIT's expectations, intentions, plans and beliefs. In some cases, forward-looking statements can be identified by the use of words such as "may", "will", "should", "expect", "plan", "intend", "anticipate", "believe", "estimate", "predict", "potential", "continue" or the negative or grammatical variations of these terms or other comparable terminology. Readers should be aware that these statements are subject to known and unknown risks, uncertainties and other factors, including, but not limited to: those discussed or referenced under the heading "Risk Factors" in this MD&A, as well as competition within the commercial real estate sector, the effective international, national and regional economic conditions and the availability of capital to fund further investments in the REIT's business. Actual events or results may differ materially from those suggested by any forward-looking statements. Readers should not place undue reliance on any forward-looking statements contained in this MD&A. By their nature, forward-looking statements involve numerous assumptions, inherent risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts, projections and various future events will not occur. Although management of the REIT believes that the expectations reflected in the forward-looking statements are reasonable, there can be no assurance that future results, levels of activity, performance or achievements will occur as anticipated. Neither the REIT nor any other person assumes responsibility for the accuracy and completeness of any forward-looking statements, and no one has any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or such other factors which affect this information, except as required by law.

SELECTED CONSOLIDATED INFORMATION

The table below includes selected information from the MD&A. We encourage you to read the further discussion and definitions contained elsewhere in this MD&A.

\$000's, except per unit and other data	Three months ended		Year ended	
	December 31	December 31	December 31	December 31
	2014	2013	2014	2013
Financial Information				
Revenue	31,472	32,993	113,933	104,083
Net income/(loss)	(2,126)	12,984	8,597	34,777
Net operating income ⁽¹⁾	19,107	22,921	67,634	64,012
FFO ⁽²⁾	10,039	14,809	34,087	35,101
FFO, adjusted ⁽²⁾	10,039	14,809	34,087	36,603
Weighted average number of units ⁽³⁾	85,319	71,259	77,015	65,662
FFO, adjusted per unit ⁽²⁾	0.118	0.208	0.443	0.557
FFO, adjusted payout ratio, ⁽²⁾	95.3%	54.1%	101.6%	80.8%
Distributions per unit	0.1125	0.1125	0.4500	0.4500
As at				
			December 31	December 31
			2014	2013
Total assets			1,179,651	1,009,098
Mortgages payable, secured bank debt and convertible debentures			680,257	542,165
Debt to gross book value ratio (excluding convertible debentures) ⁽⁵⁾			50.7%	45.4%
Debt to gross book value ratio (including convertible debentures) ⁽⁵⁾			57.7%	53.7%
Interest coverage ratio ⁽⁵⁾			2.14	2.42
Debt service coverage ratio ⁽⁵⁾			1.47	1.68
Weighted average mortgage contractual interest rate			4.83%	5.06%
REIT Unit closing market price			\$ 3.91	\$ 4.66
Outstanding number of units ⁽⁶⁾			85,451	71,332
Market capitalization ⁽⁴⁾			334,114	332,407
Operational Information				
			December 31	December 31
			2014	2013
Portfolio occupancy			85.6%	85.7%
Committed portfolio occupancy			85.7%	85.7%
Gross leasable area ("GLA")			7,514,870	6,509,442
Average net rent in place per square foot			\$ 12.68	\$ 12.48
Number of investment properties			59	50

Notes:

- (1) A non-IFRS measurement, defined as rental revenue (net rents, property tax and operating cost recoveries, as well as other miscellaneous income from tenants) less property operating expenses from rental properties and share of the joint venture property rental revenue less property operating expenses (see Section V. C & D).
- (2) A non-IFRS measurement. See Section V. B for definitions of FFO, FFO, adjusted and FFO, adjusted per unit.
- (3) Including Class B units of subsidiary partnerships (the "Class B Units") and Units issued under the REIT's Long Term Incentive Plan ("LTIP") unless they are anti-dilutive.
- (4) A non-IFRS measurement, calculated as the closing unit market price multiplied by the number of units outstanding, including Class B Units which are exchangeable for REIT Units.
- (5) Non-IFRS measurement. See Section VI for definitions and calculations.
- (6) Includes number of units outstanding and Class B Units which are exchangeable for REIT units.

Section I – Overview and Outlook

Retrocom REIT is an unincorporated open-end real estate investment trust created pursuant to a Declaration of Trust dated December 15, 2003, as amended and restated by the Seventh Amended and Restated Declaration of Trust dated October 2, 2014, and as further amended from time to time (the “Declaration of Trust”). The REIT is governed under the laws of the Province of Ontario. Units of the REIT (“Units”) are listed on the Toronto Stock Exchange under the symbol RMM.UN.

As at December 31, 2014, our portfolio of retail properties is geographically diversified across Canada with approximately 55% of gross leasable area (“GLA”) in Ontario and 28% of GLA west of Ontario. The majority of the western Canadian portfolio, or 19% of GLA, is located in Saskatchewan.

A. The REIT’s Strategy

The REIT’s goal is to enhance long-term Unitholder value by:

- increasing occupancy through active asset management;
- enhancing the value of our properties through redevelopment, revitalization and marketing;
- growing the asset base through accretive acquisitions;
- pursuing select development projects;
- improving the shopping experience at our properties, which we believe will lead to increased traffic and tenant sales;
- controlling operating costs;
- improving the appearance and maintaining our properties;
- periodically reviewing the portfolio to determine if opportunities exist to re-deploy equity from slow growth and low return properties into higher growth and higher return investments; and
- obtaining financing to ensure funds are available to execute on leasing and redevelopment initiatives and to reduce the interest cost of debt.

Mitchell Goldhar, the owner of the SmartCentres group of companies (“SmartCentres”), which is one of the largest developer and operator of unenclosed shopping centres in Canada, directly and indirectly, and a group associated with Mitchell Goldhar (collectively the “SC/MRR Group”) own as at December 31, 2014, approximately 18% of the issued and outstanding Units and Class B Units. As a result of this relationship, we believe the synergies offered further the REIT’s growth and value creation initiatives.

The REIT, with the assistance of the SmartCentres development and leasing teams, develops and revises, as necessary, strategies to achieve our goals as follows:

- focusing leasing efforts to increase rental and occupancy rates, lengthen lease maturities and strengthen the overall tenant base; and
- developing and executing comprehensive redevelopment plans for certain properties, including adding rentable space where opportunities permit.

Leasing and Asset Management

The REIT’s portfolio benefits from focused internal asset management together with the SmartCentres leasing and development services.

Conditions in the leasing market may impact the speed of portfolio occupancy improvement and planned rental revenue increases. We continue to modify and revisit the REIT’s leasing and asset management plans as circumstances evolve. We remain committed to executing leasing initiatives to improve occupancy.

Redevelopment

Management, in collaboration with SmartCentres, continues to review redevelopment strategies, which may include:

- converting common areas to leasable areas;

- redemising large vacant anchor spaces to attract national retailers who require large store formats, with a view to enhancing the appeal of the shopping centres by better matching the type of tenants to community needs and retail mix of the property; and
- where permitted, building additional free-standing buildings (“pads”) on our sites to increase GLA and revenue.

Asset Class

The REIT's core strategy is the ownership and management of retail shopping centres. The assets are categorized as enclosed malls, new format shopping centres and open air plazas.

The specific retail assets in which the REIT currently invests are:

(i) New Format Shopping Centres

Unenclosed new format shopping centres include multiple buildings arranged in a campus format. The shopping centres are large aggregations of dominant retailers grouped together at high traffic and easily accessible parking locations. These unenclosed campus style centres are generally anchored by supermarkets and/or junior department stores.

(ii) Open Air Plaza

Open air plazas are typically contained within a single building envelope on a single level. The shopping centre is oriented for an outdoor shopping experience and possess limited common facilities. The shopping centres are generally anchored by a supermarket, pharmacy or department stores alongside an array of small to medium retail and service tenancies. The tenant base appeals to the local or regional base with products and services for frequent and routine shopping.

(iii) Enclosed Malls

Enclosed Malls are predominantly contained within a single building envelope. The shopping centre is oriented for an indoor retail experience and possesses many common elements including common entrances, climate controlled corridors, furniture, washrooms and guest services. The shopping centre is typically located on a principal arterial or minor arterial road, situated within a retail agglomeration or serves as one of the dominant offerings in the trade area.

B. Significant Transactions & Management Actions

Closing of \$51.9 million Bought Deal Financing

On August 6, 2014, the REIT issued by way of public offering 12,075,000 Units (including 1,575,000 Units issued pursuant to the full exercise of the underwriters' over-allotment option) at a price of \$4.30 per Unit for gross proceeds of approximately \$51.9 million (the "Offering").

Acquisition of investment properties from Walmart Canada Realty Inc. and SmartCentres Realty Inc.

On September 16, 2014, the REIT acquired two Walmart-anchored properties with 371,392 square feet of retail space (the "Walmart/Smartcentres Properties") from Walmart Canada Realty Inc. and SmartCentres for approximately \$68 million. The purchase price was satisfied by two new mortgage loans totalling \$47 million bearing a weighted average interest rate of 4.14% secured by the acquired properties, the issuance to SmartCentres of 996,000 Class B units of RMM Limited Partnership I at a price of \$4.55 per unit that are exchangeable for Units and the balance paid in cash. An additional 69,000 square feet of retail space of future tenancies may be acquired under Earnout agreements.

Acquisition of Seven Properties from Calloway Real Estate Investment Trust

On October 30, 2014, the REIT acquired seven investment properties with 638,670 square feet of retail space (the "Calloway Properties") from Calloway Real Estate Investment Trust ("Calloway REIT") for approximately \$111 million. The purchase price was satisfied by the assumption of existing mortgage debt secured by three of the Calloway Properties in an aggregate amount of \$38.8 million, additional mortgage debt of \$24.0 million secured by the other four Calloway Properties, a vendor take-back loan ("VTB") of \$40.3 million and cash on hand from the Offering. The VTB has a two-year term bearing interest at 5.75% for the first year and 6.75% for year two, is fully open for repayment and is secured by charges over certain investment properties. The assumed mortgages of \$38.8 million bear a weighted average interest rate of 5.44%, and the new mortgage loans secured

by four of the acquired properties of \$24.0 million bear a weighted average interest rate of 3.83%. Calloway will manage the properties on the REIT's behalf.

Other Financing

On September 16, 2014, the REIT renewed a maturing mortgage loan of \$14 million at an interest rate of 6.45%. On October 31, 2014, the REIT refinanced a maturing mortgage loan of \$3.4 million bearing an interest rate of 5.79% with a new mortgage loan of \$8.2 million bearing an interest rate of 3.50%.

As at the date of this MD&A, the weighted average interest rate of all renewed and refinanced mortgage loans in 2014 has decreased by 130 basis points overall.

C. Development and Redevelopment Activities

Development and redevelopment activities are determined based on market opportunities and a set of investment criteria. Our current development projects consist of asset repositioning and intensification. All development projects are managed to minimize leasing risk by seeking to ensure space to be developed or redeveloped is substantially leased prior to construction commencement.

Golden Mile, Regina, Saskatchewan

Golden Mile Shopping Centre will be substantially redeveloped with the REIT's planned investment of \$28.5 million into the shopping centre. A new 92,000 square foot Real Canadian Superstore® will serve as the anchor tenant and occupy the central portion of the shopping centre. The eastern wing will be reformatted to accommodate a new 25,000 square foot Goodlife Fitness along with a variety of tenants occupying an additional 35,000 square feet of retail space.

The redevelopment is expected to be completed by late 2018, and will feature approximately 20,000 square feet of additional leasable area along with new exterior entrances and façades.

Orangeville Mall, Orangeville, Ontario

At Orangeville Mall, a significant portion of the revitalization is complete. The revitalization features include upgrading the shopping centre with a new exterior facade, renovated entrances and new pylon signs. HomeSense opened its 20,000 square foot store in September 2014 and Sport Check opened its 22,000 square foot store in November 2014, both being new tenants at the mall.

Creekside Crossing, Mississauga, Ontario

Creekside Crossing will be a 430,000 square foot unenclosed shopping centre upon completion. The shopping centre is being developed by the REIT, along with its joint venture partners. The REIT has a 30% ownership interest in Creekside Crossing.

As at the date of this MD&A, 366,000 square feet of the development has been completed, with Walmart, Costco, LCBO, RBC and TD Canada Trust, among others, having opened. Construction on the remaining 64,000 square feet has commenced.

Other intensification projects

The REIT also seeks to construct additional pads at our properties in order to increase GLA and revenue. The REIT has five pads under development totaling 38,200 square feet, which represents a planned investment of approximately \$9.2 million. All pads have substantially been pre-leased and are summarized as follows:

Project Name/Location	Key Tenants	Building area (sq ft)	Total investment (\$000's) as at December 31	Estimated cost to complete
Scarborough - Morningside, Toronto, ON	The Beer Store	5,000	1,700	800
South Hill Mall, Prince Albert, SK	Montanas Cookhouse	5,200	-	1,500
Southland Mall, Regina, SK	Chop Steakhouse	7,000	-	900
Lincoln Value Centre, St. Catharines, ON	Easy Home, Easy Financial, Sally Beauty	15,000		3,100
Magog, Magog, QE	Bulk Barn	6,000	-	1,200
Total		38,200	1,700	7,500

D. Planned Dispositions

The REIT has identified Mountainview Mall, Elgin Mall and Kenora Shopping Centre as non-core assets and intends to pursue the disposition of these properties. The properties consist of 748,000 square feet of leasable space, of which approximately 390,000 square feet is vacant, accounting for 36% of the vacant space in the REIT's portfolio. Mountainview Mall and Elgin Mall secure first mortgage loans totaling \$23 million bearing interest at approximately 6.5%.

Section II – Portfolio Summary

A. Property Profiles

The table below provides a summary of the properties in the REIT's portfolio as at December 31, 2014.

Property	Location	Type	Weighted Avg. Remaining Lease Term	Key Tenants	GLA (sq. ft.)	Occupancy (%)
British Columbia						
Chilliwack Mall	Chilliwack	Enclosed Mall	4.5	Sport Chek, Winners, Reitmans, Safeway, Chevron, Liquor Store	166,714	90.1%
Mission Shopping Centre	Mission	New Format	16.1	Walmart, Dollarama	112,373 ⁽⁵⁾	100.0%
South Fraser Gate	Abbotsford	Open Air Plaza	7.1	Shoppers Drug Mart, Original Joe's	32,458	88.8%
Alberta						
Carry Plaza	Medicine Hat	Open Air Plaza	5.4	Rexall, Medicine Hat Buffet, Earl's Restaurant, Rossco's Pub, Bank of Montreal	59,131	92.3%
Cochrane Centre	Cochrane	Open Air Plaza	2.7	Shoppers Drug Mart, CIBC, Starbucks	59,987	90.8%
Eastview Plaza	Red Deer	Open Air Plaza	3.8	Sobeys, Bank of Montreal	35,211	100.0%
Saskatchewan						
Golden Mile Shopping Centre	Regina	Enclosed Mall	3.1	Extra Foods, Urban Planet, Rainbow Cinemas, Royal Bank of Canada	234,589	85.8%
Kindersley Mall	Kindersley	Enclosed Mall	8.2	Extra Foods, Home Hardware Building Centre, Sask. Liquor & Gaming	143,140	80.2%
South Hill Mall	Prince Albert	Enclosed Mall	4.9	Safeway ⁽²⁾ , Good Life Fitness, Winners, Galaxy Cinemas, Shoppers Drug Mart, Sask. Liquor & Gaming	169,443	86.4%
Southland Mall	Regina	Enclosed Mall	7.8	Canadian Tire, Safeway, Cineplex Odeon, Chapters	429,459	90.9%
Town 'N' Country Mall	Moose Jaw	Enclosed Mall	4.3	Sears, Labels, Galaxy Cinemas, Sport Chek, Dollarama	340,036	59.4%
Wheatland Mall	Swift Current	Enclosed Mall	4.7	Pioneer Co-Op ⁽²⁾ , Peavey Mart, Dollarama, Giant Tiger, Bulk Barn	131,860	72.0%
Manitoba						
City Centre Mall	Thompson	Enclosed Mall	4.2	Walmart, Safeway, Mark's, TD Canada Trust, Vantis Credit Union	183,300	94.7%
Ontario						
1100-1170 Burnhamthorpe Rd. W.	Mississauga	Open Air Plaza	3.5	Re/Max, Swiss Chalet	199,849	80.0%
1224 Dundas St. E.	Mississauga	Open Air Plaza	3.1	Deeper Life Ministries, Goodwill, Canadian Tire ⁽¹⁾	203,185	80.3%
681-691 Gardiners Rd.	Kingston	Open Air Plaza	0.8	Goldspan Furniture, Bay Bros, Speedy Muffler, Hakim Optical	48,040	91.4%
750-760 Birchmount Rd.	Toronto	Open Air Plaza	2.1	Pillar Direct Marketing, Baskits, United Auto Parts	66,143	95.0%
Bowmanville Mall	Bowmanville	Enclosed Mall	7.2	Metro, Shoppers Drug Mart, Goodlife Fitness, Dollarama	123,676	96.0%
Bowmanville Square	Bowmanville	Open Air Plaza	8.2	Staples, The Beer Store, RBC	29,548	100.0%
Burlington Shopping Centre	Burlington	New Format	2.3	Bad Boy Furniture, Staples, Future Shop, Lee Valley Tools	134,225	90.0%
Creekside Crossing	Mississauga	New Format	16.9	Walmart, Costco, LCBO, The Beer Store, TD Canada Trust, RBC	109,198 ⁽⁴⁾	100.0%
Elgin Mall	St. Thomas	Enclosed Mall	4.3	Metro, Galaxy Cinemas, Goodlife Fitness	262,513	50.4%
Fergus Shopping Centre	Fergus	New Format	17.0	Walmart, LCBO	109,652	100.0%
Hartzel Plaza	St. Catharines	Open Air Plaza	4.8	Metro, Niagara Community Care Access Centre, St. Catharines Public Library	67,972	100.0%

Property	Location	Type	Weighted Avg. Remaining Lease Term	Key Tenants	GLA (sq. ft.)	Occupancy (%)
Kapuskasing Shopping Centre	Kapuskasing	New Format	6.1	Walmart, Dollar Tree	71,306 ⁽⁶⁾	100.0%
Kenora Mall	Kenora	Enclosed Mall	6.0	The Beer Store, No Frills (Loblaws)	154,044	38.7%
Kenora Shopping Centre	Kenora	New Format	10.1	Walmart	80,881	100.0%
Kingspoint Plaza	Brampton	Open Air Plaza	5.3	Giant Tiger, Goodlife Fitness, Shoppers Drug Mart, Long & McQuade	202,173	97.3%
Lincoln Value Centre	St. Catharines	Open Air Plaza	7.0	Walmart, Canadian Tire, No Frills, DOT Seasonal, Dollarama	356,951	89.2%
McIntyre Centre	Thunder Bay	Open Air Plaza	4.8	Shoppers Drug Mart, Goodlife Fitness, Fabricland, Bulk Barn	66,081	94.1%
Midland Shopping Centre	Midland	New Format	2.6	Mark's, Dollar Giant, Boston Pizza, Walmart ⁽¹⁾ , Home Depot ⁽¹⁾	35,594	100.0%
Mountainview Mall	Midland	Enclosed Mall	4.7	Metro, Galaxy Cinemas, Staples, Sport Chek, Dollar Tree	331,046 ⁽⁷⁾	49.8%
Napanee Shopping Centre	Napanee	New Format	9.6	Walmart, Dollarama, Mark's Work Wearhouse	107,871 ⁽⁶⁾	97.8%
Norfolk Mall	Tillsonburg	Open Air Plaza	3.5	Dollarama, Swiss Chalet, Pet Value, Fabricland	87,979	99.0%
Orangeville Mall	Orangeville	Enclosed Mall	4.9	Metro, Shoppers Drug Mart, Home Sense, Sport Chek	183,684	67.2%
Orillia Shopping Centre	Orillia	New Format	12.2	Walmart, Staples, Winners, Michaels, Dollarama, SleepCountry	241,516	100.0%
Peterborough Shopping Centre	Peterborough	New Format	5.5	Home Outfitters, Jysk Linen 'N Furniture, Boston Pizza	58,355	100.0%
Renfrew Shopping Centre	Renfrew	New Format	9.1	Mark's, LCBO	17,414	85.5%
Red River Plaza	Thunder Bay	Open Air Plaza	3.6	Salvation Army, Anytime Fitness	19,000	100.0%
Rockland Shopping Centre	Rockland	New Format	11.9	Walmart, Dollarama, LCBO, Boston Pizza, Bulk Barn	147,358 ⁽⁶⁾	100.0%
Scarborough Shopping Centre	Toronto	New Format	3.1	Staples, Fabricland, Pharmacentre, Swiss Chalet, RBC	95,297	78.0%
Simcoe Shopping Centre	Simcoe	New Format	17.1	Walmart, LCBO, Dollar Tree	129,876	100.0%
Tillsonburg Town Centre	Tillsonburg	Enclosed Mall	6.0	Walmart, Canadian Tire, Shoppers Drug Mart, Staples, Mark's, LCBO, CIBC, TDCanada Trust, Dollartree	281,260	95.8%
Yorkgate Mall	Toronto	Enclosed Mall	5.4	Designer Depot, No Frills, Seneca College, Dollarama, IDA Drug Mart, LCBO	217,339	97.5%
Quebec						
Carrefour des Forges	Drummondville	Open Air Plaza	3.6	IGA Extra, SAQ, National Bank, Dollarama	74,782	100.0%
Carrefour Don Quichotte	Ile-Perrot	Open Air Plaza	2.5	Giant Tiger, CIBC, Starbucks	71,406	70.6%
Drummondville Shopping Centre	Drummondville	New Format	3.7	Addition-Elle, Dormez-Vous Sleep Centres, CIBC, Walmart ⁽¹⁾ , Loblaws ⁽¹⁾	51,186	83.5%
Galeries Don Quichotte	Ile-Perrot	Open Air Plaza	3.4	Laurentian Bank, L' Aubainerie	26,742	62.6%
IGA Tremblant	Mont-Tremblant	Open Air Plaza	6.1	IGA Extra	37,549	100.0%
Magog Shopping Centre	Magog	New Format	12.3	Walmart, TD Bank	106,976 ⁽⁶⁾	100.0%
Plaza Don Quichotte	Ile-Perrot	Open Air Plaza	3.2	IGA Extra, SAQ, Desjardins, Tim Hortons	107,101	92.1%
New Brunswick						
600 Fairville Blvd	Saint John	Open Air Plaza	5.4	Global Pet Foods	3,515	58.0%
Harding Street Property ⁽³⁾	Saint John	Development Land	0.0	N/A	-	0.0%
Lancaster Mall	Saint John	Enclosed Mall	10.2	Walmart, No Frills, Shoppers Drug Mart, Urban Planet, McDonalds, BMO, Bulk Barn, Bank of Nova Scotia, PJ's Pets	235,070	94.6%
Nova Scotia						
New Minas Shopping Centre	New Minas	New Format	3.2	Sport Chek, Mark's Work Wearhouse	45,561 ⁽⁶⁾	95.5%
Truro Shopping Centre	Truro	New Format	6.6	Walmart, Dollarama	132,851 ⁽⁶⁾	95.4%
Woodlawn Shopping Centre	Dartmouth	Open Air Plaza	4.6	Staples, Atlantic Fabrics, Taylor Flooring, Giant Tiger	157,722	83.2%
Yukon Territory						

Property	Location	Type	Weighted Avg. Remaining Lease Term	Key Tenants	GLA (sq. ft.)	Occupancy (%)
Qwanlin Mall	Whitehorse	Open Air Plaza	5.4	Extra Foods, Staples, Shoppers Drug Mart, Ashley Furniture	102,447	100.0%
Newfoundland and Labrador						
Gander Shopping Centre	Gander	New Format	1.6	Bank of Nova Scotia, Buck or Two, The Source	25,235 ⁽⁶⁾	91.8%
TOTALS			6.7		7,514,870⁽⁸⁾	85.6%

(1) Shadow anchor, outside pad(s), no interior access to the mall.

(2) Shadow anchor with interior access to the mall.

(3) Vacant development land neighboring 600 Fairville and Lancaster Mall.

(4) The GLA represents the REIT's 30% interest in Creekside Crossing.

(5) An increase of 2,992 sq.ft. in GLA from Q3 2014 to Q4 2014 is due to the completion of new development.

(6) An increase of 637,158 sq.ft. in GLA from Q3 2014 to Q4 2014 is due to the acquisition of the Calloway Properties. .

(7) A decrease of 11,207 sq.ft. in GLA from Q3 2014 to Q4 2014 is due to the removal of mezzanine space in former Zellers space.

(8) An increase of 2,309 sq.ft. in GLA from Q3 2014 to Q4 2014 is due to the area adjustments.

B. Occupancy

As at December 31, 2014, the REIT's portfolio was comprised of 7.5 million square feet of GLA, of which 6.4 million square feet was occupied, equating to an 85.6% occupancy rate, compared to 84.6% at the end of third quarter of 2014. The following table illustrates our historical occupancy rates:

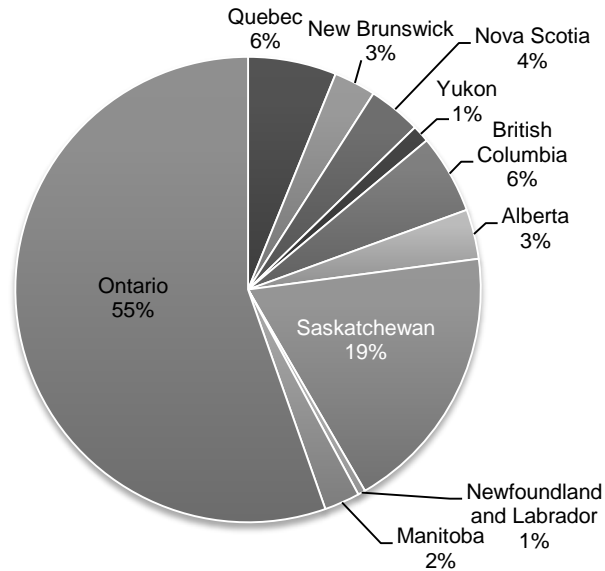
Quarter End	Portfolio Occupancy %	Committed Occupancy ⁽¹⁾ %
Q4 2014	85.6%	85.7%
Q3 2014	84.6%	85.2%
Q2 2014	84.3%	85.0%
Q1 2014	85.5%	86.2%
Q4 2013	85.7%	85.7%
Q3 2013	93.0%	93.1%
Q2 2013	91.9%	92.6%
Q1 2013	88.9%	91.5%

(1) Committed occupancy is calculated by adding portfolio occupancy to the GLA with respect to fully executed agreements that have no unusual conditions and under which management expects the tenants will take possession as planned.

C. Portfolio Distribution – By Province

The graph below summarizes the REIT's properties by geographic location as at December 31, 2014.

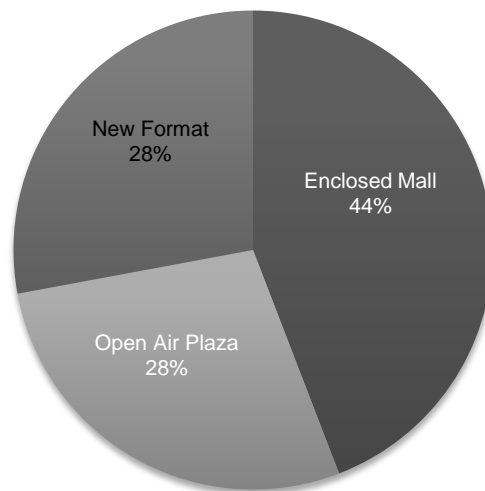
GROSS RENT BY PROVINCE



D. Portfolio Distribution – By Property Type

The chart and table below summarize the REIT's portfolio by property type as at December 31, 2014.

GROSS RENT BY PROPERTY TYPE



PORTFOLIO DISTRIBUTION BY PROPERTY TYPE

Property Type	GLA (sq. ft.)	Occupancy (sq. ft.)	Occupancy Rate	Annualized Gross Rent*
Enclosed Mall	3,587,173	2,776,480	77.4%	56,623,436
Open Air Plaza	2,114,972	1,897,926	89.7%	35,817,621
New Format	1,812,725	1,754,641	96.8%	35,812,289
TOTAL	7,514,870	6,429,047	85.6%	\$128,253,346

* As at December 31, 2014 rent rolls, annualized

E. Top 20 Tenants

The REIT strives to diversify its tenant base with quality retailers. Walmart Canada is currently the REIT's largest tenant.

The following table provides information relating to the REIT's top 20 tenants, as measured by gross rent, as at December 31, 2014.

TOP 20 TENANTS BY ANNUALIZED GROSS RENT

Rank	Tenant	Number of Stores	Occupied Area (sq. ft.)	% of Total GLA	Gross Rent*	% of Annualized Gross Rent*	Weighted Avg. Lease Term Remaining
1	Walmart	16	1,517,439	20.2%	23,087,605	18.0%	11.8
2	Loblaw Companies	19	413,758	5.5%	8,425,339	6.6%	6.1
3	Canadian Tire Companies	16	440,352	5.9%	7,696,917	6.0%	8.5
4	Sobeys	7	283,662	3.8%	3,719,408	2.9%	4.1
5	Metro Companies	5	190,687	2.5%	3,323,188	2.6%	5.9
6	Staples	8	172,941	2.3%	2,921,568	2.3%	5.3
7	Cineplex Companies	5	127,778	1.7%	2,602,440	2.0%	5.1
8	Dollarama	12	116,601	1.6%	2,381,581	1.9%	4.1
9	Goodlife	5	105,475	1.4%	2,031,267	1.6%	7.2
10	TJX Companies	4	93,760	1.2%	1,665,473	1.3%	5.8
11	LCBO	8	51,720	0.7%	1,490,915	1.2%	10.8
12	Giant Tiger	4	103,436	1.4%	1,451,195	1.1%	2.7
13	Cara Restaurants	6	36,593	0.5%	1,276,840	1.0%	6.0
14	Royal Bank of Canada	5	27,585	0.4%	1,188,557	0.9%	7.1
15	International Clothiers	5	102,064	1.4%	1,079,241	0.8%	7.1
16	CIBC	5	26,963	0.4%	1,039,840	0.8%	4.6
17	The Source	12	29,400	0.4%	1,025,541	0.8%	4.5
18	Ardene	9	31,914	0.4%	993,521	0.8%	3.9
19	Smitty's	4	25,178	0.3%	904,842	0.7%	5.5
20	TD Canada Trust	8	25,104	0.3%	877,279	0.7%	4.1
Top 20 Tenants		163	3,922,410	52.3%	\$69,182,558	54.0%	8.3
Top 5 Tenants		63	2,845,898	37.9%	\$46,252,457	36.1%	9.3

* As at December 31, 2014 rent rolls, annualized.

Canadian chartered banks account for 3.52% of annualized gross rent as at December 31, 2014.

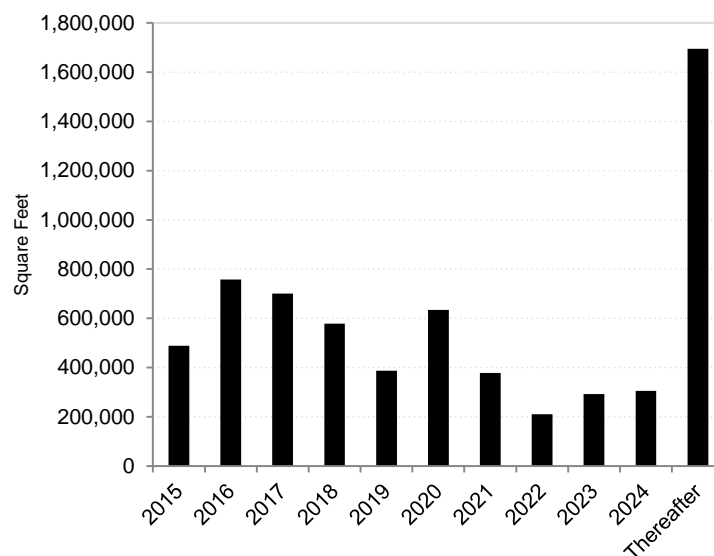
Given the competitive landscape of the retail business, several retailers have suffered financial losses and closed locations in the past year. On January 15, 2015, Target Corporation announced plans to discontinue and wind down its Canadian operations. The REIT was not impacted by the announcement, as it did not have any Target stores in its portfolio.

The REIT maintains a well-diversified portfolio geographically and by tenancy. Our core tenants are strong, recognizable brands within the retail sector, all of whom have longevity in the Canadian marketplace.

F. Lease Expiry Data

The following graph and tables show lease expiries by year and by province, as at December 31, 2014.

LEASE EXPIRY BY YEAR



LEASE EXPIRY BY YEAR

Year	Area (sq. ft)	% Total GLA
2015	488,911	6.5%
2016	757,613	10.1%
2017	700,531	9.3%
2018	578,482	7.7%
2019	387,621	5.2%
2020	634,484	8.4%
2021	377,728	5.0%
2022	210,671	2.8%
2023	292,913	3.9%
2024	305,434	4.1%
Thereafter	1,694,660	22.6%
Vacancy	1,085,823	14.4%
Total	7,514,870	100.0%

LEASE EXPIRY BY PROVINCE AND YEAR*

Province		GLA	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
British Columbia	Sq. Ft.	311,545	8,983	54,449	19,143	2,999	13,749	965	-	33,426	54,099	3,628
	% of GLA		2.9%	17.5%	6.1%	1.0%	4.4%	0.3%	0.0%	10.7%	17.4%	1.2%
Alberta	Sq. Ft.	154,329	23,485	24,091	23,440	16,186	15,058	10,754	6,169	960	1,700	18,373
	% of GLA		15.2%	15.6%	15.2%	10.5%	9.8%	7.0%	4.0%	0.6%	1.1%	11.9%
Saskatchewan	Sq. Ft.	1,448,527	96,894	163,003	152,276	142,684	46,541	124,421	99,357	51,945	27,277	29,881
	% of GLA		6.7%	11.3%	10.5%	9.9%	3.2%	8.6%	6.9%	3.6%	1.9%	2.1%
Manitoba	Sq. Ft.	183,300	6,702	17,359	92,441	5,898	5,841	6,148	-	-	-	39,251
	% of GLA		3.7%	9.5%	50.4%	3.2%	3.2%	3.4%	0.0%	0.0%	0.0%	21.4%
Ontario	Sq. Ft.	4,239,026	309,637	349,707	276,402	318,781	194,307	475,298	106,385	67,525	175,083	212,936
	% of GLA		7.3%	8.2%	6.5%	7.5%	4.6%	11.2%	2.5%	1.6%	4.1%	5.0%
New Brunswick	Sq. Ft.	238,585	15,857	3,115	6,057	8,773	22,055	11,678	-	-	17,277	-
	% of GLA		6.6%	1.3%	2.5%	3.7%	9.2%	4.9%	0.0%	0.0%	7.2%	0.0%
Nova Scotia	Sq. Ft.	336,134	11,916	57,751	1,883	32,858	20,398	-	116,992	40,880	17,477	1,365
	% of GLA		3.5%	17.2%	0.6%	9.8%	6.1%	0.0%	34.8%	12.2%	5.2%	0.4%
Yukon	Sq. Ft.	102,447	-	-	19,775	-	64,182	-	-	-	-	-
	% of GLA		0.0%	0.0%	19.3%	0.0%	62.6%	0.0%	0.0%	0.0%	0.0%	0.0%
Quebec	Sq. Ft.	475,742	15,437	64,982	109,114	50,303	5,490	5,220	48,825	15,935	-	-
	% of GLA		3.2%	13.7%	22.9%	10.6%	1.2%	1.1%	10.3%	3.3%	0.0%	0.0%
Newfoundland and Labrador	Sq. Ft.	25,235	-	23,156	-	-	-	-	-	-	-	-
	% of GLA		0.0%	91.8%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TOTAL	Sq. Ft.	7,514,870	488,911	757,613	700,531	578,482	387,621	634,484	377,728	210,671	292,913	305,434
	% of GLA		6.5%	10.1%	9.3%	7.7%	5.2%	8.4%	5.0%	2.8%	3.9%	4.1%

* As of December 31, 2014.

Section III – Leasing

A. Overview of Leasing Activity

The REIT may experience short-term fluctuations in occupancy and leasing costs from quarter to quarter as some tenants vacate leased premises and others take possession. It is our objective to increase the term of our leases. Although many retailers remain cautious, several national retailers are expected to continue to upgrade or expand existing stores, and open new locations. The REIT, with the SmartCentres leasing team, continues to work with retailers to seek new tenancies, expansions and renewals.

Significant leasing activity during the fourth quarter of 2014 and up to the date of this MD&A includes:

1. At Golden Mile Shopping Center, RBC renewed its lease for 10,451 square feet for an additional 10 year term.
2. At Hartzel Plaza, Community Care Access Centre renewed its lease for 21,200 square feet for an additional 5 year term.
3. At Mountainview Mall, Dollar Tree leased 10,216 square feet for 10 years, and opened in August, 2014.
4. At Mountainview Mall, Staples renewed its lease for 16,594 square feet for an additional 5 year term.
5. At Mountainview Mall, a lease with a franchisee of The Brick representing 25,103 square feet was disclaimed in April 2014.
6. At Orangeville Mall, Home Sense opened a 20,203 square foot new store in September, 2014.
7. At Orangeville Mall, Sport Chek opened a 22,427 square foot store in November, 2014.
8. At Orangeville Mall, Shoppers Drugmart renewed its lease for 7,270 square feet for an additional 5 year term.
9. At Golden Mile Shopping Centre, Loblaw Properties entered into a new lease for a 92,385 square foot Real Canadian Superstore ® for twenty years, and is expected to open in mid-2017.
10. At Golden Mile Shopping Centre, Good Life entered into a new lease for 24,462 square feet for fifteen years, and is expected to open in early 2016.
11. At Qwanlin Mall, Wheatland Mall, and Golden Mile Mall, effective May 31, 2014, Liquidation World entered into lease termination agreements with respect to 60,345 square feet. The existing sub-tenant at Qwanlin Mall, occupying 19,775 square feet, entered into a direct lease.
12. At Scarborough Shopping Centre, Fit 4 Less leased 12,011 square feet for 15 years, and is expected to open in April 2015.
13. At Scarborough Shopping Centre, Staples renewed its lease for 25,722 square feet for an additional 5 year term.
14. At Southland Mall, Chop Steakhouse leased approximately 7,000 square feet for 10 years, and is expected to open in the fall of 2015.
15. At Southland Mall, Safeway renewed its lease for 47,447 square feet for an additional 5 year term.
16. At Tillsonburg Town Centre, Staples renewed its lease for 14,635 square feet for an additional 5 year term.
17. At Yorkgate Mall, No Frills renewed its lease for 31,225 square feet for an additional 5 year term.

Leasing activity is categorized as (i) renewals (ii) new leases, or (iii) expired. Renewals include any renewal, amendment or holdovers of lease agreements that change the lease expiry date, the square footage or the rent payable by the tenant.

New lease agreements taking effect in the fourth quarter of 2014 include 14 new tenancies representing 53,211 square feet of GLA at a weighted average base rent of \$9.43 per square foot. Also taking effect in the fourth quarter of 2014, were lease renewals for 24 tenants representing 65,740 square feet of GLA at a weighted average base rent of \$10.11 per square foot, a \$0.25 decrease over the base rents payable under the expiring leases.

Lease renewals taking effect in 2014, include 121 tenants representing 527,114 square feet of GLA at a weighted average base rent of \$13.01 per square foot, an increase of \$0.17 from weighted average base rent of \$12.84

payable under the expiring leases. The REIT has entered into 33 new leases, also taking effect in 2014, for 115,213 square feet of GLA, at a weighted average base rent of \$11.34 per square foot.

The following tables provide a summary of the leasing activity completed by the REIT as of the date of this MD&A.

LEASING ACTIVITY BECOMING EFFECTIVE

2014	# of tenants	Square footage	Weighted avg. old base rent	Weighted avg. new base rent	Weighted avg. rent change
Renew/Amend/Month-to-month	121	527,114	\$12.84	\$13.01	\$0.17
New Leasing	33	115,213	-	11.34	11.34
Expired	64	266,133	8.68	-	(8.68)
Absorption		(150,920)			

Q1-2014	# of tenants	Square footage	Weighted avg. old base rent	Weighted avg. new base rent	Weighted avg. rent change
Renew/Amend/Month-to-month	28	117,124	\$14.16	\$14.74	\$0.58
New Leasing	2	7,437	-	1.64	1.64
Expired	15	21,216	12.33	-	(12.33)
Absorption		(13,779)			

Q2-2014	# of tenants	Square footage	Weighted avg. old base rent	Weighted avg. new base rent	Weighted avg. rent change
Renew/Amend/Month-to-month	27	188,813	\$13.45	\$13.98	\$0.53
New Leasing	7	9,204	-	23.77	23.77
Expired	15	89,730	3.98	-	(3.98)
Absorption		(80,526)			

Q3-2014	# of tenants	Square footage	Weighted avg. old base rent	Weighted avg. new base rent	Weighted avg. rent change
Renew/Amend/Month-to-month	42	155,437	\$12.14	\$11.74	(\$0.40)
New Leasing	10	45,361	-	12.64	12.64
Expired	12	74,469	8.01	-	(8.01)
Absorption		(29,108)			

Q4-2014	# of tenants	Square footage	Weighted avg. old base rent	Weighted avg. new base rent	Weighted avg. rent change
Renew/Amend/Month-to-month	24	65,740	\$10.36	\$10.11	(\$0.25)
New Leasing	14	53,211	-	9.43	9.43
Expired	22	80,718	13.55	-	(13.55)
Absorption		(27,507)			

2015	# of tenants	Square footage	Weighted avg. old base rent	Weighted avg. new base rent	Weighted avg. rent change
Renew/Amend/Month-to-month	30	272,292	\$9.53	\$9.72	\$0.19
New Leasing	9	41,942	-	20.90	20.90
Expired	2	3,756	28.44	-	(28.44)
Absorption		38,186			

Section IV – Investment Properties

A. Investment Properties

The change in the fair value of the REIT's investment properties during the period is detailed below:

(all amounts in \$000's)	December 31, 2014	December 31, 2013
Opening fair value	971,344	712,778
Acquisitions	183,024	264,813
Disposition	-	(10,650)
Redevelopment and portfolio improvement	15,315	18,307
Leasing costs	971	1,125
Tenant inducements	(180)	(71)
Straight line rent	806	1,353
Fair value losses	(22,071)	(16,311)
Closing fair value	1,149,209	971,344

The key valuation metrics utilized to value the investment properties are set out below:

	December 31, 2014	December 31, 2013
Weighted average discount rate	7.65%	7.78%
Range of discount rates	6.25% - 11.00%	6.25% - 10.50%
Weighted average terminal capitalization rate	6.92%	7.03%
Range of terminal capitalization rate	6.00% - 10.00%	6.00% - 9.50%

Valuation of investment properties

The fair value of each investment property is determined by discounting the expected future cash flows, generally over a term of 10 years, including a terminal value, based on the application of a terminal capitalization rate to the estimated year 11 cash flows. The expected future cash flows reflect, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. It also reflects any cash outflow that could be expected in respect of the property. The REIT engages external appraisers to complete appraisals for approximately 35% of the portfolio by value on an annual rotation basis to ensure substantially all (by value) of the portfolio is appraised externally over a three-year period. The fair value of the remaining portfolio is determined internally utilizing a valuation methodology that is consistent with the external appraisal methodology.

Investment property under development is also measured using the above method, taking into account the costs to complete the development. Undeveloped land is measured using comparable market values for similar assets.

The REIT recorded a fair value loss on investment properties of \$13.9 million and \$22.1 million respectively for the three months and year ending December 31, 2014. The fair value loss is primarily attributable to the valuation of the investment properties formerly anchored by Zellers Inc. and acquisition costs that were incurred in 2014. The weighted average discount rate decreased from 7.78% to 7.65% from the year end December 31, 2013 to December 31, 2014.

Costs capitalized to investment properties

Included in investment properties are redevelopments and portfolio improvements. During the year ended December 31, 2014, the REIT capitalized \$7.0 million (December 31, 2013 – \$10.1 million) of costs related to investment properties under development including \$0.2 million (December 31, 2013 – \$0.3 million) of borrowing costs and \$0.2 million (December 31, 2013 – \$0.3 million) of realty taxes. The weighted average interest rate used for capitalization of borrowing costs to investment property under development for the year ended December 31, 2014 was 4.83% (December 31, 2013 – 5.06%).

B. Acquisitions and Dispositions of Investment Properties

2014 Acquisitions

On September 16, 2014, the REIT acquired the Walmart/Smartcentres Properties for approximately \$68 million, adding approximately 371,392 square feet of GLA to our portfolio. Pursuant to development agreements, SmartCentres retained the responsibility for completing the development and leasing with respect to certain premises located on the two investment properties (the "2014 Earnouts").

The REIT is obligated to pay the vendors, on completion of each 2014 Earnout, a total price calculated by a formula based on net operating rent and a predetermined capitalization rate less the associated land and development costs incurred by the Trust. In relation to the 2014 Earnout obligations, the REIT has granted SmartCentres the option to receive up to 540,000 Class B units at a value of \$4.55 per Class B unit (the "Earnout Option"). The purchase price was funded by mortgage loans secured by the acquired investment properties, issuance of Class B units, and cash on hand.

On October 30, 2014, the REIT acquired the Calloway Properties for approximately \$111 million which was satisfied by the assumption of existing mortgage debt secured by three of the investment properties in an aggregate amount of approximately \$38.8 million, new mortgage debt of \$24.0 million, secured by the other four investment properties, a VTB of \$40.3 million and cash on hand. The VTB has a two-year term bearing interest at 5.75% for the first year and 6.75% for year two, is fully open for prepayment at any time and is to be secured by charges over certain investment properties.

The following table summarizes certain information with respect to acquisitions completed in 2014:

Property Name	City	Province	Date Purchased	GLA (sq. ft.)
Orillia Shopping Centre	Orillia	Ontario	September 16, 2014	241,516
Simcoe Shopping Centre	Simcoe	Ontario	September 16, 2014	129,876
Rockland Shopping Centre	Rockland	Ontario	October 30, 2014	147,358
Truro Shopping Centre	Truro	Nova Scotia	October 30, 2014	132,851
Napanee Shopping Centre	Napanee	Ontario	October 30, 2014	109,383
Magog Shopping Centre	Magog	Quebec	October 30, 2014	106,976
Kapuskasing Shopping Centre	Kapuskasing	Ontario	October 30, 2014	71,306
New Minas Shopping Centre	New Minas	Nova Scotia	October 30, 2014	45,561
Gander Shopping Centre	Gander	Newfoundland & Labrador	October 30, 2014	25,235
Totals				1,010,062

2013 Acquisitions

In 2013, the REIT acquired investment properties that added approximately 1.2 million square feet of GLA to our portfolio for an aggregate of approximately \$255 million, including the purchase of 12,038 square feet property adjacent to Kindersley Mall.

The following table summarizes certain information with respect to acquisitions completed in 2013:

Property Name	City	Province	Date Purchased	GLA (sq. ft.)
South Fraser Gate	Abbotsford	BC	June 5, 2013	32,458
Cochrane City Centre	Cochrane	AB	June 5, 2013	59,552
Eastview Shopping Centre	Red Deer	AB	June 5, 2013	35,211
Bowmanville Mall	Bowmanville	ON	June 5, 2013	123,676
Bowmanville Square	Bowmanville	ON	June 5, 2013	27,910
Norfolk Mall	Tillsonburg	ON	June 5, 2013	87,979
Tillsonburg Town Centre	Tillsonburg	ON	June 5, 2013	281,192
Carrefour des Forges	Drummondville	QC	June 5, 2013	74,782
Carrefour Don Quichotte	L'île-Perrot	QC	June 5, 2013	71,406
Plaza Don Quichotte	L'île-Perrot	QC	June 5, 2013	26,742

IGA Tremblant	Mont-Tremblant	QC	June 5, 2013	37,549
Galleries Don Quichotte	L'île-Perrot	QC	June 5, 2013	107,101
Mission Retail Centre	Mission	BC	August 27, 2013	107,586
Fergus Retail Centre	Fergus	ON	August 27, 2013	107,862
Kindersley Mall (adjacent property acquired)	Kindersley	SK	March 22, 2013	12,038
Total				1,193,044

2013 Disposition

In 2013, the REIT sold Lansdowne Plaza, located in Saint John, New Brunswick, consisting of 202,509 square feet of GLA, for gross proceeds of \$10.4 million.

C. Maintenance of Productive Capacity

Maintaining and improving the productive capacity of the REIT's portfolio requires significant ongoing expenditures, categorized as leasing costs and maintenance expenditures.

Leasing Costs

Leasing costs, which include leasing commissions and tenant allowances, are costs incurred with respect to obtaining new tenants and renewing leases with existing tenants. These costs are dependent upon many factors and vary with the timing of lease renewals, vacancies, tenant mix and market conditions. The accounting for leasing costs varies depending on the nature of the costs incurred. Direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. Tenant allowances that enhance the value of the property are determined to be tenant improvements and are capitalized as part of investment property. Where the tenant allowance is determined to be a lease inducement, the amount is recognized as an asset and is amortized as a reduction to revenue on a straight line basis over the term of the related lease.

The following table summarizes the leasing costs incurred during the three months and years ended December 31, 2014 and 2013:

(all amounts in \$000's)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Tenant improvements	774	269	882	1,783
Tenant inducements	81	33	81	124
Leasing commissions	591	407	899	1,125
	1,446	709	1,862	3,032

Maintenance Expenditures

On a continuous basis, the REIT invests to physically maintain and improve its investment properties with significant expenditures on roofs, HVAC systems and parking lots. The REIT differentiates these expenditures between those incurred as operating expenses to maintain the investment properties and those incurred to achieve improvements to the investment properties, as summarized in the following table. Certain of these amounts are recoverable from tenants.

The following table summarizes the maintenance expenditures incurred during the three months and years ended December 31, 2014 and 2013:

(all amounts in \$000's)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Roofs	3,320	3,357	5,386	3,730
Heating, ventilation and air conditioning ("HVAC")	111	162	255	381
Parking lots	45	158	94	737
Other	795	667	1,735	1,580
	4,270	4,344	7,469	6,428

Section V – Financial Results

A. Selected Annual Information

(all amounts in \$000's, except per unit amounts)	Year ended	Year ended	Year ended
	Dec 31	Dec 31	Dec 31
	2014	2013	2012
Total revenue	113,933	104,083	80,258
Net income	8,597	34,777	69,092
Total assets	1,179,651	1,009,098	780,318
Total non-current financial liabilities	637,543	497,001	409,183
Distributions declared per unit	\$ 0.4500	\$ 0.4500	\$ 0.4500

Growth in revenue, assets and non-current liabilities is mainly attributable to investment properties acquired in 2013 and 2014. The decrease in net income is the result of fair value losses on investment properties.

In 2013, the REIT negotiated the termination of its remaining leases with Zellers and the resolution of all outstanding disputes with Zellers. The aggregate impact from the resolution together with the revenue generated from the leases on each of net income and comprehensive income, NOI and FFO, adjusted for the three months and year ended December 31, 2013 were \$6.1 million and \$7.6 million, respectively. The REIT also recognized \$1.0 million in other income for the year ended December 31, 2013 associated with a property sold by the REIT in 2005. These transactions are collectively referred to as the "2013 non-recurring transactions".

B. Funds From Operations and Funds From Operations, adjusted

In Management's view, Funds From Operations ("FFO") and Funds From Operations, adjusted ("FFO, adjusted") are meaningful measures of financial performance in the real estate industry, and unitholders, financial analysts and investors are well served when FFO and FFO, adjusted disclosures are provided. FFO and FFO, adjusted are measures which should not be considered as an alternative to net income, cash flow from operations or any other operating or liquidity measures prescribed under IFRS. The REIT's method of calculating FFO and FFO, adjusted may be different from methods used by others and, accordingly, may not be comparable.

FFO and FFO, adjusted are non-IFRS measures of the REIT's operating performance. The REIT calculates FFO in accordance with the Real Property Association of Canada ("REALpac") White Paper on Funds from Operations dated April, 2014. We calculate FFO, adjusted by adding the issue costs of convertible debentures expensed under IFRS to FFO.

The reconciliation of net income to FFO and FFO, adjusted are set out below.

(all amounts in \$000's, except per unit and ratio amounts)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Income/(loss) for the period	(2,126)	12,984	8,597	34,777
Fair value losses on investment property	13,936	7,642	22,071	16,311
Fair value gains associated with financial instruments	(4,539)	(6,281)	(2,077)	(19,018)
Fair value gains on participants' rights under LTIP	(10)	(15)	(33)	(144)
Loss from sale of investment property	-	-	-	293
Fair value (losses) gains from joint venture	1,504	(646)	805	(1,865)
Finance costs- distributions on Class B Units	1,240	1,098	4,611	4,221
Finance costs- distributions on subscription receipts	-	-	-	411
Tenant inducements amortized as a reduction to revenue	34	27	113	115
FFO	10,039	14,809	34,087	35,101
Issuance costs for convertible debentures	-	-	-	1,502
FFO, adjusted	10,039	14,809	34,087	36,603

The comparison of the components of FFO, adjusted for the three months ended December 31, 2014 and December 31, 2013 are set out below.

	Three months ended December 31			
(all amounts in \$000's, except per unit and ratio amounts)	2014	2013	Change	% Change
Net operating income	19,107	22,921	(3,814)	-16.6%
Trust expenses	(964)	(972)	8	-0.8%
Finance cost - joint venture operations	(201)	(140)	(61)	43.6%
Finance costs-operations	(7,937)	(7,027)	(910)	13.0%
Tenant inducements amortized as a reduction to revenue	34	27	7	25.6%
FFO, adjusted	10,039	14,809	(4,770)	-32.2%
Weighted average number of units ⁽¹⁾	85,319	71,259	14,060	19.7%
FFO adjusted, per unit	\$ 0.118	\$ 0.208	(0.090)	-43.8%
Distributions per unit	0.1125	0.1125	-	-
FFO adjusted, payout ratio	95.3%	54.1%	41.3%	76.3%

Notes:

(1) Including Class B Units and Units issued under the LTIP unless they are anti-dilutive.

FFO, adjusted for the three months ended December 31, 2014, was \$10.0 million, a decrease of \$4.8 million compared to FFO, adjusted of \$14.8 million for the comparable period in 2013. The decrease in FFO, adjusted is primarily attributable to the 2013 non-recurring transactions, offset by the investment properties acquired in 2014.

FFO, adjusted per unit for the three months ended December 31, 2014 and 2013 was \$0.118 and \$0.208 per unit respectively, representing a \$0.09 decrease. For the three months ended December 31, 2013, the 2013 non-recurring transactions accounted for FFO, adjusted of \$0.086 per unit.

The comparison of the components of FFO, adjusted for the year ended December 31, 2014 and December 31, 2013 are set out below.

	Year ended December 31			
(all amounts in \$000's, except per unit and ratio amounts)	2014	2013	Change	% Change
Net operating income	67,634	64,012	3,622	5.7%
Trust expenses	(4,556)	(4,480)	(76)	1.7%
Finance cost - joint venture operations	(816)	(319)	(497)	155.8%
Finance costs-operations	(28,288)	(23,773)	(4,515)	19.0%
Tenant inducements amortized as a reduction to revenue	113	115	(2)	-1.7%
FFO, adjusted before other income	34,087	35,555	(1,468)	-4.1%
Other income	-	1,048	(1,048)	
FFO, adjusted	34,087	36,603	(2,516)	-6.9%
Weighted average number of units ⁽¹⁾	77,015	65,662	11,353	17.3%
FFO adjusted, per unit	\$ 0.443	\$ 0.557	(0.114)	-20.5%
Distributions per unit	0.4500	0.4500	-	-
FFO adjusted, payout ratio	101.6%	80.8%	20.8%	25.7%

Notes:

(1) Including Class B Units and Units issued under the LTIP unless they are anti-dilutive.

FFO, adjusted for the year ended December 2014, was \$34.1 million, a decrease of \$2.5 million compared to FFO, adjusted of \$36.6 million for the comparable period in 2013. The decrease in FFO, adjusted was primarily attributable to the 2013 non-recurring transactions, offset by the investment properties acquired in 2013 and 2014.

FFO, adjusted per unit for the years ended December 31, 2014 and 2013 was \$0.443 and \$0.557, respectively, representing a \$0.114 decrease. For the year ended December 31, 2013, the 2013 non-recurring transactions accounted for FFO, adjusted of \$0.132 per unit.

C. Results of Operations – Fourth Quarter

The following sets out financial results for the three months ended December 31, 2014 and the comparable period.

(all amounts in \$000's)	Three months ended December 31		Change	% Change
	2014	2013		
Rental revenue				
Same property ⁽¹⁾ - excluding formerly Zellers anchored properties	17,937	18,334	(397)	-2.2%
Same property ⁽¹⁾ - formerly Zellers anchored properties	3,472	8,013	(4,541)	-56.7%
Total same property revenue	21,409	26,347	(4,938)	-18.7%
Acquisition and dispositions ⁽³⁾	10,063	6,646	3,417	51.4%
Total rental revenue	31,472	32,993	(1,521)	-4.6%
Property operating expense				
Same property ⁽¹⁾ - excluding formerly Zellers anchored properties	7,348	7,835	(487)	-6.2%
Same property ⁽¹⁾ - formerly Zellers anchored properties	1,907	304	1,603	527.3%
Total same property operating expense	9,255	8,139	1,116	13.7%
Acquisition and dispositions ⁽²⁾	3,566	2,358	1,208	51.2%
Total property operating expense	12,821	10,497	2,324	22.1%
Net operating income ⁽³⁾				
Same property ⁽¹⁾ - excluding formerly Zellers anchored properties	10,589	10,499	90	0.9%
Same property ⁽¹⁾ - formerly Zellers anchored properties	1,565	7,709	(6,144)	-79.7%
Total same property net operating income	12,154	18,208	(6,054)	-33.2%
Acquisition and dispositions ⁽³⁾	6,497	4,288	2,209	51.5%
Share of joint venture net operating income	456	425	31	7.3%
Total net operating income	19,107	22,921	(3,814)	-16.6%
Trust expenses	964	972	(8)	-0.8%
Finance cost - joint venture operations	201	140	61	43.6%
Finance costs-operations	7,937	7,027	910	13.0%
Finance costs-distributions on Class B Units	1,240	1,098	142	12.9%
Income before fair value gains (losses) and other income	8,765	13,684	(4,919)	-35.9%
Fair value gains (losses) associated with financial instruments	4,539	6,281	(1,742)	
Fair value losses on investment property	(13,936)	(7,642)	(6,294)	
Fair value gains on participant's rights under LTIP	10	15	(5)	
Fair value gains on joint venture	(1,504)	646	(2,150)	
Income for the period	(2,126)	12,984	(15,110)	

Notes:

- (1) Same property refers to those investment properties owned by the REIT from January 1, 2013 to December 31, 2014.
- (2) Acquisition and dispositions refers to those investment properties acquired and sold by the REIT in 2013 and 2014.
- (3) A non-IFRS measurement, calculated by the REIT as rental revenue (net rents, property tax and operating cost recoveries, as well as other miscellaneous income from tenants) less operating expenses from rental properties and its share of the joint venture property rental revenue less property operating expenses.

Rental Revenue

Rental revenue is comprised of net rents, property tax recoveries and operating cost recoveries and other income from tenants. For the three months ended December 31, 2014, rental revenue was \$31.5 million, \$1.5 million lower than the comparative period in 2013. The increase in rental revenue of \$3.4 million attributable to investment properties acquired in 2013 and 2014 was offset by \$4.9 million decrease in same property rental revenue, which is mainly attributable to the 2013 non-recurring transactions.

Property Operating Expenses

Property operating expenses are comprised of property taxes, repairs and maintenance, utilities, insurance, property management fees and provision for bad debt. Operating expenses fluctuate throughout the year due to a number of factors including, usage of utilities, timing of repairs and the amount of snow removal and landscaping services required. For the three months ended December 31, 2014, property operating expenses were \$12.8 million, \$2.3 million higher than the comparative period in 2013 primarily attributable to the acquisitions completed in 2014 and due to adjustments which reduced property operating expenses in 2013 as a result of the 2013 non-recurring transactions.

Net Operating Income

Net operating income ("NOI") is a non-IFRS measure of the REIT's operating performance, defined as rental revenue less property expenses and its share of the joint venture property rental revenue less property operating expenses. For the three months ended December 31, 2014, NOI was \$19.1 million, \$3.8 million, lower than for the comparative period in 2013. The change in NOI is primarily attributable to the acquisitions completed in 2013 and 2014, completion of development at the joint venture and the 2013 non-recurring transactions.

Trust Expenses

(all amounts in \$000's)	Three months ended December 31			
	2014	2013	Change	% Change
Compensation costs	439	559	(120)	-21.5%
Trustee fees	152	114	38	33.2%
Professional fees	187	141	46	32.4%
Other G & A	186	158	28	17.6%
Trust expenses	964	972	(9)	-0.9%
As a percentage of rental revenue	3.06%	2.95%		

Trust expenses are comprised of employee remuneration, trustee fees, legal, audit, insurance and administrative expenses associated with the operation of the REIT. Trust expenses were unchanged for the three months ended December 31, 2014 compared to the same period in 2013.

Finance Costs – Operations

(all amounts in \$000's)	Three months ended December 31			
	2014	2013	Change	% Change
Mortgage interest	6,425	5,216	1,209	23.2%
Interest on convertible debentures	1,251	1,279	(28)	-2.2%
Other interest	261	532	(271)	-50.9%
Finance costs-operations	7,937	7,027	910	13.0%

Finance costs - operations represents costs and interest incurred on debt. Finance costs – operations for the three months ended December 31, 2014, were \$7.9 million, \$0.9 million higher than for the same period in 2013. The higher finance costs are due to additional interest expense related to debt associated with the investment properties acquired in September and October 2014.

Finance Costs – Distributions on Class B Units

Finance costs – distributions on Class B Units for the three months ended December 31, 2014 were \$1.2 million compared to \$1.1 million for the three months ended December 31, 2013. The increase in distributions on Class B Units is attributable to the issuance of Class B Units in 2014.

Fair Value Gains (Losses) Associated with Financial Instruments

The fair value changes for the three months ending December 31, 2014, and the comparable period in 2013 reported in profit and loss were as follows:

(all amounts in \$000's)	Three months ended December 31			
	2014	2013	Change	% Change
Fair value gains (losses) on convertible debentures	3,418	3,283	135	4.1%
Fair value gains (losses) on Class B Units	3,856	1,810	2,046	113.1%
Fair value gains (losses) on interest rate swaps	(2,758)	802	(3,560)	-443.8%
Fair value gains on Earnout obligations ⁽¹⁾	23	386	(395)	-94.1%
Fair value gains (losses) associated with financial instruments	4,539	6,281	(2,068)	-27.8%

Note

(1) Pursuant to a development agreement, SmartCentres retained the responsibility for completing on behalf of the REIT the development and leasing with respect to certain premises located on four investment properties (the "Earnout").

Convertible Debentures

The fair value of convertible debentures is based on the market price for the respective debentures where, if the market price of the debentures increases, a fair value loss will be recognized and where, if the market price of the debentures decreases, a fair value gain will be recognized.

Class B Units

The change in fair value of Class B Units correlates to the fluctuations of the market price of the REIT Units. A fair value loss will be recognized on the Class B Units if the market price of the REIT Unit increases and a fair value gain will be recognized if the REIT Unit market price decreases.

Interest Rate Swaps

The REIT has mortgage loans subject to interest rate swap agreements entered into for purposes of fixing the applicable interest rate prior to funding. The fair values of the interest rate swaps are primarily determined by the difference between the applicable fixed interest rates and the market variable interest rates. The unrealized fair value gains or losses for a period are primarily driven by the changes to the market variable interest rates over the period. A fair value gain occurs when the market variable interest rates are higher at the end of the reporting period than at the beginning of the period. A fair value loss occurs when the market variable interest rates are lower at the end of the reporting period than at the beginning of the period.

Earnout Obligation

The fair value losses on the Earnout obligation is due to the change in the present value of the expected future payments pursuant to the Earnout agreement.

Fair Value Gains (Losses) on Investment Properties

Investment properties are measured at fair value. The fair value losses for the three months ended December 31, 2014, was \$13.9 million compared to \$7.6 million for the comparative period in 2013. See "Section IV. Investment Properties" above for analysis.

D. Results of Operations - Year-to-Date

The following sets out financial results for the year ended December 31, 2014 and the comparable period in 2013.

(all amounts in \$000's)	Year ended December 31		Change	% Change
	2014	2013		
Rental revenue				
Same property ⁽¹⁾ - excluding formerly Zellers anchored properties	72,162	71,431	731	1.0%
Same property ⁽¹⁾ - formerly Zellers anchored properties	12,083	18,138	(6,055)	-33.4%
Total same property revenue	84,245	89,569	(5,324)	-5.9%
Acquisition and dispositions ⁽³⁾	29,688	14,514	15,174	104.5%
Total rental revenue	113,933	104,083	9,850	9.5%
Property operating expense				
Same property ⁽¹⁾ - excluding formerly Zellers anchored properties	30,090	29,690	400	1.3%
Same property ⁽¹⁾ - formerly Zellers anchored properties	7,750	6,449	1,301	20.2%
Total same property operating expense	37,840	36,139	1,701	4.7%
Acquisition and dispositions ⁽²⁾	10,309	5,306	5,003	94.3%
Total property operating expense	48,149	41,445	6,704	16.2%
Net operating income ⁽³⁾				
Same property ⁽¹⁾ - excluding formerly Zellers anchored properties	42,072	41,741	331	0.8%
Same property ⁽¹⁾ - formerly Zellers anchored properties	4,333	11,689	(7,356)	-62.9%
Total same property net operating income	46,405	53,430	(7,025)	-13.1%
Acquisition and dispositions ⁽³⁾	19,379	9,208	10,171	110.5%
Share of joint venture net operating income	1,850	1,374	476	34.6%
Total net operating income	67,634	64,012	3,622	5.7%
Trust expenses	4,556	4,480	76	1.7%
Transaction costs on issuance of convertible debentures	-	1,502	(1,502)	
Finance cost - joint venture operations	816	319	497	155.8%
Finance costs-operations	28,288	23,773	4,515	19.0%
Finance costs-subscription receipts	-	411	(411)	
Finance costs-distributions on Class B Units	4,611	4,221	390	9.2%
Income before fair value gains (losses) and other income	29,363	29,306	57	0.2%
Fair value gains (losses) associated with financial instruments	2,077	19,018	(16,941)	
Fair value losses on investment property	(22,071)	(16,311)	(5,760)	
Fair value gains on participant's rights under LTIP	33	144	(111)	
Loss from sale of investment property	-	(293)	293	
Fair value gains on joint venture	(805)	1,865	(2,670)	
Other income	-	1,048	(1,048)	
Income for the period	8,597	34,777	(26,180)	

Notes:

- (1) Same property refers to those investment properties owned by the REIT from January 2013 to December 31, 2014.
- (2) Acquisition and dispositions refers to those investment properties acquired or sold by the REIT in 2013 and 2014.
- (3) A non-IFRS measurement, calculated by the REIT as rental revenue (net rents, property tax and operating cost recoveries, as well as other miscellaneous income from tenants) less operating expenses from rental properties and its share of the joint venture property rental revenue less property operating expenses.

Rental Revenue

For the year ended December 31, 2014, rental revenue was \$113.9 million, \$9.9 million higher than the comparative period in 2013. The increase in rental revenue is primarily attributable to the investment properties acquired in 2013 and 2014. Total same property rental revenue was \$5.3 million lower than the same period in 2013. \$6.0 million of the decline in same property rental revenue is due to the 2013 non-recurring transactions, which was offset by increased rental revenue earned from the completion of redevelopment activities. Included in rental revenue are lease cancellation fees, excluding the 2013 non-recurring transactions, of \$0.4 million and \$0.5 million, for the year ended December 31, 2014 and 2013, respectively.

Property Operating Expenses

For the year ended December 31, 2014, property operating expenses were \$48.1 million, \$6.7 million higher than the comparative period in 2013. \$5.0 million of the increase was attributable to the investment properties acquired in 2013 and 2014, and \$1.0 million was due to adjustments which reduced property operating expenses in 2013 as a result of the 2013 non-recurring transactions.

Net Operating Income

For the year ended December 31, 2014, NOI was \$67.6 million, \$3.6 million higher than for the comparative period in 2013. Investment properties acquired in 2013 and 2014 contributed \$10.2 million of the increase and NOI from the joint venture increased \$0.5 million. This was offset by the decrease of \$7.0 million in same property NOI, which was primarily attributable to the 2013 non-recurring transactions, offset by the completion of redevelopment projects at Southland Mall.

Trust Expenses

(all amounts in \$000's)	Year ended December 31			
	2014	2013	Change	% Change
Compensation costs	2,202	2,213	(11)	-0.5%
Trustee fees	631	538	93	17.3%
Professional fees	867	978	(111)	-11.4%
Other G & A	856	751	105	14.0%
Trust expenses	4,556	4,480	75	1.7%
As a percentage of rental revenue	4.00%	4.30%		

Trust expenses are comprised of employee remuneration, trustee fees, legal, audit, insurance and administrative expenses. For the year ended December 31, 2014, the trust expenses of \$4.6 million were \$0.1 million higher than the comparative period in 2013. In 2014, \$0.3 million of expenses were incurred that were associated with agreements with Mr. Goldhar and the SC/MRR Group to extend the Minimum Voting Entitlement and associated with the acquisition of investment properties that were completed in September and October 2014.

Trust expenses, as a percentage of rental revenue, decreased by 0.30% for the year ending December 31, 2014 compared to the comparable period in 2013.

Finance Costs – Operations

(all amounts in \$000's)	Year ended December 31			
	2014	2013	Change	% Change
Mortgage interest	22,186	18,067	4,119	22.8%
Interest on convertible debentures	5,004	4,203	801	19.1%
Other interest	1,098	1,504	(406)	-27.0%
Finance costs-operations	28,288	23,773	4,515	19.0%

Finance costs – operations for the year-ended December 31, 2014 were \$28.3 million, \$4.5 million higher than the comparative period in 2013. The increase is due to additional interest related to debt associated with the investment properties acquired in 2013 and 2014, which is partially offset by lower interest costs on mortgage loan renewals and refinancing during 2014. The non-revolving line of credit was partially repaid with proceeds from new mortgage loans resulting in lower other interest expense, and higher mortgage interest expense.

Finance Costs – Distributions on Class B Units

Finance costs – distributions on Class B Units for the year ended December 31, 2014 were \$4.6 million compared to \$4.2 million for the year ended December 31, 2013. The increase in distributions on Class B Units is attributable to the issuance of Class B Units associated with the Walmart/SmartCentres acquisitions completed in 2013 and 2014 and the related Earnouts.

Fair Value Gains (Losses) Associated with Financial Instruments

The fair value gain (losses) for the year ended December 31, 2014, are as follows:

(all amounts in \$000's)	Year ended December 31			
	2014	2013	Change	% Change
Fair value gains on convertible debentures	1,509	5,967	(4,458)	-74.7%
Fair value gains on Class B Units	8,018	8,963	(945)	-10.5%
Fair value gains on extinguishment of subscription receipts	-	438	(438)	-100.0%
Fair value gains on warrants	-	386	(386)	-100.0%
Fair value gains (losses) on interest rate swaps	(7,127)	2,878	(10,005)	-347.6%
Fair value gains (losses) on Earnout obligations ⁽¹⁾	(323)	386	(709)	-183.6%
Fair value gains (losses) associated with financial instruments	2,077	19,018	(16,941)	-89.1%

Note

(1) Pursuant to a development agreement, SmartCentres retained the responsibility for completing on behalf of the REIT the development and leasing with respect to certain premises located on four investment properties (the "Earnout").

See above "Section C. Results of Operations - Fourth Quarter" for discussion on fair value gains (losses) associated with financial instruments.

Fair Value Gains (Losses) on Investment Properties

Investment properties are measured at fair value. The fair value loss for the year ended December 31, 2014, was \$22.1 million compared to \$16.3 million for the comparative period in 2013. See "Section IV. Investment Properties" above for analysis.

Fair Value Gains (Losses) on Participants' Rights under LTIP

Participants' rights under LTIP are measured at fair value, and changes in its fair value during the reporting period are recorded in profit or loss.

Other income

Other income for the year ended December 31, 2014 was Nil compared to \$1 million in the comparative period in 2013. Other income for the year ended December 31, 2013 included income earned with respect to an investment property the REIT sold in 2005.

E. Joint Venture Operations

Creekside Crossing joint venture

The REIT owns a 30% interest in a joint venture developing one investment property. The joint venture has 366,000 square feet of GLA with 100% occupancy. Construction on the remaining 64,000 square feet has commenced. The REIT is contingently liable for certain obligations of the joint venture and the assets of the joint venture are sufficient to satisfy its obligations and guarantees.

The REIT accounts for its interest in the joint venture using the equity method. The assets and liabilities of the joint venture are as follows:

(all amounts in \$000's)	Year ended December 31, 2014	Year ended December 31, 2013
Investment property	108,000	108,800
Other assets ⁽¹⁾	8,610	22,260
Total assets	116,610	131,060
Total liabilities	63,383	64,598

Note (1) Primarily includes cash, rents receivable and other operating related expenditures receivables.

Income recognized from the REIT's interest in the joint venture is as follows:

(all amounts in \$000's)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Revenue	634	578	2,496	1,858
Expenses	178	153	646	484
Net operating income	456	425	1,850	1,374
Less: finance cost - operations	201	140	816	319
Less: fair value loss on investment property	(1,504)	646	(805)	1,865
Income from investment in joint venture	(1,249)	931	229	2,920

The increase in NOI for the three months and year ending December 31, 2014, compared to the comparative period in 2013 is attributable to completed development of additional GLA. As at December 31, 2014, GLA of 366,000 square feet of GLA was completed compared to 200,990 square feet of GLA completed as at December 31, 2013. The increase in finance costs for the three months and year months ending December 31, 2014 is due to increased debt and lower capitalized interest.

F. Distributions to Unitholders

Distributions Compared to Funds From Operations, adjusted and Cash Flows From Operating Activities

The table below summarizes distributions made in the three months and year ended December 31, 2014, and December 31, 2013, compared to Funds From Operations, adjusted and cash flows from operating activities:

(all amounts in \$000's)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
FFO, adjusted	10,039	14,809	34,087	36,603
Distributions ⁽¹⁾	9,604	8,019	34,758	29,498
Excess (shortfall) of FFO, adjusted over distributions	435	6,790	(671)	7,105
Distributions reinvested through the Distribution Reinvestment Plan ("DRIP")	979	689	3,444	2,148
Excess of FFO, adjusted over distributions net of DRIP	1,414	7,479	2,773	9,253
Cash flows from operating activities	12,087	6,094	33,057	28,104
Distributions ⁽¹⁾	9,604	8,019	34,758	29,498
Excess of adjusted cash flows from operating activities over distributions to unitholders	2,483	(1,925)	(1,701)	(1,394)
Distributions reinvested through the Distribution Reinvestment Plan ("DRIP")	979	689	3,444	2,148
Excess of cash flows from operating activities over distributions to unitholders, net of DRIP	3,462	(1,236)	1,743	754

Note (1) includes distribution on Class B units of subsidiary partnerships.

FFO and FFO, adjusted are non-IFRS measures of the REIT's operating performance. The REIT calculates FFO in accordance with the Real Property Association of Canada ("REALpac") White Paper on Funds from Operations dated April, 2014. We calculate FFO, adjusted by adding the issue costs of convertible debentures expensed under IFRS, to FFO.

Management believes that FFO, adjusted is an important measure of our economic performance. As an alternate measure to cash flow from operations, FFO, adjusted is indicative of the REIT's ability to generate cash flow from its properties and to pay distributions to unitholders. FFO, adjusted is a non-GAAP measure which does not have a standard meaning as defined by IFRS and therefore it may not be comparable to FFO, adjusted as presented by other entities. FFO, adjusted by its definition does not include deductions for cash required to fund maintenance expenditures, tenant improvements and leasing costs.

Cash flow from operations by its definition does not include deductions for cash required to fund maintenance expenditures and tenant improvements.

For the year ended December 31, 2014, the REIT's total distributions of \$34.8 million have exceeded FFO, adjusted by \$0.7 million, and cash flow from operations by \$1.7 million. For the year ended December 31, 2013, the REIT's total distributions of \$29.5 million have exceeded cash flow from operations by \$1.4 million. At the election of Unitholders, the REIT has historically made non-cash distributions pursuant to the DRIP which has reduced the amount of cash flow from operating activities and FFO, adjusted required to fund the payment of the REIT's distributions. The excess distributions in both 2014 and 2013 have been primarily financed by Units issued pursuant to the DRIP, and supplemented by the REIT's existing revolving credit facility, bearing interest at prime plus 100 basis points or at Banker's Acceptance plus 225 basis points, which matures on March 31, 2016, and issuance of debt and equity.

Distributions in excess of cash flow from operations and FFO, adjusted represents a return of capital, rather than a return on capital, since they represent amounts in excess of cash generated by the REIT's operations during the period. The REIT has elected to provide distributions partially representing a return of capital in order to maintain the stability of current distribution levels.

The declaration and payment of distributions is subject to the discretion of the Board of Trustees. The REIT relies upon forward-looking cash flow information including budgets, forecasts and the future business prospects of the REIT to establish the level of its monthly distribution to Unitholders.

For the years ended December 31, 2014 and 2013, the REIT has declared monthly distributions of \$0.0375 per unit (\$0.45 on an annual basis). There can be no assurance regarding the amount of cash flow from operations and FFO, adjusted to be generated by the REIT's properties. The continued ability of the REIT to make cash distributions, and the actual amount distributed to Unitholders will depend on numerous factors, including the REIT's operating performance from the REIT's properties derived from the tenant profile, the rental rates on its leases, collectability of rent from tenants, the occupancy level of its properties, operating expenses, interest expenses, obligations and restrictive covenants under applicable credit facilities, debt repayment obligations, fluctuations in working capital requirements, capital expenditures, tenant improvements, leasing costs and other factors. The market value of the Units may deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant.

In determining the annual level of distributions to Unitholders, the REIT may also consider non-cash distributions, such as the issuance of Units under the DRIP. Such non-cash distributions have the effect of increasing the number of Units outstanding which may cause cash distributions to increase over time assuming stable per Unit cash distribution levels. In the event that the REIT may be required to fund any excess distributions, net of the impact of the DRIP, this may be financed by drawing upon the REIT's existing revolving credit facility, bearing interest at prime plus 100 basis points or at Banker's Acceptance plus 225 basis points, which matures on March 31, 2016, as supplemented by other issuances of debt and equity.

Management expects that distributions at the current level per unit will continue to be, in part, a return of capital and are considered sustainable subject to Unitholders continuing to elect to receive non-cash distributions pursuant to the DRIP, at current or greater levels, the REIT continuing to draw upon its revolving credit facility, and the REIT's continued access to such new capital from other issuances of debt and equity.

Distributions Compared to Net Income

The following table summarizes distributions made in the three months and year ended December 31, 2014 and 2013:

	Three months ended		Year ended	
	December 31 2014	December 31 2013	December 31 2014	December 31 2013
(all amounts in \$000's)				
Net income	(2,126)	12,984	8,597	34,777
Distributions to Trust unitholders ⁽¹⁾	8,364	6,921	30,146	25,276
Excess (shortfall) of net income over cash distributions to Trust unitholders	(10,490)	6,063	(21,549)	9,501

Note (1) Excludes distribution on Class B Units classified as liabilities and distributions treated as an expense.

Net income/(loss) is not relied upon as a measure of the REIT's ability to pay distributions as it includes, among other items, non-cash fair value adjustments related to its property portfolio and financial instruments, which are not reflective of the REIT's ability to make distributions.

Reconciliation of consolidated cash flows provided by operating activities to FFO, adjusted:

(all amount in \$000s)	Year ended December 31,	
	2014	2013
Cash provided by (used in) operating activities	33,057	28,104
Add back (deduct):		
Change in other non-cash operating items	1,628	4,453
Share of net earnings from joint venture	1,034	1,055
Distribution from joint venture	(4,200)	-
Leasing costs	980	1,249
Interest paid	858	468
Straight-line rent	806	1,353
Amortization of other assets	(76)	(79)
FFO, Adjusted	34,087	36,603

G. Financial Results of Previous 8 Quarters

Income (Loss) For The Quarter Ended (all amounts in \$000's, except for unit, per unit and ratio amounts)	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Rental revenue	31,472	27,151	27,303	28,007	32,993	26,462	22,750	21,878
Property operating expenses	12,821	11,289	11,246	12,793	10,497	11,180	9,683	10,085
Property operating income	18,651	15,862	16,057	15,214	22,496	15,282	13,067	11,793
Trust expenses	964	1,137	1,372	1,083	972	1,100	1,306	1,102
Transaction costs	—	—	—	—	—	—	1,502	—
Finance costs – operations	7,937	6,714	6,804	6,833	7,027	6,628	5,691	4,838
Finance costs – distributions on Class B Units	1,240	1,161	1,085	1,125	1,098	1,073	1,025	1,025
Income (loss) before fair value gains (losses), income (losses) from joint venture and other income	8,510	6,850	6,796	6,173	13,399	6,481	3,543	4,828
Fair value gains (losses) associated with financial instruments	4,539	3,800	(76)	(6,186)	6,281	4,634	5,748	2,355
Fair value (losses) on investment property	(13,936)	(5,101)	(2,323)	(711)	(7,642)	(3,191)	(5,119)	(359)
Other income	—	—	—	—	—	—	—	1,048
Fair value gains on participants' rights under LTIP	10	13	10	—	15	53	44	32
Loss from sale of investment property	—	—	—	—	—	(293)	—	—
Income (loss) from joint venture	(1,249)	581	535	362	931	720	1,012	257
Net income	(2,126)	6,143	4,942	(362)	12,984	8,404	5,228	8,161
FFO, adjusted ⁽¹⁾	10,039	8,292	8,174	7,582	14,809	7,844	6,744	7,203
FFO, adjusted per unit ⁽¹⁾	\$0.118	\$0.104	\$0.114	\$0.106	\$0.208	\$0.111	\$0.108	\$0.124
Distributions per unit	0.1125	0.1125	0.1125	0.1125	0.1125	0.1125	0.1125	0.1125
FFO, adjusted payout ratio,	95.3%	108.2%	98.7%	106.1%	54.1%	101.4%	104.2%	90.7%
Weighted average number of units ⁽²⁾	85,319	79,470	71,675	71,418	71,259	70,716	62,603	57,872

OTHER DATA

(all amounts in \$000's, except for unit, per unit and ratio amounts)	December 31, 2014	September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013	September 30, 2013	June 30, 2013	March 31, 2013
Total assets	1,179,651	1,085,510	1,008,099	1,006,232	1,009,098	1,023,678	974,312	778,958
Mortgages payable, convertible debentures and secured bank debt	680,257	570,866	545,614	544,994	542,165	550,486	510,344	379,699
Debt to gross book value ratio (excluding convertible debentures)	50.7%	44.7%	45.5%	45.5%	45.4%	45.3%	43.2%	41.9%
Debt to gross book value ratio (including convertible debentures)	57.7%	52.6%	54.1%	54.2%	53.7%	53.8%	52.4%	48.7%
Interest coverage ratio ⁽⁴⁾	2.14	2.36	2.35	2.37	2.42	2.13	2.13	2.12
Debt service coverage ratio ⁽⁴⁾	1.47	1.63	1.64	1.66	1.68	1.47	1.45	1.44
Weighted average mortgage contract rate	4.83%	4.87%	4.97%	5.03%	5.06%	5.11%	5.19%	5.21%
REIT closing market price	3.91	4.27	4.60	4.71	4.66	4.84	5.19	5.49
Market capitalization ⁽³⁾	334,114	363,675	330,145	337,048	332,407	344,517	365,431	317,492
Committed portfolio occupancy	85.7%	85.2%	85.0%	86.2%	85.7%	93.1%	92.6%	91.5%
Portfolio occupancy	85.6%	84.6%	84.3%	85.5%	85.7%	93.0%	91.9%	88.9%
Gross leasable area	7,515	6,884	6,511	6,509	6,509	6,506	6,445	5,496

Notes:

- (1) A non-IFRS measurement. See Section V. B for definitions of FFO, adjusted and FFO, adjusted per unit.
- (2) Including Class B Units and Units issued under the LTIP unless they are anti-dilutive.
- (3) A non-IFRS measurement, calculated by the REIT as the closing market price multiplied by the number of REIT Units outstanding, including Class B Units as if exchangeable for Units.
- (4) Calculated using the rolling twelve months as per revolving operating line requirements.

Section VI – Liquidity and Capital Resources

The REIT's primary sources of capital are cash generated from operating activities, credit facilities, mortgage financing, convertible debentures, Class B Units and equity.

At December 31, 2014 and December 31, 2013, the REIT had the following liquidity available:

(all amounts in \$000's)	December 31, 2014	December 31, 2013
Availability under the operating line of credit	44,281	28,000
Outstanding amount	(11,450)	-
Outstanding letters of credit	(621)	(1,334)
Unused operating facility (net of letters of credit)	32,210	26,666
Cash and cash equivalents	1,176	5,870
Total available liquidity	33,386	32,536

Effective April 1, 2014, the REIT's revolving operating line of credit ("Credit Facility") was increased to a maximum availability of \$50 million (subject to availability of the borrowing base) and its term extended to March 31, 2016.

A. Financial Covenants

The REIT's financial covenants include interest and debt coverage ratios calculated as follows:

Interest and Debt Coverage Ratios

Pursuant to the Credit Facility agreement, the REIT is required to maintain its interest coverage ratio above 1.65 times and its debt service ratio above 1.25 times.

(all amounts in \$000's)	Year ended December 31, 2014	Year ended December 31, 2013
Net income	8,597	34,777
Interest expense	28,288	24,184
Distribution to Class B unitholders	4,611	4,221
Transaction costs on convertible debentures	-	1,502
Income from Joint Venture	(229)	(2,920)
Loss from disposition of investment properties	-	293
Fair value loss on investment properties	22,071	16,311
Fair value gain on financial instruments	(2,077)	(19,018)
Fair value gain on LTIP	(33)	(144)
Other income	-	(1,048)
EBITDA ⁽¹⁾	61,228	58,158
Finance cost operations	28,288	24,184
Amortization of deferred financing charges	(536)	(739)
Amortization of mortgage premium	679	725
Interest capitalized to properties under development	155	295
Distribution to subscription receipt holders	-	(411)
Adjusted interest expense	28,586	24,054
Interest coverage ratio	2.14x	2.42x
Minimum covenant under credit facility	1.65x	1.65x
Debt repayments	12,980	10,503
Debt service coverage ratio	1.47x	1.68x
Minimum covenant under credit facility	1.25x	1.25x

Notes

- (1) A non-IFRS measurement as defined by the Credit Facility agreement as consolidated net income determined in accordance with IFRS adjusted so that all amounts deducted in respect of depreciation, income taxes, amortization, outlays for items that are not cash, interest and loss on diminution in value of assets are added back and gains and losses from extraordinary events are eliminated.

Debt to Gross Book Value Ratio

The REIT's Declaration of Trust and the existing terms under the Credit Facility set forth a maximum debt to gross book value ratio of 70% and 67.5% respectively. Subject to the Trustees' unanimous approval, the 70% threshold set forth in the Declaration of Trust may be exceeded, as a result of an acquisition, for no more than a year.

	December 31, 2014	December 31, 2013
Debt (per Balance Sheet):		
Mortgages	538,530	434,364
Vendor take back loan ("VTB")	40,314	-
Secured bank debt	18,950	23,829
Convertible debentures	82,463	83,972
Debt	680,257	542,165
Total assets (per Balance Sheet):	1,179,651	1,009,098
Gross book value	1,179,651	1,009,098
Debt to gross book value ratio including convertible debentures	57.7%	53.7%
Debt to gross book value ratio excluding convertible debentures	50.7%	45.4%

The REIT measures investment properties and convertible debentures at fair value. The REIT has set a target debt to gross book value ratio (including convertible debentures) of 55%. However at times, the REIT may exceed its target debt to gross book value ratio in order to facilitate an acquisition or other investment.

The debt to gross book value ratio is sensitive to changes in the fair value of investment properties and convertible debentures. For example, if discount rates and terminal capitalization rates used in the valuation of investment properties increased by 0.5%, the debt to gross book value ratio (including convertible debentures) would increase to 62.8%.

B. Cash Flow Information

The following table details the changes in cash and cash equivalents.

(all amounts in \$000's)	Three months ended		Year ended December 31	
	December 31	December 31	2014	2013
	2014	2013	2014	2013
Cash provided by operating activities	12,081	6,086	33,057	28,104
Cash provided by (used) in financing activities	24,843	(12,126)	77,201	158,976
Cash used in investing activities	(38,418)	(5,110)	(114,952)	(222,983)
Decrease in cash	(1,494)	(11,150)	(4,694)	(35,903)

Operating Activities

For the three months ended December 31, 2014, operating activities provided approximately \$12.1 million of cash and for the year ending December 31, 2014, operating activities provided \$33.1 million of cash, as compared to providing \$6.1 million and \$28.1 million respectively, for the comparative periods in 2013. Cash provided by operating activities is impacted by changes in operating items, including accounts receivable, prepaid expenses and accounts payable.

Financing Activities

For the year ended December 31, 2014, financing activities provided approximately \$77.2 million. Cash of \$49.5 million was provided by the issuance of Units, net of issue costs, draws on the Credit Facility of \$44.4 million and mortgage financing of \$109.4 million. The main uses of cash were scheduled mortgage loan repayments of \$13.0 million, discharges of mortgages of \$30.1 million, repayments of revolving and non revolving credit facilities of

\$49.2 million, payment of Earnout obligations of \$2.2 million, financing costs of \$0.7 million and distributions to unitholders and holders of Class B Units of \$30.9 million.

Investing Activities

Investing activities for the year ended December 31, 2014, resulted in the use of cash of \$115.0 million. The main uses of cash were acquisition of investment properties of \$99.6 million and improvements to investment properties of \$15.3 million.

Section VII – Indebtedness and Other Obligations

A. Total Indebtedness

As at December 31, 2014, indebtedness totaling \$680.2 million was outstanding, compared to \$542.2 million as at December 31, 2013.

(all amounts in \$000's)	December 31, 2014	December 31, 2013
Mortgages	538,530	434,364
Vendor take back loan	40,314	-
Convertible debentures	82,463	83,972
Secured bank debt	18,950	23,829
Total debt	680,257	542,165

B. Mortgages

The table below outlines the future principal repayments on outstanding mortgages and their respective weighted average interest rates as at December 31, 2014.

(all amounts in \$000's)	Scheduled Mortgage Repayment	Maturing Mortgages	Total	% of Total Mortgages	Weighted Average Interest rate
2015	14,194	60,340	74,534	13.87%	5.68%
2016	12,071	66,805	78,876	14.68%	5.15%
2017	10,953	41,973	52,926	9.86%	5.34%
2018	10,315	17,734	28,049	5.22%	5.48%
2019	10,659	10,983	21,642	4.03%	4.45%
Thereafter	33,314	247,886	281,200	52.34%	4.50%
Total	91,506	445,721	537,227	100.00%	
Mark to market adjustments on assumed mortgages			3,658		
Financing costs			(2,355)		
Total Mortgage Debt			538,530		

The mortgages bear interest at a weighted average contractual interest rate of 4.83% (December 31, 2013 – 5.06%) and mature at various dates from 2015 to 2026. As at December 31, 2014, the weighted average term to maturity was 5.1 years (December 31, 2013 – 5.2 years).

C. Vendor Take Bank Loan

As part of the financing in the acquisition of the Calloway Properties in October 2014, part of the purchase price was satisfied by the issuance of VTB of \$40.3 million. The VTB has a two-year term bearing interest at 5.75% for the first year and 6.75% for year two, is fully open for prepayment at any time and is to be secured by charges over certain investment properties.

D. Convertible Debentures

At December 31, 2014, the REIT had the following convertible debentures outstanding:

(all amounts in \$000's)	December 31, 2014		December 31, 2013	
	Principal	Fair value	Principal	Fair value
6.75% convertible debentures, due on July 31, 2015	12,305	12,355	12,305	12,490
5.45% convertible debentures, due on June 30, 2018	40,000	38,200	40,000	38,404
5.50% convertible debentures, due on June 30, 2020	36,250	31,908	36,250	33,078
	88,555	82,463	88,555	83,972

The 6.75% convertible debentures may be redeemed by the REIT on or after July 31, 2014 without premium. The 5.45% convertible debentures may be redeemed by the REIT on or after June 30, 2016 without premium. The 5.50% convertible debentures may be redeemed by the REIT on or after June 30, 2018 without premium.

E. Secured bank debt

At December 31, 2014, the REIT had the following secured bank debt outstanding:

(all amounts in \$000's)	Interest rate	Maturity	December 31, 2014	December 31, 2013
Revolving operating line of credit	Bank's prime rate plus 100 basis points or Bankers Acceptance plus 225 basis points	March 31, 2016	11,450	-
Non-revolving line of credit	Bank's prime rate plus 125 basis points or Bankers Acceptance plus 250 basis points	June 5, 2015	7,500	23,829
Total secured bank debt			18,950	23,829

The Credit Facility provides security interests on five investments properties. As at the date of this MD&A, the revolving line of credit balance outstanding was \$18.4 million.

The REIT has a non-revolving credit facility secured by specific charges on certain properties. This credit facility is open for repayment and contains certain repayment obligations from net proceeds of property sales and financings. This credit facility matures on June 5, 2015. As at the date of this MD&A, the amount outstanding under this non-revolving credit facility was \$7.5 million.

Section VIII – Related Party

A. Extension of SC/MRR Group's Minimum Voting Entitlement

Pursuant to the REIT's Declaration of Trust, if in any given 365 day period commencing on July 8, 2008 and ending on July 8, 2018, the average weighted aggregate number of special voting units of the REIT (the "Special Voting Units") plus Units held or controlled by Mitchell Goldhar, entities controlled by Mr. Goldhar or affiliates of such entities is equal to or greater than 9,110,269, then so long as a nominee of Mr. Goldhar remains a trustee of the REIT and the SC/MRR Group directly or indirectly beneficially owns or controls less than 25% of the voting rights attached to all voting securities of the REIT, the REIT shall issue such number of additional Special Voting Units which will entitle the SC/MRR Group to cast 25% of the votes attached to all voting securities of the REIT at a meeting of the holders of Units and Special Voting Units (the "Minimum Voting Entitlement").

The Minimum Voting Entitlement was originally in effect for a period of five years from July 8, 2008, and extendible for a period of an additional five years (i.e., to July 8, 2018) subject to the following conditions (the "Extension Conditions") being met:

- (i) the SC/MRR Group sells or originates the sale of in aggregate at least \$300 million of freehold and leasehold interests in assets to the REIT;

(ii) the SC/MRR Group holds or controls a weighted average number of Units and Special Voting Units of 9,110,269 in any 365-day period during the initial six-year period from July 8, 2008, representing no less than 10% of voting rights of all voting securities of the REIT (excluding, for the purposes of calculating such percentage, all Special Voting Units issued to the SC/MRR Group pursuant to the Minimum Voting Entitlement); and

(iii) a nominee of Mitchell Goldhar is a trustee of the REIT.

At the meeting of Unitholders and Special Unitholders held on June 27, 2013, Unitholders approved an extension to July 8, 2014 of the time to satisfy the conditions to the extension of the Minimum Voting Entitlement. At the meeting of Unitholders and Special Unitholders held on June 25, 2014, Unitholders approved an extension to October 6, 2014 of the time to satisfy the conditions to the extension of the Minimum Voting Entitlement, and authorized the Trustees to further extend the time for satisfaction of the conditions to January 4, 2015 under certain conditions. Pursuant to such authorization, the time to satisfy the conditions to the extension of the Minimum Voting Entitlement was subsequently extended to January 4, 2015. Upon completion of the Calloway Properties, all conditions to the extension of the Minimum Voting Entitlement were satisfied and the Minimum Voting Entitlement was extended to July 8, 2018 pursuant to the terms of the Declaration of Trust.

B. Related Party Approvals

The REIT completed the acquisition of the Walmart/SmartCentres Properties from Walmart/SmartCentres and the Calloway Properties on September 16, 2014 and October 30, 2014 ("the Acquisitions") respectively. As a result of the completion of the acquisitions and the satisfaction of the Extension Conditions, the Minimum Voting Entitlement has been extended to July 8, 2018.

Under IFRS, Calloway REIT is not a related party of the REIT. However, Calloway REIT and SmartCentres Realty may each be considered to be a "related party" of the REIT under Multilateral Instrument 61-101 Protection of Minority Security Holders in Special Transactions ("MI 61-101"), as Mitchell Goldhar is deemed to be a "control person" of each of Calloway REIT and the REIT because of his beneficial ownership of, or control or direction over, directly or indirectly, voting securities in Calloway REIT and the REIT, and because of his beneficial ownership interest in the Walmart/SmartCentres Properties. The Acquisitions were approved by (i) the REIT's Unitholders holding at least a majority of the votes cast; and (ii) the REIT's Unitholders holding at least a majority of the votes cast (excluding Mitchell Goldhar, the SC/MRR Group, and their affiliates and associates), at a special meeting of holders of Units and Special Voting Units held on September 10, 2014.

The REIT incurred \$0.9 million of costs in connection with obtaining Unitholder's approval of the Acquisitions, which have been capitalized to investment properties acquired.

C. Other Related Party Activities

As at December 31, 2014, the SC/MRR Group owns or controls approximately 4,454,700 Units and 11,021,730 Special Voting Units, which represent in total approximately 18% of the Units and Special Voting Units of the REIT.

Pursuant to the terms of the original purchase transaction completed with SmartCentres in July 2008, Mitchell Goldhar will continue to have an ongoing right to appoint: (i) three of the Board members of the REIT while the SC/MRR Group holds at least 25% of the REIT's total aggregate issued and outstanding Units and Special Voting Units; (ii) two of the Board members of the REIT while the SC/MRR Group holds at least 15% but less than 25% of the Units and Special Voting Units; and (iii) one of the Board members of the REIT while the SC/MRR Group holds at least 5% but less than 15% of the Units and Special Voting Units. Special Voting Units, if any that are issued pursuant to the Minimum Voting Entitlement, are included for purposes of determining the number of Board members Mitchell Goldhar is entitled to appoint.

In connection with Earnout agreements with SmartCentres entered into in 2013 and 2014 in connection with the acquisition of the Walmart/SmartCentres properties, SmartCentres retained the responsibility for completing the development and leasing with respect to certain premises, on behalf of the REIT. As part of the consideration for the Earnout, the REIT granted SmartCentres the option to receive cash or Class B Units at fair value in satisfaction of the Earnout obligation.

As at December 31, 2014, the Earnout obligation was estimated to be \$2.1 million, of which approximately 40% is payable to SmartCentres. During the year ending December 31, 2014, 265,461 Class B Units were issued at a fair value of approximately \$1.2 million pursuant to the Earnout.

SmartCentres provides the REIT property management services for three properties, and provides leasing, construction and development services for all of the REIT's properties. The REIT entered into agreements dated July 8, 2008 in relation to these services, and on February 8, 2013, the agreements were amended to extend the

term from July 7, 2013 until July 7, 2016 with termination rights for no further consideration for either party on six months' notice.

The REIT's head office is located at the SmartCentres' building in Vaughan, Ontario and the REIT pays rent to SmartCentres and the REIT's proportionate share of costs for corporate services.

In addition to the related party transaction and balances disclosed above, the following amounts are included in the REIT's financial statements for the three months and year ended December 31, and summarizes related party transactions with SmartCentres.

(all amounts in \$000's)	Three months ended December 31		Year ended December 31	
	2014	2013	2014	2013
Finance costs - distributions on Class B Units	1,240	1,098	4,611	4,221
Property management fees	55	56	223	217
Construction management fees	99	9	364	413
Reimbursement of property operating costs	250	59	320	163
Leasing fees	24	297	904	1,150
Rent	65	50	203	193

As at December 31, 2014, \$1.7 million (December 31, 2013 - \$3.4 million) was included in accounts payable and other liabilities owing to SmartCentres.

Section IX – Commitments and Contingencies

The REIT has the following commitments and contingencies:

- (a) The REIT continues to guarantee certain debt assumed by purchasers in connection with past dispositions of investment property. These guarantees will remain until the debt is modified, refinanced or extinguished. The REIT has recourse under these guarantees in the event of default by the purchaser, in which case the REIT would have a claim against the underlying investment property. The estimated amount of debt subject to such guarantees at December 31, 2014 is \$14.5 million (December 31, 2013 – \$15.1 million), with an estimated weighted average remaining term of 0.50 year (December 31, 2013 – 1.50 years).
- (b) The REIT is involved in litigation and claims in relation to the investment properties that arise from time to time in the normal course of business. In the opinion of management, any liabilities that may arise from such contingencies would not have a material adverse effect to the REIT.
- (c) The REIT has entered into an agreement with SmartCentres for the use of office space and the sharing of corporate services. The expected payments are \$0.1 million over the remaining term of this agreement, which expires August 19, 2015.
- (d) As at December 31, 2014, the REIT was contingently liable for letters of credit in the amount of \$0.6 million.
- (e) The REIT has entered into commitments with respect to construction contracts and leasing agreements totaling \$7.4 million of which \$2.0 million is committed to be paid to SmartCentres.

Section X – Unitholders' Equity, Class B Units and Convertible Debentures

Details with respect to Unitholders' equity and Units issued under the LTIP, Class B Units and convertible debentures can be found in Notes 12, 13, 14 and 15, respectively, of the REIT's consolidated financial statements for the year ended December 31, 2014. As at December 31, 2014, the REIT had:

- 74,429,531 Units outstanding;
- 706,500 Units issued under the LTIP;
- 11,021,730 Class B Units that are exchangeable on a one-for-one basis, at the option of the holder, into Units;

- \$12.3 million 6.75% convertible unsecured subordinated debentures that are convertible at the debenture holder's option into Units at conversion price of \$5.05 per Unit;
- \$40.0 million 5.45% convertible unsecured subordinated debentures that are convertible at the debenture holder's option into Units at conversion price of \$8.10 per Unit; and
- \$36.3 million 5.50% convertible unsecured subordinated debentures that are convertible at the debenture holder's option into Units at conversion price of \$7.20 per Unit.

Section XI – Risks and Uncertainties

Certain risks are inherent in operating and maintaining a retail real estate portfolio. Significant risk factors and the corresponding management plan to mitigate these risks, where possible, relating to the REIT and its business are as follows. For a discussion of additional risks and uncertainties associated with the REIT's activities, see the REIT's most recent Annual Information Form available on SEDAR at www.sedar.com.

A. Real Property Ownership

All real estate investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, changing demographics, supply and demand for leased premises, and competition from other available premises and various other factors.

The value of real property and any improvements thereto depends on the credit and financial stability of the tenants. The REIT's revenue may be adversely affected if tenants become unable to meet their obligations under their leases or if a significant amount of available space in the properties in which the REIT has an interest becomes vacant and is not able to be leased on economically favorable lease terms.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favorable to the REIT than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant of any of the properties in which the REIT has an interest may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the REIT.

The ability to rent unleased space in the properties in which the REIT has an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to the property required by a new tenant and will be incurred if it is necessary to reconfigure space in a property if, for example, an anchor tenant vacates a large area that must be re-leased to two or more tenants requiring less square footage. Work required to re-lease space may also result in a delay in the realization of replacement rental revenue for the vacating tenant.

Certain of the major tenants are permitted to cease operating from their leased premises at any time at their option. Other major tenants are permitted to cease operating from their leased premises or to terminate their leases if certain events occur. Some tenants have a right to cease operating from their premises if certain other major tenants cease operating from their premises. In most cases, the landlord then has the right, under certain conditions, to terminate the lease and thus be in a position to re-let the space. The exercise of such rights by a tenant may have a negative effect on a property. There can be no assurance that such rights will not be exercised in the future.

Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether the property is producing any income. If the REIT 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 or the landlord's exercise of remedies.

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT were to be required to liquidate its real property investments, the proceeds to the REIT might be significantly less than the aggregate carrying value of its properties.

B. Leasing

The REIT is subject to leasing risks as tenants may experience financial difficulties during their lease terms, which could cause them to be unable to fulfill their lease commitments. Also, as leases expire, tenants may not renew their leases or may renew at reduced rents, which may impact the financial results of the REIT.

The REIT attempts, where possible, to minimize the risks involved in leasing space within its portfolio by negotiating lease terms that are typically five or more years, and in instances where certain tenants are critical to the viability of a property, the REIT endeavors to lease space to such tenants for longer terms with pre-negotiated minimum rent escalations and/or percentage rent clauses. In assessing a proposed real property investment, the REIT will consider the status of current leases and their expiry terms, as properties with staggered lease expiry dates are preferred.

C. Retail Concentration

The REIT's portfolio is comprised of 59 properties. Consequently, the market value of the properties and income generated from them could be negatively affected by changes in the retail environment.

Retail shopping centres have traditionally relied on there being a number of anchor tenants (department stores, grocery stores and discount department stores) in the centre and therefore they are subject to the risk of those anchor tenants either moving out of the property or going out of business. Significant deterioration of the financial health of an anchor tenant could have an adverse effect on the REIT's business, financial condition or results of operations.

D. Financing Risk, Leverage & Restrictive Covenants

A number of the REIT's properties are financed, in part, through the use of long-term debt. The REIT is subject to financing risks as lenders may not renew debt as the term expires, or renewals may be at interest rates which are higher than in the original term. In order to minimize the REIT's exposure under any of its obligations for borrowed money, the Declaration of Trust provides for specific restrictions relating to the incurring or assuming of indebtedness under a mortgage, both on an individual mortgage basis and in respect of the total indebtedness of the REIT.

The degree to which the REIT is leveraged could have important consequences to the Unitholders including: (i) the REIT's ability to obtain additional financing for working capital in the future may be limited; (ii) a portion of the REIT's cash flow may be dedicated to the payment of the principal of and interest on its indebtedness, thereby reducing funds available for distribution to Unitholders; (iii) certain of the REIT's borrowings are at variable rates of interest, which exposes the REIT to the risk of increased interest rates; and (iv) certain of the REIT's borrowings are comprised of unsecured convertible debentures which could have significant impact on the debt and equity components of the REIT when due or converted. The REIT's ability to make scheduled payments of the principal of or interest on, or to refinance, its indebtedness will depend on its future cash flow, which is subject to the financial performance of properties in the portfolio, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond its control. The REIT plans to minimize its exposure to floating interest rates, except at certain times where circumstances may necessitate higher levels for short periods. If so, such floating rate debt will typically be replaced with fixed term debt when possible.

The REIT is subject to numerous restrictive covenants relating to its indebtedness that limit the REIT's discretion with respect to certain business matters, including the ability to create liens or other encumbrances, to pay distributions, to make certain other investments and loans, to sell or otherwise dispose of assets and to merge or consolidate with another entity. In addition, the REIT is subject to a number of financial covenants that require it to meet certain financial ratios and financial condition tests.

A failure by the REIT to comply with these obligations may trigger acceleration of the debt, or other circumstances where the REIT requires cash flow that it is unable to acquire elsewhere. This may result in the reduction or termination of distributions by the REIT.

In addition, the REIT's indebtedness will need to be renewed or refinanced from time to time. There can be no assurance that the REIT's indebtedness will be renewed or that future borrowings will be available to the REIT, or available on acceptable terms, in an amount sufficient to fund the REIT's needs, which could have a negative impact on distributable cash of the REIT. As stated above, the REIT intends to maintain a staggered debt maturity portfolio to reduce these risks.

Management believes that maintaining a conservative leverage ratio and stronger financial position will better serve Unit holder interests for the long-term. A certain level of leverage is however necessary to invest in our

properties and to achieve higher returns to the Unitholders. We strive to ensure that financing is in place to fund our strategic plans. The timing of our strategic plans may be affected by our ability to source funds on a timely basis and on favorable terms.

E. Distributions

Distributions in excess of cash flow from operations and FFO, adjusted represents a return of capital, rather than a return on capital, since they represent amounts in excess of cash generated by the REIT's operations during the period. The REIT has elected to provide distributions partially representing a return of capital in order to maintain the stability of current distribution levels.

The declaration and payment of distributions is subject to the discretion of the Board of Trustees. The REIT relies upon forward-looking cash flow information including budgets, forecasts and the future business prospects of the REIT to establish the level of its monthly distribution to Unitholders.

For the years ended December 31, 2014 and 2013, the REIT has declared monthly distributions of \$0.0375 per unit (\$0.45 on an annual basis). There can be no assurance regarding the amount of cash flow from operations and FFO, adjusted to be generated by the REIT's properties. The continued ability of the REIT to make cash distributions, and the actual amount distributed to Unitholders will depend on numerous factors, including the REIT's operating performance from the REIT's properties derived from the tenant profile, the rental rates on its leases, collectability of rent from tenants, the occupancy level of its properties, operating expenses, interest expenses, obligations and restrictive covenants under applicable credit facilities, debt repayment obligations, fluctuations in working capital requirements, capital expenditures, tenant improvements, leasing costs and other factors. The market value of the Units may deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant.

In determining the annual level of distributions to Unitholders, the REIT may also consider non-cash distributions, such as the issuance of Units under the DRIP. Such non-cash distributions have the effect of increasing the number of Units outstanding which may cause cash distributions to increase over time assuming stable per Unit cash distribution levels. In the event that the REIT may be required to fund any excess distributions, net of the impact of the DRIP, this may be financed by drawing upon the REIT's existing revolving credit facility, bearing interest at prime plus 100 basis points or at Banker's Acceptance plus 225 basis points, which matures on March 31, 2016, as supplemented by other issuances of debt and equity.

Management expects that distributions at the current level per unit will continue to be, in part, a return of capital and are considered sustainable subject to Unitholders continuing to elect to receive non-cash distributions pursuant to the DRIP, at current or greater levels, the REIT continuing to draw upon its revolving credit facility, and the REIT's continued access to such new capital from other issuances of debt and equity.

F. Diversification of Investments & Market Concentration

Geographic and tenant risk in the property portfolio is mitigated as the REIT has approximately 945 tenants in 59 properties across Canada.

G. Government Regulation & Environmental Matters

There can be no assurance that the operations of the REIT will not be affected adversely by changes in the economic or other policies of government. Environmental and ecological related policies have become increasingly important and, generally, more restrictive in recent years. Under various federal, provincial and municipal laws, the REIT, as an owner or operator of real property, could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on or in its properties or disposed of at other locations. The failure to remove or remediate such substances, if any, may adversely affect the REIT's ability to sell such real estate or to borrow using such real estate as collateral, and could potentially result in claims against the REIT. The existence of an adverse environmental impact on a property can negatively affect the ability of the REIT to obtain financing on such a property and may result in the REIT expending unanticipated funds to remediate the land.

Where appropriate, and always on the acquisition of a new property the REIT obtains an environmental assessment and the REIT requires that leases with tenants specify that the tenant will conduct its business in accordance with environmental regulations and be responsible for any liabilities arising out of infractions under such regulations.

H. General Uninsured Losses

The REIT carries insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as war), which are either uninsurable or not economically insurable. Should an uninsured or underinsured loss occur, the REIT could suffer a loss in its investment in, and anticipated profits and cash flows from, one or more of its properties, and would continue to be obligated to repay any recourse mortgage indebtedness on such properties.

I. Nature of Units

The Units represent a fractional interest in the REIT. The Units are not “deposits” within the meaning of the Canada Deposit Insurance Corporation Act (Canada) and are not insured under the provisions of that Act or any other legislation. Furthermore, the REIT is not a trust company and, accordingly, is not registered under any trust or loan company legislation as it does not carry on or intend to carry on the business of a trust company.

As holders of Units issued by an unincorporated trust, Unitholders do not have all of the same protections, rights and remedies that a shareholder of a corporation incorporated under the Canada Business Corporations Act or similar provincial statutes governing corporations would have. For example, shareholders of a corporation incorporated under the Canada Business Corporations Act have statutory rights that include: (i) the right to vote in respect of certain fundamental changes proposed to be made to the corporation (including a proposed change to the attributes of its shares and a sale of all or substantially all of its assets outside of the ordinary course of business); (ii) the right to elect the directors and to appoint the auditor of the corporation annually; (iii) the right of holders of not less than five per cent of the issued voting shares of the corporation to requisition the directors to call a meeting of shareholders; (iv) the right to apply to a court for an order directing an investigation; (v) the right to dissent from certain fundamental changes to the corporation and to be paid the fair value for their shares; and (vi) the right to bring “oppression” or “derivative” actions.

The Unitholders have several rights under the Declaration of Trust with respect to notices of certain events, and the right to vote in certain circumstances. However, Unitholders will not have the statutory right to apply to court for an order directing an investigation and will not have the right to dissent from certain fundamental changes to the REIT and to be paid the fair value for their Units or the statutory right to bring “oppression” or “derivative” actions.

J. Market for Units

The REIT is an open-end real estate investment trust and its Units are listed on the TSX. There can be no assurance that an active public market for Units will be sustained. One of the factors that may influence the market price of the Units is the annual yield on the Unit price from distributions by the REIT. A change in interest rates may cause negative or positive leverage to occur on the real property investments of the REIT.

Accordingly, an increase in market interest rates may lead purchasers of Units to demand a higher annual yield which could adversely affect the market price of the Units. In addition, the market price for the Units may be affected by changes in general market conditions, fluctuations in the markets for equity securities and numerous other factors which are outside the control of the REIT and which may cause the market price of the Units to change in a manner which is different from the change in the value of the underlying real estate assets.

K. Tax Related Risks

Legislation amending the Tax Act to implement new provisions affecting the tax treatment of certain publicly traded trusts and partnerships became law on June 22, 2007 (referred to herein as the “SIFT Rules”). The SIFT Rules effectively tax certain income of a publicly traded trust or partnership that is distributed to its investors on the same basis as would have applied had the income been earned through a taxable corporation and distributed by way of dividend to its shareholders. A real estate investment trust and its investors will not be subject to the SIFT Rules provided that it continues to meet prescribed conditions under the Tax Act relating to the nature of its assets and revenue (the “REIT Conditions”) at all times throughout a taxation year.

The REIT qualifies as a mutual fund trust and as a real estate investment trust pursuant to the Income Tax Act (Canada). Under current tax legislation, a real estate investment trust is entitled to deduct distributions to determine its taxable income. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure that the REIT will not be liable to pay income taxes; however, as the REIT Conditions include complex revenue and asset tests, no assurances can be provided that the REIT will in fact so qualify at any time. No current or deferred income taxes have been recorded in the December 31, 2014 financial statements.

L. Unitholder Liability

The Trust Beneficiaries' Liability Act, 2004 was enacted in Ontario in December 2004. That statute provides that Unitholders of the REIT are not liable, as beneficiaries of a trust, for any act, default, obligation or liability of the REIT or any of its Trustees arising after December 16, 2004. Because of the uncertainty of the law, and that the statute has not been judicially considered, it is possible that reliance on the statute by a Unitholder could be successfully challenged on jurisdictional or other grounds. Similar legislation now exists in other provinces.

In order to further protect the Unitholders, the REIT may require provisions in agreements to the effect that an obligation will not be personally binding upon and resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any Unitholder, but the property of the REIT or a specific portion thereof only shall be bound. However, in conducting its affairs, the REIT has acquired and may acquire real property investments subject to existing contractual obligations, including obligations under mortgages and leases, which do not include such provisions.

K. Unitholder Holding a Significant Number of Units

Mitchell Goldhar beneficially owns or controls Units of the REIT representing approximately 18% economic interest in the REIT. However, the Declaration of Trust provides that until July 8, 2018, provided that number of Units and Special Voting Units held or controlled by members of the SC/MRR Group shall be not less than 9,110,269 of the aggregate issued and outstanding Units plus Special Voting Units and so long as a nominee of Mitchell Goldhar remains a Trustee, if the SC/MRR Group directly or indirectly beneficially owns or controls less than 25% of the voting rights attached to all voting securities of the REIT, the REIT shall issue such number of additional Special Voting Units which will entitle the SC/MRR Group to cast 25% of the votes attached to all voting securities of the REIT at a meeting of the holders of Units and Special Voting Units.

If Mr. Goldhar sells substantial amounts of Units in the public market, the market price of the Units could fall. The perception among the public that these sales may occur could also produce such an effect. As a result of his voting interest in the REIT, Mr. Goldhar may be able to exert significant influence over matters that are to be determined by votes of the Unitholders and Special Unitholders of the REIT. The timing and receipt of any takeover or control premium by Unitholders could depend on the determination of Mr. Goldhar as to if and when to sell Units. This could delay or prevent a change of control that might be attractive to, and provide liquidity for, Unitholders, and could limit the price that investors are willing to pay in the future for Units.

Section XII – Accounting Policies

A. Significant Accounting Policies & Estimates

A detailed description of the REIT's accounting policies is set out in Note 2 to the REIT's consolidated financial statements for the year ended December 31, 2014. Management believes that the policies outlined below are those most subject to estimation and Management's judgment.

(i) Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

Quoted market prices in active markets are usually the best evidence of fair value when they are available. Market prices are usually available on marketable securities and other actively traded financial instruments. When quoted market prices are not available, estimates are based on the best information available, including comparable market data and other valuation techniques, including discounted cash flows and income capitalization methods. The REIT is required to make estimates that incorporate assumptions of economic conditions, local market conditions, potential uses of assets and other factors.

As a result, the REIT's determination of fair value could vary under differing circumstances and may result in different calculations. The most significant areas which are affected by fair value estimates in the REIT's financial statements are:

- Estimates of fair values of investment properties;
- Valuation of financial instruments both for disclosures and measurement purposes; and
- Valuation of LTIP units using an option pricing model.

The method of determination of the fair value of investment properties is discussed in detail elsewhere in this MD&A under “Investment Properties”.

(ii) Fair Value of Financial Instruments

The REIT is required to determine the fair value of its mortgages payable, interest rate swaps, convertible debentures and Class B Units. The fair market value of the mortgages payable is estimated by discounting the cash flows of these mortgages, using estimated market rates determined by the yield on a Government bond with the nearest maturity date to the underlying mortgage payable, plus an estimated risk premium at the reporting date. The risk premium is determined by factors such as the location of the property, tenant profile and degree of leverage of the property. The fair value of the REIT’s convertible debentures is based on current trading prices. The fair value of the Class B LP Units is based on the current trading price of the Units as they are exchangeable on a one for one basis into Units.

B. Future Changes in Significant Accounting Policies

A number of new standards, amendments to standards and interpretations have been issued but are not yet effective and accordingly, have not been applied in preparing the consolidated financial statements.

In December 2014, the IASB issued amendments to IAS 1 “Presentation of Financial Statements” (“IAS 1”). The amendments are effective for annual periods beginning on or after January 1, 2016 with early adoptions permitted. The Trust intends to adopt these amendments in its financial statements for the annual periods beginning January 1, 2016. The extent of the impact of the adoption of the standard has not yet been determined.

Financial Instruments

IFRS 7, Financial Instruments: Disclosures, was amended in October 2010. The amendment enhances disclosure requirements to aid financial statement users in evaluating the nature of, and risks associated with an entity’s continuing involvement in derecognized financial assets and the offsetting of financial assets and financial liabilities. The amendments are effective for annual periods beginning on or after January 1, 2015 and are required to be applied in accordance with the standard.

The IASB has issued a new standard, IFRS 9, “Financial Instruments” (“IFRS 9”), which will ultimately replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning on January 1, 2018. The extent of the impact of adoption of the standard has not yet been determined.

Revenue from contracts with customers

In May 2014, the IASB issued IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”). The new standard provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2017. The Trust is currently assessing the impact of the new standard on its consolidated financial statement.

Section XIII – Controls and Procedures

Disclosure Controls and Procedures and Internal Controls Over Financial Reporting – National Instrument 52-109 Compliance

A. Disclosure Controls and Procedures

The REIT’s Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, the REIT’s disclosure controls and procedures (as defined by National Instrument 52-109 – Certification of Disclosure in Issuers’ Annual and Interim Filings, adopted by the Canadian Securities Administrators) to provide reasonable assurance that (i) material information relating to the REIT, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the interim or annual filings are being prepared, and (ii) material information required to be disclosed in the annual filings, interim filings or other reports filed or submitted by the REIT under securities legislation is

recorded, processed, summarized and reported on a timely basis and within the time period specified by securities legislation.

B. Internal Controls Over Financial Reporting

The REIT's Chief Executive Officer and Chief Financial Officer have designed, or caused to be designed under their supervision, the REIT's internal control over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuer's Annual and Interim Filings) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS as at December 31, 2014.

C. Changes in Internal Controls Over Financial Reporting

There were no significant changes made in internal controls over financial reporting during the period ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the REIT's internal controls over financial reporting.

D. Inherent Limitation

Disclosure controls and procedures and internal controls over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of their inherent limitations. Disclosure controls and procedures and internal controls over financial reporting are processes that involve human diligence and compliance and are subject to lapses in judgment and breakdowns resulting from human failures. Disclosure controls and procedures and internal controls over financial reporting also can be circumvented by collusions or improper management override. Because of such limitations, there is risk that material misstatements may not be prevented or detected on a timely basis by disclosure controls and procedures and internal controls over financial reporting. However, these inherent limitations are known features of the disclosure and financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Section XIV – Additional Information

Additional information relating to Retrocom REIT, including the REIT's Annual Information Form, is available on the REIT's web site at www.rmmreit.com, or SEDAR at www.sedar.com.



700 Applewood Crescent, Suite 300
Vaughan, ON L4K 5X3

Tel: 416-741-7999
Fax: 416-741-7993

www.rmmreit.com