

*A copy of this preliminary prospectus has been filed with the securities regulatory authorities in each of the provinces and territories of Canada, but has not yet become final for the purpose of the sale of securities. Information contained in this preliminary prospectus may not be complete and may have to be amended. The securities may not be sold until a receipt for the prospectus is obtained from the securities regulatory authorities.*

*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise. This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. These securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "U.S. Securities Act") or the securities laws of any state of the United States and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly, in the United States (as such term is defined in Regulation S under the U.S. Securities Act) (the "United States") except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable state securities laws. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of these securities in the United States. See "Plan of Distribution".*

## PRELIMINARY PROSPECTUS

Initial Public Offering

March 20, 2013



### MELCOR REAL ESTATE INVESTMENT TRUST

\$ ●  
● Units

This prospectus qualifies the distribution (the "Offering") of ● units (the "Units") of Melcor Real Estate Investment Trust (the "REIT"), a newly formed unincorporated, open-ended real estate investment trust established under, and governed by, the laws of the Province of Alberta.

The REIT has been formed to own a portfolio of income producing properties, comprised primarily of retail, office and industrial properties. Concurrent with the completion of the Offering and related transactions (the "Closing"), the REIT will indirectly acquire, through a limited partnership (the "Partnership"), interests in a portfolio of 27 income producing properties located in Western Canada, comprised primarily of retail, office and industrial properties (the "Initial Properties") currently owned, or co-owned, and operated by Melcor Developments Ltd. ("Melcor", and where the context requires, together with its affiliates). See "Acquisition of Initial Properties". On Closing, it is expected that Melcor will, through an affiliate, hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). The Class B LP Units are economically equivalent to, and exchangeable for, Units. In addition, Melcor will hold all of the outstanding Class C LP Units of the Partnership in respect of the Retained Debt (as defined below). See "Retained Interest" and "Distribution Policy".

The objectives of the REIT are to: (i) generate stable and growing cash distributions on a tax-efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term Unit value through active asset and property management; and (iii) expand the asset base of the REIT and increase AFFO per Unit primarily through acquisitions and improvement of its properties, including the Initial Properties, and through targeted and strategically deployed capital expenditures. See "The REIT – Establishment and Objectives". The REIT initially intends to make monthly cash distributions of \$ ● per Unit to holders of Units, which are estimated on an annual basis to be approximately 93% of AFFO of the REIT. See "Non-IFRS Measures", "Financial Forecast" and "Distribution Policy".

The Initial Properties, assembled from Melcor's portfolio of investment properties, are located in the Edmonton, Alberta region; the Calgary, Alberta region; Lethbridge, Alberta; Regina, Saskatchewan; and Kelowna, British Columbia; with approximately 1.57 million of owned square feet of GLA. See "Assets of the REIT". The REIT's growth strategy will initially be focused primarily on opportunities to acquire additional retail, office and industrial properties that satisfy the REIT's investment criteria, as well as to generate greater cash flow from its properties. The REIT will seek to leverage its relationship with Melcor to access acquisition opportunities that satisfy the REIT's investment criteria. Melcor's current intention is to offer to sell to the REIT additional investment properties that it owns, has under development, and/or develops in the future, including some or all of the Retained Commercial Properties (nine in total) and the Properties Currently Under Development (eight in total), in one or more transactions over the next few years, subject to market conditions. In order to formalize this intention, Melcor will grant the REIT: (i) the Right of

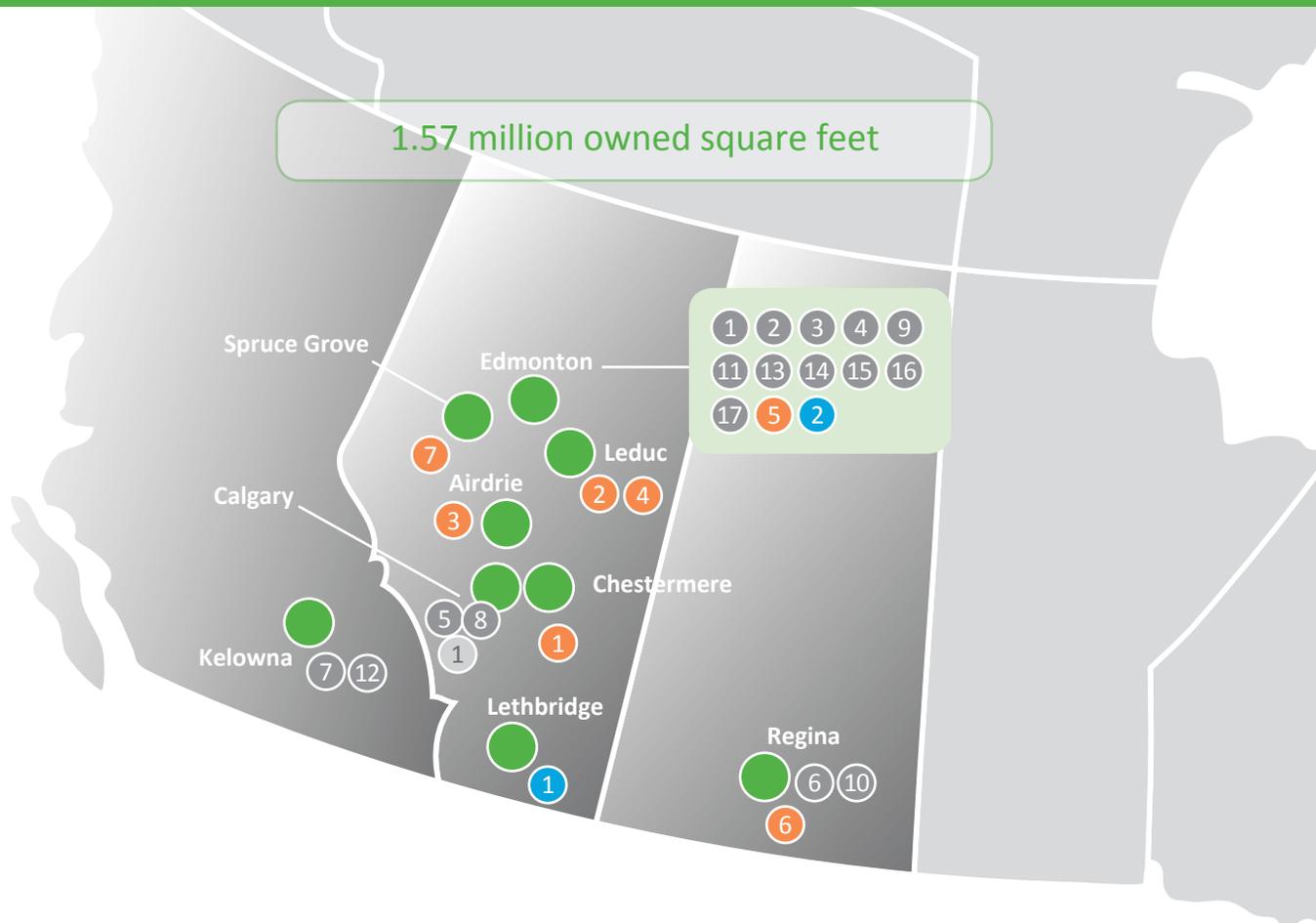
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**MELCOR** | REIT

Tradition. Growth. Results.

# An established & diversified portfolio focused on high-growth markets in Western Canada



**OFFICE BUILDINGS**      **LOCATION**      **GLA**      **OCC%**

	OFFICE BUILDINGS	LOCATION	GLA	OCC%
1	100 Street Place	Edmonton	44,295	91
2	Trail Business Centre	Edmonton	77,295	78
3	Birks Building	Edmonton	35,539	65
4	Capilano Centre	Edmonton	48,379	79
5	Crowfoot Business Centre	Calgary	67,603	100
6	Executive Terrace	Regina	42,843	100
7	Kelowna Business Centre	Kelowna	72,076	96
8	Kensington Road Building	Calgary	23,850	84
9	Melton Building	Edmonton	114,612	98
10	Parliament Place	Regina	24,411	96
11	Princeton Place	Edmonton	59,081	85
12	Richter Street	Kelowna	28,978	81
13	Royal Bank Building	Edmonton	132,376	92
14	Stanley Buildings	Edmonton	34,976	93
15	Sterling Business Centre	Edmonton	67,909	89
16	Westcor Building	Edmonton	72,810	87
17	Westgate Business Centre	Edmonton	75,142	76

**INDUSTRIAL BUILDINGS**      **LOCATION**      **GLA**      **OCC%**

1	Lethbridge Industrial	Lethbridge	49,005	100
2	TKE Building	Edmonton	15,968	100

**RESIDENTIAL BUILDINGS**      **LOCATION**      **GLA**      **OCC%**

1	Watergrove	Calgary	N/A	100
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## Established & Diversified Portfolio

- > 27 Income-Producing Properties
- > Recognizable, credit-worthy tenants

## Retained Interest & Strong Alignment with Melcor

- > Access to Melcor Developments Pipeline
- > Eight Properties Under Construction
- > Joint Development Opportunities



	RETAIL BUILDINGS	LOCATION	GLA	OCC%
1	Chestermere Station	Chestermere	47,588	93
2	Corinthia Plaza	Leduc	23,179	100
3	Kingsview Market	Airdrie	36,003	100
4	Leduc Common	Leduc	213,966	95
5	Miller Crossing	Edmonton	27,448	78
6	Towers Mall	Regina	114,331	95
7	Westgrove Common	Spruce Grove	21,810	89

First Offer to acquire, after Closing, Melcor’s interest in certain investment properties prior to the disposition of any such interest to third parties; (ii) the Development Property Option to acquire, after Closing, Melcor’s interest in certain Development Properties; and (iii) the Mezzanine Financing Option to acquire, after Closing, at a discount to the appraised value, certain Development Properties for which the REIT has provided mezzanine financing to Melcor for the development of such properties (which financing may be provided by the REIT in its sole discretion). Melcor will also grant the REIT the Joint Venture Option providing the opportunity to enter into joint ventures with Melcor, after Closing, with respect to Development Properties in certain circumstances. See “The REIT – Growth Strategies” and “Arrangements with Melcor – Development and Opportunities Agreement”.

On Closing, Melcor, pursuant to the Asset Management Agreement and Property Management Agreement, will externally manage, administer and operate the REIT and the Initial Properties through its experienced real estate team. See “Post-Closing Structure” and “Arrangements with Melcor – Asset Management Agreement” and “Arrangements with Melcor – Property Management Agreement”.

Melcor, celebrating its 90<sup>th</sup> year of business, is a diversified real estate development and management company with a rich heritage in real estate. Through four integrated operating divisions, Melcor manages the full life cycle of real estate development: from acquiring raw land, to community planning, to construction and development, to managing leasable office, retail, industrial and residential sites. Melcor develops and manages retail commercial centers, office buildings, business and industrial parks, mixed-use residential communities and golf courses located in Western Canada and the United States. As a result of the REIT’s arrangements with Melcor, it will have access to Melcor’s network of relationships and operating and financing expertise. Melcor’s common shares are listed and posted for trading on the Toronto Stock Exchange (TSX: MRD). As at March 1, 2013, Melcor had a market capitalization of approximately \$565 million. For the four year period ended March 1, 2013 shareholders of Melcor achieved a 46% compound annual total return. See “The REIT – Melcor and the REIT”.

**Price: \$10.00 per Unit**

	<b>Price to the Public<sup>(1)</sup></b>	<b>Underwriters’ Fee<sup>(2)</sup></b>	<b>Net Proceeds to the REIT<sup>(3)</sup></b>
Per Unit .....	\$ 10.00	\$ 0.60	\$ 9.40
Total Offering <sup>(4)</sup> .....	\$ ●	\$ ●	\$ ●

**Notes:**

1. The price of the Units was established by negotiation among the REIT, Melcor and the Underwriters (as defined below).
2. The Underwriters will receive a fee of \$0.60 per Unit in connection with the Offering.
3. Before deducting the REIT’s expenses of the Offering, estimated at \$ ● , which, together with the Underwriters’ fee, will be paid from the proceeds of the Offering.
4. Melcor has granted to the Underwriters an option (the “Over-Allotment Option”) to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30-day period following Closing and entitles the Underwriters to purchase up to an aggregate of ● additional Units at the Offering price hereunder (being approximately 10% of the aggregate number of Units offered under this prospectus) from Melcor. Melcor will pay the Underwriters’ fee in respect of Units sold under this prospectus by Melcor if the Over-Allotment Option is exercised. If the Over-Allotment Option is exercised in full, the total price to the public will be \$ ● , the Underwriters’ fee will be \$ ● , the net proceeds to the REIT will be \$ ● and the net proceeds to Melcor will be \$ ● . This prospectus also qualifies the granting of the Over-Allotment Option and the distribution of the Units that may be offered in relation to the Over-Allotment Option. A purchaser who acquires Units forming part of the Underwriters’ over-allocation position acquires such Units under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. See “Plan of Distribution”.

<b>Underwriters’ Position</b>	<b>Maximum Size or Number of Securities Available</b>	<b>Exercise Period</b>	<b>Exercise Price</b>
Over-Allotment Option	Option to acquire up to ● Units	Exercisable for a period of 30 days after Closing	\$10.00 per Unit

RBC Dominion Securities Inc. and CIBC World Markets Inc. (collectively, the “Underwriters”), as principals, conditionally offer the Units qualified under this prospectus, subject to prior sale, if, as and when issued by the REIT and accepted by the Underwriters in accordance with the conditions contained in the underwriting agreement between the REIT, Melcor and the Underwriters referred to under “Plan of Distribution” and subject to the approval of certain legal matters on behalf of the REIT by Bryan & Company LLP and Felesky Flynn LLP, and on behalf of the Underwriters by Stikeman Elliott LLP. See “Plan of Distribution”.

In connection with this distribution, the Underwriters have been granted the Over-Allotment Option and may, subject to applicable law, over-allocate or effect transactions which stabilize or maintain the market price of the Units at levels other than those which otherwise might prevail on the open market. **The Underwriters may offer the Units at a lower price than stated above. See “Plan of Distribution”.**

*(continued on next page)*

Subscriptions will be received subject to rejection or allocation in whole or in part and the Underwriters reserve the right to close the subscription books at any time without notice. Closing is expected to occur on ● , 2013, or such later date as the REIT and the Underwriters may agree, but in any event no later than ● , 2013. Other than pursuant to certain exceptions, registration of interests in and transfers of Units held through CDS Clearing and Depository Services Inc. (“CDS”), or its nominee, will be made electronically through the non-certificated inventory (“NCI”) system of CDS. Units registered in the name of CDS or its nominee will be deposited electronically with CDS on an NCI basis on Closing. A purchaser of Units (subject to certain exceptions) will receive only a customer confirmation from the registered dealer through which the Units are purchased. See “Declaration of Trust – Non-Certificated Inventory System”.

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**There is currently no market through which the Units may be sold and purchasers may not be able to resell the Units purchased under this prospectus. This may affect the pricing of the Units in the secondary market, the transparency and availability of trading prices, the liquidity of the Units, and the extent of issuer regulation. See “Risk Factors”.**

A return on a purchaser’s investment in Units is not comparable to the return on an investment in a fixed income security. The recovery of an investor’s initial investment in Units is at risk, and the anticipated return on such an investment is based on many performance assumptions. Although the REIT intends to make distributions of available cash to holders of Units in accordance with its distribution policy, these cash distributions are not guaranteed and may be reduced or suspended at any time. The ability of the REIT to make distributions and the actual amount distributed to holders of Units will depend on numerous factors, including the financial performance of the REIT’s properties, debt covenants and other contractual obligations, working capital requirements and future capital requirements, all of which are subject to a number of risks. In addition, the market value of Units may decline if the REIT is unable to meet its cash distribution targets in the future, and that decline may be significant. It is important for a person making an investment in Units to consider the particular risk factors that may affect the REIT, and therefore the stability of distributions to holders of Units. **A prospective purchaser should therefore review this document in its entirety and carefully consider the risk factors described under “Risk Factors” before purchasing Units.**

The REIT estimates that, of the monthly cash distributions to be made by us to Unitholders, approximately 25% in 2013 will be tax deferred by reason of our ability to claim depreciation and certain other deductions. Such estimate is based on the facts set out in this prospectus, the financial forecast and related assumptions, the provisions of the Tax Act in force at the date hereof, current publicly available published administrative policies and assessing practices of CRA and the Tax Proposals (each as defined below). The adjusted cost base of Units held by a Unitholder (as such term is specifically defined in “Certain Canadian Federal Income Tax Considerations”) will generally be reduced by such non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder’s Units would otherwise be a negative amount, notwithstanding that the Unitholder has not sold any Units. The portion of tax deferred distributions may change over time thus affecting the after-tax return to a Unitholder. See “Distribution Policy – Tax Deferral on Distributions”, “Certain Canadian Federal Income Tax Considerations – Taxation of Unitholders – Distributions” and “Risk Factors”.

**RBC Dominion Securities Inc. and CIBC World Markets Inc., are affiliates of Canadian chartered banks that have provided mortgage financing and revolving credit lines to Melcor in the aggregate principal amount of approximately \$149 million, as at December 31, 2012, of which mortgages of approximately \$9 million, as at Closing, are expected to be assumed or guaranteed by the REIT and approximately \$22 million, as at Closing, are expected to comprise the Retained Debt. Further, affiliates of RBC Dominion Securities Inc. and CIBC World Markets Inc., have committed to provide the REIT with the Revolving Credit Facility at Closing. Consequently, the REIT may be considered a “connected issuer” of each of RBC Dominion Securities Inc. and CIBC World Markets Inc. under applicable Canadian securities laws. See “Debt Structure” and “Plan of Distribution”.**

The REIT is not a trust company and is not registered under applicable legislation governing trust companies as it does not carry on or intend to carry on the business of a trust company. 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 statute or any other legislation.

## TABLE OF CONTENTS

<p>ABOUT THIS PROSPECTUS ..... 1</p> <p>MEANING OF CERTAIN REFERENCES ..... 1</p> <p>MARKET DATA ..... 1</p> <p>FORWARD-LOOKING STATEMENTS ..... 2</p> <p>NON-IFRS MEASURES ..... 3</p> <p>ELIGIBILITY FOR INVESTMENT ..... 4</p> <p>PROSPECTUS SUMMARY ..... 5</p> <p>THE REIT ..... 24</p> <p>COMMERCIAL REAL ESTATE MARKET IN WESTERN CANADA ..... 32</p> <p>ASSETS OF THE REIT ..... 35</p> <p>ACQUISITION OF INITIAL PROPERTIES ..... 52</p> <p>ASSESSMENTS AND VALUATION OF THE INITIAL PROPERTIES ..... 54</p> <p>DEBT STRUCTURE ..... 56</p> <p>POST-CLOSING STRUCTURE ..... 60</p> <p>ARRANGEMENTS WITH MELCOR ..... 61</p> <p>RETAINED INTEREST ..... 73</p> <p>PRO FORMA CAPITALIZATION OF THE REIT ..... 76</p> <p>FINANCIAL FORECAST ..... 77</p> <p>NON-IFRS RECONCILIATION ..... 85</p> <p>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ..... 86</p> <p>TRUSTEES AND MANAGEMENT OF THE REIT ..... 94</p> <p>EXECUTIVE COMPENSATION ..... 102</p> <p>REMUNERATION OF TRUSTEES ..... 102</p> <p>INVESTMENT GUIDELINES AND OPERATING POLICIES ..... 103</p>	<p>DECLARATION OF TRUST ..... 106</p> <p>THE PARTNERSHIP ..... 113</p> <p>DISTRIBUTION POLICY ..... 117</p> <p>CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS ..... 119</p> <p>PLAN OF DISTRIBUTION ..... 128</p> <p>PRIOR ISSUANCES ..... 130</p> <p>USE OF PROCEEDS ..... 130</p> <p>RISK FACTORS ..... 131</p> <p>MATERIAL CONTRACTS ..... 144</p> <p>INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS ..... 145</p> <p>PROMOTER ..... 145</p> <p>PRINCIPAL UNITHOLDER ..... 145</p> <p>LEGAL PROCEEDINGS AND REGULATORY ACTIONS ..... 145</p> <p>LEGAL MATTERS ..... 145</p> <p>EXPERTS ..... 146</p> <p>AUDITORS, TRANSFER AGENT AND REGISTRAR ..... 146</p> <p>PURCHASERS’ STATUTORY RIGHTS ..... 146</p> <p>GLOSSARY ..... 147</p> <p>INDEX TO FINANCIAL STATEMENTS ..... F-1</p> <p>APPENDIX A – BOARD MANDATE ..... A-1</p> <p>APPENDIX B – AUDIT COMMITTEE MANDATE ..... B-1</p> <p>CERTIFICATE OF THE REIT AND MELCOR ..... C-1</p> <p>CERTIFICATE OF THE UNDERWRITERS .... C-2</p>
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## ABOUT THIS PROSPECTUS

An investor should rely only on the information contained in this prospectus and should not rely on parts of the information contained in this prospectus to the exclusion of others. The REIT has not, and the Underwriters and Melcor have not, authorized anyone to provide investors with additional or different information from that contained in this prospectus. The REIT is not, and the Underwriters are not, offering to sell these securities in any jurisdictions where the offer or sale of these securities is not permitted. Unless otherwise stated, the information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or any sale of the Units. The REIT's business, financial condition, results of operations and prospects may have changed since the date of this prospectus.

For investors outside of Canada, none of the REIT, Melcor's nor any of the Underwriters has done anything that would permit the Offering, possession or distribution of this prospectus in any jurisdiction where action for that purpose is required, other than in Canada. Investors are required to inform themselves about, and to observe any restrictions relating to, the Offering and the possession or distribution of this prospectus.

This prospectus includes a summary description of certain material agreements of the REIT (see "Material Contracts"). The summary description discloses all attributes material to an investor in Units but is not complete and is qualified in its entirety by reference to the terms of the material agreements, which will be filed with the Canadian securities regulatory authorities and made available electronically on SEDAR at [www.sedar.com](http://www.sedar.com). Investors should read the full text of such material agreements.

## MEANING OF CERTAIN REFERENCES

Unless otherwise indicated, the disclosure in this prospectus assumes that the transactions described under "Acquisition of Initial Properties" have been completed and the Over-Allotment Option is not exercised.

Certain terms used in this prospectus are defined under "Glossary". Unless the context otherwise requires, all references in this prospectus to the "REIT":

- refer to the REIT and its subsidiary entities, including the Partnership, on a consolidated basis;
- in the case of references to financial information relating to a period or date prior to the date of Closing, refer to the Initial Properties; and
- in the case of references to matters undertaken by a predecessor in interest to the REIT or its subsidiary entities, include each such predecessor in interest.

Unless otherwise indicated, or unless the context otherwise requires, all figures and data in this prospectus relating to the Initial Properties or the individual properties that comprise the Initial Properties, have been calculated based upon Melcor's or the REIT's, as the case may be, percentage ownership interest in such property or properties. Melcor currently owns, and upon Closing the REIT will own: (i) a 50% interest in Capilano Centre (located in Edmonton, Alberta); (ii) a 50% interest in Chestermere Station (located in the Calgary region, Alberta); and (iii) a 50% interest in Watergrove (located in Calgary, Alberta). All other Initial Properties are 100% owned by Melcor and will be 100% owned by the REIT following Closing.

References to "management" in this prospectus mean the persons acting in the capacities of the REIT's Chief Executive Officer and Chief Financial Officer, as well as the persons who, following Closing, will be employed by Melcor, in a managerial capacity, to provide the Asset Management Services pursuant to the Asset Management Agreement, and the Property Management Services pursuant to the Property Management Agreement. Any statements in this prospectus made by or on behalf of management are made in such persons' capacities as officers of the REIT and/or Melcor, as applicable, and not in their personal capacities.

## MARKET DATA

This prospectus contains statistical data, market research and industry forecasts that were obtained from government and industry publications and reports (including from the Conference Board of Canada, the Government of Saskatchewan, Altus Group Limited (other than in its capacity as Appraiser) and the Central Okanagan Economic

Development Commission) or are based on estimates derived from same and management's knowledge of, and experience in, the markets in which the REIT operates. Government and industry publications and reports generally indicate that they have obtained their information from sources believed to be reliable, but do not guarantee the accuracy and completeness of their information. Further, certain of these organizations are advisors to participants in the real estate industry, and they may present information in a manner that is more favourable to that industry than would be presented by an independent source. Actual outcomes may vary materially from those forecast in such publications or reports, and the prospect for material variation can be expected to increase as the length of the forecast period increases. While management believes this data to be reliable, market and industry data is subject to variations and cannot be verified due to limits on the availability and reliability of data inputs and other limitations and uncertainties inherent in any statistical survey. Accordingly, the accuracy, currency and completeness of this information cannot be guaranteed. Neither the REIT, nor Melcor, nor the Underwriters has independently verified any of the data from third party sources referred to in this prospectus or ascertained the underlying assumptions relied upon by such sources.

In addition, this prospectus includes information regarding tenants of the Initial Properties that has been obtained, where available, from publicly available information, and otherwise from the relevant tenant. None of the REIT, Melcor nor the Underwriters has independently verified any such information.

### **FORWARD-LOOKING STATEMENTS**

This prospectus contains forward-looking information. Statements other than statements of historical fact contained in this prospectus may be forward-looking information. The words "plan", "expect", "schedule", "estimate", "intent", "anticipate", "project", "believe", "outlook" or variations of such words and phrases or statements to the effect that certain actions, events or results "may", "will", "could", "would", "should", "might", "occur", "be achieved" or "continue" and similar expressions generally identify forward-looking statements. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and the REIT's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the plans and objectives of the REIT, or estimates or predictions of actions of tenants, suppliers, competitors or regulatory authorities, and statements regarding the future economic performance of the REIT. The REIT has based these forward-looking statements on its current expectations about future events. Some of the specific forward-looking statements in this prospectus include, but are not limited to, statements with respect to: (i) the intention of the REIT to pay stable and growing cash distributions to Unitholders, on a monthly basis, generated from its investments which are primarily in retail, office and industrial real estate; (ii) the ability of the REIT to execute its business and growth strategies, including by making additional acquisitions of properties in its target markets and selecting and executing capital expenditure projects; (iii) the REIT's forecast financial results for the periods set out in this prospectus under the heading "Financial Forecast"; (iv) forecast NOI figures or other data derived from the forecast relating to individual properties, property type, geography or other attributes of the Initial Properties; (v) the expected tax treatment of distributions to Unitholders; (vi) the REIT's relationship with Melcor, including in respect of (A) Melcor's retained interest in the REIT, (B) the services to be provided to the REIT by Melcor, and (C) expected transactions to be entered into between Melcor and the REIT (including the REIT's acquisition of certain interests in properties currently held and/or to be developed by Melcor); (vii) access of the REIT to debt and/or equity markets on acceptable terms; (viii) expectations, including anticipated trends and challenges, in respect of the retail, office and industrial real estate sectors in Western Canada; and (ix) the percentage of monthly distributions to be paid by the REIT to Unitholders that will be tax deferred in 2013.

Forward-looking statements do not take into account the effect of transactions or other items announced or occurring after the statements are made. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after the forward-looking statements are made.

Although management of the REIT believes that the expectations reflected in such forward-looking information are reasonable, the REIT can give no assurance that these expectations will prove to have been correct, and since forward-looking information inherently involves risks and uncertainties, undue reliance should not be placed on such information. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this prospectus as well as the following: (i) the REIT will be able to obtain financing on acceptable terms from financial institutions; (ii) the REIT's future level of indebtedness and its future growth potential will remain consistent

with its current expectations; (iii) there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure or distributions; (iv) the REIT will be able to retain and attract the services, whether directly or indirectly, of qualified and knowledgeable personnel as it expands its portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on the operations of the REIT, including the REIT's financing capability and asset values, will remain consistent with its current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting the REIT's operations; (vii) conditions in the Western Canadian retail, office and industrial real estate markets (including, competition for acquisitions, demographic trends and industry trends) will be consistent with the current climate; and (viii) capital markets will provide the REIT with access to equity and/or debt financing on acceptable terms.

Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The forward-looking statements are subject to inherent uncertainties and risks, including, but not limited to, the factors discussed under "Risk Factors". Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

The reader is further cautioned that the preparation of the financial forecast included in this prospectus under the heading "Financial Forecast" requires the REIT to make certain assumptions, judgments and estimates that affect the forecast of financial results, including assets, revenues, liabilities and expenses. These estimates may change, having either a negative or positive effect on actual results as further information becomes available, and as the economic environment changes.

The forward-looking information contained in this prospectus is expressly qualified in its entirety by these cautionary statements. All forward-looking information in this prospectus speaks as of the date of this prospectus. The REIT does not undertake any obligation to update any such forward-looking information, whether as a result of new information, future events or otherwise, except as required by applicable law. For more information on the risk factors that could cause the REIT's actual results to differ from current expectations, see "Risk Factors".

The forecast NOI figures or other data derived from the forecast relating to individual properties, property type, geography or other attributes of the Initial Properties have been prepared by the REIT for use by prospective investors in their evaluation of potential investments in the REIT (and in particular in order to provide prospective investors with a greater understanding of the relative importance of each of the Initial Properties) and may not be appropriate for any other purpose.

## **NON-IFRS MEASURES**

Funds from operations ("FFO"), adjusted funds from operations ("AFFO") and net operating income ("NOI") are key measures of performance used by real estate businesses. However, such measures are not defined by IFRS and do not have standardized meanings prescribed by IFRS. The REIT believes that AFFO is an important measure of economic performance and is indicative of the REIT's ability to pay distributions, while FFO and NOI are important measures of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO, AFFO and NOI is net income.

"FFO" is defined as net income in accordance with IFRS, excluding: (i) fair value adjustments to investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (vi) deferred income tax expense, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

"AFFO" is defined as FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired; (ii) Interest Rate Subsidy amounts received; (iii) amortization of deferred financing and leasing costs; (iv) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; and (v) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to AFFO as determined by the Board in its discretion.

“NOI” is defined as investment properties revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less property operating expenses.

FFO, AFFO and NOI should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of our performance. The REIT’s method of calculating FFO, AFFO and NOI may differ from other issuers’ methods and accordingly may not be comparable to measures used by other issuers.

### **ELIGIBILITY FOR INVESTMENT**

In the opinion of Felesky Flynn LLP, tax counsel to the REIT, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the REIT qualifies as a “mutual fund trust” within the meaning of the *Income Tax Act* (Canada) (the “Tax Act”) on the date of Closing or the Units are listed on a designated stock exchange (which currently includes the TSX) on the date of Closing, the Units offered hereby will be, on the date of Closing, qualified investments under the Tax Act for trusts governed by Plans.

Notwithstanding that Units may be qualified investments for a trust governed by a tax-free savings account (“TFSA”), registered retirement savings plan (“RRSP”) or registered retirement income fund (“RRIF”), a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a “prohibited investment” as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will generally be a “prohibited investment” for trusts governed by a TFSA, RRSP or RRIF if the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm’s length with the REIT for the purposes of the Tax Act; or (ii) has a “significant interest” in the REIT (a holder or annuitant, as the case may be, may have a significant interest in the REIT at a particular point in time if the holder or annuitant, together with persons or partnerships with which the holder or annuitant does not deal with at arm’s length, holds at that time interests as a beneficiary under the REIT that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the REIT); or (iii) has a “significant interest”, as defined by the Tax Act, in a corporation, partnership or trust with which the REIT does not deal at arm’s length for the purpose of the Tax Act. Tax Proposals released on December 21, 2012 (the “December 2012 Tax Proposals”) propose to delete the condition in (iii) above. In addition, pursuant to the December 2012 Tax Proposals the Units will generally not be a “prohibited investment” if the Units are “excluded property (as defined in the December 2012 Tax Proposals). Unitholders who intend to hold Units in a TFSA, RRSP or RRIF should consult their own tax advisors in regards to the application of these rules in their particular circumstances. In addition, all Subsidiary Notes issued as part of an *in specie* redemption of the Units will not be a qualified investment for trusts governed by Plans.

## PROSPECTUS SUMMARY

*The following is a summary of the principal features of the Offering and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus. Certain terms used in this prospectus are defined in the Glossary.*

### **Establishment and Objectives**

Melcor Real Estate Investment Trust is a newly formed unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust under, and governed by, the laws of the Province of Alberta. The principal, registered and head office of the REIT is located at 900, 10310 Jasper Avenue, Edmonton, Alberta, T5J 1Y8.

The REIT has been formed to own a portfolio of income producing properties, comprised primarily of retail, office and industrial properties. The objectives of the REIT are to: (i) generate stable and growing cash distributions on a tax-efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term Unit value through active asset and property management; and (iii) expand the asset base of the REIT and increase AFFO per Unit primarily through acquisitions and improvement of its properties, including the Initial Properties, through targeted and strategically deployed capital expenditures. See "The REIT – Establishment and Objectives".

On Closing, Melcor, pursuant to the Asset Management Agreement and the Property Management Agreement, will externally manage, administer and operate the REIT and the Initial Properties through its experienced real estate team. See "Post-Closing Structure" and "Arrangements with Melcor – Asset Management Agreement" and "Arrangements with Melcor – Property Management Agreement".

### **Strengths and Investment Highlights of the REIT and the Initial Properties**

Management believes that the following describes the key strengths and investment highlights of the REIT and the Initial Properties:

- *Attractive Yield.* The REIT intends to pay stable and growing monthly cash distributions, initially expected to provide Unitholders with an annual yield of approximately ● % based on an AFFO payout ratio of approximately 93%. See "Non-IFRS Measures", "Financial Forecast" and "Distribution Policy".
- *Experienced Management.* The REIT will be externally managed, administered and operated by an experienced team of real estate professionals from Melcor, who have diverse backgrounds in the acquisition, divestiture, development, financing and operation of commercial income producing real estate. Melcor has extensive experience with the Initial Properties, having owned and managed such properties for, on average, 12 years as at December 31, 2012. Further, 26% of the GLA of the Initial Properties that are commercial in nature were developed by Melcor and an additional 25% of the GLA of the Initial Properties that are commercial in nature were substantially re-developed by Melcor. See "The REIT – Melcor and the REIT".
- *Relationship with Melcor and Alignment of Interests.* The REIT anticipates that its continuing relationship with Melcor will provide opportunities to acquire additional investment properties. Melcor's current intention is to offer to sell to the REIT additional investment properties that it owns, has under development, and/or develops in the future, including some or all of the Retained Commercial Properties and the Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions. Additionally, Melcor's interests will be well aligned with holders of Units as, on Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full) and it is Melcor's current intention to continue to hold a significant effective interest in the REIT for the foreseeable future. See "The REIT – Growth Strategies", "Arrangements with Melcor – Development and Opportunities Agreement" and "Retained Interest".
- *Exposure to High Growth Western Canadian Markets.* The Initial Properties have a strong focus on high growth markets in Western Canada, with 25 properties in Alberta and Saskatchewan, comprising 94% of the GLA and 97% of forecast NOI of the Initial Properties. The GDP growth rates in Alberta and Saskatchewan

in 2013 are expected to be 3.0% and 3.4% respectively and remain well above the national average of 2.4%. Alberta GDP growth and Saskatchewan GDP growth are expected to advance at an annual rate of 3.1% and 2.6%, respectively, through the 2013-2016 forecast period. See “Commercial Real Estate Market in Western Canada”, “Non-IFRS Measures” and “Financial Forecast”.

- *Established and Diversified Portfolio.* The Initial Properties represent an established and diversified portfolio and include: (i) retail properties representing 31% of the portfolio’s GLA; (ii) office properties representing 65% of the portfolio’s GLA; and (iii) industrial properties representing 4% of the portfolio’s GLA. The portfolio is diversified by property type and geographically across Western Canada, with significant property clusters in the Edmonton and Calgary regions. The Initial Properties have a well-diversified tenant profile with approximately 340 tenants, reflecting an attractive mix of national, regional and local tenants, as well as a diversified mix of tenants by industry. Six of the REIT’s top ten tenants, representing 17.1% of total minimum rent have been assigned investment grade ratings by one or more rating agencies. See “Assets of the REIT – Initial Properties – Tenant Diversification”.
- *Recent Capital Spending.* During the past five years, Melcor has invested \$17.6 million in maintenance, sustaining and value enhancing capital expenditures at the Initial Properties. These improvements were implemented to make the Initial Properties more appealing to prospective tenants. Following Closing, the REIT intends to invest further in the Initial Properties through targeted and strategically deployed capital expenditures. Management believes that capital expenditures have served to maintain and improve the operating performance of the Initial Properties and have also enhanced their value by allowing Melcor to charge higher rents. A portion of the net proceeds of the Offering will be used by the REIT for further capital expenditures. See “Assets of the REIT – Capital Expenditures” and “Arrangements with Melcor – Capital Expenditure Subsidy”.
- *Redevelopment Capabilities.* Management has redevelopment expertise with the ability to undertake property expansion and redevelopment opportunities, where appropriate in the future, in compliance with the investment guidelines and operating policies of the REIT. Several prominent examples of substantial redevelopment by Melcor include Capilano Centre, Richter Street Building and Kensington Road Building. See “Investment Guidelines and Operating Policies”.

## **Growth Strategies**

The REIT’s growth strategy will initially be focused primarily on opportunities to acquire additional retail, office and industrial properties that satisfy the REIT’s investment criteria, as well as to generate greater cash flow from its properties. The REIT will seek to leverage its relationship with Melcor to access acquisition opportunities that satisfy the REIT’s investment guidelines. Melcor’s current intention is to offer to sell to the REIT additional investment properties that it owns, has under development, and/or develops in the future, including some or all of the Retained Commercial Properties and the Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions. See “Arrangements with Melcor – Development and Opportunities Agreement”.

### *External Growth*

The REIT’s external growth strategy will include the following:

- *Opportunity to Benefit from Melcor’s Investment Property Development Pipeline.* The REIT anticipates that it will benefit from potential future acquisition opportunities that may arise from Melcor’s commercial development activities. See “Arrangements with Melcor – Development and Opportunities Agreement”. Examples of Melcor’s previous development projects include Leduc Common, Miller Crossing, Westgrove Common, Chestermere Station, Kingsview Market and Crowfoot Business Centre. In addition, Melcor currently has eight sites in various stages of development with an anticipated aggregate GLA of approximately 636,000 square feet and an additional 565 acres of developable land that it plans to develop for commercial use in the future. Management expects that the initial parcels of such developable land will yield approximately 3.8 million square feet of GLA upon completion, which is anticipated to happen over the next five to ten years. See “The REIT – Melcor and the REIT – Retained Commercial Properties and Properties Currently Under Development”.

- *Acquiring Stable Income-Producing Properties that are Accretive to the REIT's AFFO per Unit.* The REIT will benefit from the experience and expertise of management and its development and leasing knowledge capabilities to select properties for accretive acquisitions. The REIT will seek to identify potential property acquisitions using investment criteria that focus on the quality of the tenants, market demographics, lease terms, opportunities for expansion, security of cash flows, potential for capital appreciation and potential for increasing value through more efficient management of the assets being acquired, including through expansion and repositioning.
- *Expanding Deeper into Existing Geographic Markets Where the REIT Already has a Significant Presence.* The Initial Properties have clusters of concentration within several key geographic markets, including the Edmonton and Calgary regions, as well as Kelowna and Regina. The REIT is considering and will continue to consider expansion deeper into these markets where the REIT can best exploit its existing competitive advantages and market knowledge.
- *Expanding into New Adjacent Geographic Markets Where the REIT Can Exploit its Competitive Advantages.* The REIT is considering expansion into new geographic markets within Canada, adjacent to the geographic markets where the REIT already has a significant presence, where it can best exploit its existing competitive advantages.
- *Redevelopment and Expansion.* Management has redevelopment expertise with the ability to undertake property expansion and redevelopment opportunities, where appropriate in the future, in compliance with the investment guidelines and operating policies of the REIT. See "Investment Guidelines and Operating Policies".

#### *Internal Growth*

The REIT's internal growth strategy will include the following:

- *Maximizing Occupancy.* With an average occupancy rate, weighted by square feet, of 91% as at December 31, 2012, management believes that there is room to increase occupancy in the portfolio over time leading to increased financial performance of the portfolio.
- *Maximizing Tenant Retention.* Renewal of existing tenant leases, as opposed to tenant replacement, often provides the best opportunity for increasing operating results while minimizing marketing, leasing and tenant improvement costs and avoiding interruptions in rental income from periods of vacancy. The REIT plans to continue to nurture existing tenant relationships to retain its existing tenants and to meet their changing needs. For the year ended December 31, 2012, 77% (weighted by GLA) of the tenants of the Initial Properties whose leases would have otherwise expired during such year, renewed their leases.
- *Increasing Rental Income.* The REIT expects to achieve increased occupancy levels and higher renewal rents for available space through a proactive leasing program, ongoing preventive maintenance and efficient operations. Management believes that on-going preventive maintenance, combined with low operating expenses resulting from geographic synergies in the portfolio and efficient operations, will attract and maintain quality tenants and allow the REIT to increase rents over time and achieve higher occupancy and NOI for the Initial Properties.

#### **Initial Properties**

Pursuant to the Acquisition Agreement, concurrent with the Closing, the REIT will indirectly acquire from Melcor, through the Partnership, the Initial Properties which consists of interests in a portfolio of 27 income producing properties, comprised primarily of retail, office and industrial properties. See "Acquisition of Initial Properties".

The Initial Properties, assembled from Melcor's portfolio of investment properties, are located in the Edmonton, Alberta region; the Calgary, Alberta region; Lethbridge, Alberta; Regina, Saskatchewan; and Kelowna, British Columbia; with approximately 1.57 million of owned square feet of GLA. See "Assets of the REIT".

*Summary of Initial Properties*

The following table highlights certain information about the Initial Properties. Unless otherwise indicated, the information in the table is presented as at December 31, 2012.

<u>Property</u>	<u>Year Built</u>	<u>GLA (sq. ft.)</u>	<u>Number of Tenants</u>	<u>Occupancy<sup>(1)</sup></u>
<b><i>Edmonton, Alberta Region</i></b>				
<b><i>Retail</i></b>				
Leduc Common .....	2003-2011	213,966	39	95%
Miller Crossing .....	2009-2011	27,448	6	78%
Corinthia Plaza .....	1974 & 2001	23,179	10	100%
Westgrove Common .....	2006-2011	21,810	6	89%
<b>Subtotal (Edmonton Region Retail) .....</b>		<b>286,403</b>	<b>61</b>	<b>93%</b>
<b><i>Office</i></b>				
100 Street Place .....	1970	44,295	15	91%
Birks Building .....	1929	35,539	19	65%
Capilano Centre <sup>(2)</sup> .....	1978	48,379 <sup>(3)</sup>	22	79%
Melton Building .....	1959	114,612	22	98%
Princeton Place .....	1971	59,081	15	85%
Royal Bank Building .....	1964	132,376	18	92%
Stanley Buildings .....	1968 & 1971	34,976	5	93%
Sterling Business Centre .....	1979	67,909	14	89%
Trail Business Centre .....	1980	77,295	13	78%
Westcor Building .....	1977	72,810	7	87%
Westgate Building .....	1984 & 2005	75,142	11	76%
<b>Subtotal (Edmonton Region Office) .....</b>		<b>762,415</b>	<b>161</b>	<b>87%</b>
<b><i>Industrial</i></b>				
TKE Building .....	1983	15,968	1	100%
<b>Subtotal (Edmonton Region Industrial) .....</b>		<b>15,968</b>	<b>1</b>	<b>100%</b>
<b>Subtotal (Edmonton Region total) .....</b>		<b>1,064,786</b>	<b>223</b>	<b>89%</b>
<b><i>Calgary, Alberta Region</i></b>				
<b><i>Retail</i></b>				
Chestermere Station <sup>(4)</sup> .....	2005-2010	47,588 <sup>(5)</sup>	31	93%
Kingsview Market .....	2010	36,003	11	100%
<b>Subtotal (Calgary Region Retail) .....</b>		<b>83,591</b>	<b>42</b>	<b>96%</b>
<b><i>Office</i></b>				
Crowfoot Business Centre .....	2002	67,603	21	100%
Kensington Road Building .....	1979	23,850	4	84%
<b>Subtotal (Calgary Region Office) .....</b>		<b>91,453</b>	<b>25</b>	<b>96%</b>
<b><i>Land Lease Communities</i></b>				
Watergrove <sup>(6)</sup> .....	1995	N/A	308 <sup>(7)</sup>	100%
<b>Subtotal (Calgary Region total) .....</b>		<b>175,044<sup>(8)</sup></b>	<b>67<sup>(8)</sup></b>	<b>96%</b>

<u>Property</u>	<u>Year Built</u>	<u>GLA (sq. ft.)</u>	<u>Number of Tenants</u>	<u>Occupancy<sup>(1)</sup></u>
<b>Lethbridge, Alberta</b>				
<b>Industrial</b>				
Lethbridge Industrial Building .....	1972	49,005	2	100%
<b>Subtotal (Lethbridge)</b>		<b>49,005</b>	<b>2</b>	<b>100%</b>
<b>Regina, Saskatchewan</b>				
<b>Retail</b>				
Towers Mall .....	1964	114,331	21	95%
<b>Subtotal (Regina Retail)</b> .....		<b>114,331</b>	<b>21</b>	<b>95%</b>
<b>Office</b>				
Executive Terrace .....	1982	42,843	3	100%
Parliament Place .....	1977	24,411	16	96%
<b>Subtotal (Regina Office)</b> .....		<b>67,254</b>	<b>19</b>	<b>99%</b>
<b>Subtotal (Regina total)</b> .....		<b>181,585</b>	<b>40</b>	<b>96%</b>
<b>Kelowna, British Columbia</b>				
<b>Office</b>				
Kelowna Business Centre .....	1993	72,076	21	96%
Richter Street Building .....	1981	28,978	9	81%
<b>Subtotal (Kelowna total)</b> .....		<b>101,430</b>	<b>30</b>	<b>92%</b>
<b>Total of the Initial Properties</b> .....		<b>1,571,471</b>	<b>362<sup>(9)</sup></b>	<b>91%<sup>(8)</sup></b>

**Notes:**

- Occupancy rate as at December 31, 2012.
- Melcor currently owns, and upon Closing the REIT will own, a 50% interest in Capilano Centre.
- Represents owned GLA. Total GLA for Capilano Centre is 96,758 sq. ft.
- Melcor currently owns, and upon Closing the REIT will own, a 50% interest in Chestermere Station.
- Represents owned GLA. Total GLA for Chestermere Station is 95,174 sq. ft.
- Melcor currently owns, and upon Closing the REIT will own, a 50% interest in Watergrove.
- Land lease community, therefore represents total number of leased pad lots.
- Does not include Watergrove.
- Number of tenants calculated on a building-by-building basis. The number of tenants across all of the Initial Properties totaled 340 as at December 31, 2012.

**Property Type Diversification**

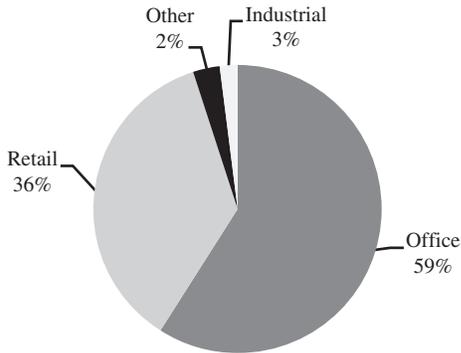
The following table and charts summarize the Initial Properties as at December 31, 2012.

<u>Property Type</u>	<u>Number of Initial Properties</u>	<u>Occupancy<sup>(1)</sup></u>	<u>GLA (sq. ft.)</u>	<u>% of GLA</u>	<u>Forecast NOI<sup>(2)</sup> (in thousands)</u>	<u>% of Forecast NOI</u>
Retail .....	7	94%	484,325	31%	\$ 8,746	36%
Office .....	17	89%	1,022,176	65%	\$14,329	59%
Industrial .....	2	100%	64,973	4%	\$ 405	2%
Other <sup>(3)</sup> .....	1	100%	N/A <sup>(3)</sup>	N/A	\$ 865	3%
<b>TOTAL</b> .....	<b>27</b>	<b>91%</b>	<b>1,571,474</b>	<b>100%</b>	<b>\$24,345</b>	<b>100%</b>

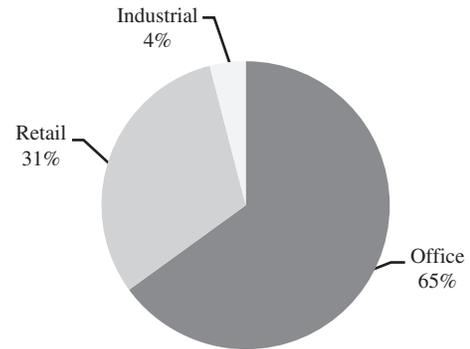
**Notes:**

- Occupancy rate at December 31, 2012.
- Forecasted NOI is for the twelve month period ended March 31, 2014. See “Non-IFRS Measures”, “Forward-Looking Statements” and “Financial Forecast”.
- Land lease community comprised of 308 pad lots.

**Forecast NOI for Initial Properties by Property Type<sup>(1)</sup>**



**GLA for Initial Properties by Property Type<sup>(2)</sup>**



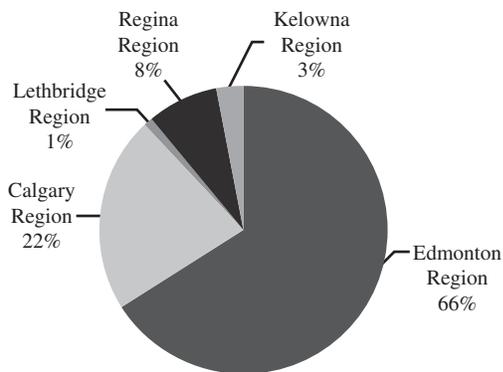
**Notes:**

1. Based on forecasted NOI for the 12-month period ending on March 31, 2014. See “Non-IFRS Measures”, “Forward-looking Statements” and “Financial Forecast”.
2. Does not include any GLA for Watergrove, a land lease community.

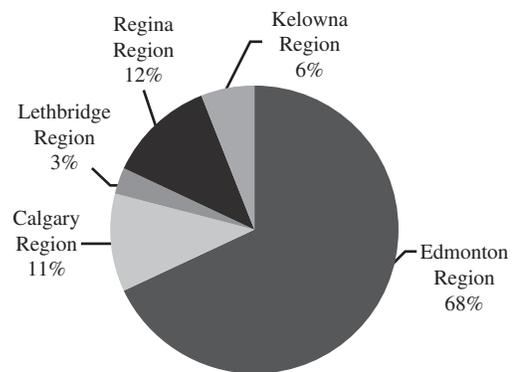
*Geographic Diversification*

The following chart summarizes the Initial Properties by geographic region as at December 31, 2012.

**Forecast NOI for Initial Properties by Geography<sup>(1)</sup>**



**GLA for Initial Properties by Geography<sup>(2)</sup>**



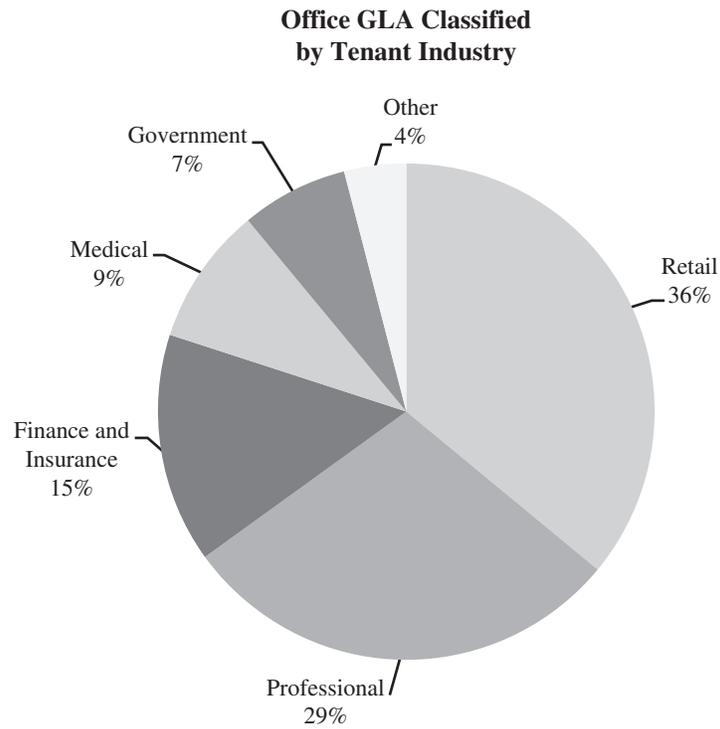
**Notes:**

1. Based on forecasted NOI for the 12-month period ending on March 31, 2014. See “Non-IFRS Measures”, “Forward-looking Statements” and “Financial Forecast”.
2. Does not include any GLA for Watergrove, a land lease community.

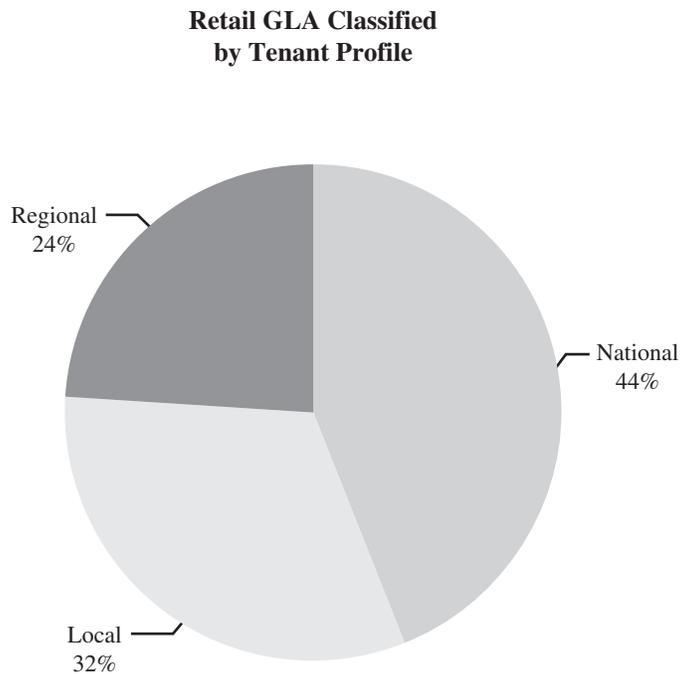
*Tenant Diversification*

The Initial Properties provide diversification over 340 tenants as at December 31, 2012.

The following chart summarizes the distribution of the tenants (based on GLA) within the office property type of the Initial Properties, by tenant industry as at December 31, 2012.



The following chart summarizes the distribution of the tenants (based on GLA) within the retail property type of the Initial Properties, by tenant profile as at December 31, 2012.



## Top Ten Tenants

The following table illustrates the ten largest tenants for the Initial Properties, as measured by their percentage contribution to the total minimum rent for the forecast period ended March 31, 2014 and corresponding areas leased by such tenants.

Rank	Top Ten Tenants (Operating Name)	% of Total Minimum Rent	Lease GLA (sq. ft.)	% of Total Owned GLA	Remaining Term (yrs) <sup>(1)</sup>	No. of Locations in Initial Properties	Credit Rating (S&P/Moody's/DBRS)
1	Royal Bank of Canada	7.4%	72,352	4.6%	5.3	4	AA-/Aa3/AA
2	Shoppers Drug Mart	3.0%	26,726	1.7%	12.3	2	BBB+/-/A low
3	Government of Alberta	2.9%	45,045	2.9%	3.4	2	AAA/Aaa/AAA
4	Rexall Drugs	1.5%	11,827	0.8%	11.8	1	—
5	TD Bank	1.5%	9,491	0.6%	6.0	2	AA-/Aa1/AA
6	RONA	1.3%	52,170	3.3%	13.3	1	BBB-/BBB Low
7	Melcor Developments	1.3%	23,579	1.5%	5.1	1	—
8	Peavey Industries	1.2%	24,264	1.5%	13.1	1	—
9	Canadian Western Bank	1.0%	7,000	0.4%	10.8	1	-/-/A low
10	iQMetrix	1.0%	16,393	1.0%	3.0	1	—
	<b>Total/Average</b>	<b>22.1%</b>	<b>288,841</b>	<b>18.4%</b>	<b>8.0</b>		

**Note:**

1. Average remaining term, as of December 31, 2012, weighted by square feet.

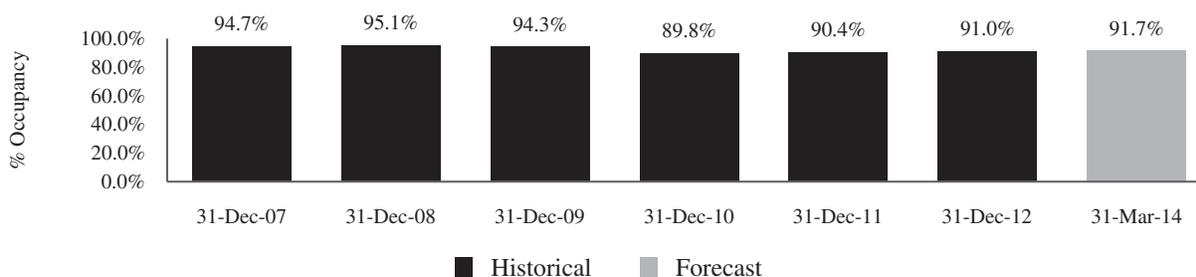
## Lease Maturities

As at December 31, 2012, the Initial Properties, which are commercial in nature, had an average occupancy rate, weighted by square feet, of 91% and the average remaining term of all leases, weighted by square feet, was approximately 4.7 years. The following table sets out as at such date the number of leases relating to the Initial Properties, which are commercial in nature, subject to lease maturities during the periods indicated (assuming that tenants do not exercise renewal options or termination rights), the renewal area, the average net rental rate at expiry for leases maturing during the periods indicated and the percentage of the total GLA of such Initial Properties represented by such maturities. Management has commenced discussions with many of the tenants whose leases expire in 2013 and given that a number of tenants have already renewed, management believes that the vast majority of such tenants will renew their leases on terms substantially similar to those currently in effect with the potential in some cases for rental rate increases reflecting market rates then in effect. References below to average net rent mean net rental rates for space before deductions for tenant inducements, leasing commissions and other leasing costs.

Year of Maturity	Number of Leases	Renewal GLA (sq. ft.)	Percentage of Owned GLA	Average Net Rent Expiring Per Annum
2013	75	213,631	14%	\$16.70
2014	80	279,509	18%	\$14.83
2015	59	155,824	10%	\$16.14
2016	41	132,055	8%	\$18.40
2017	59	161,356	10%	\$19.00
Thereafter	110	487,429	31%	\$19.23
Vacant Space	—	142,055	9%	—
<b>Total:</b>	<b>424</b>	<b>1,571,474</b>	<b>100%</b>	<b>\$15.97</b>

### Historical Occupancy

The following graph shows the average occupancy, weighted by square feet, for such Initial Properties which are commercial in nature as at the dates indicated below:



#### Notes:

1. Average occupancy for the forecast period ending March 31, 2014 is estimated to be 90.4%.

### In-Place vs. Market Rent

Management believes the average in-place rent of the Initial Properties, which are commercial in nature, is lower than management's estimate of average market rent, which represents an opportunity to capture rent increases and corresponding NOI growth as leases are renewed. Management has based their estimate on current market rents on recent third party appraisals and their knowledge and research in each of the markets in which the Initial Properties are located.

### Trustees and Management of the REIT

The Declaration of Trust provides that, subject to certain conditions, the Trustees will have full, absolute and exclusive power, control and authority over the REIT's assets, affairs and operations, to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the REIT's assets. The governance practices, investment guidelines and operating policies of the REIT will be overseen by a Board consisting of a minimum of three and a maximum of twelve Trustees, a majority of whom will be Independent Trustees and a majority of whom (and a majority of Independent Trustees) will be Canadian residents. At Closing, the REIT will have seven Trustees.

The following table sets forth certain information regarding each of the individuals who will be Trustees of the REIT at Closing. As of the date of this prospectus, only Mr. Andrew J. Melton, Mr. Ralph B. Young and Mr. Brian Baker are Trustees of the REIT. The other individuals designated as Trustees of the REIT are not currently Trustees of the REIT. Each such individual has agreed to become a Trustee of the REIT and it is expected that such individuals will be appointed to the Board on or prior to Closing. As such individuals are not members of the Board at the time of this prospectus, the REIT does not believe any of such individuals has any liability for the contents of this prospectus in such capacity under the applicable securities laws of the provinces and territories of Canada.

<u>Name and Municipality of Residence</u>	<u>Position with the REIT</u>	<u>Principal Occupation</u>
Andrew J. Melton <sup>(3)</sup> Calgary, Alberta	Trustee, Chair of the Board	Executive Vice-Chairman of Melcor Developments Ltd.
Ralph B. Young <sup>(2)</sup> Edmonton, Alberta	Trustee	Chief Executive Officer of Melcor Developments Ltd.
Brian Baker Edmonton, Alberta	Trustee	President and Chief Operating Officer of Melcor Developments Ltd.
Brian S. Hunt <sup>(1)(2)(3)</sup> Edmonton, Alberta	Independent Trustee	President and Director of Taviston Inc.
F. Patrick Kirby Edmonton, Alberta	Independent Trustee	Counsel, Felesky Flynn LLP
Donald Lowry <sup>(1)(2)(4)</sup> Edmonton, Alberta	Independent Trustee	Corporate Director, former President and CEO of EPCOR Utilities Inc.
Larry Pollock <sup>(1)(3)</sup> Edmonton, Alberta	Independent Trustee	Corporate Director, former President, CEO and director of Canadian Western Bank

**Notes:**

1. Member of the Audit Committee.
2. Member of the C&G Committee.
3. Member of the Investment Committee.
4. Lead Trustee.

On Closing, Melcor, pursuant to the Asset Management Agreement and Property Management Agreement, will externally manage, administer and operate the REIT and the Initial Properties through its experienced real estate team. See “Post-Closing Structure” and “Arrangements with Melcor – Asset Management Agreement” and “Arrangements with Melcor – Property Management Agreement”.

The following table sets forth the name, municipality of residence and positions held with the REIT (or functions performed on behalf of the REIT) of each executive officer of the REIT (or each person acting in the capacity of an executive officer of the REIT) on Closing:

<u>Name and Municipality of Residence</u>	<u>Office with the REIT</u>
Darin Rayburn Edmonton, Alberta	Chief Executive Officer
Jonathan W. Chia Edmonton, Alberta	Chief Financial Officer

**Independent Valuations**

Melcor retained the Appraiser to provide an independent estimate of the fair market value of each of the Initial Properties as at December 31, 2012. Based on the Appraisals, the aggregate market value of Melcor’s interest in each

of the Initial Properties as at December 31, 2012 was approximately \$393 million which results in a weighted average capitalization rate of 6.43%. The Appraiser also considered the market value of Melcor's interest in the Initial Properties as a portfolio and concluded that a portfolio premium may be applicable based on: (i) the investment characteristics of the portfolio; (ii) a review of the national market; (iii) a survey of market participants; and (iv) a review of recent portfolio offerings. Applying a portfolio premium range of 2.0% to 5.0% to the aggregate market value of Melcor's interests in the Initial Properties produces a portfolio market value ranging from approximately \$401 million to approximately \$413 million, with a midpoint of approximately \$407 million.

### **Arrangements with Melcor**

On Closing, the REIT, the Partnership and Melcor will enter into certain agreements governing their relationship following Closing. See also "Retained Interest".

#### *Asset Management Agreement*

Pursuant to the Asset Management Agreement, Melcor will provide asset management services to the REIT. Subject to the overriding supervision of the Trustees, Melcor shall perform, among others, the following services: (a) advisory, consultation and investment management services and monitoring financial performance, (b) providing the services of members of Melcor's senior management team to act as Chief Executive Officer and Chief Financial Officer, and (c) advising the Board on strategic matters, including potential acquisitions, dispositions, financings and development. See "Arrangements with Melcor – Asset Management Agreement".

#### *Property Management Agreement*

Pursuant to the Property Management Agreement, Melcor will provide property management services to the REIT. Subject to the overriding supervision of the Trustees, Melcor shall perform, among others, the following services: (a) managing and administering the day-to-day operations of the REIT and its subsidiaries, (b) conducting the day-to-day relations with respect to the REIT's investment properties with third parties, including suppliers, brokers, consultants, advisors, accountants, lawyers, insurers and appraisers, and (c) supervising investment property expansions, capital projects and development projects. See "Arrangements with Melcor – Property Management Agreement".

#### *Development and Opportunities Agreement*

Pursuant to the Development and Opportunities Agreement:

- (a) *Right of First Offer:* On Closing, Melcor will grant the REIT the Right of First Offer to acquire any interest of Melcor in investment properties that it owns after Closing (whether forming part of the Retained Commercial Properties, or acquired or developed by Melcor after Closing, including a Refused Property, but excluding an investment property that is then subject to the Development Property Option or the Mezzanine Financing Option), prior to disposition of any such interest to third parties, which right will be on terms not less favourable to the REIT than those offered by or to such third party. See "Arrangements with Melcor – Development and Opportunities Agreement – Right of First Offer";
- (b) *Investment Opportunities:* If, at any time, and from time to time, following Closing, Melcor identifies an opportunity (an "Investment Opportunity") to acquire, directly or indirectly, an ownership interest in (including as a result of making a loan secured by): (i) any income producing commercial properties that satisfy the investment guidelines of the REIT; or (ii) a portfolio or an interest in a portfolio of income producing commercial properties that satisfy the investment guidelines of the REIT, then, provided that the acquisition of such property by the REIT would be accretive, having regard to the Per Unit AFFO of the REIT assuming appropriate financing assumptions, Melcor shall by notice in writing (an "Opportunity Notice") advise the REIT of the Investment Opportunity. If the REIT advises Melcor in writing that it is interested in acquiring such Investment Opportunity within the applicable period, Melcor will grant the REIT the right to pursue such Investment Opportunity for its own account. See "Arrangements with Melcor – Development and Opportunities Agreement – Investment Opportunities";
- (c) *Joint Venture Option:* Pursuant to the Development and Opportunities Agreement, if Melcor intends to enter into a joint venture with respect to a Development Property (such determination to be made by Melcor in its sole and unfettered discretion), Melcor shall offer to the REIT the opportunity (the "Joint Venture Option"), by

notice in writing, to participate in such joint venture on terms to be mutually agreed upon, except that if the parties form a joint venture, the definitive agreement shall provide that: (i) Melcor will be the development manager; and (ii) Melcor and the REIT shall agree on a budget, design and general profile for such Development Property. The REIT will have the exclusive right to negotiate with Melcor for a period of thirty days with respect to the formation of a joint venture. If such exclusivity period expires without Melcor and the REIT entering into a definitive joint venture agreement with respect to the Development Property, Melcor shall have the right to enter into a joint venture with an unrelated party with respect to such Development Property. See “Arrangements with Melcor - Development and Opportunities Agreement - Joint Venture Option”;

- (d) *Development Property Option:* Once a Development Property for which the REIT has not provided mezzanine financing has reached Stabilization, whether or not such property is the subject of a joint venture between Melcor and the REIT, Melcor shall deliver a formal offer to sell such Development Property to the REIT (the “Development Property Option”). Such offer shall set forth the purchase price, manner of payment and closing date (which shall be a date not less than 60 days from the date of issuance of the notice or such other date as mutually agreed to by the parties) and shall otherwise contain customary terms and conditions for a commercial real estate transaction of comparable size and type, and shall be accompanied by all material information relating to the Development Property as is in the control or possession of Melcor. See “Arrangements with Melcor - Development and Opportunities Agreement - Development Property Option”; and
- (e) *Mezzanine Financing Option:* In the event that the REIT has provided mezzanine financing with respect to a Development Property that has not previously become a Refused Property, Melcor and the REIT shall agree on a budget, design and general profile with respect to such Development Property. Once such Development Property for which the REIT has provided mezzanine financing has reached Stabilization, whether or not such property is the subject of a joint venture between Melcor and the REIT, Melcor shall deliver a formal offer to sell such Development Property to the REIT (the “Mezzanine Financing Option”). Such offer shall set forth the purchase price (which shall be 95% of the appraised fair market value at the time of Stabilization of such Development Property), manner of payment and closing date (which shall be a date not less than 60 days from the date of issuance of the notice or such other date agreed to by the parties) and shall otherwise contain customary terms and conditions for a commercial real estate transaction of comparable size and type, and shall be accompanied by all material information relating to the Development Property as is in the control or possession of Melcor. See “Arrangements with Melcor – Development and Opportunities Agreement – Mezzanine Financing Option”.

## Financial Forecast

The financial forecast information set forth below was prepared by Melcor on behalf of the REIT, using assumptions with an effective date of March 15, 2013, and was approved by the Board on ●, 2013. The financial forecast should be read in conjunction with the unaudited pro forma consolidated financial statements of the REIT, the audited opening balance sheet of the REIT and the audited carve-out financial statements of the Initial Properties contained in this prospectus. See “Index to Financial Statements”. The forecast has been prepared using assumptions that reflect management’s intended course of action for the REIT for the periods covered, given management’s judgment as to the most probable set of economic conditions. The forecast assumes no acquisitions or dispositions are completed during the period, other than the acquisition of the Initial Properties, and that the capital structure at Closing is maintained throughout the forecast period. **The assumptions used in the preparation of the forecast, although considered reasonable by management at the time of preparation, may not materialize as forecast and unanticipated events and circumstances may occur subsequent to the date of the forecast. Accordingly, there is a significant risk that actual results achieved for the forecast period will vary from the forecast results and that such variations may be material. There is no representation that actual results achieved during the forecast period will be the same in whole or in part as those forecast. See “Financial Forecast”, “Risk Factors” and “Forward-Looking Information”.**

(\$000’s)	Three-month periods ending				Twelve-month period ending March 31, 2014
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	
Rental revenue	9,598	9,390	9,556	9,631	38,175
Direct operating expenses	(4,166)	(3,915)	(3,944)	(4,059)	(16,084)
Net rental income	<u>5,432</u>	<u>5,475</u>	<u>5,612</u>	<u>5,572</u>	<u>22,091</u>
General and administrative expenses	(396)	(397)	(397)	(397)	(1,587)
Fair value adjustment	—	—	—	—	—
Income before finance costs	5,036	5,078	5,215	5,175	20,504
Interest income	8	8	8	9	33
Interest expense					
Interest expense on mortgage debt	(1,052)	(1,046)	(1,033)	(1,011)	(4,142)
Distribution on Class C LP Units	(917)	(909)	(901)	(893)	(3,620)
Distribution on Class B LP Units	<u>(1,746)</u>	<u>(1,746)</u>	<u>(1,747)</u>	<u>(1,747)</u>	<u>(6,986)</u>
Net finance costs	(3,707)	(3,693)	(3,673)	(3,642)	(14,715)
<b>Net income and comprehensive income</b>	1,329	1,385	1,542	1,533	5,789

## Non-IFRS Reconciliation

The following tables reconcile forecast net income to FFO and AFFO. See “Non-IFRS Measures”, “Non-IFRS Reconciliation” and “Financial Forecast”.

(in thousands of \$, except per Unit amounts)	Three month periods ending				Twelve-month period ending March 31, 2014
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	
Net income for the period	1,329	1,385	1,542	1,533	5,789
Add / (deduct):					
Amortization of tenant improvements	554	582	652	670	2,458
Distribution on Class B Units <sup>(1)</sup>	1,746	1,746	1,747	1,747	6,986
<b>FFO</b>	<u>3,629</u>	<u>3,713</u>	<u>3,941</u>	<u>3,950</u>	<u>15,233</u>
Add / (deduct):					
Straight-line rent adjustment	(53)	(50)	(52)	(49)	(204)
Deferred financing costs	19	19	19	19	76
Net impact of mark to market adjustment and interest subsidy	166	164	157	143	630
Normalized capital expenditures <sup>(2)</sup>	(183)	(182)	(182)	(182)	(729)
Normalized tenant inducements and leasing commissions <sup>(3)</sup>	(365)	(366)	(365)	(365)	(1,461)
<b>AFFO</b>	<u>3,213</u>	<u>3,298</u>	<u>3,518</u>	<u>3,516</u>	<u>13,545</u>
<b>FFO/Unit<sup>(4)</sup></b>	●	●	●	●	●
<b>AFFO/Unit<sup>(4)</sup></b>	●	●	●	●	●

### Notes:

- Class B LP Units are classified as debt in the REIT’s financial statements.
- Represents 3% of forecast annual NOI.
- Represents 6% of forecast annual NOI.
- Forecast FFO and AFFO per Unit amounts are based on ● Units outstanding during the period, including ● Units issuable on exchange of Class B LP Units.

The following table compares forecast NOI to actual NOI for the periods indicated. See “Non-IFRS Measures”, “Non-IFRS Reconciliation” and “Financial Forecasts”.

	Forecast NOI <sup>(1)</sup>	Actual NOI <sup>(2)</sup>
Net rental income	22,091	22,065
Add / (deduct)		
Amortization of tenant improvements	2,458	2,446
Straight-line rent adjustment	(204)	(449)
<b>NOI</b>	<u>24,345</u>	<u>24,062</u>

### Notes:

- Forecast NOI for the 12 month period ended March 31, 2014.
- NOI for the 12 month period ended December 31, 2012.

## Debt Structure

The REIT will seek to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account the availability of financing and market conditions, and the financial characteristics of each property. The Declaration of Trust provides that the REIT may not incur or assume any Indebtedness if, after incurring or assuming such Indebtedness, the total Indebtedness of the REIT would be more than

60% of Gross Book Value (65% including any convertible debentures of the REIT). See “Investment Guidelines and Operating Policies – Operating Policies”. Currently, management expects, as a matter of internal policy, that the REIT will target a total indebtedness level in the range of 50% to 55% of Gross Book Value. Total Indebtedness is approximately 46% of Gross Book Value based on the December 31, 2012 pro forma balance sheet.

The weighted average maturity and the weighted average effective interest rate of all mortgages (Assumed Mortgages and Retained Debt) of the REIT expected to be in place at Closing are expected to be approximately 4.5 years and 4.43%, respectively. The effective interest rate of all Indebtedness (Assumed Mortgages and Retained Debt) will be 3.81% after giving effect to the Interest Rate Subsidy. See “Arrangements with Melcor – Interest Rate Subsidy”.

Interest rates and debt maturities will be reviewed regularly by the Trustees to ensure that appropriate debt management strategies are implemented. The REIT may also, from time to time, enter into instruments to hedge the amount of interest to be paid by the REIT on future debt and to reduce its exposure to refinancing risks, provided that such hedging will not affect the REIT’s status as a “real estate investment trust” for purposes of the SIFT Rules.

### **Retained Debt**

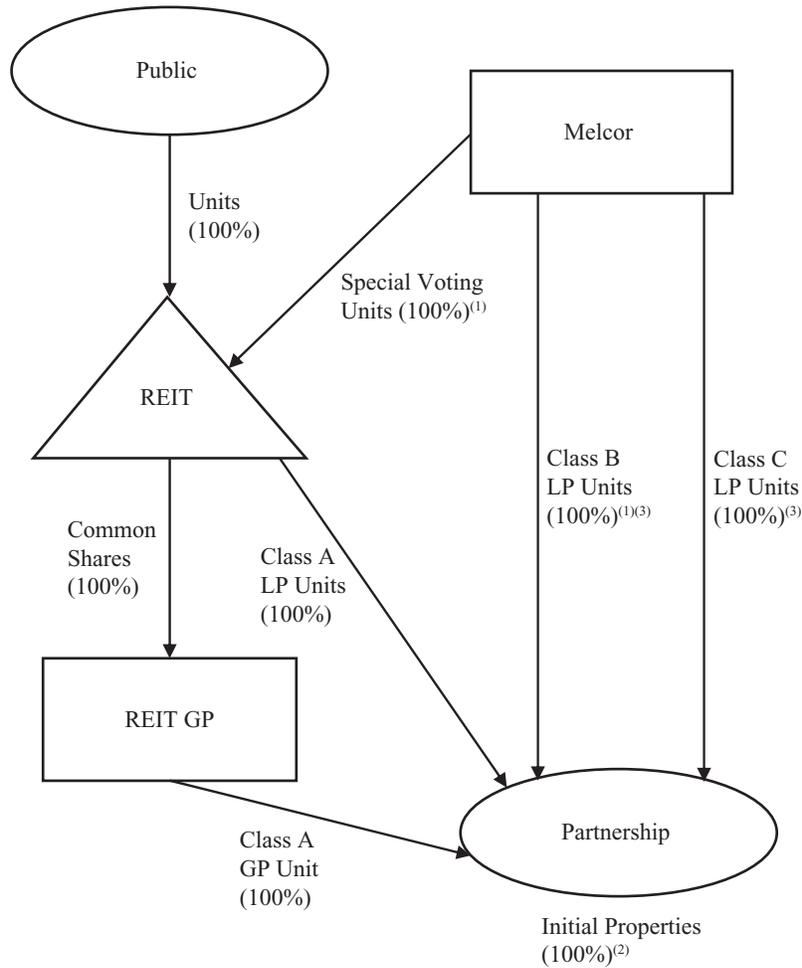
Management estimates that as at Closing, the aggregate Indebtedness of the REIT will be approximately \$187 million (which amount excludes a mark-to-market adjustment of approximately \$2 million on the Retained Debt). Melcor will retain a portion of the debt in an approximate amount of \$95 million (which amount excludes a mark-to-market adjustment of approximately \$2 million) (the “Retained Debt”). The Retained Debt is secured by a charge on certain of the Initial Properties. The Retained Debt will not be assumed by the Partnership and will remain as indebtedness of Melcor. In respect of the Retained Debt, Melcor will hold Class C LP Units of the Partnership on which it will receive priority distributions. Melcor will remain responsible for interest and principal payments on the Retained Debt. Partnership distributions on the Class C LP Units held by Melcor will, if paid, be in amounts expected to be sufficient to make such payments. The Partnership will agree to provide Melcor’s creditors with a guarantee in respect of the Retained Debt to ensure the lenders are not prejudiced in their ability to collect from Melcor in the event that payments on the Class C LP Units (in respect of the Retained Debt) are not made as expected. Melcor will indemnify the Partnership and the REIT for any losses suffered by the Partnership or the REIT in the event payments on the Retained Debt are not made as required, provided such losses are not attributable to any action or failure to act on the part of the Partnership. The acquisition of the Initial Properties from Melcor and the structure of the Class C LP Units provide Melcor with the opportunity to achieve a deferral of certain Canadian income tax consequences. See “The Partnership – Distributions – Distributions on Class C LP Units” and “Arrangements with Melcor – Indemnification”.

### **Revolving Credit Facility**

The REIT has signed a commitment letter with two Canadian chartered banks and, subject to the satisfaction of certain conditions precedent, such banks will provide a revolving credit facility (the “Revolving Credit Facility”) to the REIT on Closing. The Revolving Credit Facility will have a maximum principal amount of \$25 million (which, based on the current borrowing base, will have availability of approximately \$20.8 million), bearing interest at a rate equal to the bank’s prime rate plus 125 basis points or Bankers’ Acceptances plus 225 basis points, with an initial term of 24 months, and will be used by the REIT for working capital purposes and future acquisitions. Based on the financial forecast, no amounts are expected to be drawn on the Revolving Credit Facility on Closing.

## Post-Closing Structure

The following chart sets out the simplified organizational structure of the REIT immediately following Closing (all figures approximate):



### Notes:

1. The ● Class B LP Units (accompanied by an equivalent number of Special Voting Units) represent an approximate ● % effective interest in the REIT on a fully diluted basis (an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). Pursuant to the Exchange Agreement, the Class B LP Units are exchangeable on a one-for-one basis into Units.
2. All of the Initial Properties will be 100% owned by the Partnership, except for Capilano Centre, Chestermere Station and Watergrove, which will be 50% owned.
3. The Class B LP Units and the Class C LP Units will be held indirectly by Melcor through an affiliate.

## THE OFFERING

- Offering:** ● Units. See “Plan of Distribution”.
- Amount:** \$ ●
- Price:** \$10.00 per Unit.
- Over-Allotment Option:** Melcor has granted to the Underwriters an Over-Allotment Option to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30-day period following Closing and entitles the Underwriters to purchase from Melcor up to an aggregate of ● additional Units at the Offering price hereunder (being approximately 10% of the aggregate number of Units offered under this prospectus). Melcor will pay the Underwriters’ fee in respect of the Units sold under this prospectus by Melcor if the Over-Allotment Option is exercised. If the Over-Allotment Option is exercised in full, the total price to the public will be \$ ● , the Underwriters’ fee will be \$ ● , the net proceeds to the REIT will be \$ ● and the net proceeds to Melcor will be \$ ● .
- Use of Proceeds:** The net proceeds of the Offering will be approximately \$ ● , after deducting the REIT’s estimated expenses of the Offering and the aggregate Underwriters’ fee. Subject to the following adjustments, the REIT will use such net proceeds to indirectly acquire its interest in the Initial Properties, through its ● % interest in the Partnership.
- The purchase price otherwise payable by the REIT for the Initial Properties will be reduced, subject to certain adjustments, by approximately \$8.1 million and, on Closing, the REIT will retain such amount to fund the Interest Rate Subsidy, the Capital Expenditure Subsidy, the Tenant Inducement and Lease Costs Subsidy and the Melton Building Expenditure Subsidy. In addition, the purchase price otherwise payable by the REIT for the Initial Properties will be adjusted (positively or negatively) on Closing based on the actual working capital position at Closing. Based on the unaudited pro forma consolidated financial statements of the REIT as at December 31, 2012, the adjustment would result in a reduction of approximately \$3.1 million in the purchase price payable for the Initial Properties. The amount of any reduction in the purchase price will be used to fund the REIT’s working capital.
- If the Over-Allotment Option is exercised, the REIT will not receive any proceeds from the sale of Units by Melcor and Melcor will pay the Underwriters’ fee in respect of Units sold under this prospectus by Melcor.
- See “Acquisition of Initial Properties”, “Arrangements with Melcor” and “Use of Proceeds”.
- Unit Attributes:** The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Voting Units. Each Unit will represent a holder’s proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions by the REIT, whether of net income, net realized capital gains of the REIT or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. Special Voting Units have no economic entitlement in the REIT or in the distributions or assets of the REIT but entitle the holder to one vote per Special Voting Unit at any meeting of the Unitholders. Special Voting Units may only be issued in connection with or in relation to securities exchangeable into Units,

including Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of such securities. Special Voting Units will not be transferable separately from the exchangeable securities to which they are attached and will be automatically transferred upon the transfer of such exchangeable securities. See “Declaration of Trust”.

**Retained Interest:**

On Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). Each Class B LP Unit will be exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments), will be accompanied by one Special Voting Unit of the REIT (which provides for the same voting rights in the REIT as a Unit), and will receive distributions of cash from the Partnership equal to the distributions that the holder of such Class B LP Unit would have received if it held a Unit instead of a Class B LP Unit. See “Distribution Policy”. The transfer of Class B LP Units is subject to a number of restrictions. See “The Partnership – Transfer of LP Units”. In addition, Melcor will hold all of the outstanding Class C LP Units of the Partnership. The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that will entitle Melcor to distributions, in priority to distributions to holders of the Class A GP Units, Class A LP Units and Class B LP Units in an amount, if paid, expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt. See “Retained Interest” and “The Partnership – Partnership Units”.

In addition, Melcor has agreed with the Underwriters not to directly or indirectly, offer, sell or otherwise dispose of, or agree to, or announce, any such offer, sale or disposition of any Class B LP Units (or Units into which the Class B LP Units are exchangeable) acquired by Melcor pursuant to the acquisition of the Initial Properties by the REIT for a period of 18 months following Closing, except pursuant to the Over-Allotment Option. See “Plan of Distribution”.

In addition, the Declaration of Trust will grant Melcor the right to nominate certain Trustees of the REIT based on Melcor’s direct and indirect ownership interest in the REIT. On Closing, Melcor, pursuant to the Asset Management Agreement and the Property Management Agreement, will externally manage, administer and operate the REIT and the Initial Properties through its experienced real estate team. See “Post-Closing Structure”, “Arrangements with Melcor – Asset Management Agreement” and “Arrangements with Melcor – Property Management Agreement”.

**Distribution Policy:**

The REIT initially intends to make monthly cash distributions of \$ ● per Unit to holders of Units, which are estimated on an annual basis to be approximately 93% of AFFO of the REIT. The Partnership will make corresponding monthly cash distributions to holders of Class B LP Units. The initial cash distribution, which will be for the period from and including the date of Closing to ● , 2013, is expected to be paid on ● , 2013 to Unitholders of record on ● , 2013 and is estimated to be \$ ● per Unit (assuming the Closing occurs on ● , 2013). Unitholders of record as at the close of business on the last business day of the month preceding a Distribution Date will have an entitlement on and after that day to receive distributions in respect of that month on such Distribution Date. See “Non – IFRS Measures”, “Financial Forecast” and “Distribution Policy”.

**Risk Factors:**

An investment in the Units involves significant risks. Investors should carefully consider the risks described below and the other information contained elsewhere in this prospectus before making a decision to purchase Units: real property ownership and tenant risks, risks related to occupancy by tenants, fixed costs, liquidity of real property investments, competition, financing risks and interest rate exposure, degree of leverage, acquisitions and development, current global capital market conditions, environmental matters, significant ownership by Melcor, Retained Debt, acquisition of future properties from Melcor, potential conflicts of interest with Melcor, dependence on Melcor, dependence on the Partnership, geographic concentration, insufficient subsidies, risk of loss not covered by insurance, risk related to insurance renewals, undisclosed defects and obligations with respect to acquired properties, access to capital, indexation for inflation and duration of lease contracts, changes in government regulation, taxation matters, litigation risk, potential conflicts of interest with Trustees, internal controls, assumption of liabilities, joint owned property, closing risks, no prior public market for Units, volatile market price for Units, restrictions on redemptions, use of appraisals, historical financial information and pro forma financial information, financial forecast, return on investment not guaranteed, structural subordination of units, dilution, Unitholder liability and the nature of the investment. See “Risk Factors” and the other information included in this prospectus for a discussion of the risks that an investor should carefully consider before investing in Units.

## THE REIT

### Establishment and Objectives

Melcor Real Estate Investment Trust is a newly formed unincorporated, open-ended real estate investment trust established pursuant to the Declaration of Trust under, and governed by, the laws of the Province of Alberta. The principal, registered and head office of the REIT is located at 900, 10310 Jasper Avenue, Edmonton, Alberta, T5J 1Y8.

The REIT has been formed to own a portfolio of income producing properties, comprised primarily of retail, office and industrial properties. The objectives of the REIT are to: (i) generate stable and growing cash distributions on a tax-efficient basis; (ii) enhance the value of the REIT's assets and maximize long-term Unit value through active asset and property management; and (iii) expand the asset base of the REIT and increase AFFO per Unit primarily through acquisitions and improvement of its properties, including the Initial Properties, through targeted and strategically deployed capital expenditures. See "Assets of the REIT – Capital Expenditures" and "Arrangements with Melcor – Capital Expenditure Subsidy".

Concurrent with the Closing, the REIT will indirectly acquire from Melcor, through the Partnership, interests in a portfolio of income-producing properties, all of which but one are retail, office and industrial properties, currently owned, or co-owned, and located in the Edmonton, Alberta region, the Calgary, Alberta region, Lethbridge, Alberta, Regina, Saskatchewan and Kelowna, British Columbia. See "Assets of the REIT – Description of Initial Properties".

On Closing, Melcor, pursuant to the Asset Management Agreement and the Property Management Agreement, will externally manage, administer and operate the REIT and the Initial Properties through its experienced real estate team. See "Post-Closing Structure", "Arrangements with Melcor – Asset Management Agreement" and "Arrangements with Melcor – Property Management Agreement".

The REIT's growth strategy will initially be focused primarily on opportunities to acquire additional retail, office and industrial properties that satisfy the REIT's investment criteria, as well as to generate greater cash flow from its properties. The REIT will seek to leverage its relationship with Melcor to access acquisition opportunities that satisfy the REIT's investment criteria. Melcor's current intention is to offer to sell to the REIT additional investment properties that it owns and/or has under development, including some or all of the Retained Commercial Properties and Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions. See "The REIT – Growth Strategies" and "Arrangements with Melcor – Development and Opportunities Agreement".

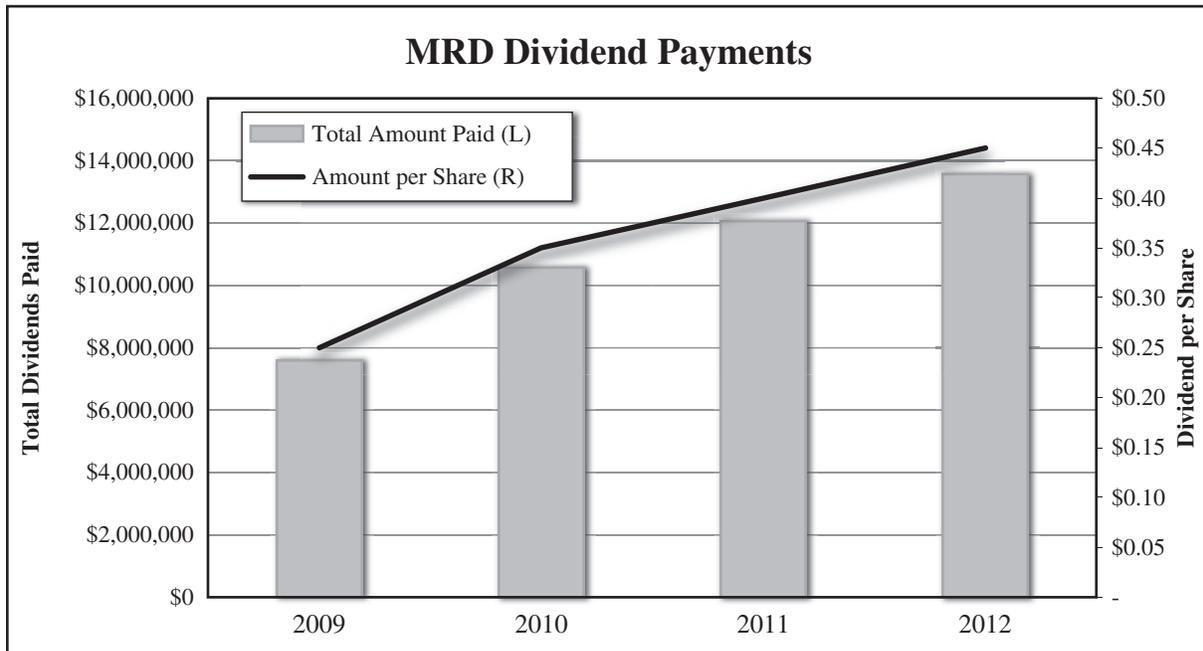
On Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). Each Class B LP Unit will be exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments), will be accompanied by one Special Voting Unit of the REIT (which provides for the same voting rights in the REIT as a Unit), and will receive distributions of cash from the Partnership equal to the distributions that the holder of such Class B LP Unit would have received if it held a Unit instead of a Class B LP Unit. See "Distribution Policy". The transfer of Class B LP Units is subject to a number of restrictions. See "The Partnership – Transfer of LP Units". In addition, Melcor will hold all of the outstanding Class C LP Units of the Partnership. The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that will entitle Melcor to distributions, in priority to distributions to holders of the Class A GP Units, Class A LP Units and Class B LP Units in an amount, if paid, expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt. See "Retained Interest" and "The Partnership – Partnership Units".

### Melcor and the REIT

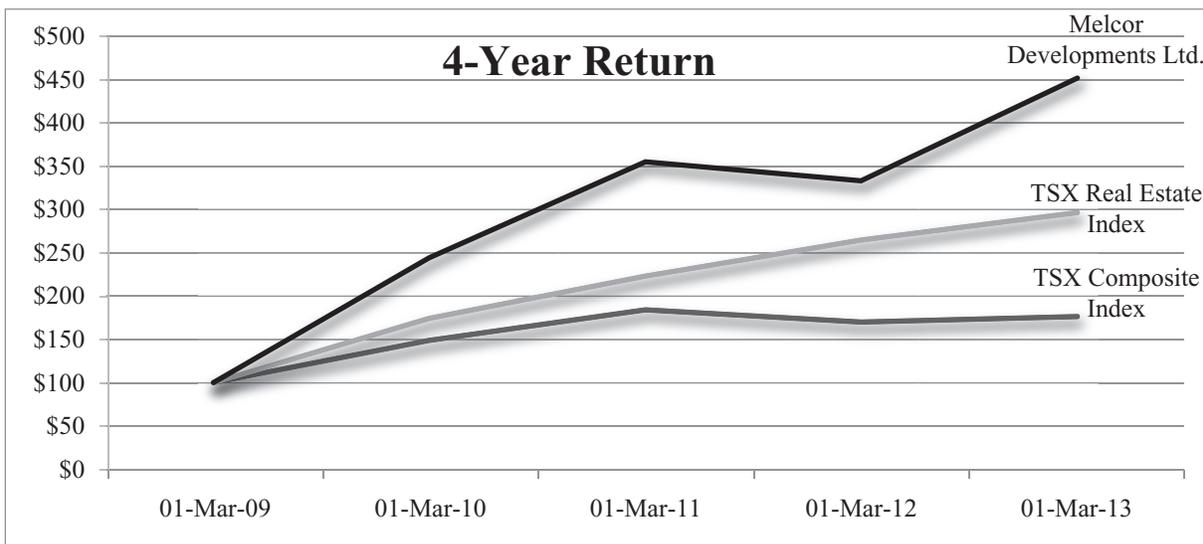
Melcor, celebrating its 90<sup>th</sup> anniversary, is a diversified real estate development and management company with a rich heritage in real estate. Through four integrated operating divisions, Melcor manages the full life cycle of real estate development: from acquiring raw land, to community planning, to construction and development, to managing leasable office, retail, industrial and residential sites. Melcor develops and manages retail commercial centers, office buildings, business and industrial parks, mixed-use residential communities and golf courses located in Western Canada and the United States. Melcor's headquarters are in Edmonton, Alberta, and it has regional offices throughout Alberta and

British Columbia. Melcor’s common shares are listed and posted for trading on the Toronto Stock Exchange (TSX: MRD). As at March 1, 2013, Melcor had a market capitalization of approximately \$565 million. See “The REIT – Melcor and the REIT”.

The following graph shows, for the periods indicated, the dividends paid on an annual basis by Melcor.



The following graph compares total shareholder return for \$100 invested in Melcor’s common shares at March 1, 2009 (assuming all dividends are reinvested) against the total return of the S&P TSX Composite Index and the TSX Real Estate Index. For the four year period ended March 1, 2013 shareholders of Melcor achieved a 46% compound annual return.



*Melcor’s Business Divisions*

The principal segment of Melcor’s business, the community development division, involves the acquisition, planning, development and marketing of urban communities. The majority of residential lots and parcels are sold to homebuilders that purchase sites through agreements for sale. The community development division also develops large-scale commercial and industrial centers.

Melcor's property development division acquires prime commercial sites from the community development division to develop and lease high quality retail, office and industrial revenue-producing properties that deliver asset appreciation gains and/or stable long-term returns. Once completed, these assets are transferred to the investment property division where they are held and managed. Since 2002, the property development division has developed and leased over 1.6 million square feet of office and retail space. Melcor developed six of the Initial Properties, representing 26% of the GLA of the Initial Properties, and substantially re-developed eight of the Initial Properties, representing an additional 25% of the GLA of the Initial Properties.

Melcor's investment property division owns and manages a portfolio of high-quality office, retail, industrial and residential properties, which are held as long-term investments. The investment property division is responsible for managing these revenue generating properties, representing over three million square feet of rentable space, located across Western Canada and the Southern United States.

Melcor's recreational property division owns and manages three 18-hole championship golf courses in Alberta and British Columbia, and has a 50% interest in an additional championship golf course in Alberta.

### *Background*

Melcor decided to form and transfer its interests in the Initial Properties, representing a vast majority of its investment properties, to the REIT in order to access alternate sources of capital and pursue strategic growth opportunities for its remaining business segments, while retaining a majority indirect ownership interest in the Initial Properties.

### *Retained Commercial Properties and Properties Currently Under Development*

Following Closing, Melcor's remaining commercial investment property portfolio will consist of (collectively, the "Retained Commercial Properties") interests in nine income-producing properties located in Western Canada consisting of: (i) three parking lots and one parkade (which have been identified by Melcor as future potential redevelopment sites); (ii) one retail property (which has been identified by Melcor as a future potential redevelopment site); (iii) one joint retail/office property (which is currently under redevelopment); and (iv) three other commercial properties (including one in which Melcor owns a 33% interest).

In addition, Melcor has eight sites (the "Properties Currently Under Development") in various stages of development (including additional phases of Leduc Common, Chestermere Station and Kingsview Market) with an anticipated aggregate GLA of approximately 636,000 square feet, which once completed and substantially let, management expects will satisfy the REIT's investment guidelines as set forth in the Declaration of Trust. See "Investment Guidelines and Operating Policies". Melcor's current intention is to offer to sell to the REIT additional investment properties that it owns and/or has under development, including some or all of the Retained Commercial Properties and Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions. See "The REIT – Growth Strategies" and "Arrangements with Melcor – Development and Opportunities Agreement".

The following table highlights certain information with respect to the Properties Currently Under Development as at December 31, 2012.

<u>Properties Currently Under Development</u>	<u>Location</u>	<u>Project Description</u>	<u>Anticipated GLA (sq. ft.)</u>	<u>Stage of Development</u>
Leduc Common Phase Four	Edmonton Region Queen Elizabeth II Highway and 50 Avenue Leduc	Consists of a 66,290 sq. ft. multi-tenant CRU and 5,500 sq. ft. pad site	71,790	Phase four is 53% leased, with Sportchek and Winners as tenants
Chestermere Station Phase Five <sup>(1)</sup>	Highway 1A and Windermere Boulevard Chestermere	Consists of 46,000 sq. ft. two-storey professional building which includes an underground parkade	46,000	Phase five is in the planning and pre-leasing stage
Chestermere Station Phase Six <sup>(1)</sup>	Highway 1A and Windermere Boulevard Chestermere	Consists of three CRUs, two banks and a 7,000 sq. ft. pad site	43,204	Phase six construction has commenced on four buildings, with completed leases with tenants including Canadian Imperial Bank of Commerce and Tire Craft
Kingsview Market Phase Two	Yankee Valley Road and Kingsview Boulevard Airdrie	Consists of the addition of five buildings on 3.34 acres	30,036	Phase two construction has commenced on three buildings, with completed leases with Jiffy Lube, a restaurant and an auto-parts store
Kingsview Market Phase Three	Yankee Valley Road and Kingsview Boulevard Airdrie	Consists of a 11,540 sq. ft. multi-tenant CRU	11,540	Phase three construction is substantially complete and is 71% pre-leased, with tenants including Starbucks and Subway
District at North Deerfoot Phase One	Highway 2 and Country Hills Boulevard NE Calgary	Consists of two multi-tenant CRUs and a 1,660 sq. ft. pad site	20,120	Phase one is in the planning and pre-leasing stage. Site servicing has been completed
Village at Blackmud Creek Phase One	Calgary Trail (Highway 2) and Ellerslie Road Edmonton	Consists of a 48,000 sq. ft. three-storey office building and an 8,600 sq. ft. multi-tenant CRU	56,600	Construction has commenced on the office building, with completed leases for 30,100 sq. ft.
West Henday Promenade Phase One	199 Street and 87 Avenue Edmonton	Consists of two banks, a pad site and a multi-tenant CRU	46,044 <sup>(2)</sup>	Construction has commenced, with completed leases with the Royal Bank of Canada and Canadian Imperial Bank of Commerce
West Henday Promenade Phase Two	199 Street and 87 Avenue Edmonton	Consists of three multi-tenant CRUs	34,317	Construction has commenced
McKenzie Industrial Phase One	McKenzie Road & 40 Avenue Red Deer	Consists of one multi-bay industrial building	66,300	Construction is complete, with completed leases for 12,000 sq. ft.
Telford Industrial Phase One	65 Avenue (East of 43 Street) Edmonton	Consists of two industrial buildings	210,000	Construction has commenced, with completed leases for 90,000 sq. ft.
<b>Total</b>			<u><u>635,951</u></u>	

**Notes:**

1. Melcor owns a 50% interest in Chestermere Station.
2. Includes a 29,345 square foot land lease.

The following table summarizes Melcor's future property development sites that include approximately 565 acres of developable land. Management expects that the initial parcels of such developable land will yield approximately 3.8 million square feet of GLA upon completion, which is anticipated to happen over the next five to ten years.

<u>Development Site</u>	<u>Location</u>	<u>Project Description</u>
Shops at Jagare Ridge	141 Street and 28 Avenue Edmonton	A 12-acre regional shopping centre
The District at North Deerfoot <sup>(1)</sup>	QEH Highway and Country Hills Boulevard S.E. Calgary	A 115-acre regional business/ industrial park <sup>(2)</sup>
Greenwich	Highway 2 and 83 Street N.W. Calgary	A 16-acre regional shopping centre and office park
West Calgary Marketplace	Highway 1 and Old Bank Coach Road Calgary	An 80-acre regional power centre
Keystone Common	Stoney Trail and 11 Street N.E. Calgary	An 80-acre regional power centre
The Shoppes at Canyons	University Drive and Chinook Trail West Lethbridge	A 12-acre regional shopping centre
West Pointe Marketplace	Highway 3 and University Drive West Lethbridge	An 85-acre regional power centre
McKenzie Industrial <sup>(1)</sup>	McKenzie Road & 40 Avenue Red Deer	An 85-acre industrial park <sup>(2)</sup>
Telford Industrial <sup>(1)</sup>	65 Avenue (East of 43 Street) Edmonton	An 80-acre industrial park <sup>(2)</sup>

**Notes:**

1. Phases in addition to those included in Properties Currently Under Development.
2. Total acreage includes Phases included in Properties Currently Under Development.

## Strengths and Investment Highlights of the REIT and the Initial Properties

Management believes that the following describes the key strengths and investment highlights of the REIT and the Initial Properties:

- *Attractive Yield.* The REIT intends to pay stable and growing monthly cash distributions, initially expected to provide Unitholders with an annual yield of approximately ● % based on an AFFO payout ratio of approximately 93%. See “Non-IFRS Measures”, “Financial Forecast” and “Distribution Policy”.
- *Experienced Management.* The REIT will be externally managed, administered and operated by an experienced team of real estate professionals from Melcor, who have diverse backgrounds in the acquisition, divestiture, development, financing and operation of commercial income producing real estate. Melcor has extensive experience with the Initial Properties, having owned and managed such properties for, on average, 12 years as at December 31, 2012. Further, 26% of the GLA of the Initial Properties that are commercial in nature were developed by Melcor and an additional 25% of the GLA of the Initial Properties that are commercial in nature were substantially re-developed by Melcor. See “The REIT – Melcor and the REIT”.
- *Relationship with Melcor and Alignment of Interests.* The REIT anticipates that its continuing relationship with Melcor will provide opportunities to acquire additional investment properties. Melcor’s current intention is to offer to sell to the REIT additional investment properties that it owns, has under development, and/or develops in the future, including some or all of the Retained Commercial Properties and the Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions. In order to formalize this intention, Melcor will grant the REIT: (i) the Right of First Offer providing the right to acquire, Melcor’s interest in investment properties it owns after Closing (whether forming part of the Retained Commercial Properties, or acquired or developed by Melcor after Closing, including the Refused Properties, but excluding an investment property that is then subject to the Development Property Option or the Mezzanine Financing Option) prior to the disposition of any such interest to third parties; (ii) the Development Property Option providing rights to acquire, after Closing, Melcor’s interest in certain Development Properties; and (iii) the Mezzanine Financing Option providing the right to acquire, after Closing, at a discount to the appraised value, certain Development Properties for which the REIT has provided mezzanine financing to Melcor for the development of such assets (which financing may be provide by the REIT in its sole discretion). Melcor will also grant the REIT the Joint Venture Option providing the opportunity to enter into joint ventures with Melcor, after Closing, with respect to Development Properties in certain circumstances. Additionally, Melcor’s interests will be well aligned with holders of Units as, on Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full) and it is Melcor’s current intention to continue to hold a significant effective interest in the REIT for the foreseeable future. See “The REIT – Growth Strategies”, “Arrangements with Melcor – Development and Opportunities Agreement” and “Retained Interest”.
- *Exposure to High Growth Western Canadian Markets.* The Initial Properties have a strong focus on high growth markets in Western Canada, with 25 properties in Alberta and Saskatchewan, comprising 94% of the GLA and 97% of forecast NOI of the Initial Properties. The GDP growth rates in Alberta and Saskatchewan in 2013 are expected to be 3.0% and 3.4%, respectively, and remain well above the national average of 2.4%. Alberta GDP growth and Saskatchewan GDP growth are expected to advance at an annual rate of 3.1% and 2.6%, respectively, through the 2013-2016 forecast period. See “Commercial Real Estate Market in Western Canada”, “Non-IFRS Measures” and “Financial Forecast”.
- *Established and Diversified Portfolio.* The Initial Properties represent an established and diversified portfolio and include: (i) retail properties representing 31% of the portfolio’s GLA; (ii) office properties representing 65% of the portfolio’s GLA; and (iii) industrial properties representing 4% of the portfolio’s GLA. The portfolio is diversified by property type and geographically across Western Canada, with significant property clusters in the Edmonton and Calgary regions. The Initial Properties have a well-diversified tenant profile with approximately 340 tenants, reflecting an attractive mix of national, regional and local tenants, as well as a diversified mix of tenants by industry. Six of the REIT’s top ten tenants, representing 17.1% of total minimum rent have been assigned investment grade ratings by one or more rating agencies. See “Assets of the REIT – Initial Properties – Tenant Diversification”.

- *Recent Capital Spending.* During the past five years, Melcor has invested \$17.6 million in maintenance, sustaining and value enhancing capital expenditures at the Initial Properties. These improvements were implemented to make the Initial Properties more appealing to prospective tenants. Following Closing, the REIT intends to invest further in the Initial Properties through targeted and strategically deployed capital expenditures. Management believes that capital expenditures have served to maintain and improve the operating performance of the Initial Properties and have also enhanced their value by allowing Melcor to charge higher rents. A portion of the net proceeds of the Offering will be used by the REIT for further capital expenditures. See “Assets of the REIT – Capital Expenditures” and “Arrangements with Melcor – Capital Expenditure Subsidy”.
- *Redevelopment Capabilities.* Management has redevelopment expertise with the ability to undertake property expansion and redevelopment opportunities, where appropriate in the future, in compliance with the investment guidelines and operating policies of the REIT. Several prominent examples of substantial redevelopment by Melcor include Capilano Centre, Richter Street Building and Kensington Road Building. See “Investment Guidelines and Operating Policies”.

## Growth Strategies

The REIT’s growth strategy will initially be focused primarily on opportunities to acquire additional retail, office and industrial properties that satisfy the REIT’s investment criteria, as well as to generate greater cash flow from its properties. The REIT will seek to leverage its relationship with Melcor to access acquisition opportunities that satisfy the REIT’s investment guidelines. Melcor’s current intention is to offer to sell to the REIT additional investment properties that it owns, has under development, and/or develops in the future, including some or all of the Retained Commercial Properties and the Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions. See “Arrangements with Melcor – Development and Opportunities Agreement”.

### *External Growth*

The REIT’s external growth strategy will include the following:

- *Opportunity to Benefit from Melcor’s Investment Property Development Pipeline.* The REIT anticipates that it will benefit from potential future acquisition opportunities that may arise from Melcor’s commercial development activities. See “Arrangements with Melcor – Development and Opportunities Agreement”. Examples of Melcor’s previous development projects include Leduc Common, Miller Crossing, Westgrove Common, Chestermere Station, Kingsview Market and Crowfoot Business Centre. In addition, Melcor currently has eight sites in various stages of development with an anticipated aggregate GLA of approximately 636,000 square feet and an additional 565 acres of developable land that it plans to develop for commercial use in the future. Management expects that the initial parcels of such developable land will yield approximately 3.8 million square feet of GLA upon completion, which is anticipated to happen over the next five to ten years. See “The REIT – Melcor and the REIT – Retained Commercial Properties and Properties Currently Under Development”.
- *Acquiring Stable Income-Producing Properties that are Accretive to the REIT’s AFFO per Unit.* The REIT will benefit from the experience and expertise of management and its development and leasing knowledge capabilities to select properties for accretive acquisitions. The REIT will seek to identify potential property acquisitions using investment criteria that focus on the quality of the tenants, market demographics, lease terms, opportunities for expansion, security of cash flows, potential for capital appreciation and potential for increasing value through more efficient management of the assets being acquired, including through expansion and repositioning.
  - *Expanding Deeper into Existing Geographic Markets Where the REIT Already has a Significant Presence.* The Initial Properties have clusters of concentration within several key geographic markets, including the Edmonton and Calgary regions, as well as Kelowna and Regina. The REIT is considering and will continue to consider expansion deeper into these markets where the REIT can best exploit its existing competitive advantages and market knowledge.
  - *Expanding into New Adjacent Geographic Markets Where the REIT Can Exploit its Competitive Advantages.* The REIT is considering expansion into new geographic markets within Canada, adjacent

to the geographic markets where the REIT already has a significant presence, where it can best exploit its existing competitive advantages.

- *Redevelopment and Expansion.* Management has redevelopment expertise with the ability to undertake property expansion and redevelopment opportunities, where appropriate in the future, in compliance with the investment guidelines and operating policies of the REIT. See “Investment Guidelines and Operating Policies”.

#### *Internal Growth*

The REIT’s internal growth strategy will include the following:

- *Maximizing Occupancy.* With an average occupancy rate, weighted by square feet, of 91% as at December 31, 2012, management believes that there is room to increase occupancy in the portfolio over time leading to increased financial performance of the portfolio.
- *Maximizing Tenant Retention.* Renewal of existing tenant leases, as opposed to tenant replacement, often provides the best opportunity for increasing operating results while minimizing marketing, leasing and tenant improvement costs and avoiding interruptions in rental income from periods of vacancy. The REIT plans to continue to nurture existing tenant relationships to retain its existing tenants and to meet their changing needs. For the year ended December 31, 2012, 77% (weighted by GLA) of the tenants of the Initial Properties whose leases would otherwise have expired during such year, renewed their leases.
- *Increasing Rental Income.* The REIT expects to achieve increased occupancy levels and higher renewal rents for available space through a proactive leasing program, ongoing preventive maintenance and efficient operations. Management believes that on-going preventive maintenance, combined with low operating expenses resulting from geographic synergies in the portfolio and efficient operations, will attract and maintain quality tenants and allow the REIT to increase rents over time and achieve higher occupancy and NOI for the Initial Properties.

## COMMERCIAL REAL ESTATE MARKET IN WESTERN CANADA

### Market Overview

The following economic information was assembled from government and industry sources considered by the REIT to be reliable.

### Alberta

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>
Real GDP % Change .....	(4.4%)	3.3%	5.2%	3.8%	3.0%	3.4%	3.0%	2.9%
Inflation (C.P.I.) – % Change .....	(0.1%)	1.0%	2.4%	1.3%	2.1%	2.2%	2.0%	2.1%
Population, in Thousands .....	3,660	3,713	3,770	3,855	3,930	4,001	4,072	4,142
% Change .....	2.3%	1.4%	1.5%	2.3%	2.0%	1.8%	1.8%	1.7%
Employment % Change .....	(1.3%)	-0.4%	3.8%	2.9%	2.6%	2.0%	1.9%	1.4%
Unemployment Rate .....	6.6%	6.5%	5.4%	4.7%	4.5%	4.3%	4.0%	3.9%
Housing Starts (thousands of units) .....	20.3	27.1	25.7	31.7	29.9	31.0	30.5	29.7
Retail Sales % Change .....	(8.3%)	6.0%	6.9%	9.4%	6.4%	5.0%	4.7%	4.0%

Source: Conference Board of Canada

In 2012, Alberta's GDP growth was forecast by the Conference Board of Canada to be 3.8% and substantially outperformed the national average of 2.2%, primarily due to strong demand for resources. A large inventory of oil and gas related projects being planned, some of which are already under construction, will contribute to growth in 2013; however, some uncertainties do remain, as some of the oil and gas related projects that were previously announced have since been delayed. While GDP growth should slow slightly to an annualized pace of 3.0% in 2013, this remains well above the projected national average of 2.4% in 2013. GDP is expected to advance at an average annual rate of 3.1% through the 2013-2016 forecast period.

Alberta remains one of the primary drivers in the Canadian economy. Employment expanded at an annual average rate of 2.9% in 2012, the strongest growth rate of any province, which contributed to Alberta having the lowest unemployment rate of any province.

The medium-term prospects for the energy industry are strong. Oil sands development will continue to be a significant source of growth for Alberta. Non-conventional production is projected to expand significantly over the next five years, resulting in a sizable increase in exports. While investment could be slowed somewhat in the near term, it will still total in hundreds of billions of dollars of capital expenditures over the next five years, creating a significant number of new jobs. The Conference Board of Canada forecasts that this spending will help push total bitumen production up to 2.6 million barrels per day by 2016, with 45% of that production expected to be upgraded into synthetic crude oil. There is also the proposed \$1.8 billion southeast light rail transit ("LRT") expansion in Edmonton and the ongoing \$1.4 billion expansion and restoration by the Calgary Airport Authority, which makes for a positive outlook in the province in coming years.

### Edmonton

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>
Real GDP % Change .....	(4.0%)	4.1%	6.3%	4.6%	3.5%	3.6%	3.5%	3.3%
Inflation (C.P.I.) – % Change .....	0.2%	1.0%	2.5%	1.3%	2.1%	2.2%	2.0%	2.1%
Population, in Thousands .....	1,157	1,175	1,196	1,221	1,243	1,264	1,285	1,307
% Change .....	2.6%	1.6%	1.8%	2.0%	1.9%	1.7%	1.7%	1.7%
Employment % Change .....	(0.8%)	-0.7%	5.9%	1.5%	1.1%	3.0%	2.2%	1.8%
Unemployment Rate .....	6.6%	6.6%	5.4%	4.8%	4.7%	4.5%	4.2%	4.0%
Housing Starts (thousands of units) .....	6.3	10.0	9.3	10.7	9.5	9.8	9.7	9.4
Retail Sales % Change .....	(7.3%)	6.4%	7.5%	9.8%	6.1%	5.1%	5.0%	4.6%

Source: Conference Board of Canada

Edmonton's economy has traditionally been highly dependent on the energy sector, but continues to diversify with increasing influence from knowledge-based sectors. This diversity has promoted economic growth in the region and attracted migrants. Strong migration has resulted in Edmonton having one of the fastest growing populations among Census Metropolitan Areas ("CMA") in Canada. Although Edmonton has broadened its economic base, it will continue to be investment in the energy sector that fuels growth in the region in 2013 and supports stronger economic activity through the medium term.

Employment in Edmonton has risen steadily over the past two years, growing at an annual average rate of 3.7%. The unemployment rate in Edmonton is expected to be 4.7% in 2013, and is expected to continue decreasing to 4.0% by 2016.

Significant non-residential spending is expected to be targeted towards infrastructure projects, including the proposed LRT expansion from downtown to Mill Woods, which is expected to cost \$1.8 billion and construction is expected to start in 2015. A report entitled "Inventory of Major Alberta Projects" released by the Alberta Government in June 2012 puts the value of major projects added in Edmonton from April to June 2012 alone at nearly \$3 billion.

### Calgary

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>
Real GDP % Change . . . . .	(4.0%)	3.0%	5.0%	3.8%	3.6%	3.8%	3.8%	3.5%
Inflation (C.P.I.) – % Change . . . . .	(0.1%)	0.8%	2.2%	1.2%	2.0%	2.2%	2.0%	2.1%
Population, in Thousands . . . . .	1,222	1,242	1,265	1,296	1,327	1,355	1,384	1,415
% Change . . . . .	2.8%	1.7%	1.8%	2.5%	2.4%	2.1%	2.1%	2.2%
Employment % Change . . . . .	(0.7%)	-1.2%	2.9%	4.1%	1.9%	2.6%	2.5%	2.1%
Unemployment Rate . . . . .	6.7%	6.8%	5.8%	4.8%	4.7%	4.4%	4.2%	4.1%
Housing Starts (thousands of units) . . . . .	6.3	9.3	9.3	13.6	11.2	11.8	11.8	11.6
Retail Sales % Change . . . . .	(8.0%)	5.7%	6.7%	9.2%	6.2%	5.3%	5.3%	4.8%

Source: Conference Board of Canada

Calgary continues to have an economy with prosperity closely linked to energy market conditions, as the Calgary CMA is home to many service-providing companies along the energy-sector value chain. Relatively buoyant, though volatile, oil prices and a more competitive royalty regime in the province are generally expected to continue to fuel economic growth in 2013. The strong energy market over the past several years has also fuelled nation-leading population growth, as Calgary is now the fifth largest CMA in Canada, according to the 2011 Census. Calgary is expected to continue to experience spinoff benefits from increased spending on some large oil and gas projects.

Employment is expected to expand at an annualized rate of 1.9% in 2013. The unemployment rate in Calgary is expected to reach 4.7% in 2013, and is expected to continue decreasing to 4.1% by 2016.

Non-residential construction activity in Calgary has been robust. Projects such as the \$1.2 billion Stonegate Landing development, the new \$1.8 billion West LRT line, the \$550 million Foothills Medical Centre upgrade, and the \$500 million Oxford Airport Business Park are expected to boost non-residential activity. As a result, output in the construction sector is forecast to rise by 3.9% per year from 2013 to 2016.

### Saskatchewan

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>
Real GDP% Change . . . . .	(4.0%)	4.2%	4.8%	2.4%	3.4%	3.5%	2.0%	1.4%
Inflation (C.P.I.) – % Change . . . . .	1.1%	1.3%	2.8%	1.9%	2.1%	2.2%	2.1%	2.1%
Population, in Thousands . . . . .	1,027	1,042	1,056	1,074	1,087	1,101	1,114	1,127
% Change . . . . .	1.5%	1.4%	1.3%	1.7%	1.3%	1.2%	1.2%	1.2%
Employment % Change . . . . .	1.3%	0.9%	0.3%	1.9%	2.3%	2.3%	1.3%	0.7%
Unemployment Rate . . . . .	4.8%	5.2%	5.0%	4.8%	4.5%	4.3%	4.3%	4.3%
Housing Starts (thousands of units) . . . . .	3.8	5.9	7.1	7.6	6.1	5.8	5.8	5.7
Retail Sales % Change . . . . .	(0.5%)	3.4%	7.5%	6.0%	4.8%	4.9%	3.9%	3.0%

Source: Conference Board of Canada

Saskatchewan is largely a natural resource-based economy with approximately 95% of all goods produced in the province depending directly on its basic resource.<sup>1</sup> Saskatchewan has been one of the fastest growing Canadian provinces over the past two years, recording an estimated average GDP growth of 4.5% according to the Conference Board of Canada. Strong GDP growth is expected to continue at an average pace of 2.6% from 2013-2016 as demand for Saskatchewan's commodities remains strong and investment projects worth nearly \$45 billion are near completion.<sup>2</sup> At 4.5%, the province's forecasted unemployment rate for 2013 is one of the lowest nationwide and is expected to continue to trend downwards into 2014.

### **Regina**

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>
Real GDP % Change .....	(0.5%)	5.6%	5.7%	3.7%	3.5%	3.9%	3.2%	2.4%
Inflation (C.P.I.) – % Change .....	1.7%	1.5%	2.9%	2.1%	2.1%	2.2%	2.1%	2.1%
Population, in Thousands .....	211	215	219	223	227	231	234	238
% Change .....	2.2%	2.0%	1.9%	1.9%	1.8%	1.6%	1.6%	1.5%
Employment % change .....	1.4%	3.1%	3.3%	2.4%	2.6%	2.9%	2.3%	1.5%
Unemployment Rate .....	4.4%	4.8%	4.7%	4.0%	4.2%	4.1%	4.0%	4.0%
Housing Starts (thousands of units) .....	0.9	1.4	1.7	2.8	1.3	1.3	1.3	1.4
Retail Sales % Change .....	3.5%	6.3%	8.3%	7.2%	5.0%	5.3%	5.0%	3.9%

Source: Conference Board of Canada

Regina has a diverse and strong economy focused on manufacturing, information technology, finance and insurance and agri-business.<sup>3</sup> The city's economy is forecasted to grow at an average annual rate of 3.2% from 2013 to 2016 as high spending levels, strong population growth and demand for the province's resources continue to buoy demand.<sup>4</sup> Its forecasted 2013 unemployment rate of 4.2% is the lowest for any Canadian city and is expected to continue trending steadily downwards through 2016.

### **British Columbia**

	<u>2009A</u>	<u>2010A</u>	<u>2011A</u>	<u>2012P</u>	<u>2013P</u>	<u>2014P</u>	<u>2015P</u>	<u>2016P</u>
Real GDP % Change .....	(2.2%)	3.2%	2.9%	2.3%	2.8%	3.3%	2.8%	2.5%
Inflation (C.P.I.) – % Change .....	0.0%	1.4%	2.3%	1.6%	1.5%	2.0%	2.1%	2.0%
Population, in Thousands .....	4,452	4,523	4,570	4,618	4,683	4,748	4,815	4,880
% Change .....	1.7%	1.6%	1.0%	1.1%	1.4%	1.4%	1.4%	1.4%
Employment % Change .....	(2.1%)	1.7%	0.8%	2.0%	2.2%	2.4%	1.6%	1.2%
Unemployment Rate .....	7.7%	7.6%	7.5%	6.9%	6.4%	5.7%	5.3%	5.1%
Housing Starts (thousands of units) .....	16.1	26.5	26.4	27.7	23.2	25.0	27.9	30.4
Retail Sales % Change .....	(4.4%)	5.3%	2.3%	5.0%	4.4%	4.5%	3.9%	3.3%

Source: Conference Board of Canada

British Columbia's economy continues to be focused on resource industries, with a developed forestry and mining sector and a growing natural gas industry. The province continues to benefit from its position as a major gateway to both Asia-Pacific and U.S. trade. Led by gains in mineral fuels output, the mining industry continues to be an area of strength in British Columbia. While natural gas prices remain low, prices for natural gas liquids are much stronger. This should provide the incentive for continued extraction from the shale gas plays in British Columbia that contain natural gas liquids and boost mineral fuels output. British Columbia's GDP is expected to grow 2.8% in 2013, with an average growth rate of 2.9% from 2013 to 2016. The forecasted unemployment rate of 6.4% in 2013 is expected to decrease to 5.1% by 2016.

<sup>1</sup> Source: Government of Saskatchewan, www.gov.sk.ca, "Economy".

<sup>2</sup> Source: Conference Board of Canada, "Provincial Outlook: Autumn 2012", October 29, 2012.

<sup>3</sup> Source: Altus Group Limited.

<sup>4</sup> Source: Altus Group Limited.

## Kelowna

The City of Kelowna is the largest community in the Central Okanagan, with a population of 121,846<sup>5</sup> as of 2011. Kelowna CMA is the fastest growing CMA in British Columbia and fourth fastest in Canada.<sup>6</sup> Diversification remains the Kelowna area's greatest economic strength with agriculture, forestry and tourism being important industries in the region. The Kelowna International Airport and University of British Columbia – Okanagan campus (“UBC Okanagan”) have emerged as key growth drivers.<sup>7</sup> UBC Okanagan has been a major economic driver since its creation in 2005, bringing to Kelowna direct and spin-off employment, significant capital expenditure, industry partnerships, research dollars, profile and demand for housing. Downtown Kelowna is also undergoing a \$14 million revitalization to enhance residents’ and visitors’ experiences in the area and generate greater business opportunities.

## ASSETS OF THE REIT

### Initial Properties

Pursuant to the Acquisition Agreement, concurrent with the Closing, the REIT will indirectly acquire from Melcor, through the Partnership, the Initial Properties which consists of interests in a portfolio of 27 income producing properties, comprised primarily of retail, office and industrial properties. See “Acquisition of Initial Properties”. The Initial Properties are located in the Edmonton, Alberta region, the Calgary, Alberta region, Lethbridge, Alberta, Regina, Saskatchewan and Kelowna, British Columbia, with approximately 1.57 million of owned square feet of GLA. The single residential property is a land lease community located in Calgary, Alberta.

#### Summary of Initial Properties

The following table highlights certain information about the Initial Properties. Unless otherwise indicated, the information in the table is presented as at December 31, 2012.

<u>Property</u>	<u>Year Built</u>	<u>GLA (sq. ft.)</u>	<u>Number of Tenants</u>	<u>Occupancy<sup>(1)</sup></u>
<b>Edmonton, Alberta Region</b>				
<b>Retail</b>				
Leduc Common .....	2003-2011	213,966	39	95%
Miller Crossing .....	2009-2011	27,448	6	78%
Corinthia Plaza .....	1974 & 2001	23,179	10	100%
Westgrove Common .....	2006-2011	21,810	6	89%
<b>Subtotal (Edmonton Region Retail) .....</b>		<b>286,403</b>	<b>61</b>	<b>93%</b>
<b>Office</b>				
100 Street Place .....	1970	44,295	15	91%
Birks Building .....	1929	35,539	19	65%
Capilano Centre <sup>(2)</sup> .....	1978	48,379 <sup>(3)</sup>	22	79%
Melton Building .....	1959	114,612	22	98%
Princeton Place .....	1971	59,081	15	85%
Royal Bank Building .....	1964	132,376	18	92%
Stanley Buildings .....	1968 & 1971	34,976	5	93%
Sterling Business Centre .....	1979	67,909	14	89%
Trail Business Centre .....	1980	77,295	13	78%
Westcor Building .....	1977	72,810	7	87%
Westgate Building .....	1984 & 2005	75,142	11	76%
<b>Subtotal (Edmonton Region Office) .....</b>		<b>762,415</b>	<b>161</b>	<b>87%</b>
<b>Industrial</b>				
TKE Building .....	1983	15,968	1	100%
<b>Subtotal (Edmonton Region Industrial) .....</b>		<b>15,968</b>	<b>1</b>	<b>100%</b>
<b>Subtotal (Edmonton Region total) .....</b>		<b>1,064,786</b>	<b>223</b>	<b>89%</b>

<sup>5</sup> Source: Central Okanagan Economic Development Commission, “2012 Economic Profile”.

<sup>6</sup> Source: Central Okanagan Economic Development Commission, “2012 Economic Profile”.

<sup>7</sup> Source: Central Okanagan Economic Development Commission, www.investkelowna.com, “Economic Sectors”.

<u>Property</u>	<u>Year Built</u>	<u>GLA (sq. ft.)</u>	<u>Number of Tenants</u>	<u>Occupancy<sup>(1)</sup></u>
<b>Calgary, Alberta Region</b>				
<b>Retail</b>				
Chestermere Station <sup>(4)</sup> .....	2005-2010	47,588 <sup>(5)</sup>	31	93%
Kingsview Market .....	2010	<u>36,003</u>	<u>11</u>	<u>100%</u>
<b>Subtotal (Calgary Region Retail) .....</b>		<b>83,591</b>	<b>42</b>	<b>96%</b>
<b>Office</b>				
Crowfoot Business Centre .....	2002	67,603	21	100%
Kensington Road Building .....	1979	<u>23,850</u>	<u>4</u>	<u>84%</u>
<b>Subtotal (Calgary Region Office) .....</b>		<b>91,453</b>	<b>25</b>	<b>96%</b>
<b>Land Lease Communities</b>				
Watergrove <sup>(6)</sup> .....	1995	<u>N/A</u>	<u>308<sup>(7)</sup></u>	<u>100%</u>
<b>Subtotal (Calgary Region total) .....</b>		<b>175,044<sup>(8)</sup></b>	<b>67<sup>(8)</sup></b>	<b>96%</b>
<b>Lethbridge, Alberta</b>				
<b>Industrial</b>				
Lethbridge Industrial Building .....	1972	<u>49,005</u>	<u>2</u>	<u>100%</u>
<b>Subtotal (Lethbridge) .....</b>		<b>49,005</b>	<b>2</b>	<b>100%</b>
<b>Regina, Saskatchewan</b>				
<b>Retail</b>				
Towers Mall .....	1964	<u>114,331</u>	<u>21</u>	<u>95%</u>
<b>Subtotal (Regina Retail) .....</b>		<b>114,331</b>	<b>21</b>	<b>95%</b>
<b>Office</b>				
Executive Terrace .....	1982	42,843	3	100%
Parliament Place .....	1977	<u>24,411</u>	<u>16</u>	<u>96%</u>
<b>Subtotal (Regina Office) .....</b>		<b>67,254</b>	<b>19</b>	<b>99%</b>
<b>Subtotal (Regina total) .....</b>		<b>181,585</b>	<b>40</b>	<b>96%</b>
<b>Kelowna, British Columbia</b>				
<b>Office</b>				
Kelowna Business Centre .....	1993	72,076	21	96%
Richter Street Building .....	1981	<u>28,978</u>	<u>9</u>	<u>81%</u>
<b>Subtotal (Kelowna total) .....</b>		<b>101,430</b>	<b>30</b>	<b>92%</b>
<b>Total of the Initial Properties .....</b>		<b>1,571,471</b>	<b>362<sup>(9)</sup></b>	<b>91%<sup>(8)</sup></b>

**Notes:**

- Occupancy rate as at December 31, 2012.
- Melcor currently owns, and upon Closing the REIT will own, a 50% interest in Capilano Centre.
- Represents owned GLA. Total GLA for Capilano Centre is 96,758 sq. ft.
- Melcor currently owns, and upon Closing the REIT will own, a 50% interest in Chestermere Station.
- Represents owned GLA. Total GLA for Chestermere Station is 95,174 sq. ft.
- Melcor currently owns, and upon Closing the REIT will own, a 50% interest in Watergrove.
- Land lease community, therefore represents total number of leased pad lots.
- Does not include Watergrove.
- Number of tenants calculated on a building-by-building basis. The number of tenants across all of the Initial Properties totaled 340 as at December 31, 2012.

### Property Type Diversification

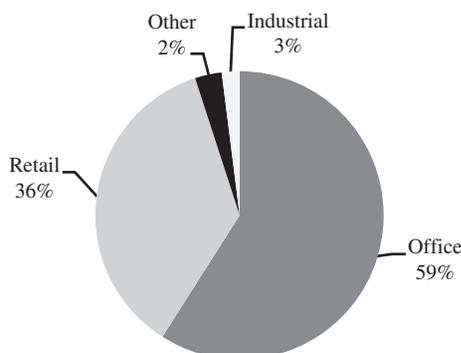
The following table and charts summarize the Initial Properties as at December 31, 2012.

Property Type	Number of Initial Properties	Occupancy <sup>(1)</sup>	GLA (sq. ft.)	% of GLA	Forecast NOI <sup>(2)</sup> (in thousands)	% of Forecast NOI
Retail	7	94%	484,325	31%	\$ 8,746	36%
Office	17	89%	1,022,176	65%	\$14,329	59%
Industrial	2	100%	64,973	4%	\$ 405	2%
Other <sup>(3)</sup>	1	100%	N/A <sup>(3)</sup>	N/A	\$ 865	3%
<b>TOTAL</b>	<b>27</b>	<b>91%</b>	<b>1,571,474</b>	<b>100%</b>	<b>\$24,345</b>	<b>100%</b>

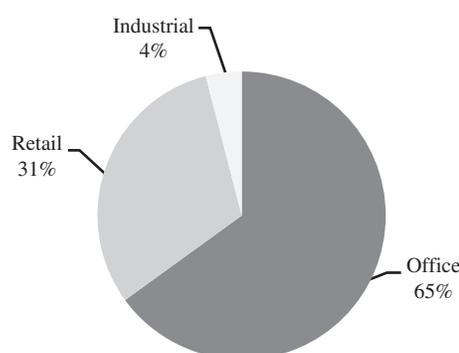
**Notes:**

- Occupancy rate at December 31, 2012.
- Forecasted NOI is for the twelve month period ended March 31, 2014. See “Non-IFRS Measures”, “Forward-Looking Statements” and “Financial Forecast”.
- Land lease community comprised of 308 pad lots.

**Forecast NOI for Initial Properties by Property Type<sup>(1)</sup>**



**GLA for Initial Properties by Property Type<sup>(2)</sup>**



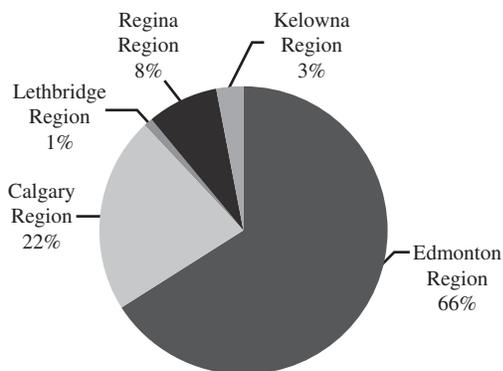
**Notes:**

- Based on forecasted NOI for the 12-month period ending on March 31, 2014. See “Non-IFRS Measures”, “Forward-looking Statements” and “Financial Forecast”.
- Does not include any GLA for Watergrove, a land lease community.

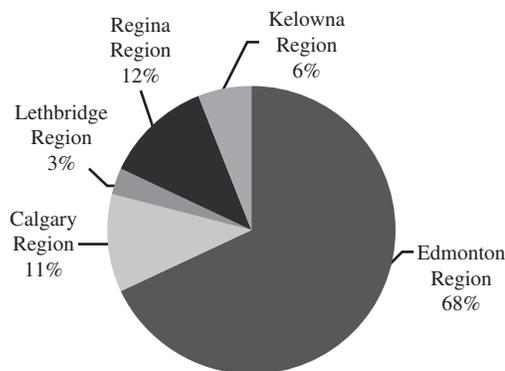
### Geographic Diversification

The following chart summarizes the Initial Properties by geographic region as at December 31, 2012.

**Forecast NOI for Initial Properties by Geography<sup>(1)</sup>**



**GLA for Initial Properties by Geography<sup>(2)</sup>**



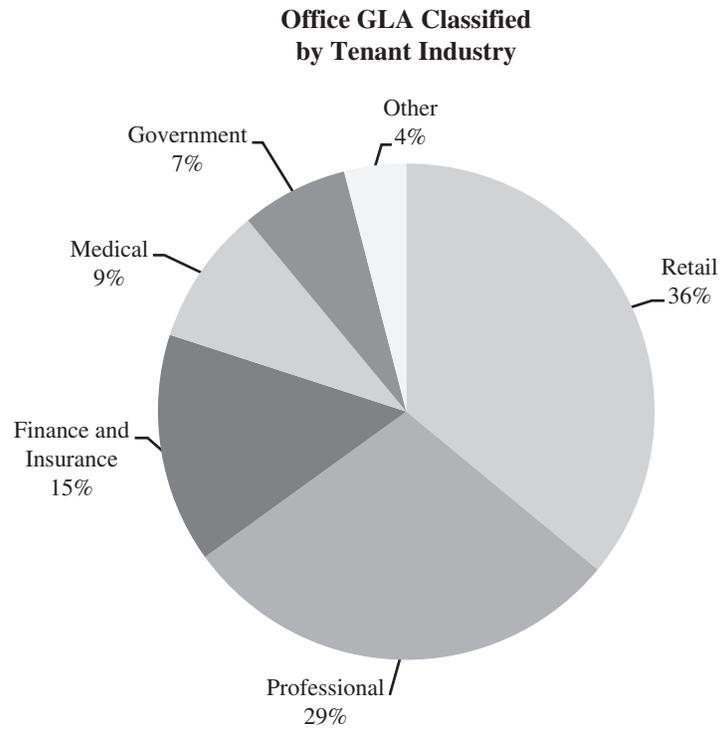
**Notes:**

- Based on forecasted NOI for the 12-month period ending on March 31, 2014. See “Non-IFRS Measures”, “Forward-looking Statements” and “Financial Forecast”.
- Does not include any GLA for Watergrove, a land lease community.

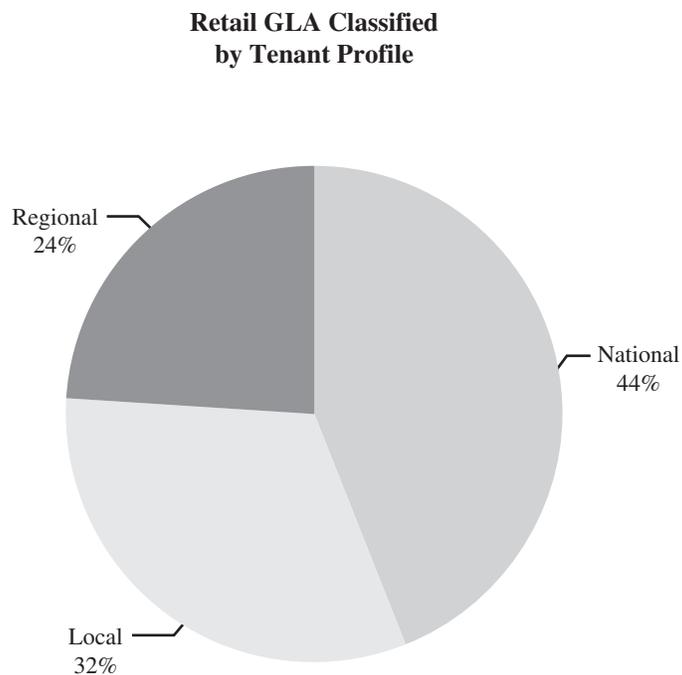
*Tenant Diversification*

The Initial Properties provide diversification over 340 tenants as at December 31, 2012.

The following chart summarizes the distribution of the tenants (based on GLA) within the office property type of the Initial Properties, by tenant industry as at December 31, 2012.



The following chart summarizes the distribution of the tenants (based on GLA) within the retail property type of the Initial Properties, by tenant profile as at December 31, 2012.



### Top Ten Tenants

The following table illustrates the ten largest tenants for the Initial Properties, as measured by their percentage contribution to the total minimum rent for the financial forecast period ended March 31, 2014 and corresponding areas leased by such tenants.

Rank	Top Ten Tenants (Operating Name)	% of Total Minimum Rent	Lease GLA (sq. ft.)	% of Total Owned GLA	Remaining Term (yrs) <sup>(1)</sup>	No. of Locations in Initial Properties	Credit Rating (S&P/Moody's/DBRS)
1	Royal Bank of Canada	7.4%	72,352	4.6%	5.3	4	AA-/Aa3/AA
2	Shoppers Drug Mart	3.0%	26,726	1.7%	12.3	2	BBB+/-/A low
3	Government of Alberta	2.9%	45,045	2.9%	3.4	2	AAA /Aaa/AAA
4	Rexall Drugs	1.5%	11,827	0.8%	11.8	1	—
5	TD Bank	1.5%	9,491	0.6%	6.0	2	AA-/Aa1/AA
6	RONA	1.3%	52,170	3.3%	13.3	1	BBB-/-/BBB Low
7	Melcor Developments	1.3%	23,579	1.5%	5.1	1	—
8	Peavey Industries	1.2%	24,264	1.5%	13.1	1	—
9	Canadian Western Bank	1.0%	7,000	0.4%	10.8	1	-/ -/A low
10	iQMetrix	1.0%	16,393	1.0%	3.0	1	—
	<b>Total/Average</b>	<b>22.1%</b>	<b>288,841</b>	<b>18.4%</b>	<b>8.0</b>		

**Notes:**

1. Average remaining term, as of December 31, 2012, weighted by square feet.

The following information relating to the ten largest tenants for the Initial Properties has been obtained from third party sources and publicly available information. Neither the REIT nor the Underwriters have independently verified any of such information.

#### Royal Bank of Canada

Royal Bank of Canada (“RBC”) is Canada’s largest bank by assets and market capitalization, and is among the largest banks in the world based on market capitalization. With corporate headquarters in Toronto, Canada, RBC employs approximately 80,000 full-time and part-time employees serving more than 15 million clients throughout Canada, the U.S. and 49 other countries. RBC offers services for personal and commercial banking, wealth management, insurance, corporate and investment banking and investor services on a global basis. By the end of 2012 RBC had assets totaling \$825.1 billion, revenues of \$29.8 billion, and generated net income of \$7.6 billion. RBC trades on the TSX and NYSE under the trading symbol “RY” with a market capitalization of approximately \$93.2 billion as at February 21, 2013. RBC occupies 74,731 square feet of GLA, which represents 4.5% of the REIT’s total owned GLA. Minimum rent payable by RBC represents 7.4% of the total minimum rent reflected in the financial forecast.

#### Shoppers Drug Mart

Shoppers Drug Mart Corporation (“Shoppers”) is the licensor of full-service retail drug stores operating under the name Shoppers Drug Mart (Pharmaprix in Québec) with a head office in Toronto, Canada. The company has a network of more than 1,240 stores owned and operated by its licensed Associate-owners. The company licenses or owns more than 55 medical clinic pharmacies and six luxury beauty destinations. As well, the company owns and operates 62 Shoppers Home Health Care stores, which are engaged in the sale and service of assisted-living devices, medical equipment, home-care products and durable mobility equipment to institutional and retail customers. Shoppers provides products and services including over-the-counter medications, health and beauty aids, cosmetics and fragrances, seasonal products and everyday household essentials. Shoppers had approximately \$10.8 billion of fiscal 2012 sales. Shoppers trades on the TSX under the trading symbol “SC” and had a market capitalization of approximately \$8.6 billion as at February 21, 2013. Shoppers Drug Mart occupies 35,177 square feet of GLA, which represents 2.1% of the REIT’s total owned GLA. Minimum rent payable by Shoppers Drug Mart represents 3.0% of the total minimum rent reflected in the financial forecast.

### *Government of Alberta*

The Government of Alberta is comprised of all operations, programs, and services delivered by the various government departments and ministries which are provided to the population of Alberta. Services provided include healthcare, education, community services, personal and family support, and other operations for the province. The 2012 budget revenue for the government was \$40.3 billion. The Government of Alberta occupies 45,045 square feet of GLA, which represents 2.7% of the REIT's total owned GLA. Minimum rent payable by the Government of Alberta represents 2.9% of the total minimum rent reflected in the financial forecast.

### *Rexall Drugs*

With a Corporate Home Office in Mississauga, Canada, Rexall Drugs, originally established in Canada in 1904, is a member of the Katz Group of Companies ("Katz"), a privately-held organization that is Canadian-owned and operated. Katz has more than 425 convenient Rexall and Rexall Pharma Plus locations across Central and Western Canada and more than 8,600 employees. Rexall offers pharmacy services, daily living products, beauty products, and health and wellness products. Rexall Drugs currently occupies 11,827 square feet of GLA, which represents 0.7% of the REIT's total owned GLA. Minimum rent payable by Rexall Drugs represents 1.5% of the total minimum rent reflected in the financial forecast.

### *TD Bank*

Headquartered in Toronto, Canada, with more than 85,000 employees in offices around the world (The Toronto-Dominion Bank and its subsidiaries are collectively known as TD Bank Group ("TD")), TD offers a full range of financial products and services to approximately 22 million customers worldwide through four key business lines: Canadian Personal and Commercial Banking, Wealth and Insurance, Wholesale Banking, and U.S. Personal and Commercial Banking. As of October 31, 2012, TD had \$811 billion in assets. TD also ranks among the world's leading online financial services firms, with more than 8.5 million online customers. TD trades on the TSX and NYSE under the trading symbol "TD" with a market capitalization of approximately \$77.4 billion as at February 21, 2013. TD occupies 11,668 square feet of GLA, which represents 0.7% of the REIT's total owned GLA. Minimum rent payable by TD represents 1.5% of the total minimum rent reflected in the financial forecast.

### *RONA*

Headquartered in Boucherville, Canada, RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. It operates a network of more than 800 corporate, franchise and affiliate stores of various sizes and formats and a network of 14 hardware and construction-materials distribution centres. RONA is also a leader in the specialized plumbing and HVAC market, primarily serving commercial and professional customers with a network of close to 60 sales outlets and four distribution centres across the country. With nearly 30,000 employees working under its family of banners in every region of Canada, the RONA store network generates consolidated sales of \$4.8 billion and over \$6 billion taking into account the total impact of the retail sales of franchise dealers, affiliates and other independent dealers who buy their supplies at RONA. RONA is focused on three complementary sectors of activity in the hardware, renovation and construction marketplace: distribution, retail and commercial and professional. RONA had 19% of the market share of the \$36 billion dollar Canadian market in 2011. RONA trades on the TSX under the trading symbol "RON" and had a market capitalization of approximately \$1.5 billion as at February 21, 2013. RONA occupies 52,170 square feet of GLA under a land lease structure, which represents 3.1% of the REIT's total owned GLA. Minimum rent payable by RONA represents 1.3% of the total minimum rent reflected in the financial forecast.

### *Melcor Developments Ltd.*

See "The REIT - Melcor and the REIT". Melcor occupies 21,678 square feet of GLA, which represents 1.1% of the REIT's total GLA. Minimum rent payable by Melcor represents 1.3% of the total minimum rent reflected in the financial forecast.

### *Peavey Industries*

Headquartered in Red Deer, Canada, Peavey Mart (corporately known as Peavey Industries Limited) employs 700 people and offers a range of products including basic hardware, tools, work wear, agricultural supplies, plumbing, heating & electrical, pet food and lawn & garden supplies. Peavey Mart occupies 24,264 square feet of GLA, which represents 1.5% of the REIT's total owned GLA. Minimum rent payable by Peavey Mart represents 1.2% of the total minimum rent reflected in the financial forecast.

### *Canadian Western Bank*

Canadian Western Bank is the largest publicly traded Canadian bank headquartered in Western Canada. Canadian Western Bank and its operating affiliates, which are together known as Canadian Western Bank Group ("CWB Group"), offer a full range of financial services such as banking, trust, insurance and wealth management through 41 banking branches, eight trust locations, two centralized insurance offices, a focused commercial equipment leasing centre and one wealth management location. It has combined balance sheet assets of approximately \$17 billion, assets under administration of more than \$7 billion and assets under management approaching \$1 billion. CWB Group employs more than 2,000 people working in over 50 different communities across Canada. Canadian Western Bank trades on the TSX under the trading symbol "CWB" and had a market capitalization of approximately \$2.5 billion as at February 21, 2013. CWB Group occupies 7,000 square feet of GLA, which represents 0.4% of the REIT's total owned GLA. Minimum rent payable by Canadian Western Bank represents 1.0% of the total minimum rent reflected in the financial forecast.

### *iQmetrix*

Headquartered in Vancouver, Canada, iQmetrix is a privately-held software-as-a-service (SaaS) company founded in 1999, with offices in Canada and the United States. iQmetrix employs over 200 people and is a leading provider of retail management software used by independent wireless retailers in the North American market. In 2010, iQmetrix ranked 14th on the Profit 100 list of Canada's Fastest Growing Companies and was ranked 24th among the 50 Best Small & Medium Employers in Canada for 2013 by Queen's University School of Business and AON Hewitt. iQmetrix occupies 16,393 square feet of GLA, which represents 1.0% of the REIT's total owned GLA. Minimum rent payable by iQmetrix represents 1.0% of the total minimum rent reflected in the financial forecast.

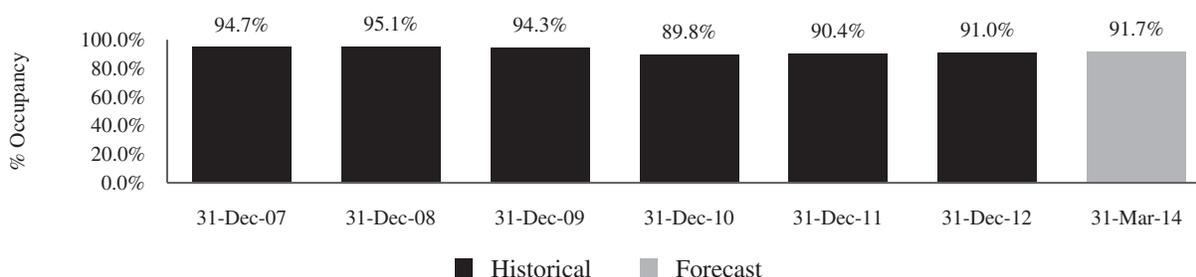
### *Lease Maturities*

As at December 31, 2012, the Initial Properties, which are commercial in nature, had an average occupancy rate, weighted by square feet, of 91% and the average remaining term of all leases, weighted by square feet, was approximately 4.7 years. The following table sets out as at such date the number of leases relating to the Initial Properties, which are commercial in nature, subject to lease maturities during the periods indicated (assuming that tenants do not exercise renewal options or termination rights), the renewal area, the average net rental rate at expiry for leases maturing during the periods indicated and the percentage of the total GLA of such Initial Properties represented by such maturities. Management has commenced discussions with many of the tenants whose leases expire in 2013 and given that a number of tenants have already renewed, management believes that the vast majority of such tenants will renew their leases on terms substantially similar to those currently in effect with the potential in some cases for rental rate increases reflecting market rates then in effect. References below to average net rent mean net rental rates for space before deductions for tenant inducements, leasing commissions and other leasing costs.

<u>Year of Maturity</u>	<u>Number of Leases</u>	<u>Renewal GLA (sq. ft.)</u>	<u>Percentage of Owned GLA</u>	<u>Average Net Rent Expiring Per Annum</u>
2013 .....	75	213,631	14%	\$16.70
2014 .....	80	279,509	18%	\$14.83
2015 .....	59	155,824	10%	\$16.14
2016 .....	41	132,055	8%	\$18.40
2017 .....	59	161,356	10%	\$19.00
Thereafter .....	110	487,429	31%	\$19.23
Vacant Space .....	—	142,055	9%	—
<b>Total: .....</b>	<b>424</b>	<b>1,571,474</b>	<b>100%</b>	<b>\$15.97</b>

### Historical Occupancy

The following graph shows the average occupancy, weighted by square feet, for such Initial Properties which are commercial in nature as at the dates indicated below:



#### Notes:

1. Average occupancy for the forecast period ending March 31, 2014 is estimated to be 90.4%.

### *In-Place vs. Market Rent*

Management believes the average in-place rent of the Initial Properties, which are commercial in nature, is lower than management's estimate of average market rent, which represents an opportunity to capture rent increases and corresponding NOI growth as leases are renewed. Management has based their estimate on current market rents on recent third party appraisals and their markets in which the Initial Properties are located.

### Capital Expenditures

During the past five years, Melcor has invested approximately \$17.6 million in maintenance sustaining and value enhancing capital expenditures at the Initial Properties. These improvements were implemented to make the Initial Properties more appealing to prospective tenants. Specifically, over such period:

- (a) approximately \$2.2 million (\$2.3 million including amounts contributed by co-owners) has been spent on common area upgrades;
- (b) approximately \$7.8 million (\$8.2 million including amounts contributed by co-owners) has been spent on building equipment enhancements; and
- (c) approximately \$7.6 million (\$8.8 million including amounts contributed by co-owners) has been spent on building facade upgrades and improvements.

Following Closing, the REIT intends to invest further in the Initial Properties through targeted and strategically deployed capital expenditures. Capital expenditures have served to maintain and improve the operating performance of the Initial Properties and have also enhanced their value by allowing Melcor to charge higher rents. The purchase price otherwise payable by the REIT for the Initial Properties will be reduced by approximately \$0.8 million and, on Closing, the REIT will retain such amount to subsidize capital expenditures on the Initial Properties. See "Arrangements with Melcor – Capital Expenditure Subsidy".

### Description of the Initial Properties

The following is a description of each of the Initial Properties.

#### Edmonton, Alberta Region – Retail

##### *Leduc Common, Queen Elizabeth II Highway & 50th Avenue Leduc, Alberta*

Leduc Common, a property developed by Melcor, is a multi-building open retail power centre containing 213,966 square feet of GLA which has, to date, been built out in three phases. The current phases of the property are situated on

a 28.88-acre site and have surface parking for 1,400 vehicles (6.1 stalls per 1,000 square feet). Phase one buildings were originally constructed in 2003 and later expanded until completed in 2011. Phase two consists of a land lease of 6.67 acres upon which the tenant, RONA, built a 52,170 square feet retail building in 2005. Phase three buildings began construction in 2007 and full build-out was completed in 2010. As at December 31, 2012, the property was 95% leased, and was occupied by 39 tenants and is shadow-anchored by Wal-Mart and Canadian Tire. The property is located in Leduc (a suburb of Edmonton) directly off of the Queen Elizabeth II Highway and is approximately ten kilometers from the Edmonton downtown core. The property offers exposure to high traffic volume, good accessibility and is conveniently located in proximity to several new residential areas.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
RONA .....	52,170	24.4%	Apr – 2026
Peavey Mart .....	24,264	11.4%	Jan – 2026
The Business Depot (Staples) .....	14,688	6.9%	Aug – 2020

Melcor is currently in the process of developing Phase Four of Leduc Common. See “The REIT and Melcor – Retained Commercial Properties and Properties Currently Under Development”. Such property will be subject to the Development Property Option.

***Miller Crossing, 144th Avenue (Miller Boulevard) & Manning Drive Edmonton, Alberta***

Miller Crossing, a property developed by Melcor, is a retail community strip centre containing 27,448 square feet of GLA. The property is situated on a 3.31-acre site and has surface parking for 113 vehicles (4.11 stalls per 1,000 square feet). The original building was constructed in 2009 and two further buildings were recently constructed. As at December 31, 2012, the property was 78% leased, and was occupied by six tenants. The property is located in the Miller neighbourhood in Northeast Edmonton and is easily accessed by public transit and all major roads in the area. The property is surrounded by a concentration of retail developments and strong and growing residential communities.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Rexall Pharmacy .....	11,827	43.1%	Oct –2024
Sunny Leong Professional Corporation .....	2,686	9.8%	Apr –2021
Miller Crossing Dental .....	2,629	9.6%	Oct –2021

***Corinthia Centre, 4302-50th Street Leduc, Alberta***

The Corinthia Plaza Shopping Centre is a retail community strip centre containing 23,179 square feet of GLA. The property is situated on a 2.44-acre site and has surface parking for 119 vehicles (5.8 stalls per 1,000 square feet of GLA). The original building was constructed in 1974, but was completely renovated in 2001, with two additional buildings constructed in 2001. As at December 31, 2012, the property was fully leased, and was occupied by ten tenants. The property is located in a strong retail location just south of the downtown core of Leduc, offering high exposure, good accessibility and close proximity to existing retail and residential neighbourhoods.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Agapeland Daycare .....	5,372	23.2%	Jan – 2014
Great Canadian Dollar .....	4,400	19.0%	Nov –2015
Mac’s .....	2,827	12.2%	Jan – 2017

***Westgrove Common, 4 McLeod Avenue Spruce Grove, Alberta***

Westgrove Common, a property developed by Melcor, is a retail strip centre containing 21,810 square feet of GLA located in Spruce Grove, Alberta, a suburb of Edmonton. The property is situated on a 4.67-acre site and has surface parking for 140 vehicles (6.4 stalls per 1,000 square feet). The initial building was constructed in 2006, with additional buildings constructed in 2008, 2010 and 2011. As at December 31, 2012, the property was 89% leased, and was occupied by six tenants and was shadow-anchored by the Home Depot and Superstore. The project is located on Highway 16A, a major east-west arterial road.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
The Canadian Brew House .....	6,277	28.8%	Oct – 2027
Royal Bank of Canada .....	6,392	29.6%	Jul – 2020
The Brick Warehouse LP .....	2,759	12.7%	Oct – 2016

**Edmonton, Alberta Region – Office**

***100 Street Place, 10150-100th Street Edmonton, Alberta***

100 Street Place is an office building containing 46,439 square feet of GLA. The property is situated on a 0.16-acre site and has ample parking available in adjacent privately owned parking lots. The building was constructed in 1970 and substantially renovated in 2009. As at December 31, 2012, the property was 91% leased, and was occupied by 16 tenants. This downtown office building offers tenants a central location in the heart of Edmonton’s financial core. The property benefits from a prominent corner location and proximity to the law courts and City Hall, and is located along the pedestrian friendly Rice Howard Way, one block north of the Central LRT station. High frequency bus service is available on 101 Street Northwest, 100 Avenue Northwest and Jasper Avenue. The property also has direct underground access to the LRT.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Hahn & Houle LLP .....	5,172	11.1%	Jul – 2014
Daniel Chivers Professional Corporation .....	5,163	11.1%	Sept – 2013
Panther Investments Ltd. ....	5,154	11.1%	Dec – 2017

***Birks Building, 10113-104th Street Edmonton, Alberta***

The Birks Building is an office building containing 35,539 square feet of GLA. The property is situated on a 0.28-acre site with immediate access to the Bay LRT Station and has ample parking available in adjacent privately owned parking lots. The building was constructed in 1929 and substantially renovated in 2012. As at December 31, 2012, the property was 65% leased, and was occupied by 19 tenants. This building offers tenants a central downtown location on a prominent intersection with exposure to high pedestrian and vehicular traffic and is located at the entryway to the arts and warehouse district. The property is listed on the inventory of historic resources by the City of Edmonton, but is not formally designated as a historical site. The property also benefits from an expanding downtown residential population within its near vicinity, creating a live-work community in the area. For example, one half block west on 104 Street, there are several newly constructed high-rise condominium towers.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Eye Care St. Albert Ltd. ....	2,838	8.1%	Jan – 2023
Devine Wines Inc. ....	2,646	7.6%	Feb – 2019
The Association of Volunteer Centres .....	2,437	7.0%	Sept – 2013 <sup>(1)</sup> Sept – 2014 <sup>(1)</sup>

**Notes:**

1. Tenant is subject to multiple leases: 1,089 square feet expiring in September of 2013 and 1,348 square feet expiring in March of 2014.

**Capilano Centre, 9945-50th Street Edmonton, Alberta**

Capilano Centre is comprised of a five-storey office building and a freestanding single-storey retail building containing 96,758 square feet of GLA. The property is situated on a 2.44-acre site and has surface parking for 169 vehicles and an additional 74 stalls in a two-level concrete parking structure behind the office building, for a total of 243 stalls (2.51 stalls per 1,000 square feet). The building was constructed in 1978 and was substantially renovated in 2012. As at December 31, 2012, the property was 79% leased, and was occupied by 24 tenants. The building is situated on a primary north-south arterial road within the greater Eastgate Business Park neighbourhood. The surrounding area is mixed use. Office and commercial developments predominate along the east side of 50 Street Northwest, with industrial development to the east and residential development to the west and south.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Challenger Geomatics . . . . .	17,053	17.6%	Sep – 2014
Bell West . . . . .	8,775	9.1%	Apr – 2018
We Care Health Services . . . . .	7,685	7.9%	Nov – 2015

Melcor owns, and upon Closing the REIT will own, a 50% interest in Capilano Centre. The joint venture agreement pertaining to Capilano Centre provides, among other things, the following: (i) a restriction on a joint venture partner’s ability to transfer or encumber its interest without consent of the other joint venture partner; (ii) a right of first refusal if a joint venture partner decides to sell its interest in Capilano Centre, but only if the offer is an arm’s length offer providing for payment of not less than 50% of the purchase price (or portion thereof not being satisfied by debt assumption) in cash; (iii) a right to transfer to an affiliate (as defined in the ABCA) without the consent of the other joint venture partner; and (iv) a shot gun provision which enables a joint venture partner to require the other to elect to either acquire the triggering partner’s interest in the joint venture or sell its interest in the joint venture to the triggering partner. Melcor manages Capilano Centre on behalf of the joint venture. Melcor’s joint venture partner in Capilano Centre has consented to the transfer of Melcor’s interest to the REIT.

**Melton Building, 10310 Jasper Avenue Edmonton, Alberta**

The Melton Building is an office building containing 112,244 square feet of GLA. The property is situated on a 0.36-acre site and has surface parking for three vehicles with ample parking available in adjacent privately owned parking lots. The building was originally constructed in 1959 as a two-storey building and a further seven storeys were constructed in 1973. As at December 31, 2012, the property was 98% leased, and was occupied by 22 tenants and is anchored by Melcor and The Legal Aid Society, a government agency. This downtown office building offers tenants a central location in the financial core of Edmonton. The Melton Building benefits from a prominent corner location and exposure to high pedestrian and vehicular traffic along the main commercial arterial road in downtown Edmonton. Although not directly linked to the LRT system, the property is located in close proximity to the Bay LRT station. The property also benefits from an expanding downtown residential population within its near vicinity, creating a live-work community in the area. For example, one block west on 104 Street Northwest, there are several newly constructed high rise condominium towers.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Melcor Developments . . . . .	23,579	21.0%	Jan – 2018
Legal Aid Society . . . . .	17,913	16.0%	Sep – 2016
Metropolitan Credit Adjustors . . . . .	13,084	11.7%	Apr – 2015

**Princeton Place, 10339-124th Street Edmonton, Alberta**

Princeton Place is an office building containing 58,858 square feet of GLA located in Edmonton, Alberta. The property is situated on a 0.49-acre site and has underground parking for 55 vehicles and surface parking for 18 vehicles, for a total of 73 parking stalls (1.24 stalls per 1,000 square feet). The building was constructed in 1971 and substantially renovated in 2012. As at December 31, 2012, the property was 85% leased, and was occupied by 16 tenants. The property is located in the 124 Street corridor, a long established commercial district characterized by low to medium-rise office towers. The corridor has a strong retail element with a high level of pedestrian traffic. Over

recent years, the 124<sup>th</sup> Street streetscape has been upgraded. Located on the greater periphery of the downtown core, the property is readily accessible to all sectors of the city. Public transit is available by way of bus along 124<sup>th</sup> Street.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Natural Health Practitioners of Canada .....	8,405	14.3%	Apr – 2018
MD Management .....	8,379	14.2%	Jun – 2014
Kirwin .....	5,894	10.0%	Mar – 2014

***Royal Bank Building, 10107 Jasper Avenue Edmonton, Alberta***

The Royal Bank Building is an office building containing 132,376 square feet of GLA. The property is situated on a 0.55-acre site and has ample access to parking through the adjacent linked parkade containing 335 stalls, which is, and following Closing will be, owned by Melcor and operated in conjunction with this property. The parkade is one of the Retained Commercial Properties and therefore subject to the Right of First Offer (See “Arrangements with Melcor - Development and Opportunities Agreements”). The building was constructed in 1964 and substantially renovated in 1990. As at December 31, 2012, the property was 92% leased, and was occupied by 20 tenants and anchored by the Royal Bank of Canada. This downtown office building offers tenants a central location in the financial core of Edmonton and benefits from direct pedway links to numerous office towers and retail centres in the downtown Core (Manulife Place, Edmonton Centre and Commerce Place), as well as the LRT system. In addition, high frequency bus service is available on 101<sup>st</sup> Street Northwest, 100<sup>th</sup> Avenue Northwest and Jasper Avenue.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Royal Bank of Canada .....	58,925	44.5%	Sep – 2014 <sup>(1)</sup> Sep – 2016 <sup>(1)</sup>
Enbridge .....	20,484	15.5%	Jun – 2013
Workun Garrick .....	7,918	6.0%	Sep – 2013

**Notes:**

1. Tenant is subject to multiple leases: 46,475 square feet expiring in September of 2014 and 12,450 square feet expiring in September of 2016.

***Stanley Buildings, 11748 Kingsway Avenue and 11810 Kingsway Avenue Edmonton, Alberta***

The Stanley Buildings are a suburban office complex containing 34,976 square feet of GLA. The property is situated on a 1.36-acre site and has surface parking for 68 vehicles (1.98 stalls per 1,000 square feet). The buildings were constructed in 1968 and 1971. As at December 31, 2012, the property was fully leased, and was occupied by five tenants and is anchored by Kingsway Business Centre. The property has a high profile location near the City Centre Airport and is located on Kingsway Avenue, which provides excellent access to the downtown core (located approximately four kilometers away). The property also has access to Yellowhead Trail, the major east-west transport route in North Edmonton.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Kingsway Business Centre .....	12,896	36.9%	Jan – 2022
HFKS Architects .....	6,809	19.5%	Jun – 2017
Campbell College .....	6,263	17.9%	May – 2022

***Sterling Business Centre, 17420 Stony Plain Road Edmonton, Alberta***

Sterling Business Centre is comprised of two office buildings containing 68,348 square feet of GLA. Building A is two storeys and is multi-tenant in nature, featuring a V-shaped configuration with elevator service. Building B is a single-storey/single tenant structure with an enclosed atrium. The property is situated on a 3.43-acre site and has underground parking for 125 vehicles (1.83 stalls per 1,000 square feet). The buildings were constructed in 1979 and the single-storey building was substantially renovated in 2012. As at December 31, 2012, the property was 89% leased, and was occupied by 15 tenants and is anchored by Read Jones Christofferson. The property is well located in West Edmonton’s industrial region (business park) with frontage on Stony Plain Road, a major arterial road. The immediate surrounding area has evolved as a primary destination for commercial development. The commercial/service character of the area is well established and the area east of the property has undergone substantial transformation in recent years.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Read Jones Christofferson .....	12,961	19.0%	May – 2021
Jardine Lloyd Thompson .....	7,560	11.1%	Sep – 2021
Emeco Canada .....	7,303	10.7%	Oct – 2021

***Trail Business Centre, 13210 St. Albert Trail Edmonton, Alberta***

Trail Business Centre is an office building containing 77,774 square feet of GLA. The property is situated on a 2.45-acre site and has surface parking for 187 vehicles (2.42 stalls per 1,000 square feet). The building was constructed in 1980 and the common areas were renovated in 2011. As at December 31, 2012, the property was 78% leased, and was occupied by 14 tenants. The property is situated at St. Albert Trail Northwest and 131<sup>st</sup> Avenue Northwest, which are both major roads in North Edmonton. The surrounding neighbourhood features a mixture of industrial and commercial uses. Transportation routes through the neighbourhood are well defined, with both the Yellowhead Trail and 137<sup>th</sup> Avenue Northwest providing east/west access, and St. Albert Trail providing north/south access to St. Albert and other regions of Edmonton.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Impact Investor Relations .....	13,214	17.0%	Mar – 2014
Nilsson Bros. Inc. ....	10,893	14.0%	Jun – 2015
Sylogist Ltd. ....	6,800	8.7%	Feb – 2014

***Westcor Building, 12323 Stony Plain Road Edmonton, Alberta***

The Westcor Building is an office building containing 72,810 square feet of GLA. The property is situated on a 0.52-acre site and has underground parking for 158 vehicles (2.17 stalls per 1,000 square feet). The building was constructed in 1977 and underwent a major lighting retrofit in 2003 and 2004. Further, the property’s parkade received membrane repairs in 2002. As at December 31, 2012, the property was 87% leased, and was occupied by eight tenants and is anchored by Family and Social Services. The property is situated at Stony Plain Road and 124<sup>th</sup> Street Northwest, two major traffic arterial roads, on the greater periphery of the downtown core. The 124<sup>th</sup> Street corridor is a long established commercial district characterized by low to medium-rise office towers. The corridor has a strong retail element with a high level of pedestrian traffic.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Family and Social Services .....	38,301	52.6%	Apr – 2018
Excel Insurance & Risk Management .....	9,806	13.5%	May – 2016
Back Home Fish & Chips .....	3,758	5.2%	Dec – 2013

***Westgate Building, 10239 178th Street, Edmonton Alberta***

The Westgate building is an office building containing 75,142 square feet of GLA. The property is situated on a 6.37-acre site and has surface parking for 300 vehicles (3.98 stalls per 1,000 square feet). The building was constructed

in 1984 and substantially renovated in 2005. As at December 31, 2012, the property was 76% leased, and was occupied by 11 tenants. The property occupies a full-block position in a high-density area of good quality multi-tenant office and warehouse developments and is easily accessible by major roadways and highways such as the Whitemud and Yellowhead Freeways.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Penn West Petroleum . . . . .	11,721	15.6%	Jan – 2016 <sup>(1)</sup> Feb – 2017 <sup>(1)</sup>
Rent Cash Inc. . . . .	10,800	14.4%	Mar – 2015
Executive Business Centre . . . . .	10,080	13.4%	Dec – 2015

**Notes:**

1. Tenant is subject to multiple leases: 7,822 square feet expiring in January of 2016 and 3,899 square feet expiring in February of 2017.

**Edmonton, Alberta Region – Industrial**

***TKE Building, 10230 176st Street, Edmonton, Alberta***

The TKE Building is a single-tenant industrial building containing 15,968 square feet of GLA. The property is situated on a 1.57-acre site and has full site paving for surface parking. The building was constructed in 1983 and substantially renovated in 2004/05. As at December 31, 2012, the property was fully leased, with ThyssenKrupp Elevator as the sole tenant. The property is situated in West Edmonton and the surrounding area is comprised of a variety of automotive-related developments, light industrial and professional offices, with commercial developments extending along Stony Plain Road to the south. The TKE Building benefits from being located one block north of Stony Plain Road, a major two-way arterial road that provides access to the Yellowhead Trail and the Whitemud Freeway.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
ThyssenKrupp Elevator . . . . .	15,968	100%	Jul – 2022

**Calgary, Alberta Region – Retail**

***Chestermere Station, Highway 1A & Windermere Boulevard Chestermere, Alberta***

Chestermere Station, a property developed by Melcor, is a Food Anchored Retail Strip Centre containing 95,176 square feet of GLA which has been, to date, built out in four phases. The current phases of the property are situated on 14.82-acre site (including a 1.12-acre future development pad site) and have surface parking for 641 vehicles (6.73 stalls per 1,000 square feet). Phase one buildings were constructed in 2005. Phase two buildings were constructed in 2006. Phase three buildings were developed over a two year period between in 2007 and 2008. Phase four buildings were developed over a two year period between 2009 and 2010. As at December 31, 2012, the property was 93% leased, and was occupied by 31 tenants and is shadow-anchored by Safeway and a variety of national tenants. Located directly off the TransCanada Highway and approximately fifteen kilometers from the Calgary downtown core, the property is the primary retail development in the area.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Shoppers Drug Mart . . . . .	16,903	17.8%	Jun – 2024
Boston Pizza . . . . .	6,698	7.0%	Aug – 2029
Life Path Wellness . . . . .	6,454	6.8%	Mar – 2016

Melcor owns, and upon Closing the REIT will own, a 50% interest in Chestermere Station. The joint venture agreement pertaining to Chestermere Station provides, among other things, the following: (i) a restriction on a joint venture partner’s ability to transfer or encumber its interest without consent of the other joint venture partners; (ii) a right of first refusal if a joint venture partner decides to sell its interest in the joint venture, but only if the offer is an arm’s length offer providing for, among other requirements, payment of not less than 50% of the purchase price (or portion thereof not being satisfied by debt assumption) in cash; (iii) a right to transfer to an affiliate (as defined in the ABCA); and (iv) shotgun provisions that allow Melcor, or Melcor’s joint venture partners (acting jointly), in situations where the joint venture partners are unable to agree on certain major decisions regarding the joint venture, to require

the other joint venture partner(s) to elect to either acquire the triggering partner's interest in the joint venture or sell its interest to the triggering partner. Melcor manages Chestermere Station on behalf of the joint venture. Melcor's joint venture partner in Chestermere Station has consented to the transfer of Melcor's interest to the REIT.

Melcor is currently in the process of developing Phases Five and Six of Chestermere Station. See "The REIT and Melcor – Retained Commercial Properties and Properties Currently Under Development". Such property will be subject to the Development Property Option.

***Kingsview Market, Yankee Valley Road & Kingsview Boulevard Airdrie, Alberta***

Kingsview Market, a property developed by Melcor, is a retail centre containing 36,003 square feet of GLA located in Airdrie, Alberta, a suburb of Calgary. The property is situated on a 4.87-acre site and has surface parking for 228 vehicles (6.33 stalls per 1,000 square feet). The building was constructed in 2010 and consists of three buildings. As at December 31, 2012, the property was fully leased, and was occupied by 11 tenants. The property occupies a mid-block position along a primary arterial road with several major complementing commercial developments in close proximity. Melcor has several further phases of commercial development planned for the surrounding area.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Shoppers Drug Mart . . . . .	18,274	50.8%	Jan – 2026
Royal Bank of Canada . . . . .	4,655	12.9%	Feb – 2021
Oasis Medical Clinic . . . . .	2,669	7.4%	Mar –2021

Melcor is currently in the process of developing Phases Two and Three of Kingsview Market. See "The REIT and Melcor – Retained Commercial Properties and Properties Currently Under Development". Such property will be subject to the Development Property Option.

**Calgary, Alberta Region – Office**

***Crowfoot Business Centre, Crowfoot Crescent NW Calgary, Alberta***

Crowfoot Business Centre, a property developed by Melcor, is an office building containing 67,603 square feet of GLA. The property is situated on a 2.82-acre site and has underground parking for 73 vehicles and an additional 157 surface stalls, for a total of 230 stalls (3.40 stalls per 1,000 square feet). The building was constructed in 2002. As at December 31, 2012, the property was fully leased, and was occupied by 23 tenants. Crowfoot Business Centre is located near major arterial roads including Crowchild Trail and John Laurie Boulevard Northwest. An LRT station is within walking distance of the property.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Halliburton Group Canada . . . . .	10,691	15.8%	Apr – 2017
Travel Time . . . . .	6,410	9.5%	Jun – 2017
Radiology Consultants . . . . .	5,303	7.8%	Oct – 2017

***Kensington Road Building, 1422 Kensington Road NW Calgary, Alberta***

The Kensington Building is an office building containing 23,850 square feet of GLA. The property is situated on a 0.34-acre site and has underground parking for 33 vehicles and an additional eight surface stalls, for a total of 41 stalls (1.72 stalls per 1,000 square feet). The building was constructed in 1979 and substantially renovated in 2004. As at December 31, 2012, the property was 84% leased, and was occupied by four tenants. The property is situated in the upscale Hillhurst District of central northwest Calgary, which is approximately two kilometers north of the downtown core. The Kensington Building benefits from good access to city transit and major arterial roads.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
United Nurses of Alberta . . . . .	10,243	42.9	Apr – 2023
ClaimsPro Inc. . . . .	7,743	32.3%	Sep – 2014
Fitness Equipment of Calgary . . . . .	2,784	11.7%	Month-to-Month

## Calgary, Alberta Region – Land Lease Community

### *Watergrove, 99 Arbour Lake Way NW Calgary, Alberta*

Watergrove is a land lease community that was built in 1995 and is located in Calgary, Alberta. The community sits on a 42.6-acre site and comprises 308 pad sites, a 6,700 square foot community centre and a recreation storage facility. Other amenities include a hot tub and sauna, an outdoor pool, a library and a games room. Watergrove has been fully leased since its inception. Watergrove is ideally situated in the southern section of Arbour Lake residential community, an area comprised mainly of single family dwellings and low-rise condominiums. The site provides excellent access to major transportation and is within convenient walking distance to Crowfoot Centre and a variety of other retail and commercial outlets. Melcor owns, and upon Closing the REIT will own, a 50% interest in Watergrove.

The joint venture agreement pertaining to Watergrove provides, among other things, the following: (i) a restriction on a joint venture partner's ability to transfer or encumber its interest without consent of the other joint venture partner; (ii) a right of first refusal if a joint venture partner decides to sell, but only if the offer is an arm's length offer providing for, among other requirements, payment of not less than 50% of the purchase price (or portion thereof not being satisfied by debt assumption) in cash; (iii) a right to transfer to an affiliate (as defined in the ABCA); and (iv) a right such that if one joint venture partner receives an offer to purchase all of the assets of the joint venture from a third party that such partner desires to accept, it can require the other joint venture partner to either: (A) participate in the sale to the third party on the same terms; or (B) acquire the interest of the partner that received the offer on the same terms. Melcor manages Watergrove on behalf of the joint venture. Melcor's joint venture partner in Watergrove has consented to the transfer of Melcor's interest to the REIT.

## Lethbridge, Alberta – Industrial

### *Lethbridge Industrial Building 2920-9<sup>th</sup> Avenue North Lethbridge, Alberta*

The Lethbridge Industrial Building is a double-tenant industrial building containing 49,005 square feet of GLA. The property is situated on a 2.6-acre site and has 20 paved parking stalls and a paved and fenced truck yard and laneway. The building was constructed in 1972 and the office area was renovated in 2007. As at December 31, 2012, the property was fully leased, and was occupied by two tenants. The property is situated centrally in the Churchill Industrial Park and is located mid-block fronting 9th Avenue. Located east of the property, is 36<sup>th</sup> Street, the primary north-south route within the industrial area.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Charlton & Hill Welding . . . . .	26,000	53.1%	Sept – 2014
Coca-Cola Refreshments Canada Company . . . . .	23,005	46.9%	Feb – 2014

## Regina, Saskatchewan – Retail

### *Towers Mall, 2601 Avonhurst Drive Regina, Saskatchewan*

Towers Mall is an open community mall containing 114,331 square feet of GLA. The property is situated on an 8.14-acre site and has surface parking for 525 vehicles (4.85 stalls per 1,000 square feet). The building was constructed in 1964 and expanded in 1988. As at December 31, 2012, the property was 95% leased, and was occupied by 21 tenants. The property is situated one mile north of downtown Regina and occupies a prominent corner location fronting on Albert Street, the major north-south commercial corridor through Regina.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Giant Tiger . . . . .	34,685	30.3%	Jan – 2018
Regina Qu'Appelle Health . . . . .	17,436	15.3%	Aug – 2023
Dollar Giant . . . . .	9,092	8.0%	Mar – 2017

## Regina, Saskatchewan – Office

### *Executive Terrace, 2221 Cornwall Street Regina, Saskatchewan*

The Executive Terrace building is a five-story office building containing 42,843 square feet of GLA. The property is situated on a 1.07-acre site and has surface parking for 24 vehicles (0.56 stalls per 1,000 square feet). The building was constructed in 1982 with interior renovations completed in 1996. As at December 31, 2012, the property was fully leased, and was occupied by four tenants. This downtown office building is well located with excellent transportation access to Victoria Avenue and Alberta Street and is in close proximity to major bus routes. The commercial character of the surrounding area is well established, with amenities such as the Cornwall Centre, a major retail centre, located three blocks to the north.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Mosaic Canada . . . . .	23,719	55.4%	Jul – 2013
iQmetrix . . . . .	16,393	38.3%	Dec – 2015
Saskatchewan Association of Rural Municipalities . . . . .	10,411 <sup>(1)</sup>	24.3%	Mar – 2018

#### **Notes:**

1. Saskatchewan Association of Rural Municipalities will be occupying this space, commencing August 1, 2013, upon the expiry of Mosaic Canada's lease.

### *Parliament Place, 2631-28th Avenue Regina, Saskatchewan*

The Parliament Place building is an office building containing 24,411 square feet of GLA. The property is situated on a 0.91-acre site and has surface parking for 80 vehicles (3.28 stalls per 1,000 square feet). The building was constructed in 1977. As at December 31, 2012, the property was 96% leased, and was occupied by 16 tenants. The building is located in a mid-block position just off Albert Street, the major north-south commercial corridor through Regina. The immediate vicinity offers numerous retail and service amenities. Public transportation is provided by immediate area bus routes.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Insurance Brokers Assoc. of Sask. . . . .	4,283	17.5%	Aug – 2018
Nu-Image . . . . .	4,104	16.8%	Sep – 2014
Sask Cancer . . . . .	3,473	14.2%	Jul – 2014

## Kelowna, British Columbia – Office

### *Kelowna Business Centre, 1634 Harvey Avenue Kelowna, British Columbia*

The Kelowna Business Centre building is an office building containing 72,076 square feet of GLA. The property is situated on a 2.80-acre site and has surface parking for 200 vehicles (2.77 stalls per 1,000 square feet). The building was constructed in 1993, with various updates having been completed over the past five years. As at December 31, 2012, the property was 95% leased, and is occupied by 22 tenants. The building is centrally located in the City of Kelowna on Harvey Avenue, a primary arterial road with a high volume of traffic, and is in close proximity to various retail and residential developments.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Wentworth House of Music . . . . .	13,706	19.0%	Jun – 2014
Insurance Corp. of BC . . . . .	8,832	12.3%	Feb – 2015
Lifemark Health Mgt. Inc. . . . .	7,911	11.0%	Feb – 2020

### *Richter Street Building, 1664 Richter Street & 565 Leon Avenue Kelowna, British Columbia*

The 1664 Richter Street building is an office building containing 28,978 square feet of GLA. The property is situated on a 0.58-acre site and has surface parking for 46 vehicles (1.58 stalls per 1,000 square feet). The building was constructed in 1981 and substantially renovated in 2012. As at December 31, 2012, the property was 81% leased, and

was occupied by nine tenants. The building is situated in the eastern portion of downtown Kelowna, which is the largest sub-sector in the Kelowna office market. It also has excellent transportation access and at one block north of Harvey Road, allows easy east/west access in and out of downtown and to the airport, as well as the residential/commercial communities of Rutland and Westbank.

<u>Key Tenants</u>	<u>Area Leased (sq. ft.)</u>	<u>Percentage of Total GLA</u>	<u>Lease Expiry Date</u>
Province of British Columbia . . . . .	9,932	34.3%	Apr – 2015 <sup>(1)</sup> May – 2015 <sup>(1)</sup> Jun – 2016 <sup>(1)</sup>
Bowman Employment Services . . . . .	3,607	12.4%	Mar – 2014
Group One Planning Solutions . . . . .	2,150	7.4%	Jan – 2017

**Notes:**

1. Tenant is subject to multiple leases: 3,672 square feet expiring in April of 2015, 3,140 square feet expiring in May of 2015 and 3,120 square feet expiring in June of 2016.

### ACQUISITION OF INITIAL PROPERTIES

The REIT will indirectly acquire interests in the Initial Properties from Melcor for an aggregate purchase price of approximately \$ ● in the manner summarized below.

#### Principal Transaction Steps

##### *Offering of Units by the REIT*

1. The REIT will issue ● Units pursuant to the Offering for net proceeds of approximately \$ ● .

##### *Acquisition by the Partnership of the Initial Properties*

2. Melcor and its subsidiaries will transfer: (i) legal and beneficial ownership of the Initial Properties which are 100% owned; (ii) Melcor’s beneficial ownership interest in the Initial Properties which are owned with joint venture partners; and (iii) those shares owned by Melcor of the nominee companies which hold legal ownership of the Initial Properties which are owned with joint venture partners, in each case to the Partnership in exchange for the assumption of the Assumed Mortgages (excluding the Retained Debt) in the amount of \$ ● , ● Class B LP Units (accompanied by an equivalent number of Special Voting Units), Class C LP Units in respect of the Retained Debt and a non-interest bearing demand promissory note of the Partnership in the amount of approximately \$ ● (the “Promissory Note”).
3. The REIT will use \$ ● of the amounts referred to in item 1 above to acquire from Melcor the Promissory Note referred to in item 2 above.
4. The REIT will contribute and assign the Promissory Note to the Partnership in exchange for \$ ● of Class A LP Units.
5. Melcor will incorporate a separate corporation to be the general partner (“Holdings GPCo”) of a limited partnership that will be a holding entity for the Class B LP Units and the Class C LP Units owned by Melcor.
6. Holdings GPCo and Melcor will form a limited partnership (“Holdings LP”).
7. Melcor will contribute its Class B LP Units and Class C LP Units of the Partnership, to Holdings LP, on a tax-deferred basis pursuant to subsection 97(2) of the Tax Act in exchange for units of Holdings LP.

The completion of the Offering and the acquisition by the REIT of the Initial Properties will occur concurrently. The purchase and sale transactions described above will be completed pursuant to the Acquisition Agreement and will be conditional upon the completion of the Offering, the receipt of all necessary consents and waivers from all third parties relating to the transactions contemplated herein, including the Retained Debt, and the satisfaction of certain other customary closing conditions. For an illustration of the corporate structure of the REIT upon completion of the Offering and the above transactions, see “Post-Closing Structure”. See also “Debt Structure – Composition of Indebtedness”.

## Acquisition Agreement

The REIT will indirectly acquire interests in the Initial Properties from Melcor, pursuant to the Acquisition Agreement, for an aggregate purchase price of approximately \$ ● . The Acquisition Agreement will contain representations and warranties typical of those contained in acquisition agreements negotiated between sophisticated purchasers and vendors acting at arm's length, certain of which will be qualified as to knowledge and materiality and subject to reasonable exceptions, relating to Melcor and relating to the Initial Properties from Melcor in favour of the REIT and the Partnership (including, among other things, representations and warranties as to organization and status, power and authorization, authorized and issued capital, compliance with laws, title to the Initial Properties, condition of tangible assets, financial information, outstanding indebtedness and guarantees, outstanding liens, absence of undisclosed liabilities, material agreements, accuracy of rent rolls, tax matters, environmental matters and employment matters). Melcor will also provide a representation and warranty that this prospectus contains full, true and plain disclosure of all material facts relating to the Initial Properties and the Units, subject to an exception for portions of this prospectus purporting to be made on authority of an expert or purporting to be an extract from a report, opinion or statement of an expert. Such representations and warranties will survive for a period of 18 months from Closing; provided, however, that representations regarding organization and status, and power and authorization shall survive indefinitely, representations regarding tax matters and environmental matters shall survive for the applicable limitation periods, and the prospectus representation shall survive for a period of three years from Closing.

Melcor will indemnify the REIT and the Partnership for any breach of such representations, warranties and covenants arising under the Acquisition Agreement pursuant to the Indemnity Agreement. The maximum liability of Melcor under such indemnity will be limited to an amount equal to the net proceeds of the Offering and no claim under such indemnity may be made until the aggregate losses exceed \$750,000. The Partnership will indemnify Melcor with respect to obligations to pay the Assumed Mortgages and the Retained Debt after Closing pursuant to the Indemnity Agreement. See "Arrangements with Melcor – Indemnification".

Melcor will also indemnify the REIT and the Partnership for a period of seven years with respect to any damages incurred or losses suffered by the REIT or the Partnership relating to environmental matters at 22 of the Initial Properties, including the Melton Building. Each of these Initial Properties received a clean Phase I ESA Report or Phase II ESA Report. As a result of the Melton Building Expenditure Subsidy, Melcor shall not be required to indemnify the REIT with respect to the asbestos present at the Melton Building. See "Arrangements with Melcor – Melton Building Expenditure Subsidy" and "Assessments and Valuations of Initial Properties".

Melcor will also indemnify the REIT and the Partnership indefinitely with respect to any damages incurred or losses suffered by the REIT or the Partnership relating to environmental matters at five of the Initial Properties. Pursuant to the Acquisition Agreement, Melcor is required to conduct ongoing monitoring and sampling, at its expense, at certain of the Initial Properties as recommended by the Phase I ESA Reports and the Phase II ESA Reports. See "Assessments and Valuations of Initial Properties".

There can be no assurance of recovery by the REIT or the Partnership from Melcor for any breach of the representations and warranties provided by it under the Acquisition Agreement or the Indemnity Agreement, as there can be no assurance that its assets will be sufficient to satisfy such obligations. Only the REIT and/or the Partnership will be entitled to bring a claim or action for misrepresentation or breach of contract under the Acquisition Agreement or the Indemnity Agreement and purchasers of Units under this prospectus will not have any contractual rights under the Acquisition Agreement or the Indemnity Agreement. Purchasers will, however, have certain statutory rights of action against the REIT and Melcor, as promoter, under applicable securities laws. See "Retained Interest" and "Purchasers' Statutory Rights".

The Acquisition Agreement and the Indemnity Agreement are material contracts of the REIT and will be available electronically, following Closing under the REIT's issuer profile at [www.sedar.com](http://www.sedar.com). A purchaser of Units should refer to the terms of the Acquisition Agreement and the Indemnity Agreement for a complete description of the representations, warranties and indemnities being provided in favour of the REIT and the Partnership, and related limitations on enforcement of such indemnity.

## ASSESSMENTS AND VALUATION OF THE INITIAL PROPERTIES

### Building Condition Assessments

Building condition assessment reports (“BCA Reports”) were prepared for each of the Initial Properties by independent engineering firms for the purpose of assessing and documenting the existing condition of each building and major building operating components and systems, as well as identifying and quantifying any major defects in materials or systems which might significantly affect the value of any of the Initial Properties or the continued operation thereof. The BCA Reports were completed in late 2012 or 2013. In addition to required regular maintenance on the various components of the buildings, each of the BCA Reports assessed both work required to be completed immediately and work recommended to be completed during the subsequent ten years in order to maintain the building in an appropriate condition.

Based on the BCA Reports, each of the Initial Properties were determined to be in satisfactory condition commensurate with its age and comparable to other similar commercial properties in its respective area.

### *Identified Expenditures*

The table below summarizes the capital expenditures recommended in the BCA Reports. All of these amounts, other than approximately \$60,000, are expected to be recoverable from the REIT’s tenants as operating costs.

	Immediate	Year One	Year Two	Year Three	Year Four	Year Five	Year Six	Year Seven	Year Eight	Year Nine	Year Ten	Total
From BCA Reports . . . . .	\$2,300	\$415,000	\$1,457,760	\$675,500	\$689,500	\$383,600	\$376,000	\$376,100	\$694,300	\$495,100	\$399,900	\$5,965,160

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced by \$0.8 million and, on Closing, the REIT will retain such amounts to subsidize capital expenditures on the Initial Properties. See “Arrangements with Melcor – Capital Expenditure Subsidy”.

### Environmental Site Assessments

Each of the Initial Properties is the subject of a Phase I environmental site assessment report or an update to such a report (collectively, “Phase I ESA Reports”) prepared by independent environmental consultants in late 2012 or 2013. The purpose of the Phase I ESA Reports was to assess whether evidence of potential or actual environmental contamination exists at the Initial Properties. The Phase I ESA Reports were prepared in general accordance with industry practice for Phase I environmental site assessment reports or updates of such reports. Intrusive sampling and analysis were not part of the Phase I ESA Reports. Environmental site assessments involving certain intrusive soil and/or groundwater sampling or re-sampling of existing monitoring wells and analysis (“Phase II ESA Reports”) were recommended for two of the Initial Properties. The purpose of these Phase II ESA Reports was to assess the issues of potential or known environmental concerns identified in the Phase I ESA Reports.

Pursuant to the Phase I ESA Reports, Phase II investigations were conducted at two of the Initial Properties. Neither of those investigations identified any soil or groundwater contamination above applicable standards but one of the Phase II ESA Reports recommended some minor additional groundwater sampling at one of the Initial Properties. In addition, the Phase I ESA Reports for two other Initial Properties recommended continuing the groundwater sampling program at both those Initial Properties and continuing the vapour monitoring program at one of those Initial Properties.

In the event that any remediation, monitoring or sampling is necessary with respect to five of the Initial Properties (including the three Initial Properties, described in the preceding paragraph, as requiring additional groundwater sampling and/or vapour monitoring), Melcor will undertake, at its cost, all necessary actions, including recommended actions set out in the Phase I ESA Reports and Phase II ESA Reports, or in any remediation, monitoring or sampling reports or risk assessments prepared in respect of the five Initial Properties and will obtain all necessary environmental permits in connection with such work or actions. Melcor will indemnify the REIT in respect of certain environmental matters following Closing. See “Arrangements with Melcor – Indemnification”.

Management is not aware of any non-compliance with environmental laws at any of the Initial Properties that management believes would have a material adverse effect on the REIT. Management is not aware of any pending or

threatened investigations or actions by environmental regulatory authorities in connection with any of the Initial Properties that would materially adversely affect the REIT or the values of the Initial Properties, taken as a whole. Melcor, pursuant to the Property Management Agreement, will implement policies and procedures to assess, manage and monitor environmental conditions at the Initial Properties and at any other properties acquired after Closing, and to manage exposure to potential environmental liability. See “Risk Factors - Risks Related to the REIT and its Business – Environmental Matters”.

### **Independent Valuations**

Melcor retained the Appraiser to provide an independent estimate of the fair market value of each of the Initial Properties at December 31, 2012. The Appraisals for the Initial Properties as at December 31, 2012 were prepared in conformity with the Canadian Uniform Standards of Professional Appraisal Practice and the code of Professional Ethics and Standards of Professional Practice, each adopted by the Appraisal Institute of Canada. The Appraisal Institute of Canada has defined market value as “the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus”. According to the Appraisal Institute of Canada, implicit in the definition of market value is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (i) buyer and seller are typically motivated; (ii) both parties are well informed or well advised, and acting in what they consider their best interests; (iii) a reasonable time is allowed for exposure of each individual property in the open market; (iv) payment is made in terms of cash in Canadian dollars or in terms of financial arrangements comparable thereto; and (v) the price represents the normal consideration for the property sold, unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Melcor retained the Appraiser to provide an independent estimate of the fair market value of each of the Initial Properties. Based on the Appraisals, the aggregate market value of Melcor’s interest in each of the Initial Properties as at December 31, 2012 was approximately \$393 million which results in a weighted average capitalization rate of 6.43%. The Appraiser also considered the market value of Melcor’s interest in the Initial Properties as a portfolio and concluded that a portfolio premium may be applicable based on: (i) the investment characteristics of the portfolio; (ii) a review of the national market; (iii) a survey of market participants; and (iv) a review of recent portfolio offerings. Applying a portfolio premium range of 2.0% to 5% to the aggregate market value of Melcor’s interests in the Initial Properties produces a portfolio market value ranging from approximately \$401 million to approximately \$413 million, with a midpoint of approximately \$407 million.

The estimated market value of the Initial Properties was determined by the Appraiser by using an income valuation approach (which utilized both the overall capitalization rate and the discounted cash flow approach). The direct comparison approach was used to support the conclusion reached by the income valuation approach for the Initial Properties. These valuation methods are methods traditionally used by investors when acquiring properties of this nature. The Appraiser gave consideration to a forecast of income for each property based on contract and market rental rates, growth levels, vacancy rates, tenant roll-overs and operating expenses. The Appraiser visited each of the Initial Properties to assess location and general physical characteristics and estimated the highest and best use for each property. Valuation parameters were used, having due regard to the income characteristics, current market conditions and prevailing economic and industry information. In appraising the Initial Properties, the Appraiser assumed, among other things, that title to the Initial Properties was good and marketable and did not take into account issues such as, but not limited to, mechanical, structural, environmental, zoning, planning or related issues. The Appraiser notes that they have not reviewed the BCA Reports for the properties, and that any outstanding expenditures of a capital nature may affect value conclusions.

In determining the approximate market value of the Initial Properties, the Appraiser relied on operating and financial data provided by Melcor, including rent rolls. For each property, the Appraiser discussed with the management of Melcor the property’s history, current tenant status and future prospects, reviewed historical operating results and reviewed management revenue and expense estimates for their reasonableness. Based on their review, and other relevant facts, the Appraiser considered such data to be reasonable.

**Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Appraisals are based on various assumptions of future expectations and while the**

**Appraiser’s internal forecasts of NOI for the Initial Properties is considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future.**

**A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the Appraisals.**

## **DEBT STRUCTURE**

### **General**

The REIT will seek to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account the availability of financing and market conditions, and the financial characteristics of each property. The Declaration of Trust provides that the REIT may not incur or assume any Indebtedness if, after incurring or assuming such Indebtedness, the total Indebtedness of the REIT would be more than 60% of Gross Book Value (65% including any convertible debentures of the REIT). See “Investment Guidelines and Operating Policies – Operating Policies”. Currently, management expects, as a matter of internal policy, that the REIT will target a total indebtedness level in the range of 50% and 55% of Gross Book Value. Total Indebtedness, is approximately 46% of Gross Book Value based on the December 31, 2012 pro forma balance sheet.

The weighted average maturity and the weighted average effective interest rate of all mortgages (Assumed Mortgages and Retained Debt) of the REIT expected to be in place at Closing are expected to be approximately 4.5 years and 4.43%, respectively. The effective interest rate of all Indebtedness (Assuming Mortgages and Retained Debt) will be 3.81% after giving effect to the Interest Rate Subsidy. See “Arrangements with Melcor – Interest Rate Subsidy”.

Interest rates and debt maturities will be reviewed regularly by the Trustees to ensure that appropriate debt management strategies are implemented. The REIT may also, from time to time, enter into instruments to hedge the amount of interest to be paid by the REIT on future debt and to reduce its exposure to refinancing risks, provided that such hedging will not affect the REIT’s status as a “real estate investment trust” for purposes of the SIFT Rules.

### **Retained Debt**

Management estimates that as at Closing, the aggregate Indebtedness of the REIT will be approximately \$187 million (which amount excludes a mark-to-market adjustment of approximately \$2 million on the Retained Debt). Melcor will retain a portion of the debt in an approximate amount of \$95 million (which amount excludes a mark-to-market adjustment of approximately \$2 million) (the “Retained Debt”). The Retained Debt is secured by a charge on certain of the Initial Properties. The Retained Debt will not be assumed by the Partnership and will remain as indebtedness of Melcor. In respect of the Retained Debt, Melcor will hold Class C LP Units of the Partnership on which it will receive priority distributions. Melcor will remain responsible for interest and principal payments on the Retained Debt. Partnership distributions on the Class C LP Units held by Melcor will, if paid, be in amounts expected to be sufficient to make such payments. The Partnership will agree to provide Melcor’s creditors with a guarantee in respect of the Retained Debt to ensure the lenders are not prejudiced in their ability to collect from Melcor in the event that payments on the Class C LP Units (in respect of the Retained Debt) are not made as expected. Melcor will indemnify the Partnership and the REIT for any losses suffered by the Partnership or the REIT in the event payments on the Retained Debt are not made as required, provided such losses are not attributable to any action or failure to act on the part of the Partnership. See “The Partnership – Distributions – Distributions on Class C LP Units” and “Arrangements with Melcor – Indemnification”.

The acquisition of the Initial Properties from Melcor and the structure of the Class C LP Units provide Melcor with the opportunity to achieve a deferral of certain Canadian income tax consequences. In respect of the Retained Debt, the Partnership will make distributions on the Class C LP Units in an amount, if paid, expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt. See “The Partnership – Partnership Units”.

Pursuant to the terms of the Partnership Agreement, as each such mortgage reaches maturity, the Partnership will be required to make sufficient distributions on the Class C LP Units to pay in full the associated portion of the Retained Debt, and Melcor will be required to use such distributions to discharge that portion of the Retained Debt. Further, to the extent that a mortgage securing Retained Debt does not mature on or before that date which is five years from Closing (the “End Deferral Date”) the Partnership, unless otherwise consented to by the Independent Trustees, will be required to make sufficient distributions on the Class C LP Units to pay in full the remaining Retained Debt (including repayment fees or penalties), and Melcor will be required to use such distributions to discharge that portion of the Retained Debt. Consequently, if all such distributions are made, the Retained Debt will be retired in full by the End Deferral Date (unless otherwise consented to by the Independent Trustees) and Melcor shall cease to have any obligation with respect to the Retained Debt (either as primary obligor or as guarantor).

Should the REIT wish to dispose of any of the properties that are subject to the Retained Debt, Melcor may not be able to achieve a deferral of certain Canadian income tax consequences. As such, until such time that the applicable Retained Debt matures, if the REIT disposes of a property, in addition to making sufficient distributions on the Class C LP Units so that Melcor can discharge the Retained Debt applicable to such property (including repayment fees or penalties), the Partnership will be required to make sufficient additional distributions in an amount equal to the difference between Melcor’s estimated tax liability at the date of the sale and the net present value of the tax liability calculated assuming such property had been held to maturity of the existing mortgage.

Should the REIT wish to reduce the level of the Retained Debt associated with a property, Melcor may not be able to achieve a deferral of certain Canadian income tax consequences. As such, until such time that the applicable Retained Debt matures, if the REIT decreases the level of financing associated with such property, in addition to making sufficient distributions on the Class C LP Units so that Melcor can satisfy the reduction in Retained Debt and all repayment fees or penalties triggered by such reduction in financing, the Partnership will be required to make sufficient additional distributions in an amount equal to the difference between Melcor’s estimated tax liability at the date of refinancing and the net present value of the tax liability calculated assuming that the full Retained Debt had been held to maturity.

Should the REIT wish to increase the level of the Retained Debt associated with a property, Melcor shall facilitate such increase, provided that the new maturity date does not extend past the original maturity date of the Retained Debt associated with such property. In such instances, Melcor would be required to subscribe for and purchase, and the Partnership would be required to issue, further Class C LP Units in an amount equivalent to the amount of the upward refinancing.

On formation of the REIT, the capital account of the Class C LP Units will be equal to the principal balance of the Retained Debt. The portion of the distributions paid on Class C LP Units that relates to the interest payable on the Retained Debt will not affect the capital account of the Class C LP Units, as income will be allocated to the Class C LP Units in an amount equal to the amount of such interest payable. The portion of the distributions paid on Class C LP Units that relates to the principal payable on the Retained Debt will reduce the capital account of the Class C LP Units, and such balance will continue to match the principal outstanding on the Retained Debt. If the Retained Debt is ultimately paid off in full, the capital account balance of the Class C LP Units will be reduced to nil and the applicable outstanding Class C LP Units will be cancelled.

### **Composition of Indebtedness**

The REIT intends to finance the acquisition of the Initial Properties and its ongoing operations with a combination of fixed rate secured debt with staggered maturities and floating rate secured revolving debt. The fixed rate debt is expected to be comprised of the Retained Debt and Assumed Mortgages. The Retained Debt and Assumed Mortgages will have varying maturities ranging from December 2013 through to April 2023. The REIT will generally be liable, whether as a primary obligor or otherwise, for the Retained Debt and the Assumed Mortgages.

All costs and expenses relating to the assumption by the REIT of the Assumed Mortgages will be the responsibility of Melcor.

### Assumed Mortgages and Retained Debt

The following table summarizes, for each of the Initial Properties, the expected outstanding principal amount of debt secured thereby (both Assumed Mortgages and Retained Debt) on Closing, the interest rate applicable to such debt and the maturity date of such debt.

<u>Property</u>	<u>Loan Balance (in thousands)</u>	<u>Interest Rate</u>	<u>After Interest Rate Subsidy<sup>(1)</sup></u>	<u>Maturity Date</u>
<b>Retained Debt</b>				
Westcor Building (Loan #1) .....	\$ 3,331	5.92%	4.00% <sup>(2)</sup>	Feb – 2015
Royal Bank Building .....	\$ 21,959	4.77%	4.00% <sup>(2)</sup>	Aug – 2015
Kingsview Market .....	\$ 9,972	3.85%	3.85%	Aug – 2016
Corinthia Plaza .....	\$ 2,953	3.13%	3.13%	Aug – 2017
Westgate Building and TKE Building .....	\$ 8,947	3.33%	3.33%	Feb – 2018
Westcor Building (Loan #2) .....	\$ 4,934	6.16%	4.00% <sup>(2)</sup>	Oct – 2018
Miller Crossing .....	\$ 8,125	3.32%	3.32%	Sept – 2019
Leduc Common Phase One (Loan #1) .....	\$ 9,764	5.35%	4.00% <sup>(2)</sup>	Sept – 2020
Leduc Common Phase One (Loan #2) .....	\$ 1,955	5.13%	4.00% <sup>(2)</sup>	Sept – 2020
Leduc Common Phase Two .....	\$ 2,604	5.33%	4.00% <sup>(2)</sup>	Oct – 2020
Crowfoot <sup>(3)</sup> .....	\$ 20,000	4.02%	4.02%	Apr – 2023
<b>Assumed Mortgages</b>				
Capilano Centre <sup>(3)</sup> .....	\$ 3,658	6.00%	4.00% <sup>(2)</sup>	Dec – 2013
Leduc Common Phase Three (Loan #1) .....	\$ 9,140	5.86%	4.00% <sup>(2)</sup>	Nov – 2014
Leduc Common Phase Three (Loan #2) .....	\$ 8,583	3.11%	3.11%	Nov – 2014
Watergrove <sup>(3)</sup> .....	\$ 5,108	4.98%	4.00% <sup>(2)</sup>	Jan – 2015
Chestermere Station Phase One and Three <sup>(4)</sup> .....	\$ 5,917	5.70%	4.00% <sup>(2)</sup>	May – 2015
Chestermere Station Phase Three <sup>(4)</sup> .....	\$ 1,255	5.70%	4.00% <sup>(2)</sup>	May – 2015
Stanley Buildings .....	\$ 2,962	5.00%	4.00% <sup>(2)</sup>	Jul – 2015
Lethbridge Industrial Building .....	\$ 1,801	3.49%	3.49%	Jul – 2015
100 Street Place .....	\$ 4,398	3.94%	3.94%	Nov – 2015
Sterling Business Centre .....	\$ 5,201	5.59%	4.00% <sup>(2)</sup>	Sept – 2016
Chestermere Station Phase Two <sup>(4)</sup> .....	\$ 1,249	3.41%	3.41%	Oct – 2016
Kelowna Business Centre .....	\$ 7,055	3.01%	3.01%	Nov – 2016
Parliament Place .....	\$ 2,983	3.73%	3.73%	Feb – 2018
Melton Building <sup>(3)</sup> .....	\$ 14,625	4.02%	4.02%	Apr – 2018
Princeton Place .....	\$ 6,209	4.64%	4.00% <sup>(2)</sup>	Apr – 2018
Towers Mall <sup>(3)</sup> .....	\$ 8,375	3.62%	3.62%	Apr – 2018
Chestermere Station Phase Four <sup>(3)</sup> .....	\$ 3,868	4.91%	4.00%	Sept – 2020
<b>Total/ Weighted Average</b> .....	<b>\$186,932</b>	<b>4.43%</b>	<b>3.81%</b>	<b>Oct – 2017</b>

#### Notes:

1. The purchase price otherwise payable by the REIT for the Initial Properties will be reduced at Closing by approximately \$3.6 million which will have the effect of reducing the effective interest rate on the Assumed Mortgages and Retained Debt being subsidized. See “Arrangements with Melcor – Interest Rate Subsidy”.
2. Assumed Mortgages and Retained Debt to receive the benefit of the Interest Rate Subsidy.
3. Represents anticipated loan balances, interest rates and maturity dates for Assumed Mortgages and Retained Debt for which Melcor currently has commitment letters. Management anticipates that these mortgages will be funded prior to Closing.
4. Represents 50% of the anticipated loan balance. Melcor currently owns, and upon Closing the REIT will own, a 50% interest in these Initial Properties.

### Revolving Credit Facility

The REIT has signed a commitment letter with two Canadian chartered banks and, subject to the satisfaction of certain conditions precedent, such banks will provide a revolving credit facility (the “Revolving Credit Facility”) to the REIT on Closing. The Revolving Credit Facility will have a maximum principal amount of \$25 million (which, based on the current borrowing base, will have availability of approximately \$20.8 million), bearing interest at a rate equal to the bank’s prime rate plus 125 basis points or Bankers’ Acceptances plus 225 basis points, with an initial term of

24 months, and will be used by the REIT for working capital purposes and future acquisitions. The Revolving Credit Facility will initially be secured by a first charge mortgage registered against 4 of the Initial Properties and second charge mortgages, ranking subordinate to certain of the Assumed Mortgages, registered against 3 of the Initial Properties. Based on the financial forecast, no amounts are expected to be drawn on the Revolving Credit Facility on Closing.

### Debt Maturities

Upon Closing, the REIT expects to have in place mortgages (which amount includes mortgages relating to the Retained Debt) with a principal amount of approximately \$187 million (which amount excludes a mark-to-market adjustment of approximately \$2 million on the Retained Debt), consisting of fixed rate, secured mortgage financing, with a weighted average maturity and the weighted average effective interest rate of 4.5 years and 4.43%, respectively. The effective interest rate of such mortgages will be 3.81% after giving effect to the Interest Rate Subsidy. See “Arrangements with Melcor – Interest Rate Subsidy”.

The following table sets out, the principal installments, debt maturity and weighted average interest rate of maturing mortgages of the REIT (including mortgages relating to the Retained Debt) that are expected to be in place on Closing and paid over the periods indicated (dollar amounts in thousands).

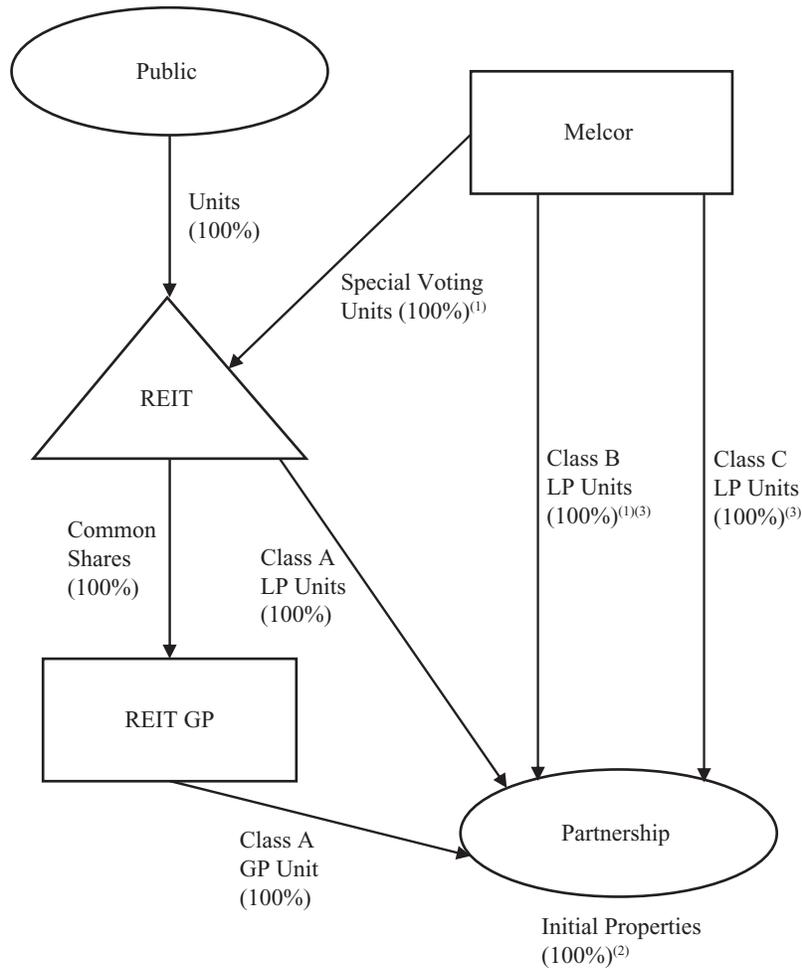
<u>Year</u>	<u>Payments of Principal</u>	<u>Debt Maturing During Year</u>	<u>Total Principal Payments</u>	<u>% of Total Debt</u>	<u>Weighted Average Interest Rate of Maturing Mortgages</u>	<u>Weighted Average Interest Rate of Maturing Mortgages after Interest Rate Subsidy<sup>(1)</sup></u>
2013 .....	\$ 4,220	\$ 3,561	\$ 7,781	4.2%	6.00%	4.00%
2014 .....	\$ 5,633	\$ 16,980	\$ 22,613	12.1%	4.53%	3.57%
2015 .....	\$ 4,520	\$ 42,956	\$ 47,476	25.4%	4.91%	3.97%
2016 .....	\$ 3,591	\$ 21,014	\$ 24,605	13.2%	3.96%	3.61%
2017 .....	\$ 3,165	\$ 2,578	\$ 5,743	3.1%	3.13%	3.13%
Thereafter .....	\$ 6,324	\$ 72,390	\$ 78,714	42.1%	4.22%	3.83%
<b>Total</b> .....	<b>\$27,453</b>	<b>\$159,480</b>	<b>\$186,932</b>	<b>100.0%</b>	<b>4.43%</b>	<b>3.81%</b>

**Notes:**

1. See “Arrangements with Melcor – Interest Rate Subsidy”.

## POST-CLOSING STRUCTURE

The following chart sets out the simplified organizational structure of the REIT immediately following Closing (all figures approximate):



**Notes:**

1. The ● Class B LP Units (accompanied by an equivalent number of Special Voting Units) represent an approximate ● % effective interest in the REIT on a fully diluted basis (an approximate ● % effective interest in the REIT if the Over – Allotment Option is exercised in full). Pursuant to the Exchange Agreement, the Class B LP Units are exchangeable on a one-for-one basis into Units.
2. All of the Initial Properties will be 100% owned by the Partnership, except for Capilano Centre, Chestermere Station and Watergrove, which will be 50% owned.
3. The Class B LP Units and the Class C LP Units will be held indirectly by Melcor through an affiliate.

## ARRANGEMENTS WITH MELCOR

On Closing, the REIT, the Partnership and Melcor will enter into certain agreements governing their relationship following Closing. See also “Retained Interest”.

### Asset Management Agreement

#### *Services*

Pursuant to the Asset Management Agreement, Melcor will provide asset management services to the REIT. Subject to the overriding supervision of the Trustees, Melcor shall perform the following services (the “Asset Management Services”):

- (a) advisory, consultation and investment management services and monitoring financial performance;
- (b) providing the services of members of Melcor’s senior management team to act as Chief Executive Officer and Chief Financial Officer;
- (c) advise the Board on strategic matters, including potential acquisitions, dispositions, financings and development;
- (d) provide guidance to the property manager on operations, expenses and capital expenditures;
- (e) identify, evaluate, recommend and assist in the structuring of acquisitions, dispositions, financings and other transactions;
- (f) advise and assist with borrowings, issuances of securities and other capital requirements, including assistance in dealings with banks and other lenders, investment dealers, institutions and investors;
- (g) make recommendations with respect to the payment of distributions;
- (h) provide advice in connection with the preparation of business plans and annual budgets, implement such plans and budgets and monitor financial performance;
- (i) advise with respect to investor relations strategies and activities;
- (j) advise with respect to regulatory compliance requirements, risk management policies and certain litigation matters;
- (k) certain management and general administrative services, including keeping and maintaining books and records; preparing returns, filings and documents and making determinations necessary for the discharge of the REIT’s obligation and those of the Trustees;
- (l) certain administrative and support services, including office space, office equipment and communications services and computer systems, secretarial support personnel and reception and telephone answering services, installing and maintaining signage and promotional materials and such other administrative services as may be reasonably required from time to time; and
- (m) any additional services as may from time to time be agreed to in writing by Melcor and the REIT for which Melcor will be compensated on terms to be agreed upon between Melcor and the REIT prior to the provision of such services.

In providing the Asset Management Services, Melcor will exercise the degree of care, diligence, judgment and skill that would be exercised by a professional, prudent and competent person who is experienced in providing services substantially similar to the Asset Management Services.

#### *Asset Management Fee*

Melcor will be entitled to the following fees for its Asset Management Services:

- (a) a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of Gross Book Value of the REIT’s investment properties;
- (b) a capital expenditures fee equal to 5.0% of all hard construction costs incurred on each capital project with costs in excess of \$100,000, with such capital expenditure fee specifically excluding work done on behalf of tenants or any maintenance expenditures;

- (c) an acquisition fee equal to (i) 1.0% of that portion of the purchase price paid by the REIT for the purchase of any new property acquired in each fiscal year which is less than or equal to \$100,000,000 (ii) 0.75% of that portion of the purchase price paid by the REIT for the purchase of any new property acquired in each fiscal year which is greater than \$100,000,000 but less than or equal to \$200,000,000, and (iii) 0.50% of that portion of the purchase price paid by the REIT for the purchase of any new property acquired in each fiscal year which is greater than \$200,000,000. Melcor will not receive an acquisition fee from the REIT in respect of the acquisition of the Initial Properties or any other properties acquired directly or indirectly from Melcor or a party affiliated or related to Melcor; and
- (d) Financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor in supplying services relating to financing transactions. Melcor will not receive a financing fee in respect of the Offering or any other subsequent financing by the REIT to Melcor, including any issuances of securities to Melcor. This fee is intended to cover the cost of Melcor's actual expenses in supplying services to the REIT relating to financing transactions, and is not intended to have a profit component for Melcor. Accordingly, at the end of each calendar year, there will be an adjustment made to reflect the actual amount of expenses of supplying such services incurred by Melcor in such year. To the extent that the financing fees paid by the REIT exceed the actual amount of such expenses, Melcor will reimburse the REIT for the difference. To the extent that the financing fees charged by Melcor are less than the actual amount of such expenses, the REIT will pay the difference as an additional financing fee amount.

The fees under the Asset Management Agreement shall be subject to review by Melcor and the Independent Trustees on the fifth anniversary of Closing and each subsequent fifth anniversary thereof. In the event that Melcor and the Independent Trustees are unable to agree on the current market fees to be payable under the Asset Management Agreement on the applicable anniversary for the associated renewal period, such fees shall be determined by binding arbitration. In such event, following the applicable anniversary, the fees under the Asset Management Agreement shall continue to be the fees payable thereunder for the expiring period until a final determination has been made pursuant to the binding arbitration.

#### *Expenses*

The REIT will reimburse Melcor for all out-of-pocket costs and expenses incurred by Melcor in connection with carrying out its duties and obligations under the Asset Management Agreement. Melcor will, however, be responsible for its own overhead costs and certain other costs and expenses, including its office rent and costs relating to its employees providing the Asset Management Services.

#### *Term of the Asset Management Agreement*

The Asset Management Agreement is for a term of five years and is renewable for further five year terms, unless and until it is terminated in accordance with the provisions thereof. Subject only to the termination provisions, Melcor will automatically be rehired at the expiration of each term.

The REIT will have the right to terminate the Asset Management Agreement upon:

- (a) the occurrence of any of the following event (each a "Melcor AMA Event of Default"):
  - (i) an event of insolvency of Melcor;
  - (ii) a material breach by Melcor under the Asset Management Agreement, if such material breach is not cured within 30 days after receipt by Melcor of written notice from the REIT with respect thereto unless Melcor has commenced rectification of such material breach within such 30 day period and thereafter promptly, diligently and continuously proceeds with the rectification of such breach;
  - (iii) fraudulent misconduct of, or misappropriation of funds by, Melcor;
  - (iv) an act of gross negligence by Melcor;
  - (v) a default by Melcor under the Development and Opportunities Agreement, that results in the termination by the REIT of such agreement;

- (vi) a default by Melcor under the Property Management Agreement, that results in the termination by the REIT of such agreement; or
- (vii) a default by Melcor under the Restrictive Covenant Agreement; or
- (b) a change of control of Melcor, subject to reimbursement of Melcor for AMA Employee Severance Costs.

The REIT may also terminate the Asset Management Agreement at the end of a term or renewal term if a majority of the Independent Trustees determine that Melcor has not been meeting its obligations under the Asset Management Agreement and such termination is approved by a majority of the votes cast by Unitholders at a meeting of Unitholders called and held for such purpose, provided that the REIT provides Melcor with at least 12 months' prior written notice of such termination, or payment in lieu thereof.

Further, upon the REIT achieving a Gross Book Value of \$1.15 billion, if a majority of the Independent Trustees determine that it is in the best interests of the REIT to internalize the Asset Management Services, then the REIT may terminate the Asset Management Agreement, provided that the REIT provides Melcor with at least 12 months' prior written notice of such termination, or payment in lieu thereof.

Melcor will have the right to terminate the Asset Management Agreement upon the occurrence:

- (a) an event of insolvency of the REIT, within the meaning of the Asset Management Agreement;
- (b) a material breach by the REIT under the Asset Management Agreement, if such material breach is not cured within 30 days after receipt by the REIT of written notice from Melcor with respect thereto unless the REIT has commenced rectification of such material breach within such thirty (30) day period and thereafter promptly, diligently and continuously proceeds with the rectification of such breach; or
- (c) a change of control of the REIT.

Melcor will also have the right to terminate the Asset Management Agreement upon one year's prior notice to the REIT after the later of: (i) the date that Melcor owns, directly or indirectly, less than 20% of the Units (calculated on a fully diluted basis); or (ii) ten years from the Closing Date (a "Melcor Permitted AMA Resignation").

Upon the termination of the Asset Management Agreement, Melcor shall be entitled to reimbursement for AMA Employee Severance Costs, which reimbursement will not derogate from or in any way affect or preclude any other rights of Melcor for damages or otherwise at law or equity. For purposes of the Asset Management Agreement, "AMA Employee Severance Costs" means any and all severance or termination costs and payments (if any) actually incurred by Melcor or its affiliates in respect of employees of Melcor or its affiliates arising out of or resulting from the ensuing termination of redundant or surplus employees as a consequence of the termination of the Asset Management Agreement (other than as a result of: (i) a Melcor AMA Event of Default; (ii) a change of control of the REIT; or (iii) a Melcor Permitted AMA Resignation) in respect of the period after Closing that each such employee has worked on REIT matters and based on the proportion of each such employee's services attributable to REIT matters, provided that, notwithstanding the foregoing, in the event that the REIT or an affiliate of the REIT employs any employee of Melcor within 12 months of termination of the Asset Management Agreement for any reason whatsoever, the REIT or such affiliate shall be responsible for any and all severance and termination costs and payments paid or payable by Melcor to such employee.

#### *Removal of Officer of REIT*

If the REIT requests the removal, without cause, of a senior officer of the REIT (including the Chief Executive Officer or Chief Financial Officer of the REIT) whose services were being provided by Melcor or its affiliates, the REIT will be responsible for reimbursing Melcor for severance and termination costs and payments (if any) actually incurred by Melcor or its affiliates for such senior officer in respect of: (i) the period after Closing that such senior officer has worked on REIT matters; and (ii) the proportion of such senior officer's services attributable to REIT matters.

#### *Change of Control Payment*

Upon a change of control of the REIT, other than a change of control caused by Melcor, and upon Melcor terminating the Asset Management Agreement within the 12 months following such change of control, the REIT shall

pay Melcor an amount equal to the gross fees paid to Melcor over the preceding 12 months, provided that Melcor will not be entitled to any reimbursement for severance costs or payments incurred by it except in respect of any employee of Melcor employed by the REIT or its affiliates within the 12 months following resignation.

#### *Non – Solicitation*

Upon termination of the Asset Management Agreement, the REIT will not solicit employees of Melcor for a period of 18 months, provided that the REIT will be entitled to solicit any employee of Melcor for whom the REIT is responsible to reimburse Melcor for severance or termination costs pursuant to the Asset Management Agreement, other than the Chief Executive Officer and Chief Financial Officer of the REIT or any other employee of Melcor appointed as a senior officer of the REIT. Notwithstanding the foregoing, if Melcor terminates the Asset Management Agreement as a result of an event of default by the REIT, the REIT shall not be entitled to solicit any employee of Melcor for a period of 18 months.

### **Property Management Agreement**

#### *Property Management Services*

Pursuant to the Property Management Agreement, Melcor will provide property management services to the REIT. Subject to the overriding supervision and direction of the Trustees, Melcor shall perform the following services (the “Property Management Services”):

- (a) providing and operating the REIT’s head office, including providing the office space, equipment, supplies, support services and administrative, clerical and secretarial personnel incidental thereto;
- (b) managing and administering the day-to-day operations of the REIT and its subsidiaries;
- (c) maintaining the books and financial records of the REIT’s investment properties and preparing reports, tax returns and other disclosure documents based on the maintenance of such books and records;
- (d) reviewing property tax assessments and making recommendations in respect thereof and taking necessary steps to appeal or consent such assessments if appropriate;
- (e) conducting the day-to-day relations with respect to the REIT’s investment properties with third parties, including suppliers, brokers, consultants, advisors, accountants, lawyers, insurers and appraisers;
- (f) supervising investment property expansions, capital projects and development projects;
- (g) managing and operating the REIT’s investment properties, including inspecting the properties, negotiating contracts, ensuring reasonable security, handling tenant requests and negotiations, arranging for such improvements and repairs as may be required and purchasing all materials and services, and incurring such expenses (with certain exceptions), as it deems necessary in connection therewith, all in accordance with an approved budget;
- (h) collecting all rents and other charges and payments of costs and expenses related to the management of the REIT’s investment properties;
- (i) reporting on the financial condition of the investment properties and preparing budgets and leasing and marketing plans with respect thereto;
- (j) supervising and conducting all leasing operations, including negotiating and executing leases in accordance with an approved leasing and marketing plan;
- (k) preparing all reports reasonably requested by the REIT and its subsidiaries, including operational reporting such as cash flow by property and by asset type, reports on development costs and executive summaries by asset type describing each of the REIT’s investment properties;
- (l) managing regulatory compliance in respect of the investment properties, including making all required filings;
- (m) assisting the REIT with the preparation of all documents, reports, data and analysis required by the REIT for its filings and documents necessary for its continuous disclosure requirements pursuant to applicable stock exchange rules and securities laws; and
- (n) supervising the activities of subcontractors.

In providing the Property Management Services, Melcor will exercise the degree of care, diligence, judgment and skill that would be exercised by a professional, prudent and competent person who is experienced in providing services substantially similar to the Property Management Services.

#### *Sub-Contracting*

Melcor will be responsible for performing the Property Management Services through its dedicated management team and employees. In performing such duties, Melcor may from time to time retain the services of third parties where it is appropriate to do so provided that Melcor will at all times remain responsible for such functions in accordance with the Property Management Agreement. To the extent that Melcor performs any of its duties and responsibilities through contractual arrangements with other parties, Melcor will remain responsible for such functions in accordance with the Property Management Agreement. Except as specifically described below under the heading "Expenses", to the extent that Melcor performs any of the Property Management Services through contractual arrangements with third parties, Melcor will bear the related costs and will remain responsible for such functions in accordance with the Property Management Agreement.

#### *Property Management Service Fee*

In consideration of providing the Property Management Services, Melcor will be entitled to the following fees (other than in respect of such matters occurring at or in conjunction with Closing):

- (a) a monthly fee, payable in arrears on or about the fifteenth (15th) day of each month, equal to one-twelfth (1/12) of 3.0% of Gross Property Revenue based on the monthly average of the Gross Property Revenue as at the end of the immediately preceding fiscal quarter, except for the purposes of the first fiscal quarter following Closing it will be estimated, with reconciliation to actual figures once annual financial statements of the Partnership are available; and
- (b) an upfront lease fee equal to the aggregate of the following:
  - (i) 5.0% of Aggregate Base Rent for New Leases for the first five years of the initial term and 2.5% of Aggregate Base Rent for New Leases for the second five years of the initial term, provided that in the event that Melcor lists a property with a third party leasing agent and that leasing agent cooperates with an outside agent, then the fee payable to Melcor shall, if the listing agreement with the leasing agent provides for an additional fee payable to the outside agent, be 1.5 times the lease base fee so as to compensate Melcor for having to pay the additional fee; and
  - (ii) 2.5% of Aggregate Base Rent for Lease Renewals and Expansions for the first five years of the initial term.

The lease fees shall be subject to review by Melcor and the Independent Trustees on an annual basis to ensure that the lease fee structure represents current market terms in each particular market within which leasing services are provided. The objective of this review is to set the leasing fees at no more, and no less, than an industry-standard rate in each particular market. In the event that Melcor and the Independent Trustees are unable to agree on such lease fee structure for a particular market, such fee structure shall be determined by binding arbitration.

Further, all fees under the Property Management Agreement shall be subject to review by Melcor and the Independent Trustees on the fifth anniversary of Closing and each subsequent fifth anniversary thereof. In the event that Melcor and the Independent Trustees are unable to agree on the current market fees to be payable under the Property Management Agreement on the applicable anniversary for the associated renewal period, such fees shall be determined by binding arbitration. In such event, following the applicable anniversary, the fees under the Property Management Agreement shall continue to be the fees payable thereunder for the expiring period until a final determination has been made pursuant to the binding arbitration.

Property management fees will not be payable under the Property Management Agreement with respect to Capilano Centre, Chestermere Station and Watergrove as each of these Initial Properties is a joint venture subject to an existing property management agreement, with fees ranging between 2.25% of net revenue and 4.00% of gross revenue.

### *Expenses*

The REIT will reimburse Melcor for out-of-pocket costs and expenses incurred by Melcor in connection with carrying out its duties and obligations under the Property Management Agreement provided that such costs and expenses are approved as part of the REIT's annual budget processes or are otherwise approved by the REIT. Melcor will, however, be responsible for its own overhead costs and certain other costs and expenses, including its office rent and costs relating to its employees providing the Property Management Services other than: (i) employees designated as property managers for a specific property or properties (anticipated to be three employees at Closing); and (ii) employees who are on-site at a property (anticipated to be three employees at Closing). Further, management anticipates that at Closing eight employees of sub-contractors will be engaged to provide certain Property Management Services, two as property managers and six as building operators. The REIT will also be responsible for the costs and expenses associated with the Property Management Services provided by these sub-contractors.

### *Term of the Property Management Agreement*

The Property Management Agreement shall have an initial term of five years and shall be renewed automatically for successive five year terms until terminated in accordance with its provisions. Subject only to the termination provisions, Melcor will automatically be rehired at the expiration of each term.

The REIT will have the right to terminate the Property Management Agreement upon the occurrence of any of the following:

- (a) the occurrence of any of the following event (each a "Melcor PMA Event of Default"):
  - (i) event of insolvency of Melcor;
  - (ii) a material breach by Melcor under the Property Management Agreement, if such material breach is not cured within 30 days after receipt by Melcor of written notice from the REIT with respect thereto unless Melcor has commenced rectification of such material breach within such 30 day period and thereafter promptly, diligently and continuously proceeds with the rectification of such breach;
  - (iii) fraudulent misconduct of, or misappropriation of funds by, Melcor;
  - (iv) an act of gross negligence by Melcor;
  - (v) a default by Melcor under the Development and Opportunities Agreement, that results in the termination by the REIT of such agreement;
  - (vi) a default by Melcor under the Asset Management Agreement, that results in the termination by the REIT of such agreement; or
  - (vii) a default by Melcor under the Restrictive Covenant Agreement or
- (b) a change of control of Melcor, subject to reimbursement of Melcor for PMA Employee Severance Costs

The REIT may also terminate the Property Management Agreement at the end of a term or renewal term if a majority of the Independent Trustees determine that Melcor has not been meeting its obligations under the Property Management Agreement, provided that the REIT provides Melcor with at least 90 days' prior written notice, or payment in lieu thereof.

Further, upon the REIT achieving a Gross Book Value of \$1.15 billion, if a majority of the Independent Trustees determine that it is in the best interest of the REIT to internalize the Property Management Services, then the REIT may terminate the Property Management Agreement, provided that the REIT provides Melcor with at least 90 days' prior written notice, or payment in lieu thereof.

Melcor will have the right to terminate the Property Management Agreement upon the occurrence of any of the following:

- (a) an event of insolvency of the REIT;
- (b) a material breach by the REIT under the Property Management Agreement, if such material breach is not cured within 30 days after receipt by the REIT of written notice from Melcor with respect thereto unless the

REIT has commenced rectification of such material breach within such 30 day period and thereafter promptly, diligently and continuously proceeds with the rectification of such breach; or

- (c) upon a change of control of the REIT.

Melcor will also have the right to terminate the Property Management Agreement upon one year's prior notice to the REIT after the date that is ten years after the Closing Date (a "Melcor Permitted PMA Resignation").

Upon the termination of the Property Management Agreement, Melcor shall be entitled to reimbursement for PMA Employee Severance Costs, which reimbursement will not derogate from or in any way affect or preclude any other rights of Melcor for damages or otherwise at law or equity. For purposes of the Property Management Agreement, "PMA Employee Severance Costs" means any and all severance or termination costs and payments (if any) actually incurred by Melcor or its affiliates in respect of employees of Melcor or its affiliates arising out of or resulting from the ensuing termination of redundant or surplus employees as a consequence of the termination of the Property Management Agreement (other than as a result of: (i) a Melcor PMA Event of Default; (ii) a change of control of the REIT; or (iii) a Melcor Permitted PMA Resignation) in respect of the period after Closing that each such employee has worked on REIT matters and based on the proportion of each such employee's services attributable to REIT matters, provided that, notwithstanding the foregoing, in the event that the REIT or an affiliate of the REIT employs any employee of Melcor within 12 months of termination of the Property Management Agreement for any reason whatsoever, the REIT or such affiliate shall be responsible for any and all severance and termination costs and payments paid or payable by Melcor to such employee.

#### *Change of Control Payment*

Upon a change of control of the REIT, other than a change of control caused by Melcor, and upon Melcor terminating the Property Management Agreement within the 12 months following such change of control, the REIT shall pay Melcor an amount equal to the gross fees paid to Melcor over the preceding 12 months, provided that Melcor will not be entitled to any reimbursement for severance or termination costs or payments in respect of redundant or surplus employees except in respect of any employee of Melcor employed by the REIT or its affiliates within the 12 months following resignation, and then only in respect of the period after Closing that each such employee has worked on REIT matters and based on the proportion of each such employee's services attributable to REIT matters.

#### *Non-Solicitation*

Upon termination of Property Management Agreement, the REIT will not solicit employees of Melcor for a period of 18 months, provided that the REIT will be entitled to solicit any employee of Melcor for whom the REIT is responsible to reimburse Melcor for severance or termination costs pursuant to the Property Management Agreement. Notwithstanding the foregoing, if Melcor terminates the Property Management Agreement as a result of an event of default by the REIT, the REIT shall not be entitled to solicit any employee of Melcor for a period of 18 months.

### **Development and Opportunities Agreement**

Pursuant to the Development and Opportunities Agreement, Melcor will grant certain rights to the REIT.

#### *Right of First Offer*

On Closing, Melcor will grant the REIT a Right of First Offer to acquire any interest of Melcor in investment properties that it owns after Closing (whether forming part of the Retained Commercial Properties, or acquired or developed by Melcor after Closing, including a Refused Property, but excluding an investment property that is then subject to the Development Property Option or the Mezzanine Financing Option), prior to disposition of any such interest to third parties, which right will be on terms not less favourable to the REIT than those offered by or to such third party.

The Right of First Offer will provide that if at any time, and from time to time, following Closing, Melcor determines that it desires to sell, or receives and desires to accept an offer to acquire (directly or indirectly by way of the sale or acquisition of securities), an investment property (a "Proposed Disposition"), Melcor will, by notice in writing, advise the REIT of such opportunity. Such a notice shall be accompanied by a formal offer to sell which shall set forth the purchase price, manner of payment and closing date (which shall be a date not less than 60 days from the

date of issuance of the notice or such other date as mutually agreed by the parties) and which shall otherwise contain customary terms and conditions for a commercial real estate transaction of comparable size and type, and shall be accompanied by all material information relating to the Proposed Disposition as is in the control or possession of Melcor.

The REIT will have up to 30 days to accept Melcor's offer to sell (or in the event that the notice of Proposed Disposition is issued as a result of an unsolicited offer from an arms' length party, ten business days following receipt of the notice of Proposed Disposition, including all relevant information regarding the unsolicited offer). If the REIT notifies Melcor that it does not wish to acquire the Proposed Disposition, or the applicable period for the REIT accepting Melcor's offer to sell lapses, the Proposed Disposition shall become a Refused Property and Melcor will be entitled to complete the sale of the Refused Property within the following 180 days (or within 270 days, in the event that Melcor enters into an agreement for sale with respect to such property and the purchaser's terms and conditions thereunder are satisfied or waived within such 180 period) to any third party on terms not materially more favourable to the third party than those contained in Melcor's offer to sell. If Melcor does not complete the sale of the Refused Property within such 180 day or 270 day period, as applicable, it shall again become subject to the Right of First Offer. In respect of investment properties of Melcor that are the subject of joint ventures with unrelated parties, the Right of First Offer will be subject to the terms of contractual arrangements with such unrelated parties. Further, the Right of First Offer may be subject to the rights of lenders under certain loan documents securing properties in which Melcor has an interest.

#### *Investment Opportunities*

If at any time, and from time to time, following Closing, Melcor identifies an opportunity (an "Investment Opportunity") to acquire, directly or indirectly, an ownership interest in (including as a result of making a loan secured by): (i) any income producing commercial properties that satisfy the investment guidelines of the REIT; or (ii) a portfolio or an interest in a portfolio of income producing commercial properties that satisfy the investment guidelines of the REIT, then, provided that the acquisition of such property by the REIT would be accretive, having regard to the Per Unit AFFO of the REIT assuming appropriate financing assumptions, Melcor shall by notice in writing (an "Opportunity Notice") advise the REIT of the Investment Opportunity. The Opportunity Notice shall outline all of the material terms and conditions of the Investment Opportunity then known to Melcor and shall be accompanied by all information relating to the Investment Opportunity as is in the possession of Melcor.

The REIT will have up to ten business days to advise Melcor in writing that it is interested in acquiring such Investment Opportunity, but such notice shall not constitute a commitment on the part of the REIT to acquire such Investment Opportunity. If the REIT notifies Melcor that it does not wish to acquire the Investment Opportunity, or the applicable period for the REIT to respond expires without the REIT advising Melcor that it wishes to acquire the Investment Opportunity, Melcor shall thereafter be entitled to pursue the Investment Opportunity for its own account.

If the REIT advises Melcor in writing that it is interested in acquiring such Investment Opportunity within the applicable period, Melcor will grant the REIT the right to pursue such Investment Opportunity for its own account. If the REIT subsequently ceases to actively pursue the Investment Opportunity or notifies Melcor in writing that it has ceased all efforts to complete such Investment Opportunity (which it shall be obliged to do if it ceases all efforts in respect of an Investment Opportunity), Melcor thereafter shall be entitled to pursue the Investment Opportunity for its own account and if acquired by Melcor, such property shall become a Refused Property subject to the Right of First Offer.

The Investment Opportunities Provisions contained in the Development and Opportunities Agreement shall not apply to commercial investment properties which are located in the United States until such time as ten percent of the Gross Book Value of the REIT's assets are located in the United States, and thereafter shall apply so long as the REIT's publically announced target for the United States is in excess of such threshold.

#### *Joint Venture Option*

Pursuant to the Development and Opportunities Agreement, if Melcor intends to enter into a joint venture with respect to a Development Property (such determination to be made by Melcor in its sole and unfettered discretion), Melcor shall offer to the REIT the opportunity (the "Joint Venture Option"), by notice in writing, to participate in such joint venture on terms to be mutually agreed upon, except that if the parties form a joint venture, the definitive agreement shall provide that: (i) Melcor will be the development manager; and (ii) Melcor and the REIT shall agree on a budget, design and general profile for such Development Property.

The REIT will have the exclusive right to negotiate with Melcor for a period of thirty days with respect to the formation of a joint venture. During such period, Melcor shall use commercially reasonable efforts to provide the REIT with any and all information concerning the Development Property which is the subject of the Joint Venture Option. If such exclusivity period expires without Melcor and the REIT entering into a definitive joint venture agreement with respect to the Development Property, Melcor shall have the right to enter into a joint venture with an unrelated party with respect to such Development Property. If Melcor enters into a joint venture with an unrelated party with respect to such Development Property, Melcor's interest in such property shall become a Refused Property and subject to the Right of First Offer. If Melcor subsequently does not enter into a joint venture with an unrelated party with respect to such property, such Property shall continue to be a Development Property and subject to either the Development Property Option or the Mezzanine Financing Option, as applicable. See "Development Property Option" and "Mezzanine Financing Option".

The Joint Venture Option shall not apply in situations where Melcor approaches, or is approached by, a third party owner of land with respect to the acquisition of an interest in such lands by Melcor, and the formation of a joint venture with the land's owner with respect to the development of such land. However, Melcor's interest in such joint ventures will be subject to the Development Property Option.

#### *Development Property Option*

Once a Development Property for which the REIT has not provided mezzanine financing has reached Stabilization, whether or not such property is the subject of a joint venture between Melcor and the REIT or Melcor and a third party, Melcor shall deliver a formal offer to sell such Development Property to the REIT (the "Development Property Option"). Such offer shall set forth the purchase price, manner of payment and closing date (which shall be a date not less than 60 days from the date of issuance of the notice or such other date as mutually agreed to by the parties) and shall otherwise contain customary terms and conditions for a commercial real estate transaction of comparable size and type, and shall be accompanied by all material information relating to the Development Property as is in the control or possession of Melcor.

The REIT will have up to 30 days to accept Melcor's offer to sell. If the REIT notifies Melcor that it does not wish to acquire the Development Property, or the applicable period for the REIT accepting Melcor's offer to sell lapses, such Development Property shall become a Refused Property and Melcor will be entitled to complete the sale of such Refused Property within the following 180 days (or within 270 days, in the event that Melcor enters into an agreement for sale with respect to such property and the purchaser's terms and conditions thereunder are satisfied or waived within such 180 period) to any arm's length third party on terms not materially more favourable to the third party than those contained in the offer to sell to the REIT. If such Refused Property is not sold to an arm's length party within such 180 day or 270 day period, as applicable, it shall then become subject to the Right of First Offer.

Notwithstanding the foregoing, in the event that Melcor receives an unsolicited offer from an arm's length party with respect to a Development Property that is then subject to the Development Property Option that it is prepared to accept, whether or not such Development Property has reached Stabilization, such Development Property shall: (i) cease to be subject to the Development Property Option; and (ii) become subject to the Right of First Offer.

#### *Mezzanine Financing Option*

In the event that the REIT has provided mezzanine financing with respect to a Development Property that has not previously become a Refused Property, Melcor and the REIT shall agree on a budget, design and general profile with respect to such Development Property. Once such Development Property for which the REIT has provided mezzanine financing has reached Stabilization, whether or not such property is the subject of a joint venture between Melcor and the REIT, Melcor shall deliver a formal offer to sell such Development Property to the REIT (the "Mezzanine Financing Option"). Such offer shall set forth the purchase price (which shall be 95% of the appraised fair market value at the time of Stabilization of such Development Property), manner of payment and closing date (which shall be a date not less than 60 days from the date of issuance of the notice or such other date agreed to by the parties) and shall otherwise contain customary terms and conditions for a commercial real estate transaction of comparable size and type,

and shall be accompanied by all material information relating to the Development Property as is in the control or possession of Melcor.

The REIT will have up to 30 days to accept Melcor's offer to sell. If the REIT notifies Melcor that it does not wish to acquire the Development Property, or the applicable period for the REIT accepting Melcor's offer to sell lapses, such Development Property shall become a Refused Property and Melcor will be entitled to complete the sale of such Refused Property within the following 180 days (or within 270 days, in the event that Melcor enters into an agreement for sale with respect to such property and the purchaser's terms and conditions thereunder are satisfied or waived within such 180 period) to any arm's length third party on terms not materially more favourable to the third party than those contained in the offer to sell to the REIT. If such Refused Property is not sold to an arm's length party within such 180 day or 270 day period, as applicable, it shall then become subject to the Right of First Offer.

Notwithstanding the foregoing, in the event that Melcor receives an unsolicited offer from an arms' length party with respect to a Development Property that is then subject to the Mezzanine Financing Option that it is prepared to accept, whether or not such Development Property has reached Stabilization, such Development Property shall: (i) cease to be subject to the Mezzanine Financing Option; and (ii) become subject to the Right of First Offer. Consequently, the REIT shall not be able to utilize the appraised fair market value provisions contained in the Mezzanine Financing Option if it has provided mezzanine financing to such Development Property.

#### *Mezzanine Financing for Development Properties*

Melcor may request the REIT to provide mezzanine financing for a Development Property. If the REIT elects in writing to provide mezzanine financing, which it shall not be obligated to do, such mezzanine loans shall:

- (a) be payable as to interest only, until maturity. Interest shall be payable in cash on the principal balance of a loan at a rate to be agreed upon by the REIT and Melcor and calculated monthly not in advance and payable monthly both before and after maturity and both before and after default;
- (b) be fully due and payable twelve months from the date that the Development Property has reached Stabilization. Melcor may prepay all or any part of the outstanding principal balance on three business days' notice. In the event that the REIT purchases the Development Property or in the event that the Melcor sells the Development Property to an arm's length party, the loan, including all interest and other amounts due to the date of repayment, shall be repaid in full on the date of successful completion of such transaction;
- (c) be full recourse to Melcor notwithstanding that the borrower under such loan may be an affiliate of Melcor;
- (d) all mezzanine loans shall be cross-collateralized; and
- (e) shall otherwise be on such terms and conditions as may be mutually agreed upon by the REIT and Melcor.

Melcor shall use its reasonable commercial efforts to secure each mezzanine loan by way of a registered second charge/mortgage in favour of the REIT on the title to the Development Property. In the event that Melcor is unable to secure a mezzanine loan by way of a registered second charge/mortgage on the title to the Development Property, it shall covenant in favour of the REIT not to grant any encumbrance on the Development Property which would adversely affect the rights of the REIT under the Development and Opportunities Agreement (other than in favour of the construction lender in respect of the construction financing) and in such case the Development Property shall be transferred to and be held by a single purpose company that is wholly owned by Melcor until the loan is repaid. Such obligation shall be secured by a pledge of the shares of the wholly owned subsidiary that holds registered title to the Development Property in favour of the REIT. Any such charge/mortgage or pledge will be assignable to the REIT's financiers and subordinate to any construction financing of the Development Property.

#### *Project Management Development Opportunities*

Pursuant to the Development and Opportunities Agreement, if the REIT intends to retain an arm's length party to provide project management services with respect to the development of real property which it owns into an investment property, then the REIT first shall offer such project management development opportunity to Melcor.

Melcor will have the exclusive right to negotiate with the REIT for a period of 30 days with respect to the project management development opportunity. During such period, the REIT shall use commercially reasonable efforts to provide Melcor with any and all information concerning the project management development opportunity. If such exclusivity period expires without Melcor and the REIT entering into a definitive project management development

agreement, the REIT shall have the right to enter into a project management development agreement with an unrelated party on terms not materially more favourable to the unrelated party than those offered to Melcor during the exclusive negotiation period.

#### *Obligations of the REIT*

During the term of the Development and Opportunities Agreement, the REIT will not engage the services of a party that is not Melcor (or an affiliate of Melcor) to provide Asset Management Services in respect of any current or after-acquired investment properties of the REIT or investment properties in which the REIT has an opportunity to make an investment, provided that such obligation does not apply in respect of properties in which the REIT has or would have an ownership interest of 50% or less.

#### *Term of the Development and Opportunities Agreement*

The Development and Opportunities Agreement is for a term that commences on Closing and ends on the later of: (i) the date that Melcor owns, directly or indirectly, less than 20% of the Units (calculated on a fully diluted basis); (ii) the date of termination of the Asset Management Agreement; or (iii) that date which is ten years from Closing, unless earlier terminated in accordance with the provisions thereof.

The REIT may terminate the Development and Opportunities Agreement if it has terminated the Asset Management Agreement pursuant to the provisions contained therein which permit the REIT to terminate such agreement in connection with the internalization by the REIT of the Asset Management Services.

#### **Restrictive Covenant Agreement**

Pursuant to the Restrictive Covenant Agreement, Melcor will not, directly or indirectly, without the consent of the Independent Trustees, solicit any specific tenant to vacate any REIT property in favour of a property in which Melcor or any of its affiliates has an ownership or operating interest during the occupancy of such tenant at such REIT property. In addition, none of Melcor nor its affiliates will preferentially market buildings in which it has an ownership or operating interest over buildings held directly or indirectly by the REIT.

Further, without the approval of the Independent Trustees, Melcor will not be entitled to act as the promoter of, or asset manager to, any publicly traded real estate business primarily focused on office, retail and/or industrial real estate in Canada and/or the United States, or acquire, invest in or have an ownership interest in, directly or indirectly, income producing office, retail and/or industrial real estate other than: (i) any income producing office, retail and/or industrial real estate assets owned and retained by Melcor at the time of Closing; (ii) any office, retail and/or industrial real estate assets that are being or have been developed and retained by Melcor at the time of Closing; (iii) any investment property that the REIT has been offered pursuant to the Development and Opportunities Agreement and has declined to invest in; (iv) any commercial property that Melcor is not required to offer to the REIT pursuant to the Investment Opportunity provisions contained in the Development and Opportunities Agreement as they are not accretive to the REIT; (v) any property that is a part of a portfolio of primarily non-office, retail and/or industrial rental properties; (vi) any investment of up to 10% of the issued and outstanding equity securities of any public issuer; (vii) and Melcor's interest in the REIT and/or the Partnership.

The Restrictive Covenant Agreement will be in effect until the termination of both the Asset Management Agreement and the Development and Opportunities Agreement.

#### **Liability for Mortgages**

Melcor will continue to be liable as a guarantor or otherwise, under the Assumed Mortgages as required by the mortgagees as a condition of their consent to the assumption by the REIT of such mortgages. The Partnership will indemnify Melcor in respect of such continuing liability. The right of the Partnership to dispose of an Initial Property in respect of which Melcor is so liable will be subject to the payment and discharge in full of such liability, the release of Melcor from such liability or Melcor's consent.

Currently, lenders to Melcor generally have a mortgage charge over a specific building in respect of a specific debt. The mortgage provides the lender with various specific remedies against the mortgaged property, but lenders also

have recourse to the other assets of Melcor in the event of a mortgage default. Melcor, pursuant to the Acquisition Agreement, will transfer the Initial Properties to the Partnership. As a result, the right of lenders to claim against the Initial Properties other than the specifically mortgaged property may be compromised. Accordingly, as a condition to obtaining the lender acknowledgements and consents for the transfer of the Initial Properties, the Partnership will provide a guarantee of Melcor's obligations under the Retained Debt in favour of the lender of such indebtedness.

### **Indemnification**

On Closing, Melcor will enter into the Indemnity Agreement, pursuant to which Melcor will indemnify the REIT and the Partnership for any breach of the representations, warranties and covenants contained in the Acquisition Agreement. The maximum liability of Melcor under its indemnity for any breach of the representations, warranties and covenants provided under the Acquisition Agreements will be limited to an amount equal to the net proceeds of the Offering. No claim under such indemnity may be made until the aggregate claims exceed \$750,000. See "Acquisition of Initial Properties – Acquisition Agreement".

Melcor will also indemnify the REIT and the Partnership for a period of seven years with respect to any damages incurred or losses suffered by the REIT or the Partnership relating to environmental matters at 22 of the Initial Properties, including the Melton Building. Each of these Initial Properties received a clean Phase I ESA Report or Phase II ESA Report. As a result of the Melton Building Expenditure Subsidy, Melcor shall not be required to indemnify the REIT with respect to the asbestos present at the Melton Building. See "Arrangements with Melcor – Melton Building Expenditure Subsidy" and "Assessments and Valuations of Initial Properties".

Melcor will also indemnify the REIT and the Partnership indefinitely with respect to any damages incurred or losses suffered by the REIT or the Partnership relating to environmental matters at five of the Initial Properties. Pursuant to the Acquisition Agreement, Melcor is required to conduct ongoing monitoring and sampling, at its expense, at certain of the Initial Properties as recommended by the Phase I ESA Reports and the Phase II ESA Reports. See "Assessments and Valuations of Initial Properties".

Melcor will remain liable, as principal obligor, for the Retained Debt. The Partnership will, however, be the beneficial owner of the Initial Properties associated with the Retained Debt and accordingly could suffer impairment of these assets if Melcor fails to discharge its obligations pursuant to the Retained Debt. Accordingly, pursuant to the Indemnity Agreement Melcor will indemnify the Partnership and the REIT for losses caused by Melcor's failure to discharge obligations pursuant to the Retained Debt. Certain obligations under the Retained Debt, such as adequate insurance and repairs and maintenance, will be the responsibility of the Partnership and, as a result, such indemnification will not extend to defaults outside the scope of responsibility of Melcor.

Melcor will continue to be liable as a guarantor or otherwise, under the Assumed Mortgages as required by the mortgagees as a condition of their consent to the assumption by the REIT of such mortgages. Pursuant to the Indemnity Agreement, the Partnership will indemnify Melcor in respect of such continuing liability.

### **License of the Melcor Trade- marks**

The Melcor name and trade- mark and related marks and designs will be licensed to the REIT by Melcor under a non-exclusive, royalty-free trademark license agreement (the "TM License Agreement") entered into at or prior to Closing. By using the "Melcor" brand, the REIT will have the benefit of the goodwill and recognition associated with the "Melcor" name in the real estate sector. The REIT will be entitled to terminate the TM License Agreement at any time without charge. Melcor may terminate the license at any time on 30 days' written notice following the date on which (i) the REIT is provided written notice of its failure to comply with the TM License Agreement, provided that the REIT has the right to cure any such failure not later than 10 days after receiving notice of such failure, or (ii) the Asset Management Agreement is terminated.

### **Interest Rate Subsidy**

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced by approximately \$3.6 million and, on Closing, the REIT will retain such amount to subsidize its interest payments on any debt with a coupon

rate in excess of 4.0% so that the effective interest rate on such debt is 4.0% (the “Interest Rate Subsidy”). See “Debt Structure – Composition of Indebtedness”. The subsidy will have the effect of reducing the effective interest rate on the Assumed Mortgages and the Retained Debt being subsidized from 5.3% to 4.0%. The REIT intends to utilize such subsidy over the next seven years post – Closing to service the applicable mortgages.

### **Capital Expenditure Subsidy**

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced by approximately \$0.8 million and, on Closing, the REIT will retain such amount to subsidize capital expenditures on the Initial Properties (the “Capital Subsidy”) which are incremental to the normalized maintenance capital expenditure level of \$729,000 for the Initial Properties included as a reserve in the financial forecast. The REIT intends to utilize such subsidy post-Closing to make required capital expenditures.

### **Tenant Inducement and Lease Cost Subsidy**

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced by approximately \$1.7 million and, on Closing, the REIT will retain such amount to subsidize tenant improvements and lease costs with respect to the Initial Properties (the “Tenant Inducement and Lease Costs Subsidy”) which are incremental to the normalized tenant improvements and lease costs level of approximately \$1.46 million for the Initial Properties included as a reserve in the financial forecast. The REIT intends to utilize such subsidy post-Closing to cover tenant improvement and lease costs.

### **Melton Building Expenditure Subsidy**

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced by an amount equal to approximately \$2.1 million (net of amounts incurred by Melcor prior to Closing) in connection with the removal of asbestos from the Melton Building and, on Closing, the REIT will retain such net amount and utilize the same to make certain additional expenditures in connection with the removal of such asbestos post-Closing. The REIT intends to utilize such subsidy post-Closing in connection with the removal of the asbestos from the Melton Building.

## **RETAINED INTEREST**

On Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). Each Class B LP Unit will be exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments), will be accompanied by one Special Voting Unit of the REIT (which provides for the same voting rights in the REIT as a Unit), and will receive distributions of cash from the Partnership equal to the distributions that the holder of such Class B LP Unit would have received if it held a Unit instead of a Class B LP Unit. See “Distribution Policy”. The transfer of Class B LP Units is subject to a number of restrictions. See “The Partnership – Transfer of LP Units”. In addition, Melcor will hold all of the outstanding Class C LP Units of the Partnership. The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that will entitle Melcor to distributions, in priority to distributions to holders of the Class A LP Units and Class B LP Units in an amount, if paid, expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt.

In addition, Melcor has agreed with the Underwriters not to directly or indirectly, offer, sell or otherwise dispose of, or agree to, or announce, any such offer, sale or disposition of any Class B LP Units (or Units into which the Class B LP Units are exchangeable) acquired by Melcor pursuant to the acquisition of the Initial Properties by the REIT (see “Acquisition of Initial Properties”), for a period of 18 months following Closing, except pursuant to the Over-Allotment Option.

### **Exchange Agreement**

#### *Exchange Rights*

On Closing, the REIT, the Partnership and Melcor will enter into the Exchange Agreement, pursuant to which Melcor will be granted the right to require the REIT to exchange each Class B LP Unit held by Melcor for one Unit,

subject to customary anti-dilution adjustments. Upon an exchange, the corresponding number of Special Voting Units will be cancelled. Collectively, the exchange rights granted by the REIT are referred to as the “Exchange Rights”. This prospectus also qualifies the grant of the Exchange Rights by the REIT in respect of the Class B LP Units.

A holder of a Class B LP Unit will have the right to initiate the exchange procedure at any time so long as each of the following conditions have been satisfied:

- (a) the exchange would not cause the REIT to breach the restrictions respecting non-resident ownership contained in the Declaration of Trust (as described under “Declaration of Trust – Limitation on Non-Resident Ownership”) or otherwise cause it to cease to be a “mutual fund trust” or “real estate investment trust” for purposes of the Tax Act or cause or create a substantial risk that the REIT would be subject to tax under paragraph 122(1)(b) of the Tax Act;
- (b) the REIT is legally entitled to issue the Units in connection with the exercise of the exchange rights; and
- (c) the person receiving the Units upon the exercise of the exchange rights complies with all applicable securities laws.

#### *Pre-Emptive Rights*

In the event that the REIT, the Partnership or one of their subsidiaries decides to issue equity securities of the REIT or the Partnership or securities convertible into or exchangeable for equity securities of the REIT or the Partnership or an option or other right to acquire any such securities other than to an affiliate thereof (“Issued Securities”), the Exchange Agreement will provide Melcor, for so long as it continues to hold at least 10% of the Units (calculated on a fully diluted basis), with pre-emptive rights to purchase Units, Class B LP Units or Issued Securities, to maintain Melcor’s *pro rata* ownership interest (calculated on a fully diluted basis). The pre-emptive right will not apply to the issuance of Issued Securities in certain circumstances, including the following: (i) in respect of the exercise of options, warrants, rights or other securities issued under the REIT’s or Partnership’s security based compensation arrangements, if any, (ii) the issuance of Units in lieu of cash distributions, (iii) the exercise by a holder of a conversion, exchange or other similar privilege pursuant to the terms of a security in respect of which Melcor did not exercise, failed to exercise, or waived, its pre-emptive right or in respect of which the pre-emptive right did not apply, (iv) pursuant to a unitholder rights plan of the REIT, (v) to the REIT, the Partnership or any subsidiary of the REIT or the Partnership or an affiliate of any of them, and (vi) the issuance of Units in the Over-Allotment Option, if any, granted to the Underwriters in the Offering.

#### *Registration Rights*

The Exchange Agreement will provide Melcor with the right (the “Piggy-Back Registration Right”), among others, to require the REIT to include Units held by Melcor, including Units issuable upon exchange of Class B LP Units, in any future offering undertaken by the REIT by way of prospectus that it may file with applicable Canadian securities regulatory authorities (a “Piggy-Back Distribution”). The REIT will be required to use reasonable commercial efforts to cause to be included in the Piggy-Back Distribution all of the Units Melcor requests to be sold, provided that if the Piggy-Back Distribution involves an underwriting and the lead underwriter determines that the total number of Units to be included in such Piggy-Back Distribution should be limited for certain prescribed reasons, the Units to be included in the Piggy-Back Distribution will be first allocated to the REIT.

In addition, the Exchange Agreement will provide Melcor with the right (the “Demand Registration Right”) to require the REIT to use reasonable commercial efforts to file one or more prospectuses with applicable Canadian securities regulatory authorities, qualifying Units held by Melcor, including Units issuable upon the exchange of Class B LP Units, for distribution (a “Demand Distribution”). Melcor will be entitled to request a Demand Distribution no more than once in any calendar year and the REIT must take such steps as may be reasonably necessary to assist it in making a Demand Distribution, provided that, among other things, each request for a Demand Distribution must relate to such number of Units that would reasonably be expected to result in gross proceeds of at least \$20 million and if the Demand Distribution involves an underwriting and the lead underwriter determines that the total number of Units to be included in such Demand Distribution should be limited for certain prescribed reasons, the Units to be included in the Demand Distribution will be first allocated to Melcor.

Each of the Piggy-Back Registration Right and the Demand Registration Right will be exercisable at any time from 18 months following Closing, provided that Melcor owns at least 10% of the Units (calculated on a fully diluted

basis) at the time of exercise. The Piggy-Back Registration Right and the Demand Registration Right will be subject to various conditions and limitations, and the REIT will be entitled to defer any Demand Distribution in certain circumstances for a period not exceeding 90 days. The expenses in respect of a Piggy-Back Distribution, subject to certain exceptions, will be borne by the REIT, except that any underwriting fee on the sale of Units by Melcor and the fees of Melcor's external legal counsel will be borne by Melcor. The expenses in respect of a Demand Distribution, subject to certain exceptions, will be borne by the REIT and Melcor on a proportionate basis according to the number of Units distributed by each. Pursuant to the Exchange Agreement, the REIT will indemnify Melcor for any misrepresentation in a prospectus under which Melcor's Units are distributed (other than in respect of any information provided by Melcor, in respect of Melcor, for inclusion in the prospectus) and Melcor will indemnify the REIT for any information provided by Melcor, in respect of Melcor, for inclusion in the prospectus.

#### *Tag/Drag Rights*

The Exchange Agreement will provide that if Melcor owns at least 10% of the Units (calculated on a fully diluted basis), and so requests, the REIT will cause, in respect of the Partnership, a purchaser (other than the REIT or an affiliate of the REIT) of securities of the Partnership owned by the REIT (or any permitted assignee) to purchase a *pro rata* portion of the securities of the Partnership held by Melcor, on the same terms and subject to the same conditions as are applicable to the purchase of securities of the Partnership by the purchaser. If Melcor or any permitted assignee holds in aggregate less than 10% of the Units (calculated on a fully diluted basis), the REIT will be entitled, in connection with the direct or indirect sale of all of its securities of the Partnership, to require Melcor or any permitted assignee to sell its securities in the Partnership on the same conditions as are applicable to the REIT's direct or indirect sale of all other interests in the Partnership, and upon the REIT making such request and completing such sale, Melcor or any permitted assignee will have no further interest in the Partnership.

#### *Assignment*

The pre-emptive rights, registration rights and tag/drag rights described above are personal to Melcor and are not assignable by Melcor (without the REIT's prior written consent) other than to an affiliate of Melcor, provided that such entity remains an affiliate of Melcor. The transfer of Class B LP Units is subject to a number of restrictions. See "The Partnership – Transfer of LP Units".

## PRO FORMA CAPITALIZATION OF THE REIT

The following table sets forth the pro forma consolidated capitalization of the REIT as at December 31, 2012 after giving effect to the Offering and the transactions described under “Acquisition of Initial Properties” and “Debt Structure”, but without giving effect to the exercise of the Over-Allotment Option. The table should be read in conjunction with the pro forma carve-out financial statements of the REIT and the notes thereto contained in this prospectus. See “Index to Financial Statements”.

	<b>As at December 31, 2012</b> <b>(in thousands)<sup>(1)</sup></b>
	<b>(Pro Forma)</b>
<b>Indebtedness</b>	
Assumed Mortgages .....	\$ 93,038
Revolving Credit Facility .....	—
Class B LP Units .....	\$ ●
Class C LP Units .....	\$ 97,417
<b>Unitholders’ Equity</b>	
Units	
(Authorized – unlimited; Issued – ● ) <sup>(1)</sup> .....	\$ ●
Special Voting Units .....	\$ ●
(Authorized – unlimited; Issued – ● ) <sup>(1)</sup> .....	\$ ●
<b>Total Capitalization</b> .....	<b>\$ ●</b>

**Notes:**

1. Sufficient Units will be reserved for issuance to satisfy the REIT’s obligations to issue Units in connection with the exchange rights granted to the holders of Class B LP Units pursuant to, and as contemplated by, the Exchange Agreement. Upon the exchange of Class B LP Units for Units, a corresponding number of Special Voting Units will be cancelled. See “Retained Interest – Exchange Agreement”.

## FINANCIAL FORECAST

The following financial forecast was prepared by Melcor on behalf of the REIT, using assumptions with an effective date of March 15, 2013, and was approved by the Board on ● , 2013. **Pursuant to applicable securities laws, the REIT will be required to update the forecast during the forecast period by identifying any material changes from the forecast resulting from events that have occurred since it was issued and by comparing such forecast with annual audited actual results and interim unaudited actual results for the periods covered.** The comparison will accompany the REIT's annual or interim Management's Discussion and Analysis for the relevant periods.

The forecast has been prepared in accordance with requirements for the measurement, presentation and disclosure of financial forecasts established by The Canadian Institute of Chartered Accountants ("CICA") and provided in Part V to the CICA Handbook – Accounting. The forecast has been prepared using assumptions that reflect management's intended courses of action for the REIT for the periods covered, given management's judgment as to the most probable set of economic conditions. The forecast has been prepared after giving effect to the Offering and the other transactions contemplated in this prospectus to be completed before or concurrently with Closing. The forecast assumes the Closing will occur on ● , 2013. The forecast assumes no acquisitions or dispositions are completed during the period, other than the acquisition of the Initial Properties, and that the capital structure at Closing is maintained throughout the forecast period.

**The assumptions used in the preparation of the forecast, although considered reasonable by management at the time of preparation, may not materialize as forecast and unanticipated events and circumstances may occur subsequent to the date of the forecast. Accordingly, there is a significant risk that actual results achieved for the forecast period will vary from the forecast results and that such variations may be material. There is no representation that actual results achieved during the forecast period will be the same in whole or in part as those forecast. Important factors that could cause actual results to vary materially from the forecast include those disclosed under "Risk Factors". See also "Forward-Looking Information" per page 2 of this Prospectus.**

The financial forecast should be read in conjunction with unaudited pro forma consolidated financial statements of the REIT, the audited opening balance sheet of the REIT and the audited carve-out financial statements of the Melcor Initial Properties contained in this prospectus. See "Index to Financial Statements".

## INDEPENDENT AUDITOR'S REPORT ON CONSOLIDATED FINANCIAL FORECAST

To the Board of Trustees of Melcor Real Estate Investment Trust.

The accompanying consolidated financial forecast of Melcor Real Estate Investment Trust (the "REIT"), consisting of a consolidated statement of forecast net income and comprehensive income for each of the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014 and the twelve-month period ending March 31, 2014, has been prepared by management using assumptions with an effective date of March 15, 2013. We have examined the support provided by management for the assumptions, and the preparation and presentation of this forecast. Our examination was made in accordance with the applicable Assurance and Related Services Guideline issued by The Canadian Institute of Chartered Accountants Handbook – Assurance. We have no responsibility to update this report for events and circumstances occurring after the date of our report.

In our opinion:

- as at the date of this report, the assumptions developed by management are suitably supported and consistent with the plans of the REIT, and provide a reasonable basis for this forecast;
- this forecast reflects such assumptions; and
- the consolidated financial forecast complies with the presentation and disclosure standards for forecasts issued by Part V of The Canadian Institute of Chartered Accountants Handbook – Accounting.

Since this consolidated financial forecast is based on assumptions regarding future events, actual results will vary from the information presented and the variations may be material. Accordingly, we express no opinion as to whether this forecast will be achieved.

●  
Chartered Accountants

Edmonton, Canada

- , 2013.

**CONSOLIDATED STATEMENTS OF FORECAST NET INCOME AND COMPREHENSIVE INCOME**

(\$000's)	Three-month periods ending				Twelve-month period ending
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	March 31, 2014
Rental revenue . . . . .	9,598	9,390	9,556	9,631	38,175
Direct operating expenses . . . . .	(4,166)	(3,915)	(3,944)	(4,059)	(16,084)
Net rental income <sup>(1)</sup> . . . . .	<u>5,432</u>	<u>5,475</u>	<u>5,612</u>	<u>5,572</u>	<u>22,091</u>
General and administrative expenses . . . . .	(396)	(397)	(397)	(397)	(1,587)
Fair value adjustment . . . . .	—	—	—	—	—
Income before finance costs . . . . .	<u>5,036</u>	<u>5,078</u>	<u>5,215</u>	<u>5,175</u>	<u>20,504</u>
Interest income . . . . .	8	8	8	9	33
Interest expense					
Interest expense on mortgage debt . . . . .	(1,052)	(1,046)	(1,033)	(1,011)	(4,142)
Distribution on Class C LP Units . . . . .	(917)	(909)	(901)	(893)	(3,620)
Distribution on Class B LP Units . . . . .	<u>(1,746)</u>	<u>(1,746)</u>	<u>(1,747)</u>	<u>(1,747)</u>	<u>(6,986)</u>
Net finance costs . . . . .	<u>(3,707)</u>	<u>(3,693)</u>	<u>(3,673)</u>	<u>(3,642)</u>	<u>(14,715)</u>
<b>Net income and comprehensive income . . . . .</b>	<b>1,329</b>	<b>1,385</b>	<b>1,542</b>	<b>1,533</b>	<b>5,789</b>

See accompanying notes to consolidated statements of forecast net income and comprehensive income

**NOTES TO THE CONSOLIDATED STATEMENTS OF FORECAST NET INCOME  
AND COMPREHENSIVE INCOME  
(In \$000s except per unit amounts)**

**1. PURPOSE OF THE FINANCIAL FORECAST**

This financial forecast has been prepared by management of Melcor Developments Ltd. (“Melcor”) on behalf of Melcor Real Estate Investment Trust (the “REIT”) for use by prospective investors in their evaluation of potential investments in the REIT and may not be appropriate for any other purpose.

**2. BASIS OF PRESENTATION OF FINANCIAL FORECAST**

The REIT is a recently created unincorporated open-ended real estate investment trust established pursuant to a Declaration of Trust and established under the laws of the Province of Alberta. The REIT has been formed to indirectly acquire from Melcor its interest in a portfolio of 27 office, retail, industrial, and land lease community properties (the “Initial Properties”).

The consolidated financial forecast consists of the consolidated statements of forecasted net income and comprehensive income of the REIT for the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014 and for the twelve-month period ending March 31, 2014. This financial forecast has been prepared by management of Melcor on behalf of the REIT using assumptions with an effective date of March 15, 2013 and reflects the assumptions described in note 4.

This financial forecast has been prepared using assumptions that reflect management’s intended course of action for the periods presented, given management’s judgment as to the most probable set of economic conditions. The actual results achieved during the forecast periods will vary from the forecast results, and these variations may be material.

**3. SIGNIFICANT ACCOUNTING POLICIES**

The consolidated financial forecast has been prepared in accordance with requirements for the measurement, presentation and disclosure of financial forecasts established by The Canadian Institute of Chartered Accountants (“CICA”) and provided in Part V to the CICA Handbook – Accounting and the accounting policies of the REIT.

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the REIT and its 100% owned subsidiary, Melcor Properties Limited Partnership (“the Partnership”). All intercompany balances, transactions and unrealized gains and losses arising from intercompany transactions are eliminated on consolidation.

(b) Joint arrangements

The REIT has three joint arrangements with a 50% interest in each. These arrangements are undivided interests and we record our proportionate share of the assets, liabilities, revenue and expenses in accordance with the agreements.

(c) Investment properties

Investment properties include industrial, retail, office properties, and a land lease community held for the long term to earn rental income or for capital appreciation, or both.

Acquired investment properties are measured initially at cost, including related transaction costs in connection with asset acquisitions.

After initial recognition, investment properties are recorded at their fair values determined based on available market evidence, at each balance sheet date. Changes in fair value are recognized in income in the period in which they arise.

**NOTES TO THE CONSOLIDATED STATEMENTS OF FORECAST NET INCOME  
AND COMPREHENSIVE INCOME  
(In \$000s except per unit amounts)**

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the property and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

(d) Recognition of revenue

Rental revenue includes all base rents earned from tenants under lease agreements, property tax and operating cost recoveries, parking revenue and other miscellaneous revenue. Rental revenue from investment properties is recognized on a straight-line basis over the term of the related lease agreement. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Other miscellaneous revenue is recognized at the time the service is provided.

(e) Income taxes

The REIT is 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 of taxable income such that it is not liable to pay income taxes provided that its taxable income is fully distributed to unitholders. 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. Accordingly, no current or deferred income taxes have been recorded in this financial forecast.

(f) Class B LP Units

The Class B LP Units of the Partnership are exchangeable into REIT Units at the option of the holder. The REIT Units are puttable and, therefore, the Class B LP Units meet the definition of a financial liability under International Accounting Standards ("IAS") 32, Financial Instruments – Presentation ("IAS 32"). Further, the Class B LP Units are designated as fair value through profit or loss and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The distributions paid on the Class B LP Units are accounted for as finance costs.

(g) Class C LP Units

As part of the acquisition of the Initial Properties, Melcor retained certain mortgages on the Initial Properties ("Retained Debt"). In consideration of the Retained Debt, Melcor received Class C LP Units of the Partnership on which distribution payments will be made in an amount expected to be sufficient to permit Melcor to satisfy amounts payable in respect of principal and interest under the Retained Debt. The Class C LP Units are classified as a financial liability initially recorded at fair value and subsequently at amortized cost. The distributions paid on the Class C LP Units related to the interest portion of the Retained Debt are accounted for as finance costs.

(h) Unit Capital

The REIT Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The REIT Units meet the conditions of IAS 32 and are, therefore, classified and accounted for as equity.

**NOTES TO THE CONSOLIDATED STATEMENTS OF FORECAST NET INCOME  
AND COMPREHENSIVE INCOME  
(In \$000s except per unit amounts)**

**4. SIGNIFICANT ASSUMPTIONS**

(a) Transactions

The following transactions contemplated by the prospectus are scheduled to close no later than May 1, 2013 (the “Closing”). For purposes of this financial forecast, it is assumed that the closing of the transactions contemplated by this prospectus occurred on April 1, 2013.

(i) Initial public offering

The REIT is assumed to complete the issue of Units to the public pursuant to an initial public offering (the “Offering”) for the gross proceeds of \$86,250 through the issuance of 8,625,000 Units at a price of \$10 per Unit.

(ii) Class B LP Units issued to Melcor Developments Ltd.

The REIT is assumed to complete the issue of Class B LP Units to Melcor for the gross proceeds of \$107,535 through the issuance of approximately 10,753,500 Class B LP Units at a price of \$10 per Unit.

(iii) Class C LP Units issued

The REIT is assumed to complete the issue of Class C LP Units to Melcor Developments Ltd. for the retained debt with a fair value of \$96,506.

(iv) Acquisitions

On Closing, it is assumed that the REIT will acquire from Melcor its interest in the Initial Properties (the “Acquisition”). As Melcor will retain control over the REIT, the Acquisition will be accounted for using the continuity of interests method.

(v) Operating Facility

Upon closing, the REIT expects to enter into a \$25,000 operating credit facility at an interest rate of prime plus 1.25% or banker’s acceptance rate plus a 2.25% stamping fee, with \$nil drawn at Closing. Deferred financing costs of \$88 will be amortized over the term of the facility.

(b) Tenant incentives

Tenant incentives are forecast to be approximately \$1,461 (\$365, \$366, \$365 and \$365 for the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013, and March 31, 2014, respectively). These costs are estimated on a normalized basis and may vary with actual results depending on leasing activity and capital requirements. Tenant incentives are to be paid by the REIT and are expected to be financed through non-distributed cash generated from operations, working capital, or new financing. Amounts over and above the normalized amounts will be funded from the escrow tenant improvement account to be set up with Melcor on closing. Tenant incentives are amortized against rental revenue, as discussed in note 3(d).

(c) Revenue from investment properties

Forecast rental revenue from investment properties is based on rents from existing leases as well as potential income from leasing space that is vacant and re-leasing of space that becomes vacant during the forecast period at renewal rates based on market rates.

The components of rental revenue are as follows:

(\$000’s)	Three-month periods ending				Twelve-month period ending
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	March 31, 2014
Rental revenue . . . . .	10,099	9,922	10,156	10,252	40,429
Amortization of tenant leasing incentives . . . . .	(554)	(582)	(652)	(670)	(2,458)
Straight-line rent adjustment . . . . .	53	50	52	49	204
	9,598	9,390	9,556	9,631	38,175

**NOTES TO THE CONSOLIDATED STATEMENTS OF FORECAST NET INCOME  
AND COMPREHENSIVE INCOME  
(In \$000s except per unit amounts)**

In preparing this financial forecast, it is assumed that substantially all existing tenants fulfill their current contractual obligations and remain in occupancy and pay rent for the term of the forecast period, subject to estimated bad debts based on historical losses.

The assumed weighted average occupancy rate at the beginning of the forecast period is 89.8%. Leases covering approximately 14.5% of the total rentable space of the Initial Properties expire during the forecast period. As a result of renewals and new leasing, the assumed weighted average occupancy rates are 89.5%, 89.5%, 91.7% and 91.7% as at June 30, 2013, September 30, 2013, December 31, 2013, and March 31, 2014, respectively.

(d) Operating costs

Operating costs have been forecast with reference to the operating plans and budgets for the Initial Properties and are consistent with the re-leasing assumptions in note 4(c). This financial forecast reflects historical data adjusted for changes in costs due to inflation, property tax rates, and other market trends. The major components of operating costs are property taxes, property management fees, utilities, insurance, repairs and maintenance and amortization of recoverable building improvements.

Property management fees are payable to Melcor based on 3% of gross revenues, as per the Property Management Agreement described in the prospectus. Operating expenses include property management fees of \$1,214 for the twelve-month period ended March 31, 2014 (\$303, \$298, \$305, and \$308 for the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013, and March 31, 2014, respectively).

(e) General and administrative expenses

General and administrative expenses reflect management's best estimate of audit and legal fees, trustee fees, regulatory costs, annual report costs, transfer agent fees, and other administrative expenses.

Asset management fees are payable to Melcor based on 0.25% of the gross book value of investment property assets, as per the Asset Management Agreement described in this prospectus. General and administrative expenses includes asset management fees of \$976 (\$244 for each of the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013, and March 31, 2014, respectively).

General and administrative expenses totalling \$355 have been reallocated and recorded as operating costs that are recovered from tenants and recorded as revenue in the financial forecast.

(f) Interest expense

The components of interest expense are as follows:

(\$000's)	Three-month periods ending				Twelve-month period ending
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	March 31, 2014
Interest expense on operating lines and mortgages <sup>(i)</sup> . . . . .	(1,052)	(1,046)	(1,033)	(1,011)	(4,142)
Distribution on Class C LP Units <sup>(ii)</sup> . . . . .	(917)	(909)	(901)	(893)	(3,620)
Distribution on Class B LP Units <sup>(iii)</sup> . . . . .	<u>(1,746)</u>	<u>(1,746)</u>	<u>(1,747)</u>	<u>(1,747)</u>	<u>(6,986)</u>
	(3,715)	(3,701)	(3,681)	(3,651)	(14,748)

(i) Interest expense on operating line and mortgages

Interest expense includes \$3,981 (\$1,012, \$1,006, \$993 and \$970 for the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014, respectively) related to interest on specific property mortgages. Interest expense for the forecast period has been calculated assuming an effective annual interest rate of 4.46%.

**NOTES TO THE CONSOLIDATED STATEMENTS OF FORECAST NET INCOME  
AND COMPREHENSIVE INCOME  
(In \$000s except per unit amounts)**

Interest expense includes \$84 (\$21 for each of the three-month periods ending June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014, respectively) related to interest on amounts drawn on the operating credit facility. Interest expense on the operating credit facility has been calculated assuming an annual interest rate of 3.55%.

Interest expense includes amortization deferred financing costs amounting to \$76 for the twelve months ending March 31, 2014 (\$19 for each of the three month periods ending June 30, 2013, September 30, 2013, December 31, 2013 and March 31, 2014).

(ii) Distribution on Class C LP units

Interest expense includes distributions estimated to be declared on Class C LP Units in an amount expected to be sufficient to permit Melcor to satisfy amounts payable in respect of interest under the Retained Debt. Interest expense has been calculated assuming an effective annual interest rate of 3.84%. This rate is based on the assumed fair value of the Class C LP Units on Closing.

(iii) Distribution on Class B LP Units

Interest expense also includes distributions estimated to be declared on Class B LP Units. Expected distributions on the Class B LP Units were calculated to provide an expected annual yield of 6.50%. The actual yield may differ materially from this amount.

(g) Acquisition and disposals of investment properties

This financial forecast does not reflect any potential sales or acquisitions of investment properties other than the acquisition of the Initial Properties referred to in note 4(a)(iv). It is possible that purchases and sales of investment properties will occur during the forecast period. These will only be undertaken on a basis considered by management to be advantageous to the REIT and approved by the Trustees.

(h) Income taxes

On Closing, it is assumed the REIT will qualify as a mutual fund trust and will not be taxable on income in accordance with the accounting policy described in note 3(e). Accordingly, no current or deferred income tax expense has been recorded in this financial forecast in respect of the REIT.

(i) Fair value adjustment to investment properties and Class B LP Units

The REIT has adopted the fair value model of accounting for investment properties which requires the fair value of the properties to be determined at each reporting date. Fair values are impacted by many variables, such as local and global economic conditions that are by their nature not susceptible to forecasting. Accordingly, this financial forecast does not reflect any change in the fair values of the investment properties.

Class B LP Units will be adjusted to their fair values at each reporting period with changes in fair value recorded in earnings. For purposes of this financial forecast, no changes in fair values of the Class B LP Units have been assumed.

(j) Other matters

No significant changes in economic conditions and government legislation with respect to taxes, including property taxes, other than announced changes, are anticipated during the forecast period.

## **5. COMMITMENTS AND CONTINGENCIES**

In connection with the Offering, the REIT has agreed to indemnify the underwriters against certain liabilities, including liabilities under applicable securities legislation, or to contribute to payments the underwriters may be required to make in respect to those liabilities. The REIT has agreed to indemnify, in certain circumstances, the Trustees and the officers of the REIT.

## NON-IFRS RECONCILIATION

The following table reconciles forecast net income to FFO and AFFO. See “Non-IFRS Measures” and “Financial Forecast”.

(in thousands of \$, except per Unit amounts)	Three month periods ending				Twelve-month period ending
	June 30, 2013	September 30, 2013	December 31, 2013	March 31, 2014	March 31, 2014
Net income for the period	1,329	1,385	1,542	1,533	5,789
Add / (deduct):					
Amortization of tenant improvements	554	582	652	670	2,458
Distribution on Class B Units <sup>(1)</sup>	1,746	1,746	1,747	1,747	6,986
<b>FFO</b>	3,629	3,713	3,941	3,950	15,233
Add / (deduct):					
Straight-line rent adjustment	(53)	(50)	(52)	(49)	(204)
Deferred financing costs	19	19	19	19	76
Net impact of mark to market adjustment and interest subsidy	166	164	157	143	630
Normalized capital expenditures <sup>(2)</sup>	(183)	(182)	(182)	(182)	(729)
Normalized tenant inducements and leasing commissions <sup>(3)</sup>	(365)	(366)	(365)	(365)	(1,461)
<b>AFFO</b>	3,213	3,298	3,518	3,516	13,545
<b>FFO/Unit<sup>(4)</sup></b>	●	●	●	●	●
<b>AFFO/Unit<sup>(4)</sup></b>	●	●	●	●	●

**Notes:**

1. Class B LP Units are classified as debt in the REIT’s financial statements.
2. Represents 3% of forecast annual NOI.
3. Represents 6% of forecast annual NOI.
4. Forecast FFO and AFFO per Unit amounts are based on ● Units outstanding during the period, including ● Units issuable on exchange of Class B LP Units.

The following table compares forecast NOI to actual NOI for the periods in directed. See “Non-IFRS measures” and “Financial forecast”.

	Forecast NOI <sup>(1)</sup>	Actual NOI <sup>(2)</sup>
Net rental income	22,091	22,065
Add / (deduct)		
Amortization of tenant improvements	2,458	2,446
Straight-line rent adjustment	(204)	(449)
<b>NOI</b>	24,345	24,062

**Notes:**

1. Forecast NOI for the 12 month period ended March 31, 2014.
2. NOI for the 12 month period ended December 31, 2012.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

This Management's Discussion and Analysis ("MD&A") discusses the financial condition and results of operations and changes thereto of the historical information relating to the Initial Properties that were directly or jointly owned by Melcor and should be read in conjunction with the Initial Properties' audited carve-out financial statements for the years ending December 31, 2012, 2011 and 2010 and the accompanying notes.

The Initial Properties consist of interests in a portfolio of 27 revenue-producing properties located in Western Canada that are currently owned or co-owned and operated by Melcor. The Initial Properties, together with their related assets and liabilities, are to be acquired by the REIT upon completion of an initial public offering of Units by the REIT.

The Initial Properties are not a legal entity and are comprised of an interest in a portfolio of investment properties. The carve-out financial statements of the Initial Properties have been prepared for the purpose of this prospectus under IFRS as a method of presenting historical property information relating thereto. The carve-out financial statements depict Melcor's historical investments in the net assets of the Initial Properties and include the assets, liabilities, revenue and operating expenses associated with owning and operating these properties. Due to the inherent limitations of carving out activities from the larger entity, these carve-out financial statements may not necessarily reflect the results of operations, financial position, and cash flows of the Initial Properties for future periods, nor do they reflect the results of operations, financial position, and cash flows that would have been realized had the Initial Properties been held in a stand-alone entity during the periods presented.

All amounts are stated in thousands of Canadian dollars and are based upon Melcor's percentage ownership of the Initial Properties, unless otherwise noted, under this section of the prospectus.

The objective of this discussion is to provide a prospective purchaser of Units of the REIT with an analysis of the historical assets, liabilities, revenues and operating expenses, including mortgage interest, of the Initial Properties for the above-mentioned periods. Less emphasis has been placed on analyzing the impact of income taxes and the historical capital structure of the Initial Properties as the Initial Properties' audited combined financial statements do not reflect the REIT's proposed capital structure and income tax status which will be significantly different. The unaudited "pro forma" combined financial statements of the REIT contained in this prospectus reflect the impact of financial leverage and income tax status on a going forward basis.

### International Financial Reporting Standards (IFRS)

The Canadian Accounting Standards Board mandated that all publicly accountable profit-oriented enterprises adopt IFRS effective for interim and annual periods beginning on or after January 1, 2011. These are the Initial Properties' first financial statements prepared under IFRS and include comparative results for the year ended 2010. As these are the first IFRS financial statements prepared for the Initial Properties, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards".

### Non-IFRS Measures

All financial information has been prepared in accordance with IFRS. However, this MD&A also contains certain non-IFRS financial measures including "funds from operations" and "net operating income", as these measures are commonly used by entities in the real estate industry as useful metrics for measuring performance. However, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other publicly traded entities. These measures should be considered as supplemental in nature and not as a substitute for related financial information prepared in accordance with IFRS.

The Initial Properties use funds from operations ("FFO") in addition to net income to report operating results. FFO is not indicative of funds available to meet the Initial Properties' cash requirements. The Initial Properties compute FFO in accordance with the current definitions of the Real Property Association of Canada ("REALpac").

FFO is defined as net income in accordance with IFRS, excluding: (i) fair value adjustments to investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of tenant incentives; (iv) fair value adjustments, interest expense and other effects of redeemable units classified as liabilities; (v) acquisition costs expensed as a result of the purchase of a property being accounted for as a business combination; and (vi) deferred income tax expense, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

Net operating income (“NOI”) is a supplemental non-IFRS financial measure that is not defined under GAAP. NOI is defined as investment properties revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less property operating expenses. Management considers NOI to be an appropriate supplemental performance measure as it reflects the operating performance of the portfolio.

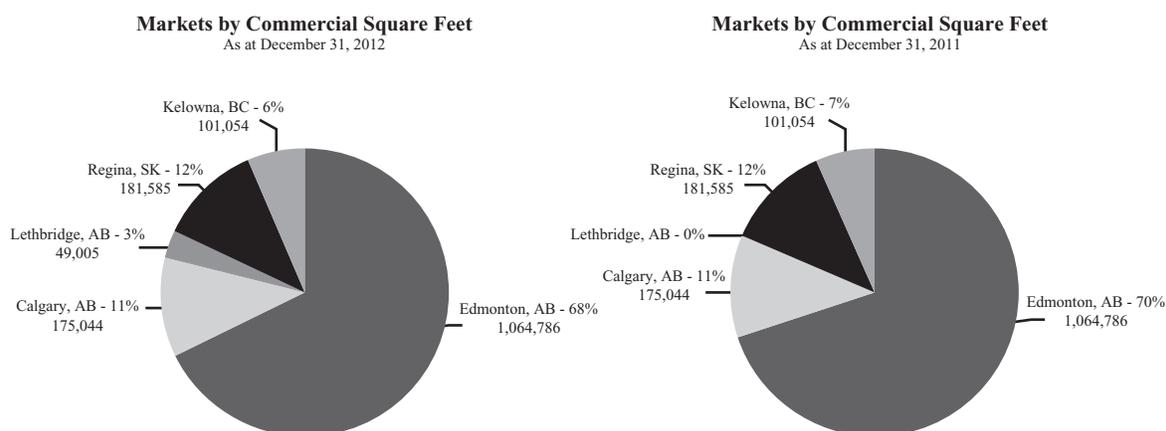
### Composition of the Initial Properties

The Initial Properties include 1.57 million square feet of leasable space across four different asset classes. The Initial Properties have high occupancy rates with long-term tenancies from high-quality retail and commercial clients. The composition of the Initial Properties’ assets is as follows:

	Number of properties 31-Dec-12	GLA (sq. ft.)		
		31-Dec-12	31-Dec-11	31-Dec-10
Retail .....	7	484,325	484,325	436,642
Office .....	17	1,022,176	1,022,176	1,022,176
Industrial .....	2	64,973	15,968	15,968
Other <sup>(a)</sup> .....	1	N/A	N/A	N/A
	<u>27</u>	<u>1,571,474</u>	<u>1,522,469</u>	<u>1,474,786</u>

(a) Land lease community in Calgary, Alberta, comprised of 308 pad lots.

A break-down of the Initial Properties portfolio by geographic location is as follows:



### Growth of the Initial Properties

The growth of the Initial Properties is largely attributable to the completion of additional phases of the Initial Properties which, once fully developed, were subsequently leased to tenants. The completion of such additional phases added 108,500 sq. ft. of GLA to the Initial Properties during 2010 and 2011. There were no further additional phases added to the Initial Properties during 2012. The acquisition of the Lethbridge Industrial Building in 2012, a 49,005 sq. ft. warehouse building in Lethbridge, Alberta, was the only acquisition to impact the Initial Properties.

A summary of the growth of the Initial Properties is as follows:

<u>Properties Developed/Acquired</u>	<u>GLA (sq. ft.)</u>		
	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-10</u>
Leduc Common .....	—	23,300	13,400
Miller Crossing .....	—	15,600	—
Westgrove Common .....	—	8,700	6,400
Kingsview Market .....	—	—	36,000
Chestermere Station .....	—	—	5,100
Lethbridge Industrial .....	49,005	—	—
	<u>49,005</u>	<u>47,600</u>	<u>60,900</u>

### *Occupancy*

A summary of the occupancy for the Initial Properties by region as at year end is as follows:

<u>Geographic Region</u>	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-10</u>
Edmonton Region, Alberta .....	88.8%	89.3%	88.6%
Calgary Region, Alberta .....	95.9%	94.5%	93.2%
Lethbridge, Alberta .....	100.0%	N/A	N/A
Regina, Saskatchewan .....	96.2%	96.4%	96.8%
Kelowna, British Columbia .....	92.1%	84.6%	83.2%
	<u>91.0%</u>	<u>90.4%</u>	<u>89.8%</u>

## **Financial Highlights**

### *Review of Selected Financial and Operating Information*

The following tables highlight selected financial information for the Initial Properties for the years ended December 31, 2012, 2011 and 2010. This information has been compiled from the audited carve-out financial statements and notes thereto and should be read in conjunction with the IFRS audited carve-out financial statements and notes included elsewhere in this prospectus.

<u>(\$000s except as noted)</u>	<u>Year ended</u>		
	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-10</u>
Rental revenue .....	37,485	34,867	32,203
Net operating income (NOI) .....	24,060	23,372	21,333
Margin .....	64.2%	67.0%	66.2%
Total assets .....	396,845	358,130	315,318
Funds from operations (FFO) .....	13,742	14,249	12,006
Fair value of portfolio .....	393,461	355,692	313,252
Fair value gains .....	30,163	27,931	9,486

### *Operating Results*

The following table summarizes net operating income for the Initial Properties for the years ended December 31, 2012, 2011 and 2010:

<u>(\$000s except as noted)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Rental revenue .....	37,485	34,867	32,203
Direct operating expenses .....	(15,423)	(14,167)	(13,107)
Net rental income .....	<u>22,062</u>	<u>20,700</u>	<u>19,096</u>
NOI .....	24,060	23,372	21,333
Same property NOI .....	21,541	21,742	20,878
Occupancy .....	91.0%	90.4%	89.8%

As a result of the completion of additional phases of the Initial Properties and the subsequent leasing of such properties to tenants, as well as the acquisition of the Lethbridge Industrial Building, operating results were positively impacted for the Initial Properties, with rental revenues increasing 7.5% to \$37.49 million in 2012 compared to \$34.87 million in 2011. Occupancy levels for the Initial Properties also increased each year since 2010.

The following is a reconciliation of our NOI to our net rental income:

<u>(\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net rental income .....	22,062	20,700	19,096
Adjusted for the following:			
Amortization of operating lease incentives .....	2,447	2,672	2,237
Straight-line rent adjustment .....	(449)	—	—
NOI	<u>24,060</u>	<u>23,372</u>	<u>21,333</u>

The NOI table below details comparative and non-comparative items to assist in understanding the impact that each addition and acquisition had on NOI. The following is a reconciliation of the same property NOI to net rental income:

<u>(\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Same property NOI .....	21,541	21,742	20,878
2010 acquisitions .....	1,871	1,535	455
2011 acquisitions .....	545	95	—
2012 acquisitions .....	103	—	—
NOI	24,060	23,372	21,333
Amortization of tenant improvements and straight-line rent adjustments .....	(1,998)	(2,672)	(2,237)
Net rental income .....	<u>22,062</u>	<u>20,700</u>	<u>19,096</u>

The NOI for the same properties increased in 2011 due to higher rental rates realized on lease renewals and improved occupancy rates, while NOI for the entirety of the Initial Properties increased as a result of growth in rentable GLA. Same property NOI has stabilized in 2012.

#### *Investment Properties Revenues*

Investment properties revenues include net rental income from investment properties as well as the recovery of operating costs and property taxes from tenants. Investment properties revenues increased by \$2.62 million and \$2.66 million for the years ended December 31, 2012 and December 31, 2011, respectively, over the comparative periods. These increases were attributable to the completion and subsequent leasing of additional phases of the Initial Properties to tenants in 2012 and 2011, which accounted for \$1.39 million and \$1.52 million, respectively, of such increases in revenue. Increases in revenue generated by the same-property portfolio accounted for \$0.86 million of the increases in revenue for the years ended December 31, 2011 over the comparative period. Organic revenue growth was due to higher average occupancy across the same-property portfolio, which increased to 91.0% as at December 31, 2012 compared to 90.4% as at December 31, 2011, as a result of increased leasing activity.

#### *Investment Properties Operating Expenses*

Investment properties operating expenses consist mainly of occupancy costs, as well as certain expenses that are not recoverable from tenants. Occupancy costs include items such as utility costs, realty taxes, repairs and maintenance costs. Operating expenses increased by \$1.26 million and \$1.06 million, respectively, for the years ended December 31, 2012 and December 31, 2011 over the comparative periods. These increases primarily reflect the additional operating expenses associated with completion and subsequent leasing of additional phases of the Initial Properties. The additional operating expenses relating to such additional properties accounted for \$0.50 million and \$0.34 million, respectively, of the increases for the years ended December 31, 2012 and December 31, 2011 over the comparative periods. The balance of the increase in operating expenses of approximately \$0.76 million and \$0.72 million, respectively, for the years ended December 31, 2012 and December 31, 2011 related to increased power and snow removal costs which were recovered from tenants.

### General and Administrative Expenses

General and administrative expenses are comprised of salaries and wage expenses, as well as allocations of overhead costs from Melcor such as office, accounting, and information services costs. General and administrative expenses for 2012 were \$1.37 million, a decrease from 2011 of \$0.26 million, due primarily to additional recoveries from tenants in 2012. General and administrative expenses for the year 2011 were \$1.62 million, an increase from 2010 of \$0.36 million, related primarily to increased wages expense and higher staff levels.

### Interest Expense

Interest expense increased by \$0.68 million and \$0.33 million, respectively, for the years ended December 31, 2012 and December 31, 2011 over the comparative periods. Of these increases, approximately \$0.56 million and \$0.14 million, respectively, is attributable to the additional interest expense resulting from new mortgages on newly constructed properties developed by Melcor.

### Fair value of the Initial Properties

The Initial Properties were valued by independent valuation professionals as at December 31, 2012, December 31, 2011 and December 31, 2010. This resulted in fair value gains of \$30.16 million in 2012, \$27.93 million in 2011 and \$9.49 million in 2010 being recognized in the statement of income. Fair values were determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a capitalization rate to estimated year 11 cash flows.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Total GLA (sq. ft.)	1,571,474	1,522,469	1,474,786
Total residential units	308	308	308
Fair value of portfolio (\$000s)	393,461	355,692	313,252
Value per square foot	\$ 250.38	\$ 233.63	\$ 212.41
Weighted average discount rate	6.48%	6.87%	7.26%
Weighted average terminal cap rate	6.70%	7.16%	7.56%

Fair value gains in 2012 were primarily the result of a decrease in capitalization rates on several of the retail properties, combined with an increase in the value of existing properties as a result of capital improvements to the properties.

The key valuation metrics for the Initial Properties are set out in the table below:

	<u>December 31, 2012</u>			<u>December 31, 2011</u>			<u>December 31, 2010</u>		
	<u>Min</u>	<u>Max</u>	<u>Weighted Average</u>	<u>Min</u>	<u>Max</u>	<u>Weighted Average</u>	<u>Min</u>	<u>Max</u>	<u>Weighted Average</u>
Capitalization rate	5.50%	9.00%	6.48%	5.75%	8.00%	6.87%	6.00%	8.00%	7.26%
Terminal cap rate	5.75%	8.00%	6.70%	6.00%	8.50%	7.16%	6.25%	8.50%	7.56%

A 50 basis point decrease in capitalization rates would positively impact the fair value of investment properties by \$33.98 million. A 50 basis point increase in capitalization rates would negatively impact the fair value of investment properties by \$27.39 million.

### Funds from Operations

Further to the “Non-IFRS Measures” section above, set out below is a reconciliation of FFO for the years ended December 31, 2012, 2011 and 2010:

(\$000s)	<u>2012</u>	<u>2011</u>	<u>2010</u>
Net income .....	35,490	33,612	16,656
Items not affecting cash:			
Amortization of operating lease incentives .....	2,447	2,672	2,237
Deferred income taxes .....	5,968	5,896	2,599
Fair value adjustment on investment properties .....	<u>(30,163)</u>	<u>(27,931)</u>	<u>(9,486)</u>
FFO .....	<u>13,742</u>	<u>14,249</u>	<u>12,006</u>

### Financing

Fixed rate, long term mortgage financing was utilized in connection with the Initial Properties to raise capital. Rates are negotiated at a pre-agreed benchmark bond rate plus a spread and are negotiated with different lenders to ensure competitive terms and multiple sources.

The composition of the mortgages on the Initial Properties is as follows:

	<u>31-Dec-12</u>	<u>31-Dec-11</u>	<u>31-Dec-10</u>
Mortgages amortized over 20-25 years at fixed interest rates .....	172,502	164,843	152,281
Variable rate mortgage, due on demand .....	7,500	—	—
Current portion of mortgages payable .....	<u>(54,291)</u>	<u>(31,126)</u>	<u>(12,786)</u>
	<u>125,711</u>	<u>133,717</u>	<u>139,495</u>
Interest rate ranges .....	2.90%-6.16%	2.90%-7.53%	3.94%-7.53%

Debt on investment properties at December 31, 2012 in the amount of \$180.00 million reflects financing placed on investment properties that have a fair value of \$393.46 million representing a 45.7% loan to value ratio.

During 2012, refinancing of several properties was completed as well as new financing on newly constructed properties, realizing gross proceeds of \$29.40 million. New fixed rate mortgage rates from Canadian lending institutions ranged from 3.11% to 3.49% in 2012, and one variable rate loan at prime plus 1%.

During 2011, new financings of several properties were completed, realizing gross proceeds of \$25.55 million, with mortgage rates from Canadian lending institutions ranging from 3.01% to 4.64%.

Loan maturity dates are spread out so as to reduce loan renewal risks. The principal repayments and balances maturing of the mortgages payable on investment properties in the next five years and thereafter are as follows:

	<u>Principal Installment Repayments</u>	<u>Balances Maturing</u>	<u>Total</u>	<u>Weighted Average Contractual Interest Rate</u>
2013 .....	12,596	41,695	54,291	4.57%
2014 .....	4,070	16,980	21,050	4.53%
2015 .....	3,178	42,787	45,965	4.90%
2016 .....	1,937	21,007	22,944	3.97%
2017 .....	1,396	2,571	3,967	3.13%
Thereafter .....	<u>2,910</u>	<u>28,875</u>	<u>31,785</u>	<u>4.84%</u>
	<u>26,087</u>	<u>153,915</u>	<u>180,002</u>	<u>4.61%</u>

### Liquidity & Capital Resources

Following closing of the transaction, the REIT expects to be able to meet all of its obligations as they become due. The REIT expects to have sufficient liquidity as a result of cash flows from operating activities and financing available through a secured revolving credit facility with a syndicate of two major chartered Canadian banks. The REIT will also

seek to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account availability of financing and market conditions, and the financial characteristics of each property.

#### *Sources and Uses of Cash*

The following table summarizes cash flows from (used in) operating, investing and financing activities, as reflected in the consolidated statement of cash flows:

<u>Cash flows from (used in):</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating activities .....	13,922	14,802	12,397
Investing activities .....	(12,921)	(17,181)	(21,839)
Financing activities .....	(1,185)	2,669	9,216
Increase (decrease) in cash .....	<u>(184)</u>	<u>290</u>	<u>(226)</u>

The following is a discussion of the changes in cash flows:

- a) ***Cash flows from operating activities.*** Cash flows from operating activities in 2012 were \$13.92 million as compared to \$14.80 million in 2011 and \$12.40 million in 2010. The decrease in cash flows from operating activities in 2012 was the result of increased tax expenses recorded in 2012 as well as increased interest expense offset by an increase in NOI of \$0.69 million. The increase in cash flows from operating activities in 2011 was primarily driven by an increase in NOI, as NOI increased by \$2.04 million.
- b) ***Cash flows used in investing activities.*** Cash used in investing activities was \$12.92 million in 2012, \$17.18 million in 2011 and \$21.84 million in 2010. In 2012, cash was used to purchase the Lethbridge Industrial Building in the amount of \$2.76 million, pay for tenant lease incentives of \$2.63 million and property improvements and development of \$7.53 million. In 2011, cash was used to pay for tenant lease incentives of \$4.80 million and property improvements and development of \$12.38 million. In 2010, cash was used to pay for tenant lease incentives of \$3.01 million and property improvements and development of \$18.83 million.
- c) ***Cash flows from financing activities.*** Cash flows from financing activities were \$1.19 million in 2012, \$2.67 million in 2011 and \$9.22 million in 2010. In 2012, cash flows from financing decreased compared to 2011 primarily due to larger distributions to Melcor. In 2011, cash flows from financing decreased compared to 2010 primarily due to decreased net mortgage proceeds on new financings.

#### *Contractual Obligations*

The contractual commitments of the Initial Properties to be assumed by the REIT on Closing are as follows:

	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Thereafter</u>
Mortgages payable .....	54,291	21,050	45,965	22,944	3,967	31,785

BCA Reports were prepared for each of the Initial Properties by independent engineering firms. The BCA Reports identified certain recommended capital expenditures during the next 10 year period, totaling approximately \$4.88 million, disregarding the portion of the capital expenditures to be contributed by Melcor.

## Joint Arrangement Activity

Only Melcor's proportionate share of the assets, liabilities, revenue and expenses of joint arrangements was recorded. Refer to Note 11 to the carve-out financial statements for a listing of the current joint arrangements. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to the Initial Properties.

<u>Joint arrangement activity at 100% (\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue .....	7,052	4,006	6,062
Earnings .....	8,968	8,054	98
Assets .....	90,952	82,126	75,000
Liabilities .....	43,494	31,994	36,342
<u>Joint arrangement activity at Melcor's ownership % (\$000s)*</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Revenue .....	3,526	2,003	3,031
Earnings .....	4,484	4,027	49
Assets .....	45,476	41,063	37,500
Liabilities .....	21,747	15,997	18,171

\* Ownership in joint arrangements is at 50%.

## Business Environment & Risks

There is a business risk associated with the ownership of the Initial Properties. See "Risk Factors".

## Other Financial Information

### *Critical Accounting Estimates*

The discussion and analysis of the financial condition and results of operations are based on consolidated financial statements, which have been prepared in accordance with IFRS. In applying IFRS, estimates and assumptions were made that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The development, selection and application of key accounting policies, and the critical accounting estimates and assumptions they involve, have been discussed with the Board.

Significant accounting policies and accounting estimates are contained in the carve-out financial statements. Refer to Note 3 to the carve-out financial statements for a description of the accounting policies and Note 5 and Note 6 for a discussion of accounting estimates and significant judgments.

### *Changes in Accounting Policies*

Refer to Note 4 to the carve-out financial statements for information pertaining to accounting pronouncements that will be effective in future years.

## TRUSTEES AND MANAGEMENT OF THE REIT

### Governance and Board of Trustees

The Declaration of Trust provides that, subject to certain conditions, the Trustees will have full, absolute and exclusive power, control and authority over the REIT's assets, affairs and operations, to the same extent as if the Trustees were the sole and absolute legal and beneficial owners of the REIT's assets. The governance practices, investment guidelines and operating policies of the REIT will be overseen by a Board consisting of a minimum of three and a maximum of twelve Trustees, a majority of whom will be Independent Trustees and a majority of whom (and a majority of Independent Trustees) will be Canadian residents. At Closing, the REIT will have seven Trustees.

The mandate of the Board, which will be discharged directly or through one of the three committees of the Board, is one of stewardship and oversight of the REIT and its business, and includes responsibility for strategic planning, review of operations, disclosure and communication policies, oversight of financial and other internal controls, corporate governance, Trustee orientation and education, senior management compensation and oversight, and Trustee compensation and assessment. The Board's written mandate is attached to this prospectus as Appendix A.

The standard of care and duties of the Trustees provided in the Declaration of Trust will be similar to those imposed on directors of a corporation governed by the ABCA. Accordingly, each Trustee will be required to exercise the powers and discharge the duties of his or her office honestly, in good faith and in the best interests of the REIT and the Unitholders and, in connection therewith, to exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust provides that each Trustee will be entitled to indemnification from the REIT in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acted honestly and in good faith with a view to the best interests of the REIT and the Unitholders or, in the case of a criminal or administrative action or proceeding that is enforced by a monetary penalty, where the Trustee had reasonable grounds for believing that his or her conduct was lawful.

Other than the Trustees appointed prior to Closing, who will hold office for a term expiring at the close of the annual meeting in 2014 or until a successor is appointed, Trustees will be elected at each annual meeting of Unitholders to hold office for a term expiring at the close of the next annual meeting, or until a successor is appointed, and will be eligible for re-election. Nominees will be nominated by Melcor in connection with the nomination rights described below, or the Compensation and Governance Committee (the "C&G Committee"), in each case for election by Unitholders as Trustees in accordance with the provisions of the Declaration of Trust and will be included in the proxy-related materials to be sent to Unitholders prior to each annual meeting of Unitholders.

The Unitholders or the Trustees will be entitled to change the number of Trustees comprising the Board. A quorum of the Trustees, being the majority of the Trustees then holding office (provided a majority of the Trustees comprising such quorum are residents of Canada), will be permitted to fill a vacancy in the Board, except a vacancy resulting from a failure of the Unitholders to elect the required number of Trustees. In the absence of a quorum of Trustees, or if the vacancy has arisen from a failure of the Unitholders to elect the minimum required number of Trustees, the Trustees will promptly call a special meeting of the Unitholders to fill the vacancy. If the Trustees fail to call that meeting or if there is no Trustee then in office, any Unitholder will be entitled to call such meeting. Except as otherwise provided in the Declaration of Trust, the Trustees may, between annual meetings of Unitholders, appoint one or more additional Trustees to serve until the next annual meeting of Unitholders, provided that the number of additional Trustees so appointed will not, at any time, exceed one-third of the number of Trustees who held such office at the conclusion of the immediately preceding annual meeting of Unitholders. Any Trustee may resign upon no less than 30 days' written notice to the REIT, provided that if such resignation would cause the number of remaining Trustees to be less than quorum, such resignation will not be effective until a successor is appointed. Any Trustee may be removed by an ordinary resolution passed by a majority of the votes cast at a meeting of Unitholders called for that purpose.

The Declaration of Trust will grant Melcor the exclusive right to nominate a maximum number of Trustees based on: (i) the proportion of outstanding Units held by Melcor (calculated on a fully diluted basis), whether held directly or indirectly, at the time of nomination; and (ii) the size of the Board of Trustees, as shown in the following table:

<u>Percentage of Voting Units Held Directly or Indirectly by Melcor</u>	<u>Total Number of Trustees of the REIT</u>	<u>Maximum Number of Melcor Nominees</u>
Greater than 30% .....	Greater than 10	5
	9 to 10	4
	7 to 8	3
	5 to 6	2
	Fewer than 5	1
20% – 30% .....	Greater than 10	4
	9 to 10	3
	5 to 8	2
	Fewer than 5	1
10% – 19.99% .....	10 or greater than 10	2
	Fewer than 10	1
Less than 10% .....	Any	0

As of Closing, Melcor will have the right to nominate three Trustees as the REIT will have seven Trustees in total.

The following table sets forth certain information regarding each of the individuals who will be Trustees of the REIT at Closing. As of the date of this prospectus, only Mr. Andrew J. Melton, Ralph B. Young and Mr. Brian Baker are Trustees of the REIT. The other individuals designated as Trustees of the REIT are not currently Trustees of the REIT. Each such individual has agreed to become a Trustee of the REIT and it is expected that such individuals will be appointed to the Board on or prior to Closing. As such individuals are not members of the Board at the time of this prospectus, the REIT does not believe any of such individuals has any liability for the contents of this prospectus in such capacity under the applicable securities laws of the provinces and territories of Canada.

<u>Name and Municipality of Residence</u>	<u>Position with the REIT</u>	<u>Principal Occupation</u>
Andrew J. Melton <sup>(3)</sup> ..... Calgary, Alberta	Trustee, Chair of the Board	Executive Vice-Chairman of Melcor Developments Ltd.
Ralph B. Young <sup>(2)</sup> ..... Edmonton, Alberta	Trustee	Chief Executive Officer of Melcor Developments Ltd.
Brian Baker ..... Edmonton, Alberta	Trustee	President and Chief Operating Officer of Melcor Developments Ltd.
Brian S. Hunt <sup>(1)(2)(3)</sup> ..... Edmonton, Alberta	Independent Trustee	President and Director of Taviston Inc.
F. Patrick Kirby ..... Edmonton, Alberta	Independent Trustee	Counsel, Felesky Flynn LLP
Donald Lowry <sup>(1)(2)(4)</sup> ..... Edmonton, Alberta	Independent Trustee	Corporate Director, former President and CEO of EPCOR Utilities Inc.
Larry Pollock <sup>(1)(3)</sup> ..... Edmonton, Alberta	Independent Trustee	Corporate Director, former President, CEO and director of Canadian Western Bank

**Notes:**

1. Member of the Audit Committee.
2. Member of the C&G Committee.
3. Member of the Investment Committee.
4. Lead Trustee

Mr. Andrew J. Melton, Mr. Ralph B. Young and Mr. Brian Baker, as a group, beneficially own directly and indirectly, or exercise control or direction over, approximately 4.9% of Melcor. In addition, Mr. Melton beneficially owns a minority interest in Melton Holdings Ltd., which in turn, beneficially owns or controls approximately 48.40% of Melcor. Immediately after Closing, it is expected that Melcor will hold approximately ● % of the Voting Units through ownership of all of the Class B LP Units (or approximately ● % of the Voting Units if the Over-Allotment Option is exercised in full). In addition, the Trustees and executive officers of the REIT (or persons acting in such capacity), as a group, will beneficially own, directly or indirectly, or exercise control or direction over, ● Voting Units, representing approximately ● % of the Voting Units outstanding at that time.

Additional biographical information regarding the seven Trustees of the REIT for the past five years is set out below.

Andrew J. Melton is currently the Executive Vice-Chair of Melcor and has been a member of Melcor's board of directors since 1985. Mr. Melton began his career in 1978 with Graeme Young & Associates and retired as a partner from Avison Young, a full-service commercial real estate company, in 2010. Mr. Melton has over 35 years of real estate experience, ranging from commercial real estate brokerage to land development.

Ralph B. Young will continue to serve as Chief Executive Officer of Melcor until his retirement on July 2, 2013. Mr. Young started at Melcor in 1971 and became President in 1997 and Chief Executive Officer in 2000. Mr. Young received his Bachelor of Science degree in Civil Engineering from the University of Saskatchewan in 1967 and his Master of Business Administration from the University of Alberta in 1973. Mr. Young also serves on the Board of the Edmonton Airport Authority and is the Chancellor of the University of Alberta.

Brian D. Baker serves as President and Chief Operating Officer of Melcor and will serve as Chief Executive Officer upon the retirement of Ralph B. Young. Mr. Baker started with Melcor in 1997 as a Development Manager in the Community Development Division, where he successfully managed land development projects in West Edmonton and Spruce Grove. He was promoted to Vice President of the newly formed Property Development Division in April 2002. The Property Development Division specializes in the planning, construction and leasing of retail, office and industrial revenue-producing properties. In his ten years heading Property Development, the Division grew from a startup division to one that now has annual revenues (pre-IFRS) of more than \$60 million per year and has developed commercial assets totaling over 1.6 million square feet. Mr. Baker was promoted to Chief Operating Officer, in June 2011 and to President and Chief Operating Officer in June 2012. Mr. Baker received his Bachelor of Education degree from the University of Alberta.

Brian S. Hunt is the co-founder, President and Director of Taviston Inc., Talisman Properties Ltd., and 1204 Kensington Road Ltd., which are active private equity investment companies with a focus on the real estate, energy and technology sectors. Previously, Brian held various executive roles at The Westaim Corporation, listed on the TSX Venture Exchange, including Senior Advisor and Executive Vice President. While at Westaim, he also served as interim President of Westaim Biomedical and Westaim Partners, divisions of Westaim Corporation focused on biomedical products and venture capital, respectively. He was also a Director of Savvion, a private Silicon Valley-based software engineering firm. Mr. Hunt was also the co-founder, President and Director of Sebring Energy Inc., and held various roles at both ACTC Technologies and Stewart Green Properties Ltd.. Mr. Hunt has also served as a volunteer on various charitable boards and committees including Alberta Children's Hospital Foundation, Calgary Regional Health Authority and Calgary Health Trust and is a member of the Law Society of Alberta. Mr. Hunt received his Bachelor of Arts from the University of Western Ontario and his Bachelor of Laws and Master of Business Administration from the University of Alberta.

F. Patrick Kirby is currently counsel with the law firm of Felesky Flynn LLP, having previously been a partner with the firm since 1984. Mr. Kirby's practice focused on a wide array of tax matters, including purchase and sale of businesses, cross-border transactions and succession planning. Prior to this, Mr. Kirby was employed with a large national accounting firm from 1971 until 1979. Mr. Kirby lectured for several years in the Articling CA Students Program, and was a sessional lecturer for four years with the Faculty of Commerce at the University of Alberta and two years with the Banff School of Advanced Management. He has written various papers and lectures for the Canadian Tax Foundation, the Canadian Bar Association, the Legal Education Society of Alberta, the Alberta Institute of Chartered Accountants, the Edmonton Entrepreneurial CA Society and the Federated Press. Mr. Kirby was appointed Queen's Counsel in Alberta in 2000 and a Fellow of the Institute of Chartered Accountants in 2002. He was formerly on the Board of Governors of the Canadian Tax Foundation, has served as a volunteer on various charitable boards and committees and has sat on the board of directors of certain business corporations. Mr. Kirby formerly served as a

director and Chairman of the audit committee for a large national construction company and has previously sat on the board and acted as a member of the audit committee for a large retail enterprise having more than 150 stores in Western Canada. Mr. Kirby received his Bachelor of Science degree from the University of Calgary and his Bachelor of Laws from the University of Alberta.

Donald Lowry retired in March 2013 as the President and CEO of EPCOR Utilities Inc., a position he held since January 1998. Prior to joining EPCOR Utilities Inc., Mr. Lowry spent more than 20 years in the telecommunications industry, including six years as President and Chief Operating Officer of TELUS Communications Inc. Mr. Lowry is past chair of the Canadian Electricity Association, the current non-executive Chairman of Canadian Oil Sands Limited (listed on the TSX), the current non-executive Chairman of Capital Power Corporation (listed on the TSX) and serves as a director on several other boards, including Hydrogenics Corporation (listed on the TSX), the Conference Board of Canada, the Canadian Electricity Association and the TELUS Community Foundation. He was recognized in 2010 as Alberta Venture's Business Person of the Year. Mr. Lowry received his Bachelor of Commerce degree (Honours) and his Master of Business Administration degree from the University of Manitoba. He is also a graduate of the Harvard Advanced Management Program and the Banff School of Management.

Larry Pollock retired in March 2013 from the position of President, CEO and director of Canadian Western Bank (listed on the TSX). Mr. Pollock led the organization since 1990 when the Bank's assets totaled \$400 million to its current size of \$17 billion. Prior to joining Canadian Western Bank, Mr. Pollock was Regional Vice President of Lloyds Bank Canada in Toronto and Calgary from 1985 to 1990. Before moving to Toronto he was employed with Continental Bank of Canada and its predecessor IAC Limited, which he joined directly from college in 1968. In addition to having served on the board of Canadian Western Bank and several of its subsidiaries, Mr. Pollock also currently serves on several other boards, including the board of directors and the audit, HR and governance committees for WestJet Airlines (listed on the TSX), the board of directors and the HR and governance committees for EPCOR Utilities Inc., the board of directors and the audit, HR and governance committees for HNZ Group Inc. (listed on the TSX) and the board of directors and the audit (as Chair), HR and governance committees for Clark Builders Ltd. (a subsidiary of Turner Construction of New York, which is a subsidiary of HOCHTIEF of Germany). Mr. Pollock has also served as a volunteer on various charitable boards and committees, including serving as a member of the Executive Council of Canadian Bankers' Association. Mr. Pollock graduated from the Saskatchewan Institute of Arts & Sciences in Business Administration in 1968, completed the Institute of Canadian Banks courses at York University in Toronto and completed courses at University of Calgary in oil and gas in 1988. He also was awarded an Honorary Bachelor of Business Administration degree from the Northern Alberta Institute of Technology in 2009.

## **Position Descriptions**

### *The Chair of the Board, Lead Trustee and Committee Chairs*

Mr. Andrew J. Melton, the Chair of the Board, is not an Independent Trustee, and therefore Mr. Donald Lowry will act as Lead Trustee. The Board will adopt a written position description for the Chair of the Board and the Lead Trustee which will set out the Chair and the Lead Trustee's key responsibilities, including duties relating to setting agendas for Board meetings, chairing Board and Unitholder meetings, trustee development and communicating with Unitholders and regulators. The Board will also adopt a written position description for each of the committee Chairs, which will set out each of the committee Chair's key responsibilities, including duties relating to setting committee meeting agendas, chairing committee meetings and working with the respective committee and management to ensure, to the greatest extent possible, the effective functioning of the committee. These descriptions will be considered by the Board for approval annually.

### *Chief Executive Officer of the REIT*

The primary functions of the Chief Executive Officer of the REIT are to lead the management of the REIT's business and affairs and to lead the implementation of the resolutions and policies of the Board. The Board will develop a written position description and mandate for the Chief Executive Officer which will set out the Chief Executive Officer's key responsibilities, including duties relating to strategic planning, operational direction, Board interaction, succession planning and communication with Unitholders and regulators. The Chief Executive Officer's mandate will be considered by the Board for approval annually.

## **Committees of the Board**

Pursuant to the Declaration of Trust, the Board has established three committees: (i) the Audit Committee; (ii) the C&G Committee; and (iii) the Investment Committee. All members of the Audit Committee must be Independent Trustees and a majority of the members of each of the C&G Committee and the Investment Committee must be Independent Trustees.

### *Audit Committee*

The Audit Committee will initially consist of Brian S. Hunt (Chair), Donald Lowry and Larry Pollock, each of whom is “independent” and “financially literate” within the meaning of National Instrument 52-110-*Audit Committees*. Each of the Audit Committee members has an understanding of the accounting principles used to prepare the REIT’s financial statements, experience preparing, auditing, analyzing or evaluating comparable financial statements and experience as to the general application of relevant accounting principles, as well as an understanding of the internal controls and procedures necessary for financial reporting. For the education and experience of each member of the Audit Committee relevant to the performance of his or her duties as a member of the Audit Committee, see “Trustees and Management of the REIT – Governance and Board of Trustees”.

The Board has adopted a written charter for the Audit Committee, which sets out the Audit Committee’s responsibility in reviewing the financial statements of the REIT and public disclosure documents containing financial information and reporting on such review to the Board, ensuring that adequate procedures are in place for the review of the REIT’s public disclosure documents that contain financial information, overseeing the work and reviewing the independence of the external auditors and reviewing, evaluating and approving the internal control procedures that are implemented and maintained by management. The Audit Committee will also be responsible for recommending the adoption of an enterprise risk management program and an environmental management program for the REIT and for supervising the REIT’s compliance with and implementation of the risk and environmental programs. A copy of the Audit Committee charter is attached to this prospectus as Appendix B.

### *Compensation and Governance Committee*

The C&G Committee will initially consist of Donald Lowry (Chair), Brian S. Hunt and Ralph B. Young. The C&G Committee will be charged with reviewing, overseeing and evaluating the governance and nominating policies and the compensation policies of the REIT. In addition, the C&G Committee will be responsible for: (i) assessing the effectiveness of the Board, each of its committees and individual Trustees; (ii) overseeing the recruitment and selection of candidates as Trustees of the REIT, other than Melcor’s nominees; (iii) organizing an orientation and education program for new Trustees and coordinating continuing Trustee development programs; (iv) considering and approving proposals by the Trustees to engage outside advisers on behalf of the Board as a whole or on behalf of the Independent Trustees; (v) reviewing and making recommendations to the Board concerning any change in the number of Trustees composing the Board; (vi) administering any compensation incentive programs; (vii) assessing the performance of the officers and other members of the executive management team of the REIT; (viii) reviewing and approving the compensation paid by the REIT, if any, to consultants of the REIT; and (ix) reviewing and making recommendations to the Board concerning the level and nature of the compensation payable, if any, to the Trustees and officers of the REIT.

To ensure the C&G Committee has the expertise to carry out its mandate, it is intended that its members will have, or acquire within a reasonable period of time after being appointed, an understanding of relevant issues relating to governance and compensation.

### *Investment Committee*

Pursuant to the Investment Committee terms of reference, each of the Investment Committee members must have at least five years of experience in the real estate industry. The Investment Committee will initially consist of Andrew J. Melton (Chair), Brian S. Hunt and Larry Pollock.

The Investment Committee may authorize, without Board approval, proposed acquisitions, dispositions or borrowings where the acquisition, disposition or borrowing (including the assumption or granting of any mortgage and the renewal, extension or modification of any existing mortgage), where the value of such transaction does not exceed \$20 million. The Investment Committee may also recommend to the Board whether to approve or reject proposed transactions, where the value of such transaction exceeds \$20 million.

## Conflicts of Interest

The Declaration of Trust contains “conflict of interest” provisions to protect Unitholders without creating undue limitations on the REIT. As the Trustees will be engaged in a wide range of real estate and other activities, the Declaration of Trust contains provisions, similar to those contained in the ABCA, that will require each Trustee to disclose to the REIT, at the first meeting of Trustees or a committee of Trustees at which a proposed contract or transaction is considered, any interest in a contract or transaction or proposed contract or transaction with the REIT (including a contract or transaction involving the making or disposition of any investment in real property or a joint venture agreement) or the fact that such person is a director or officer of, or otherwise has an interest in, any person who is a party to a contract or transaction or proposed contract or transaction with the REIT. If a material contract or transaction or proposed material contract or transaction is one that, in the ordinary course, would not require approval by the Trustees, a Trustee will be required to disclose in writing to the REIT, or request to have entered into the minutes of meetings of Trustees or a committee thereof, the nature and extent of his or her interest forthwith after the Trustee becomes aware of the contract or transaction or proposed contract or transaction. In any case, a Trustee who has made disclosure to the foregoing effect will not be entitled to vote on any resolution to approve the contract or transaction unless the contract or transaction primarily relates to his or her remuneration or is for indemnity under the provisions of the Declaration of Trust or the purchase or maintenance of liability insurance.

All decisions of the Board will require the approval of a majority of the Trustees present in person or by phone at a meeting of the Board, except for each of the following matters which will also require the approval of a majority of the Independent Trustees:

- (a) an acquisition of a property or an investment in a property, whether by co-investment or otherwise, in which Melcor or any related party of the REIT has any direct or indirect interest, whether as owner, operator or manager;
- (b) a material change to any agreement with Melcor or a related party of the REIT or any renewal, extension or termination thereof or any increase in any fees (including any transaction fees) or distributions payable thereunder;
- (c) the entering into of, or the waiver, exercise or enforcement of any rights or remedies under, any agreement entered into by the REIT, or the making, directly or indirectly, of any co-investment, in each case with:
  - (i) any Trustee; (ii) any entity directly or indirectly controlled by any Trustee or in which any Trustee holds a significant interest; or (iii) any entity for which any Trustee acts as a director or other similar capacity;
- (d) the refinancing, increase or renewal of any indebtedness owed by or to:
  - (i) any Trustee; (ii) any entity directly or indirectly controlled by any Trustee or in which any Trustee holds a significant interest; or (iii) any entity for which any Trustee acts as a director or other similar capacity; or
- (e) decisions relating to any claims by or against one or more parties to any agreement with Melcor or any related party of the REIT.

In connection with any transaction involving the REIT, including any transaction which requires the approval of a majority of the Independent Trustees, the Board shall have the authority to retain external legal counsel, consultants or other advisors to assist it in negotiating and completing such transaction without consulting or obtaining the approval of any officer of the REIT.

It is anticipated that the Independent Trustees will hold in-camera meetings, with members of management not in attendance, as part of regularly scheduled Board meetings.

As it is contemplated that the Chair of the Board will not be an Independent Trustee, an Independent Trustee will be appointed as Lead Trustee in order to ensure appropriate leadership for the Independent Trustees. It is contemplated that the primary responsibilities of the Lead Trustee will be to: (i) ensure that appropriate structures and procedures are in place so that the Board may function independently of management of the REIT; and (ii) lead the process by which the Independent Trustees seek to ensure that the Board represents and protects the interests of all Unitholders.

Melcor’s continuing businesses may lead to conflicts of interest between Melcor and the REIT. In addition, the ongoing relationships between Melcor and each of Mr. Andrew J. Melton (Trustee, Chair of the Board of the REIT), Mr. Ralph B. Young (Trustee), Mr. Brian Baker (Trustee), Darin Rayburn (Chief Executive Officer of the REIT) and Jonathan W. Chia (Chief Financial Officer of the REIT) may lead to conflicts of interest between such persons and the REIT.

## Orientation and Continuing Education

Following Closing, it is expected that the C&G Committee will put in place an orientation program for new Trustees, under which a new Trustee will meet with the Chair of the Board, the Lead Trustee and members of the executive management team of the REIT. A new Trustee will be provided with comprehensive orientation and education as to the nature and operation of the REIT and its business, as to the role of the Board and its committees and the Lead Trustee, and as to the contribution that an individual Trustee is expected to make. The C&G Committee will be responsible for coordinating continuing Trustee development programs to enable the Trustees to maintain or enhance their skills and abilities as Trustees as well as ensuring their knowledge and understanding of the REIT and its business remains current.

## Ethical Business Conduct

The Board has adopted a written code of business conduct and ethics applicable to the Trustees, officers and employees of the REIT and its subsidiaries, as well as to the directors, officers and employees of Melcor REIT GP. The code sets out the Board's expectations for the conduct of such persons in their dealings on behalf of the REIT. The Board will establish confidential reporting procedures in order to encourage individuals to raise concerns regarding matters addressed by the code on a confidential basis free from discrimination, retaliation or harassment. Those who violate the code may face disciplinary actions, including dismissal. The code of business conduct and ethics will be filed with the Canadian securities regulatory authorities.

## Nomination and Assessment of Trustees

The Board has established a C&G Committee that is responsible for, other than Melcor's nominees, overseeing the recruitment and selection of such candidates as Trustees of the REIT. The recruitment and selection of such candidates will involve an identification of the qualifications for Trustees that are required to fulfill Board responsibilities and an evaluation of the qualifications that existing Trustees possess. The C&G Committee is then expected to recommend candidates to the Board for nomination as Trustees to be elected by the Unitholders.

The C&G Committee is also responsible for assessing the effectiveness of the Board, each of its committees and individual Trustees. Trustees will be regularly surveyed to form the basis of such assessment and such assessment will be reviewed by the Chair of the Board, with the exception of the assessment of the Chair of the Board and the non-Independent Trustees, which will be reviewed by the Lead Trustee.

## Senior Management

The following table sets forth the name, municipality of residence and positions held with the REIT (or functions performed on behalf of the REIT) of each executive officer of the REIT (or each person acting in the capacity of an executive officer of the REIT) on Closing:

<u>Name and Municipality of Residence</u>	<u>Office with the REIT</u>
Darin Rayburn . . . . . Edmonton, Alberta	Chief Executive Officer
Jonathan W. Chia . . . . . Edmonton, Alberta	Chief Financial Officer

Additional biographical information regarding the executive officers of the REIT is set out below.

Mr. Rayburn has worked in the real estate industry since 1991. He is Executive Vice President for Melcor, in which capacity he is focused on strategy, acquisitions and the operations of Melcor's investment property asset portfolio. Mr. Rayburn joined Melcor in 2002, and in the last 10 years, he has grown the investment property portfolio from approximately 600,000 square feet to over three million square feet in four asset classes throughout Western Canada and United States. Prior to joining Melcor, Mr. Rayburn held various leasing, operations, management and marketing positions with Oxford Properties Group and Cambridge Shopping Centers. Mr. Rayburn holds a Bachelor of Arts degree from the University of Alberta.

Mr. Chia is a Chartered Accountant with over 10 years of experience in the accounting and finance industry. He is the Chief Financial Officer of Melcor, a position he has held since January 2011. Mr. Chia was previously the Chief Financial Officer of Matrikon Inc. (TSX: MTK) and, prior to that, a Senior Accountant at KPMG LLP. Mr. Chia holds a Bachelor of Commerce degree from the University of Alberta.

### **Cease Trade Orders, Bankruptcies, Penalties or Sanctions**

No Trustee or executive officer of the REIT and, in the case of (B), (C), (D) and (E) below, no Unitholder of the REIT holding a sufficient number of Voting Units to affect materially the control of the REIT, or a personal holding company of any of the foregoing: (A) is or has been in the last 10 years, a director, trustee, chief executive officer or chief financial officer of any issuer that (i) was subject to a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued while the person was acting in the capacity as director, trustee, chief executive officer or chief financial officer; or (ii) was subject to a cease trade order or similar order or an order that denied the issuer access to any exemption under securities legislation, that was in effect for a period of more than 30 consecutive days, that was issued after the person ceased to be a director, trustee, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, trustee, chief executive officer or chief financial officer; (B) has been subject to any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; (C) has been subject to any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision; (D) is or has been in the last 10 years, a director or executive officer of any company that, while that person was acting in that capacity, or within a year of that person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or (E) has in the last 10 years become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold such person's assets.

## EXECUTIVE COMPENSATION

The executive officers of the REIT are employed by Melcor and the REIT does not directly or indirectly pay any cash compensation to them. Any variability in compensation paid by Melcor to the executive officers of the REIT has no impact on the REIT's financial obligations, including its obligations under the Asset Management Agreement. See "Arrangements with Melcor – Asset Management Agreement".

The total compensation received by the executive officers of the REIT is determined by Melcor in accordance with its executive compensation philosophy. For a detailed discussion of the objectives and elements of Melcor's compensation program, see pages 14 through 21 of Melcor's Management Information Circular dated March 26, 2012 (the "Melcor Circular"), which may be accessed electronically under Melcor's issuer profile on SEDAR at www.sedar.com. As Mr. Darin Rayburn and Mr. Jonathan W. Chia will qualify as a "Named Executive Officer", or "NEO", under applicable Canadian securities law, expected compensation information is provided in this section. All references to options, stock appreciation rights, common shares and pensions in this section are in respect of Melcor.

For greater certainty, information contained on Melcor's profile on SEDAR, including the Melcor Circular, is not incorporated by reference into this prospectus.

### Summary Compensation Table

The following discussion is intended to supplement the information concerning executive compensation that appears in the table that follows. The executive officers of the REIT are employed by Melcor and the REIT does not determine the amounts payable to the executive officers or, directly or indirectly, pay any cash compensation to them. The disclosure below is provided to comply with applicable Canadian securities laws.

Management expects that the REIT's only NEOs during the year ended December 31, 2013 will be Mr. Darin Rayburn (Chief Executive Officer) and Jonathan W. Chia (Chief Financial Officer). The following table sets out information concerning the expected fiscal 2013 compensation to be earned by, paid to, or awarded to the Named Executive Officers of the REIT, based on the amount of time expected to be attributable to the services that the Named Executive Officers provide to the REIT.

Name and Principal Position	Year	Salary <sup>(1)</sup> (\$)	Bonus <sup>(2)</sup> (\$)	Unit- based awards (\$)	Non-equity incentive plan compensation	All other compensation (\$)	Total compensation (\$)
					Bonus (\$)		
Darin Rayburn, CEO <sup>(3)</sup> . . . . .	2013	185,000	225,000	NIL	NIL	10,000	420,000
Jonathan W. Chia, CFO <sup>(3)</sup> . . . . .	2013	80,000	60,000	NIL	NIL	5,000	145,000

**Notes:**

1. Represents the annualized portion of salary anticipated to be paid by Melcor attributable to time expected to be spent on the REIT's activities.
2. Represents the annualized portion of bonus anticipated to be paid by Melcor attributable to time expected to be spent on the REIT's activities.
3. All compensation for Mr. Rayburn and Mr. Chia will be paid by Melcor, and there is no reimbursement by the REIT for such compensation. Messrs. Rayburn and Chia will act in a variety of capacities for Melcor, the REIT and their respective affiliates, and accordingly, the total compensation that Messrs. Rayburn and Chia are expected to receive from Melcor is not disclosed in this table, since total compensation will not solely be attributable to the services that such individuals will provide to the REIT. The allocation of the total compensation disclosed in this table was determined by Melcor solely for the purposes of this table, based on the time expected to be spent by Messrs. Rayburn and Chia in connection with REIT-related services (estimated to be 85% and 40% respectively).

### Compensation Discussion and Analysis

The compensation of Melcor will be calculated in accordance with the Asset Management Agreement, and is not subject to the general discretion of the Board. Accordingly, compensation received from Melcor by persons provided by Melcor as officers of the REIT is not within or subject to the discretion of the Board.

## REMUNERATION OF TRUSTEES

A person who is employed by and receives a salary from the REIT or Melcor does not receive any remuneration from the REIT for serving as a Trustee. Trustees who are not employed by the REIT or Melcor shall receive

remuneration from the REIT in the amount of \$15,000 per year as an annual retainer. Also, each Trustee or committee member, other than a person employed by the REIT or Melcor, shall receive \$1,500 per meeting attended with an additional \$10,000 for the audit committee chair, and \$5,000 for each other committee chair. The Trustees are entitled to be reimbursed for their reasonable out-of-pocket expenses incurred in connection with the REIT.

The C&G Committee will review Trustee compensation annually and make recommendations on remuneration to the Board. In reviewing Trustee compensation, it is expected that the C&G Committee will consider the responsibilities and time commitment of the Trustee and benchmark compensation against comparable Canadian real estate investment trusts and others in the real estate industry more generally.

### **Trustees' and Officers' Liability Insurance**

The REIT intends to carry trustees' and officers' liability insurance. Under this insurance coverage, the REIT will be reimbursed for insured claims where payments have been made under indemnity provisions on behalf of its Trustees and officers contained in the Declaration of Trust, subject to a deductible for each loss, which will be paid by the REIT. Individual Trustees and officers of the REIT will also be reimbursed for insured claims arising during the performance of their duties for which they are not indemnified by the REIT. Excluded from insurance coverage will be illegal acts, acts which result in personal profit and certain other acts. The Declaration of Trust provides for the indemnification in certain circumstances of Trustees and officers of the REIT from and against liability and costs in respect of any action or suit against them in respect of the execution of their duties of office. The policy covers claims made against the insured during the policy period with a limit of \$10 million during the policy year and a limit of \$10 million in respect of each claim. Management expects the premium payable by the REIT for this coverage will be approximately \$30,000 plus applicable taxes in 2013.

## **INVESTMENT GUIDELINES AND OPERATING POLICIES**

### **Investment Guidelines**

The Declaration of Trust provides certain guidelines on investments that may be made by the REIT. The assets of the REIT may be invested only in accordance with the following guidelines and the REIT shall cause its subsidiaries to conduct their operations and affairs in such a manner that such conduct does not render the REIT investments to be contrary to the following guidelines:

- (a) the REIT and each of its subsidiaries will focus its activities on the acquisition, holding, developing, maintaining, improving, leasing, managing or otherwise dealing with income producing real property located in Canada and the United States and which is primarily commercial in nature;
- (b) notwithstanding anything else contained in the Declaration of Trust, the REIT will not make or hold any investment, take any action or omit to take any action or permit a subsidiary to make or hold any investment, or take any action or omit to take any action that would result in: (i) the REIT ceasing to qualify as a "mutual fund trust" or "unit trust", both within the meaning of the Tax Act; (ii) the Units being disqualified for investments by Plans; or (iii) the REIT and its subsidiary being liable under the Tax Act to pay a tax imposed under either paragraph 122(1)(b), subsection 197(2) or Part XII.2 of the Tax Act;
- (c) the REIT may, directly or indirectly, make such investments, do all such things and carry out all such activities as are necessary or desirable in connection with the conduct of its activities provided they are not otherwise specifically prohibited by the Declaration of Trust;
- (d) unless otherwise specifically prohibited by the Declaration of Trust, the REIT may invest in freehold, leasehold, or other interests in property (real, personal, moveable or immovable);
- (e) the REIT and its subsidiaries shall not purchase any interest in a single real property if, after giving effect to the proposed purchase, the cost to the REIT or any subsidiary of such purchase (net of the amount of debt incurred or assumed in connection with such purchase) will exceed 20% of Gross Book Value at the time the purchase is made;
- (f) the REIT may make its investments and conduct its activities, directly or indirectly, through an investment in one or more persons on such terms as the Trustees may from time to time determine, including by way of joint ventures, partnerships (general or limited) and limited liability companies;

- (g) except for temporary investments held in cash, deposits with a Canadian chartered bank or trust company registered under the laws of a province or of Canada, short-term government debt securities or money market instruments of, or guaranteed by, a Schedule I Canadian chartered bank maturing prior to one year from the date of issue, or except as otherwise permitted by the Declaration of Trust, the REIT may not hold securities other than securities of a person: (i) acquired in connection with the carrying on, directly or indirectly, of the REIT's activities or the holding of its assets; or (ii) which focuses its activities primarily on the acquisition, holding, developing, maintaining, improving, leasing, managing or otherwise dealing with income producing real property, provided in the case of any proposed investment or acquisition which would result in the beneficial ownership of more than 20% of the outstanding units of the securities issuer (the "Acquired Issuer"), the investment is made for the purpose of subsequently effecting the merger or combination of the business and assets of the REIT and the Acquired Issuer or for otherwise ensuring that the REIT will control the business and operations of the Acquired Issuer;
- (h) the REIT and its subsidiaries will not invest in rights to or interests in mineral or other natural resources, including oil or gas, except as ancillary to an investment in real property;
- (i) the REIT will not invest, directly or indirectly, in operating businesses unless such investment is an indirect investment and is incidental to a transaction: (i) where revenue will be derived, directly or indirectly, principally from real property; or (ii) which principally involves the ownership, maintenance, development, improvement, leasing or management, directly or indirectly, of real or immovable property (in each case as determined by the Trustees);
- (j) the REIT and its subsidiaries may invest in mortgages and mortgage bonds (including a participating or convertible mortgage) only where: (i) the mortgage or mortgage bond is secured; (ii) the real property which is security therefore is income producing real property which otherwise meets the other investment guidelines of the REIT; and (iii) the aggregate book value of such investments of the REIT in mortgages after giving effect to the proposed investment, will not exceed 15% of Gross Book Value;
- (k) the REIT and its subsidiaries will not invest in raw land for development, except for: (i) existing properties with additional development; (ii) the purpose of renovating or expanding existing properties; or (iii) the development of new properties that will be capital properties of the REIT and which otherwise meets the other investment guidelines of the REIT, provided that the aggregate cost of the investments of the REIT in raw land, after giving effect to the proposed investment, will not exceed 5% of Gross Book Value; and
- (l) notwithstanding any other provision of the Declaration of Trust but subject to subparagraph (b) above, the REIT may make investments that do not otherwise comply with one or more of subparagraphs (a), (g), (h) and (l) of the investment guidelines provided the aggregate amount of such investments will not exceed 15% of Gross Book Value.

For the purpose of the foregoing guidelines and restrictions (other than subparagraph (b)), the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to investment in real property will be deemed to include an investment in a joint venture arrangement.

### **Operating Policies**

The Declaration of Trust provides that the operations and affairs of the REIT will be conducted in accordance with the following policies and the REIT shall not permit its subsidiaries to conduct their operations and affairs in such a manner that such conduct renders the REIT's operations and affairs to be contrary to the following guidelines:

- (a) the REIT and its subsidiaries will not purchase, sell, market or trade in currency or interest rate futures contracts otherwise than for hedging purposes to the extent that such hedging activity complies with National Instrument 81-102, as amended from time to time, or any successor instrument or rule and provided that subparagraph (b) of the foregoing investment guidelines is complied with;
- (b) (i) any written instrument creating an obligation which is or includes the granting by the REIT or its subsidiaries of a mortgage; and (ii) to the extent the Trustees determine to be practicable and consistent with their fiduciary duty to act in the best interests of Unitholders, any written instrument which is, in the judgment of the Trustees, a material obligation, shall contain a provision or be subject to an acknowledgement to the effect that the obligation being created is not personally binding upon, and that

resort shall not be had to, nor shall recourse or satisfaction be sought from, the private property of any of the Trustees, Unitholders, annuitants under a plan of which a Unitholder acts as a trustee or carrier, or officers, employees or agents of the REIT, but that only property of the REIT or a specific portion shall be bound; the REIT, however, is not required, but shall use all reasonable efforts, to comply with this requirement in respect of obligations assumed by the REIT upon the acquisition of real property;

- (c) the REIT and its subsidiaries will not incur or assume any Indebtedness if, after giving effect to the incurring or assumption of the Indebtedness, the total Indebtedness of the REIT would be more than 60% of Gross Book Value (65% including any convertible debentures of the REIT);
- (d) at no time shall the REIT incur Indebtedness aggregating more than 20% of Gross Book Value (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more) at floating interest rates or having maturities of less than one year;
- (e) the REIT and its subsidiaries shall not incur or assume any Indebtedness (other than by the assumption of existing Indebtedness and the renewal, extension or modification thereof from time to time) or renew or refinance any Indebtedness under a mortgage on any of the real property (other than on raw land and/or land under development and/or assumed debt) of the REIT or its subsidiaries where (i) in the case of an individual property, the total amount of Indebtedness, excluding operating lines, secured by mortgages on such property exceeds 75% of the market value of such individual property; or (ii) in the case of more than one property or a pool or portfolio of properties, the total amount of Indebtedness, excluding operating lines, secured by mortgages on such properties exceeds 75% of the market value of such properties on an aggregate basis;
- (f) except in connection with or related to the acquisition of the Initial Properties, the REIT shall not directly or indirectly guarantee any Indebtedness or liabilities of any person unless such guarantee: (i) is given in connection with or incidental to an investment that is otherwise permitted under the REIT's investment guidelines; (ii) has been approved by the Trustees; and (iii) (A) would not disqualify the REIT as a "mutual fund trust" within the meaning of the Tax Act, and (B) would not result in the REIT losing any other status under the Tax Act that is otherwise beneficial to the REIT and its Unitholders;
- (g) title to each real property shall be held by and registered in the name of the REIT, the Trustees or a corporation or other entity wholly-owned, directly or indirectly, by the REIT or jointly owned, directly or indirectly, by the REIT; provided, that where land tenure will not provide fee simple title, the REIT, the Trustees or a corporation or other entity wholly-owned, directly or indirectly, by the REIT or jointly owned, directly or indirectly, by the REIT shall hold a land lease as appropriate under the land tenure system in the relevant jurisdiction;
- (h) the REIT or its subsidiaries shall have obtained an appraisal of each real property that it intends to acquire and an engineering survey with respect to the physical condition thereof, in each case, by an independent and experienced consultant;
- (i) the REIT and its subsidiaries will obtain and maintain at all times insurance coverage in respect of potential liabilities of the REIT and its subsidiaries and the accidental loss of value of the assets of the REIT and its subsidiaries from risks, in amounts and with such insurers, in each case as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties; and
- (j) the REIT and its subsidiaries shall either: (i) have conducted a Phase I environmental site assessment; or (ii) be entitled to rely on a Phase I environmental site assessment dated no earlier than six months prior to receipt by the REIT, in respect of each real property that it intends to acquire and, if the Phase I environmental site assessment report recommends that further environmental site investigations be conducted, the REIT shall have conducted such further environmental investigations, in each case, by an independent and experienced environmental consultant.

For the purpose of the foregoing policies, the assets, liabilities and transactions of a corporation or other entity wholly or partially owned by the REIT will be deemed to be those of the REIT on a proportionate consolidated basis. In addition, any references in the foregoing to investment in real property will be deemed to include an investment in a joint venture.

## **Amendments to Investment Guidelines and Operating Policies**

### *General*

Pursuant to the Declaration of Trust, the investment guidelines set forth at “-Investment Guidelines” and the operating policies set forth in subparagraphs (a), (c), (d), (e), (g), (h) and (i) at “-Operating Policies” may be amended only with the approval of not less than two-thirds of the votes cast at a meeting of Unitholders called for such purpose. The remaining operating policies may be amended with the approval of a majority of the votes cast at a meeting of Unitholders called for such purpose.

### *Regulatory Conflict*

Notwithstanding the foregoing paragraph, if at any time a government or regulatory authority having jurisdiction over the REIT or any property of the REIT shall enact any law, regulation or requirement which is in conflict with any investment guideline or operating policy of the REIT then in force (other than subparagraph (b) at “Investment Guidelines”), such investment guideline or operating policy in conflict shall, if the Trustees on the advice of legal counsel to the REIT so resolve, be deemed to have been amended to the extent necessary to resolve any such conflict and, notwithstanding anything to the contrary, any such resolution of the Trustees shall not require the prior approval of Unitholders.

## **DECLARATION OF TRUST**

The REIT is a newly formed unincorporated open-ended real estate investment trust established pursuant to the Declaration of Trust under, and governed by, the laws of the Province of Alberta. Although the REIT is expected to qualify on Closing as a “mutual fund trust” as defined in the Tax Act, the REIT will not be a “mutual fund” as defined by applicable securities legislation.

The Units are not “deposits” within the meaning of the *Canada Deposit Insurance Corporation Act* (Canada) and are not insured under the provisions of such Act or any other legislation. Furthermore, the REIT is not a trust company and accordingly, is not registered under any trust and loan company legislation as it does not carry on or intend to carry on the business of a trust company. The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT’s assets and should not be viewed by investors as direct securities of the REIT’s assets. A holder of a Unit of the REIT does not hold a share of a body corporate. As holders of Units of the REIT, the holders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring “oppression” or “derivative” actions. The rights of holders of Units are based primarily on the Declaration of Trust. There is no statute governing the affairs of the REIT equivalent to the ABCA which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as *the Bankruptcy and Insolvency Act* (Canada) and *the Companies Creditors’ Arrangement Act* (Canada) and thus the treatment of holders of Units upon insolvency is uncertain.

## **Units and Special Voting Units**

The REIT is authorized to issue an unlimited number of Units and an unlimited number of Special Voting Units. Issued and outstanding Voting Units may be subdivided or consolidated from time to time by the Trustees without the approval of the holders thereof.

### *Units*

Units will not have preference or priority over one another. No holder of Units will have or be deemed to have any right of ownership of any of the assets of the REIT. Each Unit will represent a holder’s proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of Unitholders and to participate *pro rata* in any distributions by the REIT, whether of net income, net realized capital gains of the REIT or other amounts and, in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. Units will be fully paid and non-assessable when issued (unless issued on an installment receipt basis) and are transferable. The Units are redeemable at the holder’s option, as described below under

“-Redemption Right” and, except as set out in “Retained Interest-Exchange Agreement”, the Units have no other conversion, retraction, redemption or pre-emptive rights. On any consolidation, fractional Units, if any, will not be issued but rather rounded down to the nearest whole Unit.

### *Special Voting Units*

Special Voting Units have no economic entitlement in the REIT or in the distributions or assets of the REIT but entitle the holder to one vote per Special Voting Unit at any meeting of the Unitholders. Special Voting Units may only be issued in connection with or in relation to securities exchangeable into Units, including Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of such securities. The initial Special Voting Units will be issued in conjunction with the Class B LP Units to which they relate, and will be evidenced only by the certificates representing such Class B LP Units. Special Voting Units will not be transferable separately from the exchangeable securities to which they are attached and will be automatically transferred upon the transfer of such exchangeable securities. Each Special Voting Unit will entitle the holder thereof to that number of votes at any meeting of Unitholders that is equal to the number of Units that may be obtained upon the exchange of the exchangeable security to which such Special Voting Unit is attached. Upon the exchange or surrender of a Class B LP Unit for a Unit, the Special Voting Unit attached to such Class B LP Unit will automatically be redeemed and cancelled for no consideration without any further action of the Trustees, and the former holder of such Special Voting Unit will cease to have any rights with respect thereto. See “The Partnership – Partnership Units” and “Retained Interest – Exchange Agreement”.

### **Meetings of Unitholders**

The Declaration of Trust provides that meetings of Unitholders will be required to be called and held in various circumstances, including: (i) for the election or removal of Trustees; (ii) the appointment or removal of the auditors of the REIT; (iii) the approval of amendments to the Declaration of Trust (except as described under “-Amendments to Declaration of Trust”); (iv) the sale or transfer of the assets of the REIT as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of the REIT approved by the Trustees); (v) the termination of the REIT, (vi) generally, any other matter which requires a resolution of Unitholders; and (vii) for the transaction of any other business as the Trustees may determine or as may be properly brought before the meeting. Meetings of Unitholders will be called and held annually, commencing in 2014, for the election of the Trustees and the appointment of the auditors of the REIT. All meetings of Unitholders must be held in Canada.

A meeting of Unitholders may be convened at any time and for any purpose by the Trustees and must be convened, except in certain circumstances, if requisitioned in writing by the holders of not less than 5% of the aggregate Voting Units then outstanding. A requisition must state in reasonable detail the business proposed to be transacted at the meeting. Unitholders have the right to obtain a list of Unitholders to the same extent and upon the same conditions as those which apply to shareholders of a corporation governed by the ABCA.

Unitholders may attend and vote at all meetings of Unitholders either in person or by proxy and a proxyholder need not be a Unitholder. Two or more persons present in person or represented by proxy representing in the aggregate not less than 10% of the total number of outstanding Voting Units on the record date for the meeting will constitute a quorum for the transaction of business at all such meetings. At any meeting at which a quorum is not present within one-half hour after the time fixed for the holding of such meeting, the meeting, if convened upon the request of the Unitholders, will be dissolved, but in any other case, the meeting will stand adjourned to a day not less than seven days later and to a place and time as chosen by the Chair of the meeting, and if at such adjourned meeting a quorum is not present, the Unitholders present either in person or by proxy will be deemed to constitute a quorum.

Holders of Special Voting Units will have an equal right to be notified of, attend and participate in meetings of Unitholders on the same basis as Unitholders.

Pursuant to the Declaration of Trust, a resolution in writing executed by Unitholders holding a proportion of the outstanding Voting Units (or a class thereof) equal to the proportion required to vote in favour thereof at a meeting of Unitholders to approve that resolution is valid as if it had been passed at a meeting of Unitholders.

## Redemption Right

A Unitholder may at any time demand redemption of some or all of its Units by delivering to the REIT a duly completed and properly executed notice requiring redemption in a form satisfactory to the Trustees, together with written instructions as to the number of Units to be redeemed. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the holder thereof will be entitled to receive a price per Unit (the “Redemption Price”) equal to the lesser of:

- (a) 90% of the Market Price (as defined below) of a Unit calculated as of the date on which the Units were surrendered for redemption (the “Redemption Date”); and
- (b) 100% of the Closing Market Price (as defined below) on the Redemption Date.

For purposes of this calculation, the market price of a Unit as at a specified date (the “Market Price”) will be:

- (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date;
- (b) an amount equal to the weighted average of the Closing Market Prices of a Unit on the principal exchange or market on which the Units are listed or quoted for trading during the period of ten consecutive trading days ending on such date, if the applicable exchange or market does not provide information necessary to compute a weighted average trading price; or
- (c) if there was trading on the applicable exchange or market for fewer than five of the ten trading days, an amount equal to the simple average of the following prices established for each of the ten consecutive trading days ending on such date: the simple average of the last bid and last asking price of the Units for each day on which there was no trading; the closing price of the Units for each day that there was trading if the exchange or market provides a closing price; and the simple average of the highest and lowest prices of the Units for each day that there was trading, if the market provides only the highest and lowest prices of Units traded on a particular day.

The closing market price of a Unit for the purpose of the foregoing calculations (the “Closing Market Price”), as at any date, will be:

- (a) an amount equal to the weighted average trading price of a Unit on the principal exchange or market on which the Units are listed or quoted for trading on the specified date if the principal exchange or market provides information necessary to compute a weighted average trading price of the Units on the specified date;
- (b) an amount equal to the closing price of a Unit on the principal market or exchange if there was a trade on the specified date and the principal exchange or market provides only a closing price of the Units on the specified date;
- (c) an amount equal to the simple average of the highest and lowest prices of the Units on the principal market or exchange, if there was trading on the specified date and the principal exchange or market provides only the highest and lowest trading prices of the Units on the specified date; or
- (d) the simple average of the last bid and last asking prices of the Units on the principal market or exchange, if there was no trading on the specified date.

If Units are not listed or quoted for trading in a public market, the Redemption Price will be the fair market value of the Units, which will be determined by the Trustees in their sole discretion. The aggregate Redemption Price payable by the REIT in respect of any Units surrendered for redemption during any calendar month will be satisfied by way of a cash payment in Canadian dollars on or before the last day of the calendar month immediately following the month in which the Units were tendered for redemption, provided that the entitlement of Unitholders to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed \$50,000 (the “Monthly Limit”) (provided that such limitation may be waived at the discretion of the Trustees in respect of all Units tendered for redemption in such calendar month); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on the TSX or traded or quoted on any other stock exchange or market

which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, in any market where the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period commencing immediately after the Redemption Date.

To the extent Unitholders are not entitled to receive cash upon the redemption of Units as a result of the Monthly Limit, then the portion of the Redemption Price per Unit equal to the Monthly Limit divided by the number of Units tendered for redemption in the month shall be paid and satisfied by way of a cash payment in Canadian dollars and the remainder of the Redemption Price per Unit shall be paid and satisfied by way of a distribution in specie to such Unitholders of Subsidiary Notes having a fair market value equal to the product of (i) the remainder of the Redemption Price per Unit of the Units tendered for redemption and (ii) the number of Units tendered by such holder for redemption. To the extent Unitholders are not entitled to receive cash upon the redemption of Units as a result of the limitations described at (ii) or (iii) of the foregoing paragraph, then the Redemption Price per Unit shall be paid and satisfied by way of a distribution in specie of Subsidiary Notes having a fair market value determined by the Trustees equal to the product of (i) the Redemption Price per Unit of the Units tendered for redemption and (ii) the number of Units tendered by such Unitholders for redemption. No Subsidiary Notes in integral multiples of less than \$100 will be distributed and, where Subsidiary Notes to be received by Unitholders includes a multiple less than that number, the number of Subsidiary Notes shall be rounded to the next lowest integral multiple of \$100 and the balance shall be paid in cash. The Redemption Price payable as described in this paragraph in respect of Units tendered for redemption during any month shall be paid by the transfer to or to the order of the Unitholders who exercised the right of redemption, of the Subsidiary Notes, if any, and the cash payment, if any, on or before the last day of the calendar month immediately following the month in which the Units were tendered for redemption. Payments by the REIT as described in this paragraph are conclusively deemed to have been made upon the mailing of certificates representing the Subsidiary Notes, if any, and a cheque, if any, by registered mail in a postage prepaid envelope addressed to the former Unitholders and/or any party having a security interest and, upon such payment, the REIT shall be discharged from all liability to such former Unitholders and any party having a security interest in respect of the Units so redeemed. The REIT shall be entitled to all interest paid on the Subsidiary Notes, if any, on or before the date of distribution in specie as described in the foregoing paragraph. Any issuance of Subsidiary Notes will be subject to receipt of all necessary regulatory approvals, which the REIT shall use reasonable commercial efforts to obtain forthwith.

It is anticipated that the redemption right described above will not be the primary mechanism for Unitholders to dispose of their Units. Subsidiary Notes which may be distributed to Unitholders in connection with a redemption will not be listed on any exchange, no market is expected to develop in Subsidiary Notes and such securities may be subject to an indefinite “hold period” or other resale restrictions under applicable securities laws. Subsidiary Notes so distributed may not be qualified investments for Plans, depending upon the circumstances at the time.

### **Purchases of Units by the REIT**

The REIT may from time to time purchase Units in accordance with applicable securities legislation and the rules prescribed under applicable stock exchange and regulatory policies. Any such purchase will constitute an “issuer bid” under Canadian provincial securities legislation and must be conducted in accordance with the applicable requirements thereof.

### **Take-Over Bids**

The Declaration of Trust contains provisions to the effect that if a take-over bid or issuer bid is made for Units within the meaning of the *Securities Act* (Alberta) and not less than 90% of the Units (other than Units held at the date of the take-over bid by or on behalf of the offeror or associates or affiliates of the offeror) are taken up and paid for by the offeror, the offeror will be entitled to acquire the Units held by Unitholders who do not accept the offer, either on the terms offered by the offeror or, at the option of the holder of the applicable Units, at the fair value of their Units.

### **Issuance of Units**

Subject to the pre-emptive right of Melcor set out in the Exchange Agreement, the REIT may issue new Units from time to time, in such manner, for such consideration and to such person or persons as the Trustees shall

determine. Unitholders will not have any pre-emptive rights whereby additional Voting Units proposed to be issued would be first offered to existing Unitholders, except that for so long as Melcor continues to hold at least 10% of the Units (calculated on a fully diluted basis), Melcor will have the pre-emptive right to purchase additional Voting Units issued by the REIT to maintain its *pro rata* voting interest in the REIT. See “Retained Interest – Exchange Agreement - Pre-Emptive Rights”.

If the Trustees determine that the REIT does not have cash in an amount sufficient to make payment of the full amount of any distribution in respect of Units, the payment may include the issuance of additional Units having a value equal to the difference between the amount of such distribution and the amount of cash which has been determined by the Trustees to be available for the payment of such distribution.

The REIT may also issue new Units: (i) as consideration for the acquisition of new properties or assets by it, at a price or for the consideration determined by the Trustees; (ii) pursuant to any incentive or option plan established by the REIT from time to time; (iii) pursuant to a distribution reinvestment plan of the REIT; or (iv) pursuant to a Unitholder rights plan of the REIT.

The Declaration of Trust also provides that immediately after any *pro rata* distribution of Units to all Unitholders in satisfaction of any non-cash distribution, the number of outstanding Units will be consolidated so that each Unitholder will hold, after the consolidation, the same number of Units as the holder held before the non-cash distribution. In this case, each certificate representing a number of Units prior to the non-cash distribution is deemed to represent the same number of Units after the non-cash distribution and the consolidation. Where amounts distributed to non-resident holders are subject to taxes required to be withheld, such taxes will be deducted from the amounts distributed and the consolidation will not result in such non-resident holders of Units holding the same number of Units. Such non-resident holders of Units will be required to surrender the certificates (if any) representing their original Units in exchange for a certificate representing post-consolidation Units.

### **Non-Certificated Inventory System**

Other than pursuant to certain exceptions, registration of interests in and transfers of Units held through CDS, or its nominee, will be made electronically through the NCI system of CDS. On Closing, the REIT, via its transfer agent, will electronically deliver the Units registered to CDS or its nominee. Units held in CDS must be purchased, transferred and surrendered for redemption through a CDS participant, which includes securities brokers and dealers, banks and trust companies. All rights of Unitholders who hold Units in CDS must be exercised through, and all payments or other property to which such Unitholders are entitled will be made or delivered by CDS or the CDS participant through which the Unitholder holds such Units. A holder of a Unit participating in the NCI system will not be entitled to a certificate or other instrument from the REIT or the REIT’s transfer agent evidencing that person’s interest in or ownership of Units, nor, to the extent applicable, will such Unitholder be shown on the records maintained by CDS, except through an agent who is a CDS participant.

The ability of a beneficial owner of Units to pledge such Units or otherwise take action with respect to such Unitholder’s interest in such Units (other than through a CDS Participant) may be limited due to the lack of a physical certificate.

### **Limitation on Non-Resident Ownership**

In order for the REIT to maintain its status as a “mutual fund trust” under the Tax Act, the REIT must not be established or maintained primarily for the benefit of non-residents of Canada within the meaning of the Tax Act. Accordingly, at no time may (i) non-residents of Canada and (ii) partnerships that are not Canadian partnerships or (iii) a combination of non-residents and such partnerships (all within the meaning of the Tax Act) (“Non-Residents”) be the beneficial owners of more than 49% of the Units and the Trustees will inform the transfer agent of this restriction. The Trustees may require a registered Unitholder to provide the Trustees with a declaration as to the jurisdictions in which beneficial owners of the Units registered in such Unitholder’s name are resident and as to whether such beneficial owners are Non-Residents (or in the case of a partnership, whether the partnership is a Non-Resident). If the Trustees become aware, as a result of acquiring such declarations as to beneficial ownership or as a result of any other investigations, that the beneficial owners of 49% of the Units are, or may be, Non-Residents or that such a situation is imminent, the Trustees may make a public announcement thereof and shall not accept a subscription

for Units from or issue or register a transfer of Units to a person or partnership unless the person or partnership provides a declaration in form and content satisfactory to the Trustees that the person or partnership, as the case may be, is not a Non-Resident and does not hold such Units for the benefit of Non-Residents. If, notwithstanding the foregoing, the Trustees determine that more than 49% of the Units are held by Non-Residents, the Trustees may send a notice to such Non-Resident holders of the Units chosen in inverse order to the order of acquisition or registration or in such other manner as the Trustees may consider equitable and practicable, requiring them to sell their Units or a portion thereof within a specified period of not more than 30 days. If the Unitholders receiving such notice have not sold the specified number of Units or provided the Trustees with satisfactory evidence that they are not Non-Residents within such period, the Trustees may on behalf of such holders sell such Units and, in the interim, shall suspend the voting and distribution rights attached to such Units (other than the right to receive the net proceeds from the sale). Upon such sale, the affected holders shall cease to be holders of the relevant Units and their rights shall be limited to receiving the net proceeds of sale upon surrender of the certificates, if any, representing such Units. The Trustees will have no liability for the amount received provided that they act in good faith. The REIT may direct its transfer agent to assist the Trustees with respect to any of the foregoing. Class B LP Units, which are economically equivalent to Units, are not permitted to be transferred to Non-Residents. See “The Partnership – Transfer of LP Units”.

Notwithstanding the foregoing, the Trustees may determine not to take any of the actions described above if the Trustees have been advised by legal counsel that the failure to take any of such actions would not adversely impact the status of the REIT as a “mutual fund trust” for purposes of the Tax Act or, alternatively, may take such other action or actions as may be necessary to maintain the status of the REIT as a “mutual fund trust” for purposes of the Tax Act.

### **Information and Reports**

The REIT will furnish to Unitholders such financial statements (including quarterly and annual financial statements) and other reports as are from time to time required by the Declaration of Trust and by applicable law, including prescribed forms needed for the completion of holders’ tax returns under the Tax Act and equivalent provincial legislation. Prior to each meeting of Unitholders, the Trustees will provide the Unitholders (along with notice of such meeting) information similar to that required to be provided to shareholders of a public corporation governed by the ABCA. Further, on or before the 90<sup>th</sup> day of each calendar year, the REIT will provide to Unitholders who received distributions from the REIT in either the prior calendar year, or on or before January 15 of such year, such information regarding the REIT required by the Tax Act to be submitted to Unitholders for income tax purposes to enable Unitholders to complete their tax returns in respect of the prior calendar year.

### **Amendments to Declaration of Trust**

The Declaration of Trust may be amended or altered from time to time. Certain amendments require approval by not less than two-thirds of the votes cast at a meeting of Unitholders called for such purpose. Other amendments to the Declaration of Trust require approval by a majority of the votes cast at a meeting of Unitholders called for such purpose. Additionally, certain amendments to the Declaration of Trust require the approval of Melcor.

#### *Approval by Special Resolution of Unitholders*

The following amendments, among others, require the approval of not less than two-thirds of the votes cast by all Unitholders at a meeting (or by written resolution in lieu thereof):

- (a) an exchange, reclassification or cancellation of all or part of the Voting Units;
- (b) the addition, change or removal of the rights, privileges, restrictions or conditions attached to the Voting Units, except where such addition, change or removal is made by the Trustees pursuant to subparagraphs (f), (h) or (i) at “-Approval by Trustees” below;
- (c) the constraint of the issue, transfer or ownership of the Voting Units or the change or removal of such constraint;
- (d) the sale or transfer of the assets of any of the REIT or its subsidiaries as an entirety or substantially as an entirety (other than as part of an internal reorganization of the assets of any of the REIT or its subsidiaries approved by the Trustees);
- (e) the termination of any of the REIT or its subsidiaries (other than as part of an internal reorganization as approved by the Trustees);

- (f) the combination, amalgamation or arrangement of any of the REIT or its subsidiaries with any other entity that is not the REIT or a subsidiary of the REIT (other than as part of an internal reorganization as approved by the Trustees); and
- (g) except as described herein, the amendment of the Investment Guidelines and Operating Policies of the REIT (see “Investment Guidelines and Operating Policies – Amendments to Investment Guidelines and Operating Policies”).

#### *Approval by Trustees*

Notwithstanding the foregoing, the Trustees may, without the approval of the Unitholders, make certain amendments to the Declaration of Trust, including amendments:

- (a) aimed at ensuring continuing compliance with applicable laws, regulations, requirements or policies of any governmental authority having jurisdiction over: (i) the Trustees; (ii) the REIT; or (iii) the distribution of Units;
- (b) which, in the opinion of the Trustees, provide additional protection for the Unitholders;
- (c) to remove any conflicts or inconsistencies in the Declaration of Trust or to make minor corrections which are, in the opinion of the Trustees, necessary or desirable and not prejudicial to the Unitholders;
- (d) which, in the opinion of the Trustees, are necessary or desirable to remove conflicts or inconsistencies between the disclosure in this prospectus and the Declaration of Trust;
- (e) of a minor or clerical nature or to correct typographical mistakes, ambiguities or manifest omissions or errors, which amendments, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders;
- (f) which, in the opinion of the Trustees, are necessary or desirable: (i) as a result of changes in accounting standards from time to time which may affect the REIT or its beneficiaries; or (ii) to ensure the Units qualify as equity for purposes of IFRS;
- (g) which, in the opinion of the Trustees, are necessary or desirable to enable the REIT to implement a Unit option or purchase plan or issue Units for which the purchase price is payable in installments;
- (h) which, in the opinion of the Trustees, are necessary or desirable and not prejudicial to the Unitholders: (i) to create and issue one or more new classes of preferred equity securities of the REIT (each of which may be comprised of unlimited series) that rank in priority to the Units (in payment of distributions and in connection with any termination or winding-up of the REIT); and/or (ii) to remove the redemption right attaching to the Units and convert the REIT into a closed-end limited purpose trust;
- (i) which, in the opinion of the Trustees, are necessary or desirable for the REIT to qualify for a particular status under, or as a result of changes in, taxation or other laws, or the interpretation of such laws, including to qualify as a “mutual fund trust”, “unit trust” or “real estate investment trust” as those terms are defined in the Tax Act or to otherwise prevent the REIT or any of its subsidiaries from becoming subject to tax under the SIFT Rules;
- (j) which, in the opinion of the Trustees, are necessary or desirable to ensure the REIT has not been established, nor maintained, primarily for the benefit of non-residents of Canada;
- (k) to create one or more additional classes of units solely to provide voting rights to holders of shares, units or other securities that are exchangeable for Units entitling the holder thereof to a number of votes not exceeding the number of Units into which the exchangeable shares, units or other securities are exchangeable or convertible but that do not otherwise entitle the holder thereof to any rights with respect to the REIT’s property or income other than a return of capital; and
- (l) for any purpose (except one in respect of which a Unitholder vote is specifically otherwise required) which, in the opinion of the Trustees, is not prejudicial to Unitholders and is necessary or desirable.

### *Approval by Melcor*

Provided that Melcor beneficially owns more than 10% of the issued and outstanding Units calculated on a fully diluted basis, any amendment to the Declaration of Trust that affects the right of Melcor to nominate certain Trustees of the REIT will require the prior written approval of Melcor. See “Trustees and Management of the REIT – Governance and Board of Trustees”.

### *Limitations*

Any amendment to the Declaration of Trust (except as noted at “Investment Guidelines and Operating Policies-Amendments to Investment Guidelines and Operating Policies-Legal Conflict” or “-Approval by Trustees”) which directly or indirectly adds, changes or removes any of the rights, privileges, restrictions or conditions in respect of the Special Voting Units shall require the approval of a majority of the votes cast by all holders of Special Voting Units at a meeting of Unitholders (or by written resolution in lieu thereof).

## **THE PARTNERSHIP**

### **General**

The Partnership is a limited partnership formed under the laws of the Province of Alberta and governed by the Limited Partnership Agreement. The Partnership will acquire at Closing, directly or indirectly, all of the Initial Properties and following Closing will own, operate and lease real estate assets and property and engage in all activities ancillary and incidental thereto. Upon Closing, the general partner of the Partnership will be Melcor REIT GP, a corporation incorporated pursuant to the laws of Alberta that will be a wholly owned subsidiary of the REIT, and the limited partners of the Partnership will be the REIT and Melcor.

### **Partnership Units**

Upon Closing, the Partnership will have outstanding Class A GP Units, all of which will be held by Melcor REIT GP, Class A LP Units, all of which will be held by the REIT, Class B LP Units, all of which will be held by Melcor and Class C LP Units, all of which will be held by Melcor. Immediately following Closing, it is expected that the Class A LP Units will represent approximately ● % of the limited partnership interests in the Partnership and the Class B LP Units will represent approximately ● % of the limited partnership interests in the Partnership (or an approximate ● % and ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). See “Acquisition of Initial Properties – Principal Transaction Steps”.

The Class B LP Units will, in all material respects, be economically equivalent to the Units on a per unit basis. Under the Exchange Agreement, the Class B LP Units will be exchangeable on a one-for-one basis for Units (subject to customary anti-dilution adjustments) at any time at the option of their holder, unless the exchange would jeopardize the REIT’s status as a “mutual fund trust” under the Tax Act and subject to satisfaction of conditions set out therein.

The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that will entitle Melcor to distributions, in priority to distributions to holders of the Class A LP Units, Class B LP Units and Class A GP Units in an amount, if paid, expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable in respect of principal, interest or any other amount owing under the Retained Debt.

So long as any of the Class C LP Units are outstanding, the Partnership will not at any time without, but may at any time with, the approval of the holders of a majority of the Class C LP Units: (i) pay any distribution on the Class A LP Units, the Class B LP Units or the Class A GP Units unless distributions payable on the Class C LP Units have been paid in full; (ii) offer to accept the withdrawal of the Class A LP Units or the Class B LP Units of the Partnership; or (iii) issue any additional Class C LP Units, other than to Melcor, in each case, subject to certain limited exceptions, including, in connection with (A) the redemption rights available to unitholders, (B) an exchange of Class B LP Units pursuant to the Exchange Agreement and (C) the refinancing of the Retained Debt.

Except as required by law or the Limited Partnership Agreement, and in certain specified circumstances in which the rights of a holder of Class B LP Units and/or holders of Class C LP Units are particularly affected, the holders of Class B LP Units and holders of Class C LP Units will not be entitled to vote at any meeting of the holders of LP Units.

## **Operations**

The business and affairs of the Partnership will be managed and controlled by Melcor REIT GP which will be bound by the investment guidelines and operating policies applicable to the REIT. The Limited Partners will not be entitled to take part in the management or control of the business or affairs of the Partnership. Except as provided below, the Partnership will reimburse Melcor REIT GP for all direct costs and expenses incurred by it in the performance of its duties as the general partner of the Partnership.

The Board shall determine the composition of Melcor REIT GP's board of directors; provided Melcor REIT GP shall have a majority of directors who are "independent" within the meaning of applicable securities laws.

The Partnership will operate in a manner to ensure, to the greatest extent possible, the limited liability of the Limited Partners. The Limited Partners may lose their limited liability in certain circumstances. If the limited liability of any limited partner of the Partnership is lost by reason of the negligence of Melcor REIT GP in performing its duties and obligations under the Limited Partnership Agreement, Melcor REIT GP will indemnify any limited partner of the Partnership against all claims arising from assertions that its liabilities are not limited as intended by the Limited Partnership Agreement. Melcor REIT GP, however, has no significant assets or financial resources other than their respective distribution entitlements from the Partnership. Accordingly, this indemnity may only be of nominal value.

## **Distributions**

### *Distribution Policy and Priority*

Melcor REIT GP shall, on behalf of the Partnership, distribute cash, subject to the priorities and other provisions set out below. Melcor REIT GP shall determine on a monthly basis, but in no event later than the 10th day of each month, the amount of cash on hand of the Partnership, that is derived from any source and that is determined by Melcor REIT GP not to be required for use in connection with the business of the Partnership.

### *Distributions on Class C LP Units*

The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that will entitle Melcor to distributions, in priority to distributions to holders of the Class A LP Units, Class B LP Units and Class A GP Units, in an amount, if paid, expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable in respect of principal, interest or any other amount owing under the Retained Debt.

### *Distributions to Melcor REIT GP*

Melcor REIT GP, as the sole holder of the Class A GP Units, will receive priority distributions from the Partnership equal to the aggregate of: (i) amounts sufficient to reimburse Melcor REIT GP for expenses incurred in performing its duties and obligations under the Partnership Agreement, and (ii) 0.001% of distributions made by Melcor REIT GP, on behalf of the Partnership, in priority to distributions to holders of the Class A LP Units and the Class B LP Units, but after holders of the Class C LP Units have been paid their respective distributions.

### *Distributions on Class A LP Units and Class B LP Units*

Melcor REIT GP, on behalf of the Partnership, will make monthly cash distributions to the holder of the Class A LP Units in the amount required to account for expenses incurred directly by the REIT as determined by Melcor REIT GP. Distributions on the Class A LP Units for expenses incurred by the REIT will be made in priority to distributions to holders of the Class A LP Units and the Class B LP Units but after the holders of the Class C LP Units and the Class A GP Units have been paid their respective distributions.

In addition, Melcor REIT GP, on behalf of the Partnership, will make monthly cash distributions to holders of Class A LP Units and to holders of Class B LP Units with reference to the monthly cash distributions payable by the REIT to holders of Units on a per Unit basis. Distributions to be made on the Class B LP Units will be equal to the distributions that the holders of Class B LP Units would have received if they were holding Units instead of Class B LP Units. Distributions to Melcor REIT GP, as a holder of the Class A GP Units, and holders of Class C LP Units will be made in priority to distributions to holders of Class A LP Units and to holders of Class B LP Units.

### *Allocation of Partnership Income*

Income or loss of the Partnership for tax purposes for a fiscal year will be allocated at the end of each fiscal year in the following manner:

- (a) first, to Melcor as the holder of Class C LP Units, in an amount equal to the interest component of the Retained Debt payable in the fiscal year;
- (b) second, to Melcor REIT GP as the holder of Class A GP Units in an amount equal to the aggregate of (i) all of the amounts paid to Melcor REIT GP as reimbursement for expenses in performing its duties and obligations under the Partnership Agreement and (ii) all distributions from the Partnership that it has received during that year; and
- (c) the balance shall be allocated to the REIT as the holder of Class A LP Units and to Melcor as the holder of the Class B LP Units in an amount calculated by multiplying the remaining income (or loss) by a fraction, the numerator of which is the sum of the distributions received or receivable by that holder of Class A LP Units or Class B LP Units in such fiscal year and the denominator of which is the aggregate amount of distributions received or receivable by all holders of Class A LP Units and Class B LP Units during such fiscal year.

The amount of income allocated to a Limited Partner may exceed or be less than the amount of cash distributed by the Partnership to that Limited Partner in respect of a given fiscal year. If, with respect to a given fiscal year, there is no cash distributed, or the Partnership has a loss for tax purposes, the income or loss for tax purposes from each source for that fiscal year will be allocated, at the end of each month in that fiscal year, first, to the holders of Class C LP Units, in proportion to the Units held by each of them at each of those dates, in each case in an amount not to exceed \$1,000 per holder, and the balance, if any, to the holders of Class A LP Units and Class B LP Units in proportion to the LP Units held by each of them at each of those dates.

### **Transfer of LP Units**

The transfer of Class A LP Units, Class B LP Units and Class C LP Units will be subject to a number of restrictions, including: (i) the Class A LP Units, Class B LP Units and Class C LP Units may not be transferred to a person or partnership who is a Non-Resident; (ii) no Class A LP Units, Class B LP Units or Class C LP Units will be transferable in part; (iii) no transfer of the Class B LP Units or the Class C LP Units will be accepted by Melcor REIT GP if such transfer would cause the Partnership to be liable for tax under subsection 197(2) of the Tax Act; and (iv) no transfer of Class A LP Units, Class B LP Units or Class C LP Units will be accepted by Melcor REIT GP unless a transfer form, duly completed and signed by the registered holder of such Class A LP Units, Class B LP Units or Class C LP Units, as applicable, has been remitted to the registrar and transfer agent of the Partnership. In addition, a transferee of Class A LP Units, Class B LP Units or Class C LP Units must provide to Melcor REIT GP such other instruments and documents as Melcor REIT GP may require, in appropriate form, completed and executed in a manner acceptable to the REIT GP and must pay the administration fee, if any, required by Melcor REIT GP. A transferee of a unit of the Partnership will not become a partner or be admitted to the Partnership and will not be subject to the obligations and entitled to the rights of a partner under the Limited Partnership Agreement until the foregoing conditions are satisfied and such transferee is recorded on the Partnership's register of partners.

In addition to the above restrictions, the Limited Partnership Agreement also provides that no holder of Class B LP Units will be permitted to transfer such Class B LP Units, other than for Units in accordance with the terms of the Exchange Agreement or the Limited Partnership Agreement, unless: (i) the transfer is to an affiliate of the holder; (ii) such transfer would not require the transferee to make an offer to holders of Units to acquire Units on the same terms and conditions under applicable securities laws if such Class B LP Units, and all other outstanding Class B LP Units, were converted into Units at the then current exchange ratio in effect under the Exchange Agreement immediately prior to such transfer; or (iii) the offeror acquiring such Class B LP Units makes a contemporaneous identical offer for the Units (in terms of price, timing, proportion of securities sought to be acquired and conditions) and does not acquire such Class B LP Units unless the offeror also acquires a proportionate number of Units actually tendered to such identical offer. Certain rights affecting Melcor as a holder of the Class B LP Units, as such rights are set forth in the Declaration of Trust and the Exchange Agreement, are specific to Melcor and are not transferable to a transferee of the Class B LP Units, other than a Melcor entity.

In addition to the above restrictions, the Limited Partnership Agreement also provides that no holder of Class C LP Units will be permitted to transfer such Class C LP Units without the consent of the Board, unless such transfer is to an affiliate of the holder.

#### **Amendments to the Limited Partnership Agreement**

The Limited Partnership Agreement may be amended with the prior consent of the holders of at least 66 and 2/3% of the Class A LP Units voted on the amendment at a duly constituted meeting of holders of Class A LP Units or by a written resolution of partners holding more than 66 and 2/3% of the Class A LP Units entitled to vote at a duly constituted meeting of holders of Class A LP Units, except for certain amendments which require unanimous approval of holders of Class A LP Units, including: (i) changing the liability of any limited partner; (ii) changing the right of a limited partner to vote at any meeting of holders of Class A LP Units; and (iii) changing the Partnership from a limited partnership to a general partnership. Melcor REIT GP may also make amendments to the Limited Partnership Agreement without the approval or consent of the Limited Partners to reflect, among other things: (i) a change in the name of the Partnership or the location of the principal place of business or registered office of the Partnership; (ii) the admission, substitution, withdrawal or removal of Limited Partners in accordance with the Limited Partnership Agreement; (iii) a change that, as determined by Melcor REIT GP, is reasonable and necessary or appropriate to qualify or continue the qualification of the Partnership as a limited partnership in which the limited partners have limited liability under applicable laws; (iv) a change that, as determined by Melcor REIT GP, is reasonable and necessary or appropriate to enable the Partnership to take advantage of, or not be detrimentally affected by, changes in the Tax Act or other taxation laws; or (v) a change to amend or add any provision, or to cure any ambiguity or to correct or supplement any provisions contained in the Limited Partnership Agreement which may be defective or inconsistent with any other provision contained in the Limited Partnership Agreement or which should be made to make the Limited Partnership Agreement consistent with the disclosure set out in this prospectus. Notwithstanding the foregoing: (i) no amendment which would adversely affect the rights and obligations of Melcor REIT GP may be made without the consent of Melcor REIT GP; and (ii) no amendment which would adversely affect the rights and obligations of any other holders of limited partnership units or any class of limited partner differently than any other class of limited partner may be made without the consent of such holder or class.

In addition, the Declaration of Trust provides that the REIT will not agree to or approve any material amendment to the Limited Partnership Agreement without the approval of not less than 66 and 2/3% of the votes cast at a meeting of Unitholders called for such purpose (or by written resolution in lieu thereof).

## DISTRIBUTION POLICY

The following outlines the distribution policy of the REIT as contained in the Declaration of Trust and the Limited Partnership Agreement. Determination as to amounts actually distributed will be made in the sole discretion of the Trustees.

### Distribution Policy

The REIT initially intends to make monthly cash distributions to Unitholders at a rate of \$ ● per Unit. The initial cash distribution, which will be for the period from and including the date of Closing to ●, 2013, is expected to be paid on ●, 2013 to Unitholders of record on ●, 2013 and is estimated to be \$ ● per Unit (assuming the Closing occurs on ●, 2013). The Partnership will make corresponding monthly cash distributions to holders of Class B LP Units.

The REIT estimates that the initial annual distribution rate will represent approximately 93% of AFFO for the 12 months ended March 31, 2014. The REIT's intended initial annual distribution rate has been established based on its estimate of AFFO for the 12 months ended March 31, 2014. This estimate was based on the REIT's pro forma operating results and does not take into account the growth strategy, return on any cash balance, any unanticipated expenditures the REIT may have to make or any debt the REIT may have to incur. In estimating AFFO for the 12 months ended March 31, 2014, the REIT has made certain assumptions. See "Financial Forecast".

The REIT's estimate of AFFO does not include the effect of any changes in working capital resulting from changes in the REIT's working capital accounts. The estimate also does not reflect the amount of cash estimated to be used for acquisition and other activities, other than a reserve for recurring capital expenditures, and amounts estimated for leasing commissions and tenant improvements for renewing space. It also does not reflect the amount of cash estimated to be used for financing activities, other than indebtedness that will be outstanding upon completion of the Offering. Any such investing and/or financing activities may have a material effect on our estimate of AFFO. Because the REIT has made the assumptions set forth above in estimating AFFO, the REIT does not intend this estimate to be a projection or forecast of its actual results of operations or liquidity, and the REIT has estimated AFFO for the sole purpose of determining the amount of its initial annual distribution rate.

The REIT's estimate of AFFO should not be considered as an alternative to cash flow from operating activities (computed in accordance with IFRS) or as an indicator of our liquidity or our ability to make other distributions. In addition, the methodology upon which the REIT made the adjustments described herein is not necessarily intended to be a basis for determining future dividends or other distributions.

The REIT intends to maintain the initial distribution rate for the 12-month period following completion of the Offering unless actual results of operations, economic conditions or other factors differ materially from the assumptions used in its estimate. Distributions will be authorized by the Board in its sole discretion out of funds legally available for distribution to Unitholders and will be dependent upon a number of factors, including restrictions under applicable law and other factors described below. Management believes that its estimate of AFFO constitutes a reasonable basis for setting the initial distribution rate; however, management cannot provide assurance that the estimate will prove accurate, and actual distributions may therefore be significantly different from the expected distributions. The REIT does not intend to reduce the expected distributions per Unit if the Over-Allotment Option is exercised; however, this could require the REIT to make distributions from the net proceeds of the Offering.

The REIT cannot provide assurance that estimated distributions will be made or sustained. Any distributions paid in the future will depend upon the REIT's actual results of operations, economic conditions, debt service requirements and other factors that could differ materially from expectations. Actual results of operations will be affected by a number of factors, including the revenue received from the REIT's properties, operating expenses, interest expense, the ability of the REIT's tenants to meet their obligations and unanticipated expenditures. For more information regarding risk factors that could materially adversely affect actual results of operations, please see "Risk Factors".

Unitholders of record as at the close of business on the last business day of the month preceding a Distribution Date will have an entitlement on and after that day to receive distributions in respect of that month on such Distribution Date. Pursuant to the Declaration of Trust, the Trustees have full discretion respecting the timing and amounts of

distributions. The REIT intends to make distributions to Unitholders at least equal to the amount of net income and net realized capital gains of the REIT as is necessary to ensure that the REIT will not be liable for ordinary Canadian income taxes, net of capital gains tax refunds, on such income.

Distributions may be adjusted for amounts paid in prior periods if the actual AFFO for the prior periods is greater than or less than the estimates for the prior periods. Under the Declaration of Trust and pursuant to the above-described distribution policy of the REIT, where the REIT's cash is not sufficient to make payment of the full amount of a distribution, such payment will, to the extent necessary, be distributed in the form of additional Units. See "Declaration of Trust – Issuance of Units" and "Certain Canadian Federal Income Tax Considerations – Taxation of the REIT".

Melcor REIT GP, on behalf of the Partnership, will make monthly cash distributions to holders of Class A LP Units and holders of Class B LP Units by reference to the monthly cash distributions payable by the REIT to Unitholders. Distributions to be made on the Class B LP Units will be equal to the distributions that the holders of Class B LP Units would have received if they were holding Units instead of Class B LP Units. Distributions to holders of Class C LP Units will be made in priority to distributions to holders of Class A LP Units and holders of Class B LP Units. Any increase or reduction in the percentage of AFFO to be distributed to Unitholders will result in a corresponding increase or reduction in distributions on Class B LP Units. See "Arrangements with Melcor – Melcor REIT GP – Partnership Distribution Policy and Priority" and "The Partnership – Distributions".

### **Tax Deferral on Distributions**

The REIT estimates that, of the monthly cash distributions to be made by the REIT to Unitholders, approximately 25% in 2013, will be tax deferred by reason of the REIT's ability to claim depreciation and certain other deductions. Such estimate is based on the facts set out in this prospectus, the financial forecast and related assumptions, the provisions of the Tax Act in force at the date hereof, current publicly available published administrative policies and assessing practices of CRA and the Tax Proposals. The adjusted cost base of Units held by a Unitholder (as such term is specifically defined in "Certain Canadian Federal Income Tax Considerations") will generally be reduced by such non-taxable portion of distributions made to the Unitholder (other than the non-taxable portion of certain capital gains). A Unitholder will generally realize a capital gain to the extent that the adjusted cost base of the Unitholder's Units would otherwise be a negative amount, notwithstanding that the Unitholder has not sold any Units. The portion of tax deferred distributions may change over time thus affecting the after-tax return to a Unitholder. See "Certain Canadian Federal Income Tax Considerations – Taxation of Unitholders-Distributions" and "Risk Factors".

## CERTAIN CANADIAN FEDERAL INCOME TAX CONSIDERATIONS

### Eligibility For Investment

In the opinion of Felesky Flynn LLP, counsel to the REIT, and Stikeman Elliott LLP, counsel to the Underwriters, provided that the REIT qualifies as a “mutual fund trust” within the meaning of the Income Tax Act (Canada) (the “Tax Act”) on the date of Closing or the Units are listed on a designated stock exchange (which currently includes the TSX) on the date of Closing, the Units offered hereby will be, on the date of Closing, qualified investments under the Tax Act for trusts governed by Plans.

Notwithstanding that Units may be qualified investments for a trust governed by a tax-free savings account (“TFSA”), registered retirement savings plan (“RRSP”) or registered retirement income fund (“RRIF”), a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a “prohibited investment” as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will generally be a “prohibited investment” for trusts governed by a TFSA, RRSP or RRIF if the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, (i) does not deal at arm’s length with the REIT for the purposes of the Tax Act; or (ii) has a “significant interest” in the REIT (a holder or annuitant, as the case may be, may have a significant interest in the REIT at a particular point in time if the holder or annuitant, together with persons or partnerships with which the holder or annuitant does not deal with at arm’s length, holds at that time interests as a beneficiary under the REIT that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the REIT); or (iii) has a “significant interest”, as defined by the Tax Act, in a corporation, partnership or trust with which the REIT does not deal at arm’s length for the purpose of the Tax Act. Tax Proposals released on December 21, 2012 (the “December 2012 Tax Proposals”) propose to delete the condition in (iii) above. In addition, pursuant to the December 2012 Tax Proposals the Units will generally not be a “prohibited investment” if the Units are “excluded property (as defined in the December 2012 Tax Proposals). Unitholders who intend to hold Units in a TFSA, RRSP or RRIF should consult their own tax advisors in regards to the application of these rules in their particular circumstances. In addition, all Subsidiary Notes issued as part of an *in specie* redemption of the Units will not be a qualified investment for trusts governed by Plans.

### Certain Canadian Federal Income Tax Considerations

In the opinion of Felesky Flynn LLP, counsel to the REIT, and Stikeman Elliott LLP, counsel to the Underwriters, the following summary fairly presents, as of the date hereof, the principal Canadian federal income tax considerations generally applicable under the Tax Act to the acquisition, holding and disposition of Units by a Unitholder who acquires Units pursuant to this Offering. This summary is applicable only to a Unitholder who, for purposes of the Tax Act and at all relevant times, deals at arm’s length with and is not affiliated with the REIT and holds the Units as capital property.

This summary is not applicable to a Unitholder: (i) that is a “financial institution” for purposes of the “mark-to-market rules” in the Tax Act; (ii) that is a “specified financial institution”; (iii) an interest which is a “tax shelter investment”; or (iv) that has elected to report its “Canadian tax results” in a currency other than Canadian currency (as each of those terms is defined in the Tax Act). Any such Unitholders should consult their own tax advisors with respect to an investment in Units. Further, this summary does not address the tax consequences to Unitholders who borrow funds in connection with the acquisition of Units.

This summary is based upon the facts set out in this prospectus, certain representations as to factual matters made in certificates signed by officers of the REIT and the Underwriters and provided to counsel (the “Officer’s Certificate” and the “Underwriters’ Certificate”), the provisions of the Tax Act in force at the date hereof and counsel’s understanding of the current published administrative policies and assessing practices of the CRA. This summary takes into account proposed amendments to the Tax Act (the “Tax Proposals”) and assumes that the Tax Proposals will be enacted as proposed but no assurances can be given that the Tax Proposals will be enacted in their current form or at all. This summary does not otherwise take into account or anticipate any changes in law or in the administrative policies and assessing practices of the CRA, whether by legislative, governmental or judicial decision or action, and does not take into account any provincial, territorial or foreign tax legislation or considerations, which may differ significantly from those discussed in this prospectus. Modification or amendment of the Tax Act or the Tax Proposals could significantly alter the tax status of the REIT or the tax consequences of investing in Units.

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to an investment in Units. Moreover, the income and other tax consequences of acquiring, holding or disposing of Units will vary depending on the Unitholder's particular circumstances, including the province(s) in which the Unitholder resides or carries on business. Accordingly, this summary is of a general nature only and is not intended to be nor should it be construed to be legal or tax advice or representations to any prospective purchaser of Units. Prospective purchasers should consult their own tax advisors for advice with respect to the tax consequences to them of an investment in Units based on their particular circumstances.**

**This summary is not exhaustive of all possible Canadian federal income tax considerations applicable to non-residents, and non-residents should consult their own tax advisors regarding the tax consequences of acquiring, holding and disposing of Units. Distributions on Units or amounts paid in respect thereof and all payments to non-residents of interest (or amounts deemed to be interest under the Tax Act) whether paid in cash or Units, will be paid net of any applicable withholding tax.**

For the purposes of this summary and the opinion given under the heading "Eligibility for Investment", a reference to (i) the "REIT" is a reference to Melcor Real Estate Investment Trust only and is not a reference to any of its subsidiaries or predecessors; and (ii) a reference to a "Unitholder" is a reference to a holder of Units.

## **Status of the REIT**

### *Qualification as a Mutual Fund Trust*

This summary assumes that the representations made in the Officer's Certificate and Underwriters' Certificate are true and correct, including the representations that the REIT has and will at all times comply with the Declaration of Trust, that the REIT will file an election under subsection 132(6.1) of the Tax Act to be deemed to have been a "mutual fund trust" from the time of its establishment, and that the REIT does and will continue to qualify as a "mutual fund trust" under the provisions of the Tax Act while the Units remain outstanding. To qualify as a mutual fund trust, the REIT must be a "unit trust" as defined by the Tax Act, must not be established or maintained primarily for the benefit of non-residents, and must restrict its undertaking to: (i) the investing of its funds in property (other than real property or an interest in real property or an immovable or real right in an immovable); and (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property or of any immovable or real right in immovables) that is capital property of the REIT; or (iii) any combination of the activities described in (i) and (ii), and the REIT must comply on a continuous basis with certain minimum requirements respecting the ownership and dispersal of Units.

In the event that the REIT were not to qualify as a mutual fund trust at any particular time, the Canadian federal income tax consequences described below would, in some respects, be materially different. In particular, if the REIT ceases to qualify as a mutual fund trust, the REIT may be required to pay a tax under Part XII.2 of the Tax Act. The payment of Part XII.2 tax by the REIT may have adverse income tax consequences for certain Unitholders and would be adverse for the REIT.

## **Qualification as a Real Estate Investment Trust**

This summary is based on the assumption that the REIT qualifies, and will continue to qualify at all relevant times as a "real estate investment trust", as defined in the rules applicable to SIFT trusts and SIFT partnerships in the Tax Act (the "SIFT Rules") and that the Partnership and each direct or indirect subsidiary of the REIT qualifies, and will continue to qualify, at all relevant times, as an "excluded subsidiary entity" as defined for purposes of the SIFT Rules. If any of these assumptions is not accurate, certain of the income tax considerations described below could be materially different.

### *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. These rules apply only to a "SIFT trust", a "SIFT partnership" (each as defined in the Tax Act) and their investors.

Where the SIFT Rules apply, distributions of a SIFT trust's "non-portfolio earnings" are not deductible in computing the SIFT trust's net income. Non-portfolio earnings are generally defined in the Tax Act as income attributable to a business carried on by the SIFT trust in Canada or to income (other than certain dividends) from, and capital gains from the disposition of, non-portfolio properties. The SIFT trust is itself liable to pay an income tax on an amount equal to the amount of such non-deductible distributions at a rate that is substantially equivalent to the combined federal and provincial general tax rate applicable to taxable Canadian corporations. Such non-deductible distributions paid to a holder of units of the SIFT trust are generally deemed to be taxable dividends received by the holder of such units from a taxable Canadian corporation. Such deemed dividends will qualify as "eligible dividends" for purposes of the enhanced gross-up and dividend tax credit available under the Tax Act to individuals resident in Canada and for purposes of computing a Canadian resident corporation's "general rate income pool" or "low rate income pool", as the case may be (each as defined in the Tax Act).

A trust resident in Canada will generally be a SIFT trust for purposes of the Tax Act if: (i) investments in the trust are listed or traded on a stock exchange or other public market; (ii) the trust holds one or more "non-portfolio properties" (as defined in the Tax Act); and (iii) the trust is not an "excluded subsidiary entity" (as defined in the Tax Act). Non-portfolio properties generally include certain investments in real properties situated in Canada and certain investments in corporations and trusts resident in Canada and in partnerships with specified connections to Canada. However, a trust will not be considered a SIFT trust for a taxation year if it qualifies as a "real estate investment trust" (as defined in the Tax Act) for the year (the "REIT Exception") (discussed below).

Distributions that are paid as returns of capital by a SIFT trust will generally not attract tax under the SIFT Rules.

#### *REIT Exception*

A trust that satisfies the REIT Exception is excluded from the definition of a SIFT trust and is therefore not subject to the SIFT Rules. Generally, to qualify for the REIT Exception for a particular taxation year the following conditions must all be satisfied, subject to the discussion below regarding certain Tax Proposals:

- (i) the trust must, at no time in the taxation year, hold "non-portfolio property" (other than "qualified REIT properties");
- (ii) not less than 95% of the trust's revenue for the taxation year must be derived from one or more of the following: rent from "real or immovable properties", interest, capital gains from the disposition of real or immovable properties, dividends, and royalties;
- (iii) not less than 75% of the trust's revenue for the taxation year must be derived from one or more of the following: rent from real or immovable properties, interest from mortgages, or hypothecs, on real or immovable properties, and capital gains from dispositions of real or immovable properties; and
- (iv) at no time in the taxation year may the total fair market value of properties comprised of real or immovable properties, cash, deposits in a bank or credit union, indebtedness of Canadian corporations represented by banker's acceptances, and debt issued or guaranteed by governments in Canada be less than 75% of the "equity value" of the trust at that time.

Under certain Tax Proposals released by the Minister of Finance (Canada) introduced in the First Session of the Forty-first Parliament, 60-61 Elizabeth II, 2011-2012 as Bill C-48, An Act to amend the Income Tax Act, the Excise Tax Act, the Federal-Provincial Fiscal Arrangements Act, the First Nations Goods and Services Tax Act and related legislation ("Bill C-48") which received second reading in the House of Commons on March 8, 2013 and which apply for taxation years beginning in 2011 (or for earlier years if elected), the REIT Exception will be modified such that, under (i) above, a trust may hold some non-portfolio properties which are not qualified REIT properties, provided that at all times in the taxation year at least 90% of the total fair market value of all non-portfolio properties held by the trust are qualified REIT properties; under (ii) above, the test will be reduced from 95% to 90%, and gains from dispositions of certain non-capital property which is "eligible resale property" will be added as qualifying revenues for purposes of that test; under both (ii) and (iii) above, the revenues to be measured will be "gross REIT revenue", which will be defined as the amount by which the total of all amounts received or receivable in the year by the entity exceed the total of all amounts each of which is a cost to the entity of a property disposed of during the year; under (iv) above, real or immovable property will be restricted to capital property and "eligible resale property" will be added to the types of property; and an additional requirement would be added as follows: (v) that investments in the trust are, at any time in the taxation year, listed or traded on a stock exchange or other public market.

Under the SIFT Rules, “qualified REIT property” of a trust means, generally, a property owned by the trust that is:

- (i) a real or immovable property;
- (ii) a security of an entity which derives all or substantially all of its revenues from maintaining, improving, leasing or managing real or immovable properties that are capital properties of the trust or of an entity of which the trust owns a share or an interest;
- (iii) a security of an entity that owns no property other than legal title to real or immovable properties of the trust, or of a wholly-owned subsidiary of the trust and property ancillary to the earning by the trust of rents and capital gains from real or immovable property; or
- (iv) a property ancillary to the earning by the trust of rents and capital gains from real or immovable property. The “equity value” of a SIFT trust at any time means the fair market value of all of the income or capital interests in the trust at that time.

Under Bill C-48, the definition of “qualified REIT property” will be amended such that (i) above will apply only to real or immovable property that is capital property of the trust and will be expanded to include an “eligible resale property”, bankers’ acceptance of a Canadian corporation, money, amounts on deposit and debts of or guaranteed by a government in Canada or certain other public bodies; (ii) above will be amended to refer to “gross REIT revenue” rather than “revenue”; and (iv) above will be amended to clarify that equity of an entity and a mortgage, hypothecary claim, mezzanine loan or similar obligation will not qualify as ancillary.

“Real or immovable property” includes a security of an entity that is a trust that satisfies or would, assuming it were a trust, satisfy the first four criteria required to qualify for the REIT Exception (both as currently enacted and as proposed to be amended under Bill C-48), or certain interests in real property or certain real rights in immovables (other than a right to a rental or royalty that is (i) any right to a rental or royalty computed by reference to the amount or value of production from an oil or a gas well in Canada, or from a natural accumulation of petroleum, natural gas or a related hydrocarbon in Canada, if the payer of the rental or royalty has an interest in, or for civil law a right in, the well or accumulation, as the case may be, and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the well or accumulation; and (ii) any right to a rental or royalty computed by reference to the amount or value of production from a mineral resource in Canada, other than a bituminous sands deposit or an oil shale deposit, if the payer of the rental or royalty has an interest in, or for civil law a right in, the mineral resource and 90% or more of the rental or royalty is payable out of, or from the proceeds of, the production from the mineral resource). In addition, the definition of “real or immovable property” under the Tax Act specifically excludes any depreciable property, other than a depreciable property included (otherwise than by an election) in CCA Class 1, 3 or 31 of the Regulations, a property ancillary to the ownership or utilization of such depreciable property, or a lease in, or leasehold interest in respect of, land or such depreciable property.

Under Bill C-48, “eligible resale property” of an entity is real or immovable property (that is not capital property) of the entity that is contiguous to a particular real or immovable property that is capital property or eligible resale property of the entity or an affiliated entity and the holding which is ancillary to the holding of the particular property.

“Rent from real or immovable properties” includes (i) rent or similar payments for the use of, or right to use, real or immovable properties; (ii) payment for services ancillary to the rental of real or immovable properties and customarily supplied or rendered in connection therewith; and (iii) income from a trust that was derived from rent from real or immovable properties; but does not include any other payments for services supplied or rendered, fees for managing or operating such properties, payments for the occupation of, use of, or right to use, a hotel room or similar lodging, or rent based on profits.

Under Bill C-48, the definition of “rent from real or immovable properties” will be modified to exclude income from a trust that was derived from rent from real or immovable properties. However, Bill C-48 also contains deeming provisions for determining a trust’s “gross REIT revenue” for purposes of the two revenue tests described in paragraphs (ii) and (iii) above under the heading and description of “REIT Exceptions” above, which, generally, provide that where a “parent trust” holds a 10% or more interest in another entity or is affiliated with the other entity, then revenues received or receivable by the parent trust in respect of a security of that other entity maintain their source characterization in determining the source of revenues of the parent trust (the REIT) (excluding a management subsidiary’s revenue from maintaining, leasing, improving or managing real property of the parent or an entity in

which the parent holds a share or interest). Accordingly, income earned from rent from real or immovable properties and capital gains realized by another entity, such as a subsidiary trust, and distributed to a parent trust will generally be treated as rent from real or immovable properties and capital gains, respectively, in the hands of the parent trust for purposes of determining the parent trust's "gross REIT revenue".

The REIT Exception in the SIFT Rules contains a number of technical tests and the determination as to whether the REIT qualifies for the REIT Exception in any particular taxation year can only be made at the end of that taxation year. Based on the advice of one of the REIT's external tax advisors, management of the REIT has advised Felesky Flynn LLP that the REIT, as currently structured, is expected to qualify for the REIT Exception (based both on the current provisions of the Tax Act and such provisions as they may be amended by the Tax Proposals) throughout 2013 and each subsequent year. However, there is no assurance that subsequent investments or activities undertaken by the REIT will not result in the REIT failing to qualify for the REIT Exception. If the REIT is subject to the SIFT Rules, certain of the income tax considerations described below would, in some respects, be materially different. See "Application to the REIT".

#### *Application to the REIT*

The REIT Exception is applied on an annual basis. Accordingly, even if the REIT does not qualify for the REIT Exception in a particular year, it may be able to qualify in a subsequent year. The REIT intends to comply with the REIT Exception such that the SIFT Rules will not apply to the REIT in 2013 and subsequent years. Although, as of the date hereof, management of the REIT believes, based on the advice of one of its other external tax advisors, that the REIT will be able to meet the requirements of the REIT Exception throughout 2013, there can be no assurances that the REIT will be able to qualify for the REIT Exception such that the REIT and its Unitholders will not be subject to the tax imposed by the SIFT Rules in 2013 or in future years.

To the extent that they are applicable to the REIT, the SIFT Rules may, depending on the nature of distributions from the REIT, including the portion of its distributions that are income and the portion that is a return of capital, have a material adverse effect on the after-tax returns of certain Unitholders. Generally, distributions that are characterized as returns of capital are not taxable to Unitholders but reduce the adjusted cost base of a Unitholder's Units.

The likely effect of the SIFT Rules on the market for Units, and on the REIT's ability to finance future acquisitions through the issue of Units or other securities, is unclear. In the event that the SIFT Rules apply to the REIT, the SIFT Rules may adversely affect the after-tax returns of investors, the marketability of the Units and the amount of cash available for distributions.

The remainder of this summary is subject to the SIFT Rules discussed above and assumes that the REIT is at all times eligible for the REIT Exception to the SIFT Rules.

#### **Taxation of the REIT**

The taxation year of the REIT is the calendar year. In each taxation year, the REIT will generally be subject to tax under Part I of the Tax Act on its income for the year, including net realized taxable capital gains for that year and its allocated share of income of the Partnership for its fiscal period ending on or before the year-end of the REIT, less the portion thereof that the REIT deducts in respect of the amounts paid or payable, or deemed to be paid or payable, in the year to Unitholders. An amount will be considered to be payable to a Unitholder in a taxation year if it is paid to the Unitholder in the year by the REIT or if the Unitholder is entitled in that year to enforce payment of the amount.

The REIT will generally also not be subject to tax on any amounts received as distributions from the Partnership. Generally, distributions to the REIT in excess of its allocated share of the income of the Partnership for a fiscal year will result in a reduction of the adjusted cost base of the REIT's Class A LP Units in the Partnership by the amount of such excess. If, as a result, the REIT's adjusted cost base at the end of a taxation year of its Class A LP Units in the Partnership would otherwise be a negative amount, the REIT would be deemed to realize a capital gain equal to the negative adjusted cost base and the REIT's adjusted cost base at the beginning of the next taxation year of its Class A LP Units in the Partnership would then be reset to zero.

In computing its income for purposes of the Tax Act, the REIT may deduct reasonable administrative costs and other reasonable expenses incurred by it for the purpose of earning income. The REIT may also deduct from its income for the year a portion of any reasonable expenses incurred by the REIT to issue Units. The portion of the issue expenses deductible by the REIT in a taxation year is 20% of the total issue expenses, pro-rated where the REIT's taxation year is less than 365 days. Any losses incurred by the REIT (including losses allocated to the REIT by the Partnership and capable of being deducted by the REIT) may not be allocated to Unitholders, but may generally be carried forward and deducted in computing the taxable income of the REIT in future years in accordance with the detailed rules and limitations in the Tax Act (including the October 31 Proposals discussed below or any alternative proposal thereto).

On October 31, 2003 the Department of Finance (Canada) announced certain Tax Proposals relating to the deductibility of losses under the Tax Act (the "2003 Proposals"). Under the 2003 Proposals, a taxpayer will be considered to have a loss from a business or property for a taxation year only if, in that year, it is reasonable to assume that the taxpayer will realize a cumulative profit from the business or property during the time that the taxpayer has carried on, or can reasonably be expected to carry on, the business or has held, or can reasonably be expected to hold, the property. Profit, for this purpose, does not include capital gains or capital losses. If the 2003 Proposals were to apply to the REIT, deductions that would otherwise reduce the REIT's taxable income could be denied, with after-tax returns to the Unitholders reduced as a result. On February 23, 2005, the Minister of Finance (Canada) announced that an alternative proposal to replace the 2003 Proposals would be released for comment. No such alternative proposal has been released to date. There can be no assurance that such alternative proposal will not adversely affect the REIT. In addition, the status of the 2003 Proposals, and any alternative proposal, is uncertain as they were not included in Bill C-48 which makes numerous technical amendments to the Tax Act.

Pursuant to the REIT's distribution policy, the Trustees currently intend to make distributions in each year to Unitholders in an amount sufficient to ensure that the REIT will generally not be liable tax under Part I of the Tax Act in any year (after taking into account any losses or capital losses that may be carried forward from prior years). See "Distribution Policy". Income of the REIT which is unavailable for cash distributions will be distributed to Unitholders in the form of additional Units.

### **Taxation of the Partnership**

The Partnership is expected to qualify as an "excluded subsidiary entity" at all relevant times and, as a result, will not be subject to tax under the Tax Act (including under the SIFT Rules). Generally, each partner of the Partnership, including the REIT, is required to include in computing the partner's income, the partner's share of the income (or loss) of the Partnership for the Partnership's fiscal year ending in, or coincidentally with, the partner's taxation year end, whether or not any such income is distributed to the partner in the taxation year. For this purpose, the income or loss of the Partnership will be computed for each fiscal year as if the Partnership were a separate person resident in Canada. In computing the income or loss of the Partnership, deductions may generally be claimed in respect of its administrative and other expenses (including interest in respect of the debt of the Partnership) incurred for the purpose of earning income from business or property to the extent the outlays are not capital in nature and do not exceed a reasonable amount and available capital cost allowances. Certain properties will be acquired by the Partnership on a tax deferred basis, such that the tax cost of these properties will be less than their fair market value. If one or more of such properties are disposed of, the gain recognized by the Partnership for tax purposes will be in excess of that which it would have realized if it had acquired the properties at a tax cost equal to their fair market values.

For the purpose of claiming capital cost allowances, the undepreciated capital cost ("UCC") of such properties acquired by the Partnership from Melcor, will be equal to the amounts jointly elected by the Partnership and Melcor on the tax-deferred acquisition of such property. The UCC of such property will be less than the fair market value of such property. As a result, the capital cost allowance that the Partnership may claim in respect of such properties will be less than it would have been if such properties had been acquired with a tax cost basis equal to their fair values. Losses of the Partnership could be limited by the 2003 Proposals, discussed above, or any alternative proposal thereto. The income or loss of the Partnership for a fiscal year will be allocated to the partners of the Partnership, including the REIT, on the basis of their respective share of such income or loss as provided in the limited partnership agreement of the Partnership, subject to the detailed rules in the Tax Act. Generally, distributions to partners in excess of the income of the Partnership for a fiscal year will result in a reduction of the adjusted cost base of the partner's units in the Partnership by the amount of such excess, as described above.

## **Taxation of Unitholders Resident in Canada**

This portion of the summary is applicable to Unitholders who, for the purposes of the Tax Act and at all relevant times, are resident or deemed to be resident in Canada.

Generally, Units will be considered to be capital property to a Unitholder provided that the Unitholder does not hold the Units in the course of carrying on a business of trading or dealing in securities and has not acquired them in one or more transactions considered to be an adventure or concern in the nature of trade. Certain Unitholders who might not otherwise be considered to hold their Units as capital property may, in certain circumstances, be entitled to make the irrevocable election under subsection 39(4) of the Tax Act to have their Units, and every other “Canadian security” (within the meaning of the Tax Act) owned in the taxation year of the election and each subsequent taxation year, deemed to be capital property. Such Unitholders should consult their own tax advisors regarding whether such election is available and advisable in their particular circumstances.

### *Distributions*

A Unitholder will generally be required to include in income for a particular taxation year the portion of the net income of the REIT for the taxation year ending on or before the particular taxation year-end of the Unitholder, including net realized taxable capital gains, that is paid or payable, or deemed to be paid or payable, to the Unitholder in the particular taxation year (and that the REIT deducts in computing its income), whether such portion is received in cash, additional Units or otherwise.

Provided that the appropriate designations are made by the REIT, such portion of net taxable capital gains of the REIT as is paid or payable to a Unitholder will effectively retain its character and be treated as such in the hands of the Unitholder for purposes of the Tax Act. See “– Capital Gains and Capital Losses”.

The non-taxable portion of any net capital gains of the REIT that is paid or payable, or deemed to be paid or payable, to a Unitholder in a taxation year will not be included in computing the Unitholder’s income for the year. Any other amount in excess of the net income and net taxable capital gains of the REIT that is paid or payable, or deemed to be paid or payable, by the REIT to a Unitholder in a taxation year, will not generally be included in the Unitholder’s income for the year. A Unitholder will be required to reduce the adjusted cost base of its Units by the portion of any amount (other than the non-taxable portion of net realized capital gains of the REIT for the year, the taxable portion of which was designated by the REIT in respect of the Unitholder) paid or payable to such Unitholder that was not included in computing the Unitholder’s income. To the extent that the adjusted cost base of a Unit would otherwise be less than zero, the negative amount will be deemed to be a capital gain realized by the Unitholder from the disposition of the Unit and will be added to the adjusted cost base of the Unit so that the adjusted cost base will be reset to zero. The composition of distributions paid by the REIT, portions of which may be fully or partially taxable or non-taxable, may change over time, affecting the after-tax return to Unitholders.

To the extent that amounts are designated as having been paid to Unitholders out of taxable dividends received or deemed to have been received by the REIT on shares of taxable Canadian corporations, the normal gross-up and dividend tax credit rules, including the enhanced gross-up and dividend tax credit rules in respect of dividends designated by the corporation as “eligible dividends” will apply, and the dividend deduction in computing taxable income of a Unitholder that is a corporation will generally be available, and the refundable tax under Part IV of the Tax Act will be payable by Unitholders that are private corporations and certain other corporations controlled directly or indirectly by or for the benefit of an individual or a related group of individuals.

### *Purchasers of Units by Unitholders*

Since the net income of the REIT will be distributed on a monthly basis, a purchaser of a Unit may become taxable on a portion of the net income or capital gains of the REIT accrued or realized by the REIT in a month before the time the Unit was purchased but which was not paid or made payable to Unitholders until the end of the month and after the time the Unit was purchased. A similar result may apply on an annual basis in respect of a portion of income or capital gains accrued or realized by the REIT in a year before the time the Unit was purchased but which is paid or made payable to Unitholders at year end and after the time the Unit was purchased.

For the purposes of determining the adjusted cost base of a Unit to a Unitholder, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that time.

#### *Dispositions of Units*

On a disposition or deemed disposition of a Unit (including a redemption), a Unitholder will generally realize a capital gain (or sustain a capital loss) equal to the amount by which the Unitholder's proceeds of disposition exceed (or are less than) the aggregate of the adjusted cost base of the Unit and any reasonable costs of disposition.

For the purpose of determining the adjusted cost base to a Unitholder, when a Unit is acquired, the cost of the newly-acquired Unit will be averaged with the adjusted cost base of all of the Units owned by the Unitholder as capital property immediately before that acquisition. The adjusted cost base of a Unit to a Unitholder will include all amounts paid by the Unitholder for the Unit, with certain adjustments. The cost to a Unitholder of Units received in lieu of a cash distribution of income of the REIT will be equal to the amount of such distribution that is satisfied by the issuance of such Units.

A redemption of Units in consideration for cash or other assets of the REIT such as Subsidiary Notes, as the case may be, will be a disposition of such Units for proceeds of disposition equal to such cash or the fair market value of such other assets, as the case may be, less any income or capital gain realized by the REIT in connection with the redemption of those Units to the extent that such income or capital gain is designated to the redeeming Unitholder. Unitholders exercising the right of redemption will consequently realize a capital gain, or sustain a capital loss, depending upon whether the proceeds of disposition received exceed, or are less than, the adjusted cost base of the Units redeemed. Where income or capital gain realized by the REIT in connection with the distribution of property in specie on the redemption of Units has been designated by the REIT to a redeeming Unitholder, the Unitholder will be required to include in income the income or taxable portion of the capital gain so designated. The cost of any property distributed in specie by the REIT to a Unitholder upon redemption of Units will be equal to the fair market value of that property at the time of the distribution. The Unitholder will thereafter be required to include in income interest or other income derived from the property, in accordance with the provisions of the Tax Act.

The consolidation of Units of the REIT will not result in a disposition of Units by Unitholders. The aggregate adjusted cost base to a Unitholder of all of the Unitholder's Units will not change as a result of a consolidation of Units; however, the adjusted cost base per Unit will increase.

#### *Capital Gains and Capital Losses*

One-half of any capital gain (a "taxable capital gain") realized by a Unitholder on a disposition or deemed disposition of Units and the amount of any net taxable capital gains designated by the REIT in respect of a Unitholder will be included in the Unitholder's income as a taxable capital gain. One-half of any capital loss (an "allowable capital loss") realized by a Unitholder on a disposition or deemed disposition of Units must generally be deducted from taxable capital gains of the Unitholder in the year of disposition as an allowable capital loss. Allowable capital losses realized in excess of taxable capital gains in a particular taxation year may generally be deducted against taxable capital gains realized in the three preceding taxation years or in any subsequent taxation year, subject to and in accordance with the provisions of the Tax Act.

A Unitholder that is a Canadian-controlled private corporation (as defined in the Tax Act) may be liable to pay an additional refundable tax of 6 $\frac{2}{3}$ % on certain investment income, including taxable capital gains. Unitholders should consult their own tax advisors for advice with respect to the potential application of these provisions.

#### *Alternative Minimum Tax*

In general terms, net income of the REIT paid or payable to a Unitholder who is an individual or a certain type of trust that is designated as taxable dividends, net taxable capital gains and capital gains realized on the disposition of Units by such a Unitholder may increase the Unitholder's liability for alternative minimum tax.

## **Taxation of Unitholders Not Resident in Canada**

This portion of the summary is applicable to a Unitholder who, for the purposes of the Tax Act and any relevant tax treaty, at all relevant times, is not resident or deemed to be resident in Canada and does not use or hold Units in, or in the course of business carried on in, Canada, and is not an insurer that carries on business in Canada and elsewhere.

### *Distributions*

A non-resident Unitholder that receives an income distribution from the REIT is generally subject to withholding tax under Part XIII of the Tax Act at the rate of 25%. The rate of withholding tax may be reduced when an income distribution from the REIT is paid to a resident of a country with which Canada has a tax treaty. For Unitholders who are resident in the United States, this withholding tax rate is reduced to 15% under Article XXII of the Canada-United States Tax Convention (1980).

As a general rule, a distribution to non-resident Unitholders in respect of a capital gain realized by the REIT should not be subject to Canadian withholding tax under Part XIII of the Tax Act, provided that non-resident Unitholders do not receive more than 5% of any such distribution. If more than 5% of a capital gains distribution is received by non-resident Unitholders, withholding tax may apply to amounts designated as a taxable capital gain to a non-resident Unitholder if the REIT has a “TCP Gains Balance” for the taxation year (as defined in the Tax Act). A TCP Gains Balance may exist if the REIT realizes a capital gain from disposing “taxable Canadian property” (as defined in the Tax Act).

Distributions from the REIT to non-resident Unitholders that are not otherwise subject to Canadian tax under Part I or Part XIII of the Tax Act, including returns of capital or distributions that represent the untaxed portion of a taxable capital gain realized by the REIT will be subject to a 15% withholding tax under Part XIII.2 of the Tax Act if the following two conditions are met: (i) the Units are listed on a designated stock exchange; and (ii) more than 50% of the fair market value of the Units is attributable to real property in Canada, a Canadian resource property, or a timber resource property.

Provided that the Units are listed on a designated stock exchange and based on representations made in the Officer’s Certificate, it is anticipated that Units of the REIT will meet both of the conditions for the application of Part XIII.2 withholding tax on distributions to non-residents. If a non-resident Unitholder is subject to the 15% withholding tax under Part XIII.2, the Unitholder may be able to apply for a refund of the Part XIII.2 tax if the Unitholder realizes a loss from a disposition of Units. A Unitholder’s loss from a disposition of Units can be carried back three years and carried forward indefinitely when making a claim for a refund of Part XIII.2 withholding tax.

### *Disposition of Units*

A non-resident Unitholder will not be subject to taxation in Canada in respect of a capital gain realized on the disposition of Units unless such Units constitute “taxable Canadian property”, as defined in the Tax Act, and the non-resident Unitholder is not afforded relief under an applicable income tax treaty or convention. Generally, the Units will not be taxable Canadian property of a non-resident unless during the 60 months immediately preceding the disposition of the Units, 25% or more of the issued Units are owned by the non-resident, by persons not dealing at arm’s length with the non-resident or by any combination thereof and more than 50% of the fair market value of the Units was derived from: (i) real or immovable property situated in Canada; (ii) Canadian resource properties; (iii) timber resource properties; (iv) options in respect of, or interests in, or rights in real or immovable properties, Canadian resource properties or timber resource properties; or (v) any combination of the foregoing (all within the meaning of the Tax Act). Units may also be deemed to be taxable Canadian property of a non-resident Unitholder in certain circumstances.

Unitholders who are not resident in Canada should consult their tax advisors in their country of residence with respect to the tax consequences of acquiring, owning and disposing of the Units and whether any relief for Canadian taxes paid is available in that country.

## PLAN OF DISTRIBUTION

### General

Pursuant to the Underwriting Agreement, the REIT has agreed to sell and the Underwriters have severally agreed to purchase, on Closing, an aggregate of ● Units at a purchase price of \$10.00 per Unit payable in cash to the REIT against delivery of the Units. The Closing is expected to take place on ●, 2013, or such other date as the REIT and the Underwriters may agree, but in any event not later than ●, 2013. The obligations of the Underwriters under the Underwriting Agreement are conditional and may be terminated at their discretion on the basis of their assessment of the state of the financial markets and may also be terminated upon the occurrence of certain stated events. The Underwriters are, however, severally obligated to take up and pay for all of the Units that they have agreed to purchase if any of the Units are purchased under the Underwriting Agreement.

There is currently no market through which the Units may be sold. The offering price of the Units has been determined by negotiation among the REIT, Melcor and the Underwriters. In consideration for their services in connection with the Offering, the REIT has agreed to pay the Underwriters a fee equal to \$0.60 per Unit, plus applicable taxes (if any). Subscriptions for Units will be received subject to rejection or allocation in whole or in part and the right is reserved to close the subscription books at any time without notice.

Melcor has granted the Underwriters the Over-Allotment Option, which is exercisable in whole or in part and at any time up to 30 days after Closing, to purchase from Melcor up to an additional ● Units on the same terms as set forth above solely to cover over-allocations, if any, and for market stabilization purposes. In the event that Melcor fails to deliver and sell to the Underwriters the requisite number of Units at the over-allotment closing time, the REIT will deliver and sell to the Underwriters such number of Units that Melcor failed to sell to the Underwriters in accordance with the terms of the Underwriting Agreement. This prospectus also qualifies the grant of the Over-Allotment Option and the distribution of the Units to be delivered upon the exercise of the Over-Allotment Option. A purchaser who acquires Units forming part of the Underwriters' over-allocation position acquires such Units under this prospectus regardless of whether the over-allocation position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases. Melcor has agreed to pay the Underwriters a fee equal to \$0.60 per Unit (plus applicable taxes, if any) for each Unit purchased pursuant to the exercise of the Over-Allotment Option.

The REIT and Melcor have agreed to indemnify the Underwriters and their directors, officers, employees and agents against certain liabilities, including, without limitation, civil liabilities under Canadian securities legislation, and to contribute to any payments the Underwriters may be required to make in respect thereof.

During a period ending 180 days from Closing, the REIT will not offer, sell or issue for sale or resale any Voting Units or financial instruments or securities convertible into, or exercisable or exchangeable for, Voting Units, or agree to, or announce, any such offer, sale or issuance without the prior consent of RBC Dominion Securities Inc. and CIBC World Markets Inc., on behalf of the Underwriters, which consent may not be unreasonably withheld, except pursuant to: (i) the Over-Allotment Option; and (ii) the conversion, exercise or exchange of convertible, exercisable or exchangeable securities existing on the date of Closing.

In addition, Melcor has agreed with the Underwriters not to directly or indirectly, offer, sell or otherwise dispose of, or agree to, or announce, any such offer, sale or disposition of any Class B LP Units (or Units into which the Class B LP Units are exchangeable) acquired by Melcor pursuant to the acquisition of the Initial Properties by the REIT (see "Acquisition of Initial Properties"), for a period of 18 months following Closing, except pursuant to the Over-Allotment Option.

The Offering is being made in each of the provinces and territories of Canada and in the United States in an offering to "qualified institutional buyers" (as such term is defined in Rule 144A under the U.S. Securities Act ("Rule 144A")) that is exempt from the registration requirements of the U.S. Securities Act pursuant to Rule 144A. The Units will be offered in each of the provinces and territories of Canada through those Underwriters or their affiliates who are registered to offer the Units for sale in such provinces and territories and such other registered dealers as may be designated by the Underwriters. Subject to applicable law, and residency restrictions under the Declaration of Trust, the Underwriters may offer the Units outside of Canada.

The Units have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state of the United States and, subject to certain exceptions, may not be offered, sold or delivered, directly or indirectly, in the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act and

applicable state securities laws. Accordingly, except to the extent permitted by the Underwriting Agreement, the Units may not be offered or sold within the United States. The Underwriting Agreement will provide that the Underwriters may re-offer and resell the Units that they have acquired pursuant to the Underwriting Agreement to “qualified institutional buyers” (as such term is defined in Rule 144A) in the United States in accordance with Rule 144A. The Underwriting Agreement will also provide that the Underwriters will offer and sell the Units outside the United States only in accordance with Regulation S under the U.S. Securities Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of the Units within the United States by any dealer (whether or not participating in the Offering) may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than pursuant to an exemption from the registration requirements of the U.S. Securities Act. This prospectus does not constitute an offer to sell or solicitation of an offer to buy any of the Units in the United States.

The Underwriters propose to offer the Units initially at the offering price stated on the cover page of this prospectus. After the Underwriters have made a reasonable effort to sell all of the Units offered by this prospectus at that price, the initially stated offering price may be decreased, and further changed from time to time, by the Underwriters to an amount not greater than the initially stated offering price and, in such case, the compensation realized by the Underwriters will be decreased by the amount that the aggregate price paid by the purchasers for the Units is less than the gross proceeds paid by the Underwriters to the REIT.

### **Over-Allotment Option**

Melcor has granted to the Underwriters an option (the “Over-Allotment Option”) to cover over-allotments, if any, and for market stabilization purposes. The Over-Allotment Option may be exercised by the Underwriters, in whole or in part, for a 30-day period following Closing and entitles the Underwriters to purchase from Melcor up to an aggregate of ● additional Units at the Offering price hereunder (being approximately 10% of the aggregate number of Units offered under this prospectus). Melcor will pay the Underwriters’ fee in respect of Units sold under this prospectus by Melcor if the Over-Allotment Option is exercised. If the Over-Allotment Option is exercised in full, the total price to the public will be \$ ● , the Underwriters’ fee will be \$ ● , the net proceeds to the REIT will be \$ ● and the net proceeds to Melcor will be \$ ● . This prospectus also qualifies the granting of the Over-Allotment Option and the distribution of the Units that may be offered in relation to the Over-Allotment Option. A purchaser who acquires Units forming part of the Underwriters’ over-allocation position acquires such Units under this prospectus, regardless of whether the position is ultimately filled through the exercise of the Over-Allotment Option or secondary market purchases.

### **Price Stabilization, Short Positions and Passive Market Making**

In connection with the Offering, the Underwriters may over-allocate or effect transactions which stabilize or maintain the market price of the Units at levels other than those which otherwise might prevail on the open market, including: stabilizing transactions; short sales; purchases to cover positions created by short sales; imposition of penalty bids; and syndicate covering transactions.

Stabilizing transactions consist of bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Units while the Offering is in progress. These transactions may also include making short sales of the Units, which involve the sale by the Underwriters of a greater number of Units than they are required to purchase in the Offering. Short sales may be “covered short sales”, which are short positions in an amount not greater than the Over-Allotment Option, or may be “naked short sales”, which are short positions in excess of that amount. The Underwriters may close out any covered short position either by exercising the Over-Allotment Option, in whole or in part, or by purchasing Units in the open market. In making this determination, the Underwriters will consider, among other things, the price of Units available for purchase in the open market compared with the price at which they may purchase Units through the Over-Allotment Option. If, following the closing of the Offering, the market price of the Units decreases, the short position created by the over-allocation position in Units may be filled through purchases in the market, creating upward pressure on the price of the Units. If, following the closing of the Offering, the market price of Units increases, the over-allocation position in Units may be filled through the exercise of the Over-Allotment Option in respect of Units at the offering price. The Underwriters must close out any naked short position by purchasing Units in the open market. A naked short position is more likely to be created if the Underwriters are concerned that there may be downward pressure on the price of the Units in the open market that could adversely affect investors who purchase in the Offering. Any naked short sales will form part of the Underwriters’ over-allocation position.

In addition, in accordance with rules and policy statements of certain Canadian securities regulators, the Underwriters may not, at any time during the period of distribution, bid for or purchase Units. The foregoing restriction is, however, subject to exceptions where the bid or purchase is not made for the purpose of creating actual or apparent active trading in, or raising the price of, the Units. These exceptions include a bid or purchase permitted under the by-laws and rules of applicable regulatory authorities and the TSX, including the Universal Market Integrity Rules for Canadian Marketplaces, relating to market stabilization and passive market making activities and a bid or purchase made for and on behalf of a customer where the order was not solicited during the period of distribution.

As a result of these activities, the price of the Units may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued by the Underwriters at any time. The Underwriters may carry out these transactions on any stock exchange on which the Units are listed, in the over-the-counter market, or otherwise.

### **Relationship Between the REIT and Certain of the Underwriters**

RBC Dominion Securities Inc. and CIBC World Markets Inc. are affiliates of Canadian chartered banks that have provided mortgage financing and revolving credit lines to Melcor in the aggregate principal amount of approximately \$149 million, as at December 31, 2012, of which mortgages of approximately \$9 million, as at Closing, are expected to be assumed or guaranteed by the REIT and approximately \$22 million, as at Closing, are expected to comprise the Retained Debt. Further, affiliates of RBC Dominion Securities Inc. and CIBC World Markets Inc., have committed to provide the REIT with the Revolving Credit Facility at Closing. Consequently, the REIT may be considered a “connected issuer” of each of RBC Dominion Securities Inc. and CIBC World Markets Inc. under applicable Canadian securities laws. The decision to issue the Units and the determination of the terms of the Offering were made through negotiation between the REIT, Melcor and the Underwriters. The Canadian chartered banks of which such Underwriters are affiliates did not have any involvement in such decision or determination. As a consequence of the Offering, each of such Underwriters will receive its proportionate share of the Underwriters’ fee. See “Use of Proceeds”. Melcor has informed the REIT that Melcor is and has been in compliance with all material terms and conditions of the foregoing mortgage financing and credit lines, that no waiver of any default has occurred thereunder and that there has not been a material adverse change in the value of the security for such mortgage financing and credit lines since their incurrence. Further, Melcor has informed the REIT that Melcor may use a portion of the cash consideration from the sale of the Initial Properties to repay certain of the foregoing mortgage financing not assumed or guaranteed by the REIT at Closing.

### **PRIOR ISSUANCES**

During the 12-month period prior to the date of this prospectus, the REIT issued one Unit for a price of \$10.00 on January 25, 2013 in connection with the organization of the REIT. This Unit will be repurchased by the REIT on Closing.

### **USE OF PROCEEDS**

The net proceeds of the Offering will be approximately \$ ● , after deducting the REIT’s estimated expenses of the Offering and the aggregate Underwriters’ fee. Subject to the following adjustments, the REIT will use such net proceeds to indirectly acquire its interest in the Initial Properties through its ● % interest in the Partnership. See “Acquisition of Initial Properties”.

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced, subject to certain adjustments, by approximately \$8.1 million and, on Closing, the REIT will retain such amount to fund the Interest Rate Subsidy, the Capital Expenditure Subsidy, the Tenant Inducement and Lease Costs Subsidy and the Melton Building Expenditure Subsidy. In addition, the purchase price otherwise payable by the REIT for the Initial Properties will be adjusted (positively or negatively) on Closing based on the actual working capital position at Closing. Based on the unaudited pro forma consolidated financial statements of the REIT as at December 31, 2012, the adjustment would result in a reduction of approximately \$3.1 million in the purchase price payable for the Initial Properties. The amount of any reduction in the purchase price will be used to fund the REIT’s working capital.

If the Over-Allotment Option is exercised, the REIT will not receive any proceeds from the sale of Units by Melcor and Melcor will pay the Underwriters’ fee in respect of Units sold under this prospectus by Melcor.

## RISK FACTORS

An investment in the Units involves significant risks. Investors should carefully consider the risks described below and the other information contained elsewhere in this prospectus before making a decision to purchase Units. If any of the following, or other, risks occur, the REIT's business, prospects, financial condition, results of operations and cash flows could be materially adversely impacted. In that case, the trading price of the Units could decline and investors could lose all or part of their investment in the Units. There is no assurance that risk management steps taken will avoid future loss due to the occurrence of the below described, or other unforeseen, risks.

### **Risks Related to the REIT and its Business**

#### *Real Property Ownership and Tenant Risks*

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

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 favourable 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 disclaimer and termination of such tenant's lease, any of which events could have an adverse effect on the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

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

#### *Occupancy by Tenants*

Certain tenants have a right to terminate their leases upon payment of a penalty but others are not required to pay any penalty associated with an early termination. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on the REIT and could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

#### *Fixed Costs*

The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distribution. Certain

significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments (including those associated with the Retained Debt), insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property (including those associated with the Retained Debt), 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. Costs may also be incurred in making improvements or repairs to property required by a new tenant and income may be lost as a result of any prolonged delay in attracting suitable tenants to the vacant space.

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

#### *Liquidity of Real Property Investments*

Real property investments are relatively illiquid, with the degree of liquidity generally fluctuating in relation to the demand for and perceived desirability of such investment. This illiquidity will tend to limit the ability of the REIT to respond to changing economic or investment conditions and vary its portfolio accordingly. If the REIT were to be required to liquidate assets quickly, there is a risk the proceeds realized from such sale would be less than the book value of the assets or less than what could be expected to be realized under normal circumstances.

#### *Competition*

The real estate market in Canada is highly competitive and fragmented and the REIT will compete for real property acquisitions with individuals, corporations, institutions (Canadian and foreign) and other entities which are seeking or may seek real property investments similar to those desired by the REIT. An increase in the availability of investment funds or an increase in interest in immovable property investments may increase competition for immovable property investments, thereby increasing purchase prices and reducing the yield on them.

Numerous other developers, managers and owners of properties will compete with the REIT in seeking tenants. Some of the properties owned by the REIT's competitors are better located or less leveraged than the properties owned by the REIT. Some of the REIT's competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on the ability of the REIT to lease space in its properties and on the rents charged or concessions granted, and could adversely affect the revenues of the REIT and its ability to meet its debt obligations and decreased the amount of cash available for distribution.

#### *Financing Risks and Interest Rate Exposure*

The REIT expects to have outstanding indebtedness (including the Retained Debt) on Closing of approximately \$187 million. The REIT will be subject to the risks associated with debt financing, including the risk that the REIT's cash flows will be insufficient to meet required payments of principal and interest, the risk that existing mortgages (including those associated with the Retained Debt) will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing indebtedness. A portion of the cash flow generated by the Initial Properties will be devoted to servicing debt (including indirectly servicing the Retained Debt by way of distributions to holders of Class C LP Units), and there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet required interest and principal payments. If the REIT (or in respect of the Retained Debt, Melcor) is unable to meet interest or principal payments, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The failure of the REIT (or in respect of the Retained Debt, Melcor) to make or renegotiate interest or principal payments or obtain additional equity, debt or other financing could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

If the REIT is unable to refinance its indebtedness on acceptable terms, or at all, it might be forced to dispose of one or more of its properties on disadvantageous terms, which might result in losses. Such losses could have a material adverse effect on the REIT's business, financial condition, results of operations or cash flows.

Furthermore, if a property is mortgaged to secure the payment of indebtedness and the REIT is unable to meet mortgage payments, the mortgagee could foreclose upon the property, appoint a receiver and receive an assignment of rents and leases or pursue other remedies, all of which could result in lost revenues and asset value to the REIT.

The assets and liabilities of the REIT have fixed and floating interest rate components resulting in an exposure to interest rate fluctuations. These fluctuations in interest rates will have an impact on the earnings of the REIT. As a result of increased interest rates, the REIT's financial results and condition or operating results could be materially adversely affected.

The REIT may implement hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to Unitholders should current variable interest rates increase. However, to the extent that the REIT fails to adequately manage these risks, its financial results, and its ability to pay distributions to Unitholders and interest payments under the Assumed Mortgages, the Retained Debt, the Revolving Credit Facility and future financings may be adversely affected. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties.

#### *Degree of Leverage*

Total Indebtedness is approximately 46% based on the December 31, 2012 pro forma balance sheet. Under the Declaration of Trust, the maximum the REIT can leverage is 60% of its Gross Book Value (65% including any convertible debentures of the REIT). The degree to which the REIT is leveraged could have important consequences to 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 the amount of funds available for the payment of distributions to Unitholders; and (iii) certain of the REIT's borrowings will be at variable rates of interest which exposes the REIT to the risk of increased interest rates. 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 REIT's portfolio, prevailing economic conditions, prevailing interest rate levels, and financial, competitive, business and other factors, many of which are beyond the REIT's control. The credit facilities of the REIT are also expected to contain covenants that require it to maintain certain financial ratios on a consolidated basis. If the REIT does not maintain such ratios, its ability to make distributions will be limited.

#### *Acquisitions and Development*

The REIT's strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and effectively operating and leasing such properties. If the REIT is unable to manage its growth effectively, it could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis, and, as such, there can be no assurance that distributions to Unitholders will increase in the future.

Acquisition and development agreements entered into with third parties may be subject to unknown, unexpected or undisclosed liabilities which could have a material adverse impact on the operations and financial results of the REIT. Representations and warranties given by such third parties to the REIT may not adequately protect against these liabilities and any recourse against third parties may be limited by the financial capacity of such third parties. Moreover, properties acquired by the REIT may not meet expectations of operational or financial performance due to unexpected costs associated with developing an acquired property, as well as the general investment risks inherent in any real estate investment.

### *Current Global Capital Market Conditions*

Continued concerns about the uncertainty over whether the economy will be adversely affected by inflation, deflation or stagflation and the systematic impact of increased unemployment, volatile energy costs, geographical issues, the availability and cost of credit to the Canadian mortgage market and a distressed commercial real estate market have contributed to increased market volatility and weakened business and consumer confidence. Although the REIT has diversified real estate holdings both geographically and by industry sector, this difficult operating environment could adversely affect the REIT in various ways, some of which are:

- (a) Carrying value of properties – the REIT will report its investment properties at net book value. The REIT will be required to periodically test the carrying value of each individual property for potential impairment. The current global market conditions could result in tenants not fulfilling their lease obligations, or not renewing their leases at the end of the lease term, or not paying their rent on time, and the REIT may experience longer than normal times in filling vacancies. These circumstances could result in an impairment in the carrying value of the properties, which would affect reported income.
- (b) Tenants – the REIT has a varied mix of properties and tenants. The current global market conditions may result in certain tenants or classes of tenants or properties having above-normal business failures resulting in higher than normal vacancies or higher than normal amounts of uncollectible rents. A substantial portion of the REIT's costs are relatively fixed. Excessive vacancies or uncollectible rents could have an adverse effect on the REIT's and its subsidiaries' operations and cash flows required to meet those fixed costs.
- (c) Financing and refinancing – the REIT will have a mix of fixed term and demand debt. The current global capital market conditions have increased the risk of not being able to continue to receive demand financing and the risk of not being able to refinance fixed term debt as it matures; or of obtaining the required amount at an interest rate similar to the maturing debt. This could result in increased interest costs to the REIT and/or cash flow deficiencies on refinancing that would need to be covered from operations or other sources. If the REIT were unable to replace maturing debt, it may be required to sell property at less than fair value. Upon Closing, the REIT will have debt covenants, which typically relate to maintaining specific debt to equity ratios and interest coverage ratios. Should the REIT breach any of these covenants, the lender could require early settlement of the related debt, higher costs for the continuation of the debt, and the risk of having to sell the property at less than fair value.
- (d) Unit price – the current global capital market conditions have resulted in significant reductions in the trading value of securities prices in the various stock markets. The current market conditions reduce the value of any securities issued as part consideration for acquisitions, and make it difficult to raise additional capital through public and/or private securities issuances. The reduced availability of equity funding could reduce the REIT's ability to further grow and expand its operations.

### *Environmental Matters*

The REIT is subject to various requirements (including federal, provincial, territorial and municipal laws) relating to environmental matters. Such requirements provide that the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment prior to acquiring a property. Where a Phase I environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental investigations. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or

against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

The Initial Properties may contain contamination, hazardous substances, and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances such as polychlorinated biphenyls above the allowable or recommended thresholds, or other environmental risks could be associated with the buildings.

Subject to the obligations of Melcor described above, the REIT will bear the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against the REIT. The remediation of any contamination and the related additional measures the REIT would have to undertake could have a materially adverse effect and could involve considerable additional costs that the REIT may have to bear. The REIT will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

#### *Significant Ownership by Melcor*

On Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full), where each Class B LP Unit will be attached to a Special Voting Unit of the REIT, providing for voting rights in the REIT. Melcor will also hold all of the Class C LP Units of the Partnership.

The Class C LP Units have been designed to provide Melcor with an interest in the Partnership that will entitle Melcor to distributions, in priority to distributions to holders of the Class A LP Units and Class B LP Units in an amount, if paid, that is expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt. See "The Partnership – Partnership Units".

In addition, the Declaration of Trust will grant Melcor the right to nominate certain Trustees of the REIT based on Melcor's direct and indirect ownership interest in the REIT. See "Trustees and Management of the REIT – Governance and Board of Trustees". For so long as Melcor maintains a significant effective interest in the REIT, Melcor will have the ability to exercise certain influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, and may have the ability to prevent certain fundamental transactions. As a result, Melcor will have the ability to influence many matters affecting the REIT.

Accordingly, the Units may be less liquid and trade at a relative discount compared to such Units in circumstances where Melcor did not have the ability to influence or determine matters affecting the REIT. Additionally, Melcor's significant effective interest in the REIT may discourage transactions involving a change of control of the REIT, including transactions in which an investor, as a holder of the Units, might otherwise receive a premium for its Units over the then-current market price.

Pursuant to the Exchange Agreement, each Class B LP Unit will be exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). If Melcor exchanges some or all of its Class B

LP Units for Units and subsequently sells such Units in the public market, the market price of the Units may decrease. Moreover, the perception in the public market that these sales will occur could also produce such an effect.

#### *Retained Debt*

The Retained Debt will not be assumed by the Partnership and will remain as indebtedness of Melcor. In consideration of the Retained Debt, Melcor will receive Class C LP Units of the Partnership on which it will receive priority distributions. Melcor will be obligated to make interest payments and principal repayments on a periodic basis in respect of the Retained Debt. Partnership distributions on the Class C LP Units held by Melcor will, if paid, be in amounts expected to be sufficient to make such payments. The Partnership will agree to provide Melcor's creditors with a guarantee in respect of the Retained Debt to ensure the lenders are not prejudiced in their ability to collect from Melcor in the event that payments in respect of the Retained Debt are not made as expected. In the event that Melcor does not make interest payments and principal repayments as required in respect of the Retained Debt, the creditors of the Retained Debt may seek recourse from the Partnership and against certain of its Initial Properties, which could have a material adverse effect on the REIT's cash flows, financial condition and ability to make distributions to holders of Units.

Melcor will indemnify the Partnership and the REIT for any losses suffered by the Partnership or the REIT in the event payments on the Retained Debt are not made as required, provided such losses are not attributable to any action or failure to act on the part of the Partnership.

#### *Acquisition of Future Properties from Melcor*

The REIT's ability to expand its asset base and increase AFFO per Unit through acquisitions is affected by the REIT's ability to leverage its relationship with Melcor to access opportunities to acquire additional investment properties that satisfy the REIT's investment guidelines. Melcor has advised the REIT that its current intention is to offer to sell to the REIT additional investment properties that it owns and/or develops, including some or all of the Retained Commercial Properties and the Properties Currently Under Development, in one or more transactions over the next few years, subject to market conditions, although no assurances can be given in that regard or in respect of Melcor's future development sites. There can be no assurance that the REIT will be able to access such opportunities and acquire additional properties or do so on terms favourable to the REIT. The inability of the REIT to expand its asset base by virtue of its relationship with Melcor or pursuant to the Right of First Offer, the Joint Venture Option, the Development Property Option and the Mezzanine Financing Option may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. See "The REIT – "Melcor and the REIT" and "Arrangements with Melcor".

#### *Potential Conflicts of Interest with Melcor*

Melcor's continuing businesses may lead to conflicts of interest between Melcor and the REIT. The REIT may not be able to resolve any such conflicts, and, even if it does, the resolution may be less favourable to the REIT than if it were dealing with a party that was not a holder of a significant interest in the REIT. The agreements that the REIT will enter into with Melcor on Closing may be amended upon agreement between the parties, subject to applicable law and approval of the Independent Trustees. As a result of Melcor's significant holdings in the REIT, the REIT may not have the leverage to negotiate any required amendments to these agreements on terms as favourable to the REIT as those the REIT could secure with a party that was not a significant holder of Units.

#### *Dependence on Melcor*

The REIT is dependent on Melcor for management, administrative and operations services relating to the REIT's business. The Asset Management Agreement has a term of 5 years, with automatic 5 year renewals, and may at times in the future not reflect current market terms for duties and responsibilities of Melcor. There is a risk that, because of the term and termination provisions of the Asset Management Agreement, termination of the Asset Management Agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT.

Should Melcor terminate the Asset Management Agreement or the Property Management Agreement, the REIT may be required to engage the services of an external asset manager and/or property manager. The REIT may be unable to engage an asset manager and/or property manager on acceptable terms, in which case the REIT's operations

and cash available for distribution may be materially adversely affected. Alternatively, it may be able to engage an asset manager and/or property manager on acceptable terms or it may elect to internalize its external management structure, but the process undertaken to engage such manager(s) or to internalize management could be costly and time-consuming and may divert the attention of management and key personnel away from the REIT's business operations, which could materially adversely affect its financial condition.

Additionally, the Development and Opportunities Agreement provides that, subject to certain exceptions, the REIT will not engage a party other than Melcor or its affiliates to perform any of the services to be performed by Melcor pursuant to the Asset Management Agreement. See "Arrangements with Melcor – Asset Management Agreement" and "Arrangements with Melcor – Development and Opportunities Agreement".

While the Trustees have oversight responsibility with respect to the services provided by Melcor pursuant to the Asset Management Agreement and the Property Management Agreement, the services provided by Melcor under such agreements will not be performed by employees of the REIT or the Partnership, but by Melcor directly, and through entities to which it may subcontract its duties. Further, the foregoing arrangements are subject to limited termination rights in favour of the REIT. See "Arrangements with Melcor". As a result, Melcor will directly, and indirectly through entities to which it may subcontract, have the ability to influence many matters affecting the REIT and the performance of its properties now and in the foreseeable future.

While the Melcor name and trade-mark and related marks and designs will be licensed to the REIT by Melcor under a non-exclusive, royalty-free trademark license agreement, such license will not be on a perpetual basis and may be terminated by Melcor at any time on 30 days' notice following the date of termination of the Asset Management Agreement. Termination of the license would require the REIT to rebrand its business, which could be costly and time-consuming and may divert attention of management and key personnel from the REIT's business operations, which could materially adversely affect its financial condition.

#### *Dependence on the Partnership*

The REIT is an unincorporated, open-ended real estate investment trust which will be entirely dependent on the operations and assets of the Partnership through the REIT's expected ownership of an approximate ● % limited partnership interest in the Partnership (or an approximate ● % interest if the Over-Allotment Option is exercised in full). Cash distributions to holders of Units will be dependent on, among other things, the ability of the Partnership to make cash distributions in respect of the Class A LP Units. See "Plan of Distribution". The Partnership and its subsidiaries are separate and distinct legal entities. The ability of the Partnership to make cash distributions or other payments or advances will depend on the Partnership's results of operations and may be restricted by, among other things, applicable corporate, tax and other laws and regulations and contractual restrictions contained in the instruments governing any indebtedness of the Partnership (including the Retained Debt), any priority distributions contained in the Limited Partnership Agreement and other agreements governing the Partnership and restrictions contained in the agreements governing the arrangement with the co-owners of certain properties.

#### *Geographic Concentration*

Of the total GLA, 82% is located in, and 89% of the forecast NOI of the Initial Properties is attributable to, Alberta. Consequently, the market value of REIT's properties, the income generated by the REIT and the REIT's performance are particularly sensitive to changes the real estate markets in Alberta and economic conditions in Alberta generally. The factors impacting on the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

Adverse changes in the economic conditions in Alberta may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. See "Assets of the REIT – Composition of Initial Properties – Geographic Distribution".

#### *Insufficient Subsidies*

The Capital Expenditure Subsidy, Tenant Inducement and Lease Cost Subsidy and the Melton Building Expenditure Subsidy may not be sufficient to fund all costs borne by the REIT to address the objectives of these

subsidies going forward. If additional costs are incurred above the subsidy amounts, the REIT's financial position and financial results could be materially adversely affected.

#### *Risk of Loss Not Covered By Insurance*

The REIT will maintain insurance policies related to its business, including casualty, general liability and other policies covering the REIT's business operations, employees and assets. However, the REIT will be required to bear all losses that are not adequately covered by insurance, as well as any insurance deductibles. In the event of a substantial property loss, the existing insurance coverage may be insufficient to pay the full current market value or current replacement cost of such property loss. In the event of an uninsured loss, the REIT could lose some or all of its capital investment, cash flow and anticipated profits related to one or more properties. Although the REIT believes that its insurance programs are adequate, assurance cannot be provided that the REIT will not incur losses in excess of insurance coverage or that insurance can be obtained in the future at acceptable levels and reasonable cost.

#### *Risk Related to Insurance Renewals*

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

#### *Undisclosed Defects and Obligations With Respect to Acquired Properties*

The REIT's external growth prospects depend in part on identifying suitable acquisition opportunities, pursuing such opportunities and consummating acquisitions. Notwithstanding pre-acquisition due diligence, it is not possible to fully understand a property before it is owned and operated for an extended period of time. For example, the REIT could acquire a property that contains undisclosed defects in design or construction. Furthermore, the REIT is not always able to obtain from the seller the records and documents needed in order to fully verify that the buildings to be acquired were constructed in accordance, and that their use complies, with planning laws and building code requirements. Accordingly, in the course of acquiring a property, specific risks might not be or might not have been recognized or correctly evaluated. Thus, the REIT could have overlooked or misjudged legal and/or economic liabilities. These circumstances could lead to additional costs and could have a material adverse effect on the REIT's proceeds from sales and rental income of the relevant properties. In addition, after the acquisition of a property, the market in which the acquired property is located may experience unexpected changes that materially adversely affect the property's value. The occupancy of properties acquired may decline during its ownership, and rents that are in effect at the time a property is acquired may decline thereafter. For these reasons, among others, our property acquisitions may cause the REIT to experience significant losses.

#### *Access to Capital*

The real estate industry is highly capital intensive. The REIT will require access to capital to maintain its properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance that the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, in certain circumstances, the REIT may not be able to borrow funds due to the limitations set forth in the Declaration of Trust.

In addition, global financial markets have experienced a sharp increase in volatility during recent years. This has been, in part, the result of the re-valuation of assets on the balance sheets of international financial institutions and related securities. This has contributed to a reduction in liquidity among financial institutions and has reduced the availability of credit to those institutions and to the issuers who borrow from them. While central banks as well as governments continue attempts to restore liquidity to the global economy, no assurance can be given that the combined impact of the significant re-valuations and constraints on the availability of credit will not continue to materially and adversely affect economies around the world in the near to medium term. These market conditions and unexpected volatility or illiquidity in financial markets may inhibit the REIT's access to long-term financing in the Canadian capital markets. As a result, it is possible that financing which the REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, on refinancing any particular property owned by the REIT or otherwise, may not be available or, if it is available, may not be available on favourable terms to the REIT. Failure by the REIT to access required capital could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

#### *Indexation for Inflation and Duration of Lease Contracts*

The fixed rents in the lease contracts for the properties in the REIT's portfolio do not normally provide for adjustments following a general change in prices. As a result, the REIT's revenues adjusted for inflation could be materially adversely affected from an unexpected rise in inflation. The lease contracts typically have terms of up to five years with one or more options to extend at the sole discretion of the tenant. If contracts are not renewed and if the REIT is unable to find new tenants, this could have a materially adverse effect on the business, operating results or financial condition of the REIT.

#### *Changes in Government Regulations*

The REIT is subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the REIT (including with retroactive effect). Any changes in the laws to which the REIT is subject could materially adversely affect the rights and title to the REIT's investment properties. It is not possible to predict whether there will be any further changes in the regulatory regime(s) to which the REIT is subject or the effect of any such change on its investments.

#### *Taxation Matters*

Although, as of the date hereof, management of the REIT believes that the REIT will be able to meet the requirements of the REIT Exception throughout 2013, there can be no assurance that the REIT will be able to qualify for the REIT Exception in order for the REIT and the holders of Units not to be subject to the tax imposed by the SIFT Rules in future years. Please refer to the discussion under "Certain Canadian Federal Income Tax Considerations – SIFT Rules".

In the event the SIFT Rules apply to the REIT, the impact to holders of Units will depend on the status of the holder and, in part, on the amount of income distributed which would not be deductible by the REIT in computing its income in a particular year and what portions of the REIT's distributions constitute "non-portfolio earnings", other income and returns of capital.

The SIFT Rules may have an adverse impact on the REIT and the Unitholders, on the value of the Units and on the ability of the REIT to undertake financings and acquisitions and if the SIFT Rules were to apply, the distributable cash of the REIT may be materially reduced. The effect of the SIFT Rules on the market for the Units is uncertain.

If certain tax proposals released on September 16, 2004 are enacted as proposed (the "September 16th Tax Proposals"), the REIT would cease to qualify as a "mutual fund trust" for purposes of the Tax Act if, at any time after 2004, the fair market value of all Units held by non-residents, partnerships that are not Canadian partnerships or any combination of the foregoing is more than 50% of the fair market value of all issued and outstanding Units unless not more than 10% (based on fair market value) of the REIT's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. Restrictions on the ownership of Units are

intended to limit the number of Units held by non-residents, such that non-residents, partnerships that are not Canadian partnerships or any combination of the foregoing may not own Units representing more than 50% of the fair market value of all Units. The September 16th Tax Proposals were not included in budget implementation and technical amendment bills including Bill C-52 of the First Session of the Thirty-Ninth Parliament, which received Royal Assent on June 22, 2007, Bill C-45 and Bill C-48 of the First Session of the Forty-first Parliament, 60-61 Elizabeth II, 2011-2012.

The CRA has expressed a view that, in certain circumstances, the deductibility of interest on money borrowed to invest in an income trust (including a real estate investment trust such as the REIT) may be reduced on a pro rata basis in respect of distributions from the income trust that are a return of capital and that are not reinvested for an income earning purpose. If the CRA's view were to apply to a Unitholder who borrowed money to invest in Units of the REIT, part of the interest payable by such Unitholder in connection with money borrowed to acquire such Units could be non-deductible.

There can be no assurance that the Units will continue to be qualified investments for Plans under the Tax Act. The Tax Act imposes penalties for the acquisition or holding of non-qualified or ineligible investments that could arise in connection with a redemption of Units. Accordingly, Plans that own Units should consult their own tax advisors before deciding to exercise the redemption rights attached to the Units.

For the purpose of claiming capital cost allowances, the UCC of the Initial Properties will be equal to the amounts jointly elected by the Partnership and Melcor on the tax-deferred acquisition of such property. The UCC of such property will be less than the fair market value of such property. As a result, the capital cost allowance that the Partnership may claim in respect of such Initial Properties will be less than it would have if such properties had been acquired at a tax cost equal to their fair value. Not realizing the step-up in cost base results in a 25% tax deferral in 2013 which may negatively affect a taxable investor's return on investment.

Losses of the Partnership could be limited by the 2003 Proposals or any alternative proposal thereto. The income or loss of the Partnership for a fiscal year will be allocated to the partners of the Partnership, including the REIT, on the basis of their respective share of such income or loss as provided in the limited partnership agreement of the Partnership, subject to the detailed rules in the Tax Act. Generally, distributions to partners in excess of the income of the Partnership for a fiscal year will result in a reduction of the adjusted cost base of the partner's units in the Partnership by the amount of such excess.

#### *Litigation Risks*

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

#### *Potential Conflicts of Interest with Trustees*

The Trustees will, from time to time, in their individual capacities, deal with parties with whom the REIT may be dealing, or may be seeking investments similar to those desired by the REIT. The interests of these persons could conflict with those of the REIT. The Declaration of the Trust contains conflict of interest provisions requiring the Trustees to disclose their interests in certain contracts and transactions and to refrain from voting on those matters. In addition, certain decisions regarding matters that may give rise to a conflict of interest must be made by a majority of Independent Trustees only. Conflicts may also exist due to the fact that certain Trustees of the REIT will be affiliated with Melcor and will be nominated by Melcor.

### *Internal Controls*

Effective internal controls are necessary for the REIT to provide reliable financial reports and to help prevent fraud. Although the REIT will undertake a number of procedures and Melcor REIT GP and Melcor will implement a number of safeguards, in each case, in order to help ensure the reliability of their respective financial reports, including those imposed on the REIT under Canadian securities law, the REIT cannot be certain that such measures will ensure that the REIT will maintain adequate control over financial processes and reporting. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm the REIT's results of operations or cause it to fail to meet its reporting obligations. If the REIT or its auditors discovers a material weakness, the disclosure of that fact, even if quickly remedied, could reduce the market's confidence in the REIT's consolidated financial statements and materially adversely affect the trading price of the Units.

### *Assumption of Liabilities*

The REIT will assume liabilities arising out of or related to the REIT's business, operations or assets, and will agree to indemnify Melcor for, among other matters, such liabilities. The REIT may assume unknown liabilities that could be significant. The allocation of assets and liabilities between Melcor and the REIT may not reflect the allocation that would have been reached between the REIT and a party that was not in a position to exercise significant influence over it. See "Acquisition of Initial Properties" and "Arrangements with Melcor".

### *Jointly Owned Property*

Some of the Initial Properties are jointly owned. In making such joint ownership investments, there is a risk that the REIT may incur a loss if a co-owner is unable to fulfill its obligations.

### *Closing Risks*

Pursuant to the Acquisition Agreement, Melcor will make certain representations and warranties to the REIT with respect to their existing and contingent liabilities. Melcor will also provide an indemnity to the REIT under the Acquisition Agreement which will provide, subject to certain conditions and thresholds, that Melcor will indemnify the REIT for breaches of such representations and warranties. There can be no assurance that the REIT will be fully protected in the event of a breach of such representations and warranties or that Melcor will be in a position to indemnify the REIT if any such breach occurs. The REIT may not be able to successfully enforce the indemnity contained in the Acquisition Agreement against Melcor or such indemnity may not be sufficient to fully indemnify the REIT from third party claims. Melcor has not provided any security for their obligations and are not required to maintain any cash for this purpose. The REIT may be subject to undisclosed liability to third parties and such liability may be material, which could negatively impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

## **Risks Related to the Offering**

### *No Prior Public Market for Units*

Prior to the Offering, no public market existed for the Units. An active and liquid market for the Units may not develop following the completion of the Offering or, if developed, may not be maintained. If an active public market does not develop or is not maintained, investors may have difficulty selling their Units. The initial public offering price of Units was determined by negotiation among the REIT, Melcor and the Underwriters and may not be indicative of the price at which the Units will trade following the completion of the Offering. The REIT cannot assure investors that the market price of Units will not materially decline below the initial public offering price.

### *Volatile Market Price for Units*

The market price for Units may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (i) actual or anticipated fluctuations in the REIT's quarterly results of operations; (ii) recommendations by securities research analysts; (iii) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (iv) addition or departure of the REIT's executive officers and other key personnel; (v) release or expiration of lock-up or other

transfer restrictions on outstanding Units; (vi) sales or perceived sales of additional Units; (vii) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; and (viii) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets.

Financial markets have recently experienced significant price and volume fluctuations that have particularly affected the market prices of equity securities of public entities and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such entities. Accordingly, the market price of the Units may decline even if the REIT's operating results, underlying asset values or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the Units by those institutions, which could materially adversely affect the trading price of the Units. There can be no assurance that continuing fluctuations in price and volume will not occur. If such increased levels of volatility and market turmoil continue for a protracted period of time, the REIT's operations could be materially adversely impacted and the trading price of the Units may be materially adversely affected.

#### *Restrictions on Redemptions*

It is anticipated that the redemption right attached to the Units will not be the primary mechanism by which holders of Units liquidate their investments. The entitlement of holders of Units to receive cash upon the redemption of their Units is subject to the limitations that: (i) the total amount payable by the REIT in respect of such Units and all other Units tendered for redemption in the same calendar month must not exceed the Monthly Limit (provided that such limitation may be waived at the discretion of the Trustees in respect of all Units tendered for redemption in such calendar month); (ii) at the time such Units are tendered for redemption, the outstanding Units must be listed for trading on the TSX or traded or quoted on any other stock exchange or market which the Trustees consider, in their sole discretion, provides representative fair market value prices for the Units; and (iii) the normal trading of Units is not suspended or halted on any stock exchange on which the Units are listed (or, if not listed on a stock exchange, in any market where the Units are quoted for trading) on the Redemption Date or for more than five trading days during the ten-day trading period commencing immediately after the Redemption Date.

Subsidiary Notes which may be distributed to holders of Units in connection with a redemption will not be listed on any exchange, no market is expected to develop in Subsidiary Notes and such securities may be subject to an indefinite "hold period" or other resale restrictions under applicable securities laws. Subsidiary Notes so distributed may not be qualified investments for Plans, depending upon the circumstances at the time.

#### *Use of Appraisals*

Caution should be exercised in the evaluation and use of appraisals. An appraisal is an estimate of market value. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The Appraisals are based on various assumptions of future expectations and while the Appraiser's internal forecasts for the Initial Properties are considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

As noted above, a publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. Accordingly, the Units may trade at a premium or a discount to values implied by the Appraisals.

#### *Historical Financial Information and Pro Forma Financial Information*

The historical financial information relating to the Initial Properties included in this prospectus has been derived from Melcor's historical accounting records. The REIT believes that the assumptions underlying the carve-out financial statements are reasonable. However, the carve-out financial statements may not reflect what the REIT's financial position, results of operations or cash flows would have been had the REIT been a stand-alone entity during

the historical periods presented or what the REIT's financial position, results of operations or cash flows will be in the future.

In particular, the historical costs and expenses reflected in the carve-out financial statements include an allocation for certain corporate functions historically provided by Melcor. These expense allocations were based on what Melcor considered to be reasonable allocations of the utilization of services provided or the benefit received by the owners of the Initial Properties. The REIT estimates that general annual trust expenses will increase when it becomes a stand-alone entity. The REIT has not made adjustments to its historical financial information to reflect changes that may occur in its cost structure, financing and operations as a result of its acquisition of the Initial Properties. In preparing the pro forma financial information in this prospectus, the REIT has given effect to, among other items, the Offering and the Closing. The estimates used in the pro forma financial information may not be similar to the REIT's actual experience as a stand-alone public entity.

#### *Financial Forecast*

The forecast results contained in this prospectus were prepared using assumptions that reflect management's intended course for the periods covered, given the judgment of management as to the most probable set of economic conditions. There can be no assurance that the assumptions reflected in the forecast will prove to be accurate. Actual results for the forecast period may vary significantly from the forecast results and those variations may be material. The REIT gives no representation that actual results achieved in the forecast period will be the same, in whole or in part, as those forecast herein. See "Forward-Looking Information" and "Financial Forecast".

#### *Return on Investment Not Guaranteed*

The Units are equity securities of the REIT and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the REIT does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The REIT has the ability to reduce or suspend distributions if circumstances so warrant. The ability of the REIT to make cash distributions, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under applicable credit facilities (including the Partnership's obligation to make distributions to holders of the Class C LP Units), fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the REIT's properties. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the REIT's cash distributions are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period.

AFFO may exceed actual cash available to the REIT from time to time because of items such as principal repayments and capital expenditures in excess of stipulated reserves identified by the REIT in its calculation of AFFO and redemptions of Units, if any. The REIT may be required to use part of its debt capacity or to reduce distributions in order to accommodate such items.

#### *Structural Subordination of Units*

In the event of bankruptcy, liquidation or reorganization of the Partnership or any of its subsidiaries, holders of their indebtedness (including the Retained Debt) and their trade creditors will generally be entitled to payment of their claims from the assets of the Partnership and its subsidiaries before any assets are made available for distribution to the REIT or holders of Units. Upon completion of this Offering, the Units will be effectively subordinated to the debt and other obligations of the Partnership and its subsidiaries. See "Debt Structure". The Partnership and its subsidiaries will generate all of the REIT's cash available for distribution and hold substantially all of the REIT's assets.

### *Dilution*

The number of Units that the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed and applicable securities law. The issuance of any additional Units may have a dilutive effect on the interests of holders of Units.

### *Unitholder Liability*

The Declaration of Trust provides that no Unitholder will be subject to any liability whatsoever to any person in connection with the holding of a Unit. In addition, legislation has been enacted in the Provinces of Alberta and Ontario and certain other provinces and territories that is intended to provide Unitholders in those provinces and territories with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. It is intended that the affairs of the REIT will be conducted to seek to minimize such risk wherever possible.

### *Nature of Investment*

The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT's assets and should not be viewed by investors as direct securities of the REIT's assets. A holder of a Unit of the REIT does not hold a share of a body corporate. As unitholders of the REIT, the holders will not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions. The rights of unitholders are based primarily on the Declaration of Trust. There is no statute governing the affairs of the REIT equivalent to the ABCA which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency statutes, such as the Bankruptcy and Insolvency Act (Canada) and the *Companies Creditors' Arrangement Act* (Canada). Accordingly, the treatment of unitholders upon an insolvency is uncertain.

## **MATERIAL CONTRACTS**

The following are the only material agreements of the REIT or its subsidiaries that will be in effect on Closing (other than certain contracts entered into in the ordinary course of business):

- (a) the Acquisition Agreement described under "Acquisition of Initial Properties – Acquisition Agreement";
- (b) the Asset Management Agreement described under "Arrangements with Melcor – Asset Management Agreement";
- (c) the Property Management Agreement described under "Arrangements with Melcor – Property Management Agreement";
- (d) the Development and Opportunities Agreement described under "Arrangements with Melcor – Development and Opportunities Agreement";
- (e) the Restrictive Covenant Agreement described under "Arrangements with Melcor – Restrictive Covenant Agreement";
- (f) the Indemnity Agreement described under "Arrangements with Melcor – Indemnification";
- (g) the Declaration of Trust described under "Declaration of Trust";
- (h) the Exchange Agreement described under "Retained Interest – Exchange Agreement";
- (i) the Limited Partnership Agreement described under "The Partnership"; and
- (j) the Underwriting Agreement described under "Plan of Distribution".

Copies of the foregoing documents and the Appraisals will be available on the System for Electronic Document Recovery and Retrieval at [www.sedar.com](http://www.sedar.com).

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Other than as noted below, there are no material interests, direct or indirect, of any Trustee or executive officer of the REIT, any Unitholder that beneficially owns, or controls or directs, (directly or indirectly) more than 10% of the Units or Special Voting Units of the REIT, or any associate or affiliate of any of the foregoing persons, in any transaction within the three years before the date thereof that has materially affected or is reasonably expected to materially affect the REIT or any of its subsidiaries.

Mr. Andrew J. Melton (Trustee, Chair of the Board of the REIT), Mr. Ralph B. Young (Trustee), Mr. Brian Baker (Trustee), Mr. Darin Rayburn (Chief Executive Officer of the REIT) and Jonathan W. Chia (Chief Financial Officer of the REIT), are employees of Melcor and have ongoing relationships with Melcor. On Closing, the REIT will indirectly acquire the Initial Properties from Melcor and Melcor will enter into certain agreements with the REIT and the Partnership. In addition, Melcor will hold a significant effective interest in the REIT following Closing. See “Acquisition of Initial Properties”, “Arrangements with Melcor” and “Retained Interest”, together with certain other sections of this prospectus including “Trustees and Management of the REIT”, “Plan of Distribution” and “Risk Factors – Risks Related to the REIT’s Relationship with Melcor” and “Promoter”.

## PROMOTER

Melcor has taken the initiative in founding and organizing the REIT, and may therefore be considered a promoter of the REIT for the purposes of applicable securities legislation. See “Acquisition of Initial Properties”, “Arrangements with Melcor”, and “Retained Interest”, together with certain other sections of this prospectus including “Trustees and Management of the REIT”, “Plan of Distribution”, “Risk Factors-Risks Related to the REIT’s Relationship with Melcor” and “Interests of Management and Others in Material Transactions”.

## PRINCIPAL UNITHOLDER

Except as set out below, to the knowledge of the Trustees and management of the REIT, on Closing, no person or company will beneficially own, control or direct, directly or indirectly, more than 10% of the Units. On Closing, it is expected that Melcor will hold an approximate ● % effective interest in the REIT through ownership of all of the Class B LP Units of the Partnership (or an approximate ● % effective interest in the REIT if the Over-Allotment Option is exercised in full). On Closing, Melcor will hold all of the outstanding Class B LP Units, Class C LP Units and Special Voting Units. See “Retained Interest” and “Plan of Distribution”.

## LEGAL PROCEEDINGS AND REGULATORY ACTIONS

### Legal Proceedings

The REIT is not aware of any existing or contemplated legal proceedings to which it is or was a party to, or to which any of its properties (including the Initial Properties) is or was the subject of, since January 1, 2013.

### Regulatory Actions

The REIT is not aware of any penalties or sanctions imposed by a court or securities regulatory authority or other regulatory body against the REIT, nor has the REIT entered into any settlement agreements before a court or with a securities regulatory authority.

## LEGAL MATTERS

The matters referred to under “Eligibility for Investment” and “Certain Canadian Federal Income Tax Considerations”, as well as certain other legal matters relating to the issue and sale of the Units, will be passed upon on behalf of the REIT by Bryan & Company LLP and Felesky Flynn LLP and on behalf of the Underwriters by Stikeman Elliott LLP. As at the date of this prospectus, the partners and associates of Bryan & Company LLP and Felesky Flynn LLP beneficially own, directly and indirectly, less than 1% of the outstanding securities or other property of the REIT, its associates or its affiliates. As at the date of this prospectus, the partners and associates of Stikeman Elliott LLP

beneficially own, directly and indirectly, less than 1% of the outstanding securities or other property of the REIT, its associates or its affiliates.

#### **EXPERTS**

The appraisals prepared by Altus Group Limited. As at the date of this prospectus, the “designated professionals” of Altus Group Limited beneficially own, directly and indirectly, less than 1% of the outstanding securities or other property of the REIT, its associates or its affiliates.

The auditors of the REIT, PricewaterhouseCoopers LLP, have advised that it is independent of the REIT in accordance with the rules of professional conduct applicable to auditors in Alberta.

#### **AUDITORS, TRANSFER AGENT AND REGISTRAR**

The auditors of the REIT are PricewaterhouseCoopers LLP, Chartered Accountants, located in Edmonton, Alberta. The transfer agent and registrar for the Units is Valiant Trust Company at its principal office in Edmonton, Alberta.

#### **PURCHASERS' STATUTORY RIGHTS**

Securities legislation in certain of the provinces and territories of Canada provides a purchaser with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces and territories, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, revisions of the price or damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission, revisions of the price or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for the particulars of these rights or consult with a legal adviser.

## GLOSSARY

The following terms used in this prospectus have the meanings set forth below:

“2003 Tax Proposals” means the Tax Proposals released on October 31, 2003 as described under “Certain Canadian Federal Income Tax Considerations – Taxation of the REIT”.

“ABCA” means the *Business Corporations Act* (Alberta), as amended.

“Acquisition Agreement” means the agreement of purchase and sale to be entered into on or before Closing pursuant to which the REIT will indirectly acquire the Initial Properties as described under “Acquisition of Initial Properties – Acquisition Agreement”.

“AFFO” means adjusted funds from operations as described under “Non-IFRS Measures”.

“Aggregate Base Rent for Lease Renewals and Expansions” means the aggregate dollar amount of all base rent, payable during the initial term, pursuant to all lease renewal, extension or premises expansion agreement entered into after Closing by tenants who were tenants of the Initial Properties at Closing.

“Aggregate Base Rent for New Leases” means the aggregate dollar amount of all base rent payable, during the initial term, pursuant to all new lease agreements entered into after Closing by tenants who were not tenants of any of the Initial Properties at Closing.

“AMA Employee Severance Costs” means severance or termination costs and payments (if any), subject to certain limitations, actually incurred by Melcor in respect of its employees arising out of or resulting from the ensuing termination of redundant or surplus employees as a consequence of the termination of the Asset Management Agreement as described under “Arrangements with Melcor – Asset Management Agreement”.

“Appraisals” means the estimates of the fair market value of the Initial Properties provided by the Appraiser.

“Appraiser” means Altus Group Limited and certain of its subsidiaries.

“Asset Management Agreement” means the agreement between the REIT and Melcor to be entered into at Closing pursuant to which Melcor will provide the Asset Management Services, as described under “Arrangements with Melcor – Asset Management Agreement”.

“Asset Management Services” means the asset management services to be provided by Melcor to the REIT pursuant to the Asset Management Agreement, as described under “Arrangements with Melcor – Asset Management Agreement-Asset Management Services”.

“Assumed Mortgage” means those mortgages on the Initial Properties to be assumed by the REIT as described under “Debt Structure – Composition of Indebtedness – Assumed Mortgages”.

“BCA Reports” means the building condition assessment reports prepared for the Initial Properties, as described under “Assessments and Valuation of the Initial Properties – Building Condition Assessments”.

“Board” means the board of Trustees of the REIT.

“Capital Expenditure Subsidy” has the meaning ascribed thereto under “Arrangements with Melcor – Capital Expenditure Subsidy”.

“CDS” means CDS Clearing and Depository Services Inc.

“C&G Committee” means the Compensation and Governance Committee of the Board.

“Class A GP Unit” means the Class A general partnership units of the Partnership.

“Class A LP Unit” means the Class A limited partnership units of the Partnership.

“Class B LP Unit” means the Class B limited partnership units of the Partnership.

“Class C LP Unit” means the Class C limited partnership units of the Partnership.

“Closing” means the closing of the Offering, the acquisition by the REIT of the Initial Properties and other related transactions, the material terms of which are described in this prospectus.

“CRA” means the Canada Revenue Agency.

“CRU” means commercial retail unit.

“December 2012 Tax Proposals” means the Tax Proposals released on December 21, 2012 as described under “Certain Canadian Federal Income Tax Considerations – Eligibility for Investments”.

“Declaration of Trust” means the declaration of trust of the REIT dated as of January 25, 2013 as it will be amended and restated as of Closing, all as described under “Declaration of Trust”.

“Development Property Option” has the meaning ascribed thereto under “Arrangements with Melcor – Development and Opportunities Agreement”.

“Development Property” means: (i) the Properties Currently Under Development; (ii) real property owned by Melcor on the date of Closing (but which is not yet under development) for which Melcor makes a determination (such determination to be made by Melcor in its sole and unfettered discretion) to develop such property into an income producing commercial property that satisfies the REIT’s investment guidelines; or (iii) an interest in real property acquired by Melcor subsequent to the date of Closing for which Melcor makes a determination (such determination to be made by Melcor in its sole and unfettered discretion) to develop such property into an income producing commercial property that satisfies the REIT’s investment guidelines but a Retained Commercial Property shall not be considered a Development Property unless and until Melcor substantially redevelops such property into an income producing commercial property.

“Distribution Date” means, in respect of a calendar month, on or about the 15<sup>th</sup> day of the following calendar month or such other dates as the Trustees so determine in their discretion.

“Exchange Agreement” means the agreement to be entered into at Closing pursuant to which Melcor will be granted, among other things, the right to require the REIT to exchange each Class B LP Unit held by Melcor for one Unit as described under “Retained Interest – Exchange Agreement”.

“FFO” means funds from operations as described under “Non-IFRS Measures”.

“GAAP” means Canadian generally accepted accounting principles for publicly accountable enterprises as defined by the Accounting Standards Board of The Canadian Institute of Chartered Accountants, as amended from time to time, which for fiscal years beginning on or after January 1, 2011, is IFRS.

“GDP” means gross domestic product.

“GLA” means gross leasable area.

“Gross Book Value” means the acquisition costs of the REIT’s assets plus accumulated amortization on property, plant and equipment.

“Gross Property Revenue” means, in respect of the Partnership, all revenue received or receivable from the real properties owned directly or indirectly by the Partnership (other than real property in respect of which the Partnership is required to directly, or indirectly, pay property management fees to a third party (including Melcor), other than pursuant to the Property Management Agreement), including (i) related proceeds of business or rental interruption insurance, after deduction for insurance deductibles and excluding (ii) lease termination fees, actual bad debts, gains on

sales, and the differential between in-place rents and below or above market rents, determined in accordance with the applicable accounting principles of the Partnership at the time of the calculation.

“IFRS” means International Financial Reporting Standards as issued by the International Accounting Standards Board and as adopted by the Canadian Institute of Chartered Accountants in Part I of The Canadian Institute of Chartered Accountants Handbook-Accounting, as amended from time to time.

“Indebtedness” means (without duplication) on a consolidated basis:

- (i) any obligation of the REIT for borrowed money other than the impact of any net discount or premium on Indebtedness at the time assumed from vendors of properties at rates of interest less or greater than, respectively, fair value and any undrawn amounts under any acquisition or operating facility;
- (ii) any obligation of the REIT (other than the impact of any net discount or premium on Indebtedness at the time assumed from vendors of properties at rates of interest less or greater than, respectively, fair value and any undrawn amounts under any acquisition or operating facility) incurred in connection with the acquisition of property, assets or businesses other than the amount of future income tax liability arising out of indirect acquisitions;
- (iii) any obligation of the REIT issued or assumed as the deferred purchase price of property;
- (iv) any capital lease obligation of the REIT;
- (v) the Class C LP Units representing the Retained Debt; and
- (vi) any obligation of the type referred to in subsections (i) through (iv) of another person, the payment of which the REIT has guaranteed or for which the REIT is responsible for or liable, other than such an obligation in connection with a property that has been disposed of by the REIT for which the purchaser has assumed such obligation and provided the REIT with an indemnity or similar arrangement therefor;

provided that (A) for the purposes of subsections (i) through (iv), an obligation will constitute Indebtedness only to the extent that it would appear as a liability on the consolidated balance sheet of the REIT in accordance with IFRS, (B) obligations referred to in subsections (i) through (iii) exclude deferred financing costs, trade accounts payables, tenant deposits, distributions payable to Unitholders and accrued liabilities arising in the ordinary course of business, (C) Units, Class A LP Units, Class B LP Units and other exchangeable securities will not constitute Indebtedness and (D) convertible debentures will constitute Indebtedness to the extent of the principal amount thereof outstanding.

“Indemnity Agreement” means the indemnity agreement between the REIT, the Partnership and Melcor, to be entered into at Closing, as described under “Arrangements with Melcor – Indemnification”.

“Independent Trustee” means a Trustee who, in relation to the REIT, is “independent” within the meaning of National Instrument 58-101 – *Disclosure of Corporate Governance Practices*, as replaced or amended from time to time (including any successor rule or policy thereto).

“Initial Properties” means the interests in a portfolio of 27 income producing properties, comprised of 26 retail, office and industrial properties and one land lease community, which will be indirectly acquired by the REIT concurrently with Closing, as described under “Assets of the REIT”.

“Interest Rate Subsidy” has the meaning ascribed thereto under “Arrangements with Melcor – Interest Rate Subsidy”.

“Joint Venture Option” has the meaning ascribed thereto under “Arrangements with Melcor – Development and Opportunities Agreement”.

“Limited Partners” means the limited partners of the Partnership, being the REIT and Melcor, and “Limited Partner” means any one of them.

“Limited Partnership Agreement” means the limited partnership agreement of the Partnership.

“LRT” means light rail transit.

“Melcor” means Melcor Developments Ltd., an ABCA corporation, and where the context requires, together with its affiliates.

“Melcor AMA Event of Default” means any one event of default of Melcor under the Asset Management Agreement, as described under “Arrangements with Melcor – Asset Management Agreement”.

“Melcor Permitted AMA Resignation” means the right of Melcor to terminate the Asset Management Agreement upon one year’s prior notice to the REIT after the later of: (i) the date that Melcor owns, directly or indirectly, less than 20% of the Units (calculated on a fully diluted basis); or (ii) ten years from the Closing Date.

“Melcor Permitted PMA Resignation” means the right of Melcor to terminate the Property Management Agreement upon one year’s prior notice to the REIT after the date that Melcor owns, directly or indirectly, less than 20% of the Units (calculated on a fully diluted basis).

“Melcor PMA Event of Default” means any one event of default of Melcor under the Property Management Agreement, as described under “Arrangements with Melcor – Property Management Agreement”.

“Melcor REIT GP” means Melcor REIT GP Inc., an ABCA corporation, acting as the general partner of the Partnership.

“Melton Building Expenditure Subsidy” has the meaning ascribed thereto under “Arrangements with Melcor – Melton Building Expenditure Subsidy”.

“Mezzanine Financing Option” has the meaning ascribed thereto under “Arrangements with Melcor – Development and Opportunities Agreement”.

“Monthly Limit” means the monthly limit on the total amount payable in cash by the REIT in respect of Units tendered for redemption in a calendar month as described under “Declaration of Trust – Redemption Right”.

“Named Executive Officers” or “NEO” means, collectively, the REIT’s Chief Executive Officer and the Chief Financial Officer, as described under “Executive Compensation-Summary Compensation Table”.

“NCI” means the non-certificated inventory system of CDS.

“NOI” means net operating income as described under “Non-IFRS Measures”.

“Non-Residents” means non-residents of Canada, as described under “Declaration of Trust – Limitation on Non-Resident Ownership”.

“October 31 Proposals” means proposed amendments to the Tax Act released by the Department of Finance on October 31, 2003 as described under “Certain Canadian Federal Income Tax Considerations”.

“Offering” means the offering of Units pursuant to this prospectus.

“Over-Allotment Option” means the option granted to the Underwriters by Melcor, exercisable in whole or in part and at any time up to 30 days after Closing, to purchase up to an additional ● Units on the same terms as set forth in this prospectus solely to cover over-allocations, if any, and for market stabilization purposes, as described under “Plan of Distribution-General”.

“Partnership” means Melcor REIT Limited Partnership, a limited partnership formed under the laws of the Province of Alberta.

“Phase I ESA Reports” means Phase I environmental site assessment reports, as described under “Assessments and Valuations of the Initial Properties – Environmental Site Assessments”.

“Phase II ESA Reports” means Phase II environmental site assessment reports, as described under “Assessments and Valuations of the Initial Properties – Environmental Site Assessments”.

“Plans” means, collectively, registered retirement savings plans, registered retirement income funds, deferred profit sharing plans, registered education savings plans, registered disability savings plans and tax-free savings accounts.

“PMA Employee Severance Costs” means severance or termination costs and payments (if any), subject to certain limitations, actually incurred by Melcor in respect of its employees arising out of or resulting from the ensuing termination of redundant or surplus employees as a consequence of the termination of the Property Management Agreement as described under “Arrangements with Melcor – Property Management Agreement”.

“Properties Currently Under Development” means those properties of Melcor which are in various stages of development which once completed and substantially let, will satisfy the REIT’s investment guidelines as set forth in the Declaration of Trust. See “The REIT – Retained Commercial Properties and Properties Currently Under Development”.

“Property Management Agreement” means the agreement between the REIT and Melcor to be entered into at Closing pursuant to which Melcor will provide the Property Management Services, as described under “Arrangements with Melcor – Property Management Agreement”.

“Property Management Services” means the property management services to be provided by Melcor to the REIT pursuant to the Property Management Agreement, as described under “Arrangements with Melcor – Property Management Agreement – Property Management Services”.

“Proposed Disposition” means the proposed disposition of an investment property by Melcor which triggers the Right of First Offer as described under “Arrangements with Melcor – Development and Opportunities Agreements”.

“REIT” means Melcor Real Estate Investment Trust, and references in this prospectus to the “REIT” should be interpreted as described under “Meaning of Certain References”.

“REIT Exception” means the exclusion from the definition of SIFT trust in the Tax Act for a trust qualifying as a “real estate investment trust” as defined in subsection 122.1(1) of the Tax Act, as described under “Certain Canadian Federal Income Tax Considerations – SIFT Rules”.

“Refused Property” means either: (i) a commercial investment property that is the subject matter of a Proposed Disposition for which the REIT did not exercise, or was deemed not to have exercised, the Right of First Offer; (ii) an Investment Opportunity acquired by Melcor as a result of the REIT not electing to pursue such property, or after electing to pursue such property, ceasing to actively pursue such property; (iii) a Development Property which was the subject of the Joint Venture Option, for which the REIT and Melcor did not enter into a definitive joint venture agreement, and for which Melcor and an unrelated party entered into a definitive joint venture agreement; (iv) a Development Property for which the REIT did not exercise, or was deemed not to have exercised, the Development Property Option; or (v) a Development Property for which the REIT did not exercise, or was deemed not to have exercised, the Mezzanine Financing Option.

“Restrictive Covenant Agreement” means the restrictive covenant agreement to be entered into on Closing between Melcor and the REIT, as more particularly described under “Arrangements with Melcor – Restrictive Covenant Agreement”.

“Retained Debt” means those mortgages on certain of the Initial Properties that are being retained by Melcor, as described under “Debt Structure – Retained Debt”.

“Retained Commercial Properties” means the portfolio of investment properties to be retained by Melcor after Closing, as described under “The REIT – Retained Commercial Properties and Properties Currently Under Development”.

“Revolving Credit Facility” means the revolving credit facility anticipated to be provided at Closing by two Canadian chartered banks, as described under “Debt Structure – Composition of Indebtedness – Revolving Credit Facility”.

“Right of First Offer” means the right of the REIT to acquire any interest of Melcor in commercial investment properties that it owns after Closing (whether forming part of the Retained Commercial Properties, or acquired or developed by Melcor after Closing, including a Refused Property, but excluding a commercial investment property that is then subject to the Development Property Option or the Mezzanine Financing Option) prior to disposition of any

such interest to third parties, which such right will be on terms not less favourable to the REIT than those offered by or to such third party, as described under “Arrangements with Melcor – Development and Opportunities Agreement”.

“RRIF” means registered retirement income fund as described under “Eligibility for Investment”.

“RRSP” means registered retirement savings plan as described under “Eligibility for Investment”.

“Rule 144A” means Rule 144A under the U.S. Securities Act.

“SIFT” means specified investment flow-through within the meaning of the SIFT Rules.

“SIFT Rules” means the rules applicable to SIFT trusts and SIFT partnerships in the Tax Act, as described under “Certain Canadian Federal Income Tax Considerations – Status of the REIT – Qualification as a Real Estate Investment Trust” as amended by the Tax Proposals.

“Special Voting Units” means special voting units in the capital of the REIT, and “Special Voting Unit” means any one of them.

“Stabilization” means the point at which a Development Property is: (i) substantially complete; and (ii) not less than 90% of the GLA of such Development Property is leased, occupied and paying rent.

“Subsidiary Notes” means promissory notes of the Partnership, a trust all of the units of which, or a corporation all of the shares of which, are owned directly or indirectly by the REIT or another entity that would be consolidated with the REIT under GAAP, having a maturity date, determined at the time of issuance, of not more than five years, bearing interest at a market rate determined by the Trustees at the time of issuance.

“Tax Act” means the *Income Tax Act* (Canada).

“Tax Proposals” means all specific proposals to amend the Tax Act publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof.

“Tenant Inducement and Lease Cost Subsidy” has the meaning ascribed thereto under “Arrangements with Melcor – Tenant Inducement and Lease Cost Subsidy”.

“TFSA” means tax free savings plan as described under “Eligibility for Investment”.

“TM License Agreement” means the trade-mark license agreement between the REIT and Melcor to be entered into at Closing, as described under “Arrangements with Melcor – License of the Melcor Trade-marks”.

“Trustees” means the trustees from time to time of the REIT, and “Trustee” means any one of them.

“TSX” means the Toronto Stock Exchange.

“UCC” means undepreciated capital cost.

“Underwriters” means, collectively RBC Dominion Securities Inc. and CIBC World Markets Inc.

“Underwriting Agreement” means the underwriting agreement dated as of ● , 2013 between the REIT, Melcor and the Underwriters, as described under “Plan of Distribution”.

“Unitholders” means holders of Voting Units, and “Unitholder” means any one of them.

“Units” means trust units in the capital of the REIT, other than Special Voting Units, and “Unit” means any one of them.

“U.S. Securities Act” means the United States Securities Act of 1933, as amended.

“Voting Units” means, collectively, the Units and the Special Voting Units, and “Voting Unit” means any one of them.

“Western Canada” means the provinces of British Columbia, Alberta and Saskatchewan.

## INDEX TO FINANCIAL STATEMENTS

### **Melcor Real Estate Investment Trust**

Unaudited pro forma financial statements for the year ended December 31, 2012 .....	F-2
Independent Auditors' Report .....	F-8
Audited financial statements for the one-day period ended January 25, 2013 .....	F-7

### **Melcor Real Estate Investment Trust Initial Properties**

Audited Carve-out Financial Statements for the Years Ended December 31, 2012, 2011 and 2010 .....	F-12
Independent Auditors' Report .....	F-12

**MELCOR REAL ESTATE INVESTMENT TRUST**  
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at December 31, 2012**

(\$000s)	<u>Melcor REIT</u>	<u>Melcor Initial Properties</u>	<u>Note</u>	<u>Pro Forma Adjustments</u>	<u>Total</u>
<b>ASSETS</b>					
<b>Current Assets</b>					
Cash and cash equivalents .....	—	689	2a)	78,000	3,756
			2e)	(8,140)	
			2f)	(66,793)	
Accounts receivable .....	—	2,457		—	2,457
Other assets .....	—	238		—	238
	—	<u>3,384</u>		<u>3,067</u>	<u>6,451</u>
<b>Non-Current Assets</b>					
Restricted cash .....	—	—	2e)	8,140	8,140
Investment properties .....	—	382,381		—	382,381
Other assets .....	—	11,080		—	11,080
	—	<u>393,461</u>		<u>8,140</u>	<u>401,601</u>
<b>TOTAL ASSETS</b>	<u>—</u>	<u>396,845</u>		<u>11,207</u>	<u>408,052</u>
<b>LIABILITIES</b>					
<b>Current Liabilities</b>					
Accounts payable and accrued liabilities .....	—	2,098		—	2,098
Other payables .....	—	5,405		—	5,405
Class C LP Units .....	—	—	2c)	3,489	3,489
Mortgages payable .....	—	54,291	2c)	(48,052)	6,239
	—	61,794		(44,563)	17,231
<b>Non-Current Liabilities</b>					
Other payables .....	—	748		—	748
Class B LP Units .....	—	—	2d)	107,535	107,535
Class C LP Units .....	—	—	2c)	93,928	93,928
Deferred income taxes .....	—	40,261	2j)	(40,261)	—
Mortgages payable .....	—	125,711	2c)	(38,912)	86,799
<b>TOTAL LIABILITIES</b> .....	<u>—</u>	<u>228,514</u>		<u>77,727</u>	<u>306,241</u>
Divisional surplus .....	—	168,331		(168,331)	—
Unitholders' equity .....	—	—	2a)	78,000	101,811
	—	—	2b)	23,811	—
<b>TOTAL EQUITY</b> .....	<u>—</u>	<u>168,331</u>		<u>(66,520)</u>	<u>101,811</u>
<b>TOTAL LIABILITIES AND EQUITY</b> .....	<u>—</u>	<u>396,845</u>		<u>11,207</u>	<u>408,052</u>

**MELCOR REAL ESTATE INVESTMENT TRUST**  
**UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**For the year ended December 31, 2012**

<u>For the years ended December 31 (\$000s)</u>	<u>Melcor REIT</u>	<u>Melcor Initial Properties</u>	<u>Note</u>	<u>Pro Forma Adjustments</u>	<u>Total</u>
Rental revenue .....	—	37,485		—	37,485
Direct operating expenses .....	—	(15,423)	2g)	(962)	(16,385)
Net rental income .....	—	22,062		(962)	21,100
General and administrative expenses .....	—	(1,369)	2h)	(218)	(1,587)
Fair value adjustment on investment properties .....	—	30,163		—	30,163
Income before finance costs and income taxes .....	—	50,856		(1,180)	49,676
Interest income .....	—	23		—	23
Interest expense .....	—	(8,575)	2i)	(6,546)	(15,121)
Net finance costs .....	—	(8,552)		(6,546)	(15,098)
Net income before income taxes .....	—	42,304		(7,726)	34,578
Current income tax expense .....	—	(846)	2j)	846	—
Deferred income tax expense .....	—	(5,968)	2j)	5,968	—
Income tax expense .....	—	(6,814)		6,814	—
Net income and comprehensive income .....	—	35,490		(912)	34,578

**MELCOR REAL ESTATE INVESTMENT TRUST**  
**UNAUDITED PRO FORMA CONSOLIDATED NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2012**  
(In \$000s except per unit amounts)

**1. BASIS OF PRESENTATION**

Melcor Real Estate Investment Trust (the "REIT") was created pursuant to a Declaration of Trust dated January 25, 2013 under the laws of the Province of Alberta. These unaudited pro forma consolidated financial statements have been prepared for inclusion in a prospectus (the "Prospectus") relating to the proposed sale and issue of units of the REIT for cash consideration pursuant to an initial public offering (the "Offering"). On closing of the transactions contemplated in the Prospectus, the REIT will acquire an indirect interest in a portfolio of 27 investment properties (the "Melcor Initial Properties") from Melcor Developments Ltd. ("Melcor").

These unaudited pro forma consolidated financial statements have been prepared using the audited financial statements of the REIT as at January 25, 2013, and the audited 2012 carve-out financial statements of the Melcor Initial Properties, both of which can be found elsewhere in this Prospectus.

The unaudited pro forma consolidated statement of financial position gives effect to the transactions described in note 2 as if they had occurred on December 31, 2012. The unaudited pro forma consolidated statement of comprehensive income gives effect to the transactions described in note 2 as if they had occurred on January 1, 2012.

The unaudited pro forma consolidated financial statements are not necessarily indicative of the results that would have occurred had the transactions been consummated at the dates indicated, nor are they necessarily indicative of the future operating results or the financial position of the REIT.

The accounting policies used in the preparation of these unaudited pro forma consolidated financial statements are consistent with the policies disclosed in the REIT and carve-out financial statements referred to above.

**2. PRO FORMA ASSUMPTIONS AND ADJUSTMENTS**

*a) Initial public offering*

The REIT is assumed to complete the issue of Units to the public for gross proceeds of \$86,250 (excluding any over-allotment option) through the issuance of 8,625,000 Units at a price of \$10.00 per Unit. Costs relating to the offering, including underwriters' fees, are assumed to be \$8,250 and have been charged directly to unitholders' equity, resulting in net proceeds of \$78,000.

*b) Acquisition of the Melcor Initial Properties*

As the REIT is a newly formed entity and Melcor will retain control over the REIT, the acquisition of the Melcor Initial Properties will be accounted for using the continuity of interest method. Under this method, the REIT will record the assets acquired and liabilities assumed at their carrying amounts in the carve-out financial statement. The difference between the consideration given and the aggregate value of the net assets acquired is recorded as an adjustment to unitholders' equity.

The impact of acquiring the net assets of the Initial Properties is as follows:

	\$
Net assets acquired	
Investment properties and other assets .....	393,461
Working capital-net .....	(4,867)
Assumed mortgages (note 2c) .....	<u>(93,038)</u>
	<u>295,556</u>
Consideration to Melcor	
Class C LP Units (note 2c) .....	97,417
Class B LP Units (note 2d) .....	107,535
Cash paid by the REIT (note 2e) .....	<u>66,793</u>
	<u>271,745</u>
Net contribution by Melcor .....	<u><u>23,811</u></u>

The actual net assets acquired by the REIT, the consideration to Melcor and the net contribution by Melcor will be based on the assets and liabilities assumed at the effective date of the acquisition and other information available at that time. Accordingly, the actual amounts that will ultimately be recorded to reflect the acquisition will vary from the pro forma amounts and the variations may be material.

*c) Assumed mortgages and Class C LP Units*

On closing, the REIT is expected to assume the mortgages on certain of the Initial Properties with an outstanding principal balance of \$93,038. This assumes that prior to Closing, Melcor; will increase the financing on two properties in an amount of \$7,950 and repay mortgages on four properties in the amount of \$14,094 for a net decrease in mortgages payable of \$6,144.

## UNAUDITED PRO FORMA CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

**December 31, 2012**

(In \$000s except per unit amounts)

Melcor will retain the debt on the remaining Initial Properties (the Retained Debt), with an outstanding principal balance of \$95,306. This assumes that prior to Closing, Melcor will refinance the debt on two properties resulting in increased mortgage balances of \$14,486.

In consideration of the Retained Debt, Melcor will receive Class C LP Units of Melcor REIT Limited Partnership (the Partnership), a subsidiary of REIT, on which distributions will be made to permit Melcor to satisfy required principal and interest payments. The Class C LP Units are classified as debt on the pro forma balance sheet and a portion of the distributions thereon will be classified as interest expense. The Class C LP Units will be initially recognized at their fair value, which is estimated to be \$97,417.

A reconciliation of the movement in debt balances is as follows:

	<b>Mortgages payable</b>	<b>Class C LP Units</b>
Amount per carve-out financial statements .....	180,002	—
Allocation of Retained debt .....	(80,820)	80,820
Changes in financing levels prior to closing .....	(6,144)	14,486
Adjustment for fair value of Class C LP units .....	—	2,111
	93,038	97,417
Less current portion .....	(6,239)	(3,489)
	86,799	93,928

As a result of the refinancing and fair value adjustments of the Class C LP Units described above, the current portion of liabilities pertaining to the assumed and Retained Debt decreases by \$44,563.

### *d) Class B LP Units*

Melcor will retain an effective ownership interest in the REIT through the issuance of Class B LP Units of the Partnership in conjunction with the acquisition of the Melcor Initial Properties by the REIT. On closing, the Partnership will issue approximately 10,753,500 Class B LP Units to Melcor.

As the Class B LP Units are financial liabilities designated as fair value through profit and loss, they will be adjusted to their fair value on an ongoing basis with any fair value adjustments being included in the income statement. These pro forma consolidated financial statements assume no change in fair value of the Class B LP Units during the 2012 pro forma consolidated statement of comprehensive income period. However, the actual REIT consolidated financial statements of future periods will include fair value changes and such changes could be material.

### *e) Subsidies provided by Melcor*

The purchase price otherwise payable by the REIT for the Initial Properties will be reduced, subject to certain adjustments, by \$8,140 and, on Closing, the REIT will retain such amount to fund subsidies pertaining to reducing the effective interest rate on assumed debt, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs.

Pursuant to a covenant in the underwriting agreement, the \$8,140 in cash is restricted for the purposes of satisfying these subsidies, and as such, has been presented as restricted cash on the balance sheet.

### *f) Working Capital*

Cash balances, accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and other payables will be transferred on Closing. The total working capital of the REIT on Closing is \$(4,867). Included in this amount is \$(1,800) which forms part of the subsidies provided by Melcor (note 2e). Melcor will fund the net working capital adjustment of \$(3,067) as a reduction of proceeds on Closing.

The assumed net proceeds of the offering of \$78,000 (note 2a) will be reduced by the \$8,140 subsidy (note 2e) and the \$3,067 net adjustment for working capital, which results in net cash paid to Melcor of \$66,793.

### *g) Operating expenses*

Pursuant to a Property Management Agreement to be entered into on Closing, the REIT will retain Melcor to manage and administer the day to day activities of the REIT and the Initial Properties. Property management fees are payable to Melcor based on 3% of gross revenues. Operating

## UNAUDITED PRO FORMA CONSOLIDATED NOTES TO FINANCIAL STATEMENTS

December 31, 2012

(In \$000s except per unit amounts)

expenses have been increased by \$962 for the year ended December 31, 2012 to reflect management's estimate of the net increase in property management fees expected to be payable under this Agreement of \$1,184 offset by redundant property management costs included in the carve-out figures.

### *h) General and administrative expenses*

- i) General and administrative expenses have been increased to reflect management's best estimate of overhead costs for the REIT, including legal fees, audit fees, trustee fees, annual report costs, transfer agent fees and other miscellaneous costs.
- ii) Pursuant to an Asset Management Agreement to be entered into on Closing, the REIT will retain Melcor to provide a senior management team and related services including advisory, consultation and investment management services. Asset management fees are payable to Melcor based on 0.25% of the Gross Book Value of investment property assets. General and administrative expenses have been increased to reflect management's best estimate of the fees expected to be payable under this Agreement, net of redundant costs included in the carve-out figures.

### *i) Finance costs*

Finance costs have been adjusted to reflect the following:

- i) Distributions on the Class B LP Units of \$6,986 for the year ended December 31, 2012 reported as interest expense consistent with the classification of the units as financial liabilities on the pro forma consolidated statement of financial position. The distributions on Class B LP Units assume a yield of 6.50% on the Offering price; however no assurance can be given that distributions will be at this level.
- ii) Interest expense has been decreased by \$440 to reflect amortization of the fair value adjustment recorded with respect to the issuance of the Class C LP Units on Closing.

### *j) Income taxes*

The REIT assumes that on Closing and subsequently it will qualify as a mutual fund trust and meet the REIT Conditions as described in the accounting policies of the REIT. Accordingly, no income tax expense or deferred income tax assets or liabilities have been recorded in the pro forma consolidated financial statements in respect of the REIT.

## INDEPENDENT AUDITOR'S REPORT

### To the Trustees of Melcor Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of Melcor Real Estate Investment Trust, which comprise the consolidated statement of financial position as at January 25, 2013 and the consolidated statements of changes in unitholder's equity and cash flows for the one day period ended January 25, 2013 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Real Estate Investment Trust as at January 25, 2013 and its financial performance and its cash flows for the one day period ended January 25, 2013 in accordance with International Financial Reporting Standards.

●  
Chartered Accountants

● , 2013

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

As at January 25, 2013

ASSET	
Cash .....	<u>\$10</u>
UNITHOLDER'S EQUITY .....	<u>\$10</u>

**CONSOLIDATED STATEMENT OF CHANGES IN UNITHOLDER'S EQUITY**

For the one day period ended January 25, 2013

ISSUANCE OF UNIT ON FORMATION .....	\$10
Comprehensive income .....	<u>—</u>
UNITHOLDER'S EQUITY, END OF PERIOD .....	<u>\$10</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the one day period ended January 25, 2013

FINANCING ACTIVITIES	
Issuance of unit . . . . .	<u>\$10</u>
Net increase in cash . . . . .	\$10
Cash, beginning of period . . . . .	<u>—</u>
CASH, END OF PERIOD . . . . .	<u><u>\$10</u></u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. DESCRIPTION OF THE BUSINESS

Melcor Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust dated January 25, 2013, when one Trust Unit was issued for cash consideration of \$10. The REIT is governed by the laws of the Province of Alberta. To date, there have been no operations. The registered office of the REIT is located at Suite 900, 10310 Jasper Avenue Edmonton, Alberta, Canada. The principal business of the REIT is to acquire, own and manage office, retail and industrial properties in select target markets in Canada.

### 2. BASIS OF PRESENTATION

The consolidated financial statements of the REIT have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"), and are presented in Canadian dollars, which is the functional currency of the REIT.

These consolidated financial statements include the accounts of the REIT and its subsidiaries, Melcor REIT GP Inc., as general partner, and its associated partnership Melcor REIT Limited Partnership. On January 25, 2013 the REIT acquired one common share in Melcor REIT GP Inc. and one Class A LP unit of the partnership.

The financial statements were authorized for issue by the Board on ●, 2013.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

#### *a) Cash and cash equivalents*

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired. As at January 25, 2013 there were no cash equivalents.

#### *b) Unitholder's equity*

The Trust Unit is redeemable at the option of the holder and, therefore, is considered a puttable instrument in accordance with International Accounting Standard ("IAS") 32, Financial Instruments – Presentation ("IAS 32"). Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The Trust Unit meets the conditions of IAS 32 and is, therefore, classified and accounted for as equity.

The REIT is authorized to issue an unlimited number of Trust Units.

On January 25, 2013, the REIT issued one Trust Unit for cash proceeds of \$10.

### 4. SUBSEQUENT EVENTS

On April ●, 2013, the REIT entered into an underwriting agreement in connection with an initial public offering, whereby the REIT is expected to raise gross proceeds of \$86,250 through the issuance of 8,625,000 Trust Units at a price of \$10 per unit. The closing (the "Closing") of the transaction contemplated by the prospectus filed in connection with the Offering is expected to close on April ●, 2013 and will occur no later than May ●, 2013. On Closing the REIT will indirectly acquire from Melcor Developments Ltd. an interest in 27 income producing properties located in Western Canada, comprised primarily of retail, office and industrial properties and a land lease community.

## INDEPENDENT AUDITOR'S REPORT

### To the Board of Directors of Melcor Developments Ltd.

We have audited the accompanying carve-out financial statements of Melcor Initial Properties, which comprise the carve-out statements of financial position as at December 31, 2012, December 31, 2011, December 31, 2010 and January 1, 2010 and the carve-out statements of income and comprehensive income, changes in divisional equity and cash flows for the years ended December 31, 2012, December 31, 2011 and December 31, 2010 and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the carve-out financial statements

Management is responsible for the preparation and fair presentation of these carve-out financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of carve-out financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

Our responsibility is to express an opinion on these carve-out financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the carve-out financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the carve-out financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the carve-out financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the carve-out financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the carve-out financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the carve-out financial statements present fairly, in all material respects, the financial position of Melcor Initial Properties as at December 31, 2012, December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2012, December 31, 2011 and December 31, 2010, in accordance with International Financial Reporting Standards.

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### Chartered Accountants

- , 2013

## CARVE-OUT STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

<u>For the years ended December 31 (\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Rental revenue (note 12) . . . . .	37,485	34,867	32,203
Direct operating expenses . . . . .	<u>(15,423)</u>	<u>(14,167)</u>	<u>(13,107)</u>
Net rental income . . . . .	22,062	20,700	19,096
General and administrative expenses . . . . .	<u>(1,369)</u>	<u>(1,624)</u>	<u>(1,262)</u>
Fair value adjustment on investment properties (note 7) . . . . .	30,163	27,931	9,486
Income before finance costs and income taxes . . . . .	<u>50,856</u>	<u>47,007</u>	<u>27,320</u>
Interest income . . . . .	23	23	3
Interest expense . . . . .	<u>(8,575)</u>	<u>(7,893)</u>	<u>(7,566)</u>
Net finance costs . . . . .	<u>(8,552)</u>	<u>(7,870)</u>	<u>(7,563)</u>
Net income before income taxes . . . . .	<u>42,304</u>	<u>39,137</u>	<u>19,757</u>
Current income tax expense (note 13) . . . . .	<u>(846)</u>	371	(502)
Deferred income tax expense (note 13) . . . . .	<u>(5,968)</u>	<u>(5,896)</u>	<u>(2,599)</u>
Income tax expense (note 13) . . . . .	<u>(6,814)</u>	<u>(5,525)</u>	<u>(3,101)</u>
Net income and comprehensive income . . . . .	<u><u>35,490</u></u>	<u><u>33,612</u></u>	<u><u>16,656</u></u>

## CARVE-OUT STATEMENTS OF FINANCIAL POSITION

(\$000s)	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>	<u>December 31,</u> <u>2010</u>	<u>January 1,</u> <u>2010</u>
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents .....	689	873	583	809
Accounts receivable .....	2,457	1,373	1,291	924
Other assets (note 8) .....	238	192	192	202
	<u>3,384</u>	<u>2,438</u>	<u>2,066</u>	<u>1,935</u>
<b>Non-Current Assets</b>				
Investment properties (note 7) .....	382,381	345,246	304,935	276,617
Other assets (note 8) .....	11,080	10,446	8,317	7,548
	<u>393,461</u>	<u>355,692</u>	<u>313,252</u>	<u>284,165</u>
<b>TOTAL ASSETS</b> .....	<u><b>396,845</b></u>	<u><b>358,130</b></u>	<u><b>315,318</b></u>	<u><b>286,100</b></u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities .....	2,098	1,405	1,065	767
Other payables (note 9) .....	5,405	3,394	2,979	2,560
Mortgages payable (note 10) .....	54,291	31,126	12,786	15,145
	<u>61,794</u>	<u>35,925</u>	<u>16,830</u>	<u>18,472</u>
<b>Non-Current Liabilities</b>				
Other payables (note 9) .....	748	5,010	5,130	5,100
Deferred income taxes (note 13) .....	40,261	34,293	28,397	25,798
Mortgages payable (note 10) .....	125,711	133,717	139,495	111,869
	<u>166,720</u>	<u>172,020</u>	<u>172,022</u>	<u>142,767</u>
<b>TOTAL LIABILITIES</b> .....	<u><b>228,514</b></u>	<u><b>208,945</b></u>	<u><b>189,852</b></u>	<u><b>161,239</b></u>
<b>DIVISIONAL EQUITY</b> .....	<u><b>168,331</b></u>	<u><b>149,185</b></u>	<u><b>125,466</b></u>	<u><b>124,861</b></u>
Total liabilities and divisional equity .....	<u><b>396,845</b></u>	<u><b>358,130</b></u>	<u><b>315,318</b></u>	<u><b>286,100</b></u>

## CARVE-OUT STATEMENTS OF CHANGES IN DIVISIONAL EQUITY

<u>(\$000s)</u>	<u>DIVISIONAL EQUITY</u>
<b>Balance at January 1, 2010</b> .....	124,861
Net income for the year .....	16,656
Net distribution to Melcor Developments Ltd. ....	<u>(16,051)</u>
<b>Balance at December 31, 2010</b> .....	<u>125,466</u>
<u>(\$000s)</u>	<u>DIVISIONAL EQUITY</u>
<b>Balance at December 31, 2010</b> .....	125,466
Net income for the year .....	33,612
Net distribution to Melcor Developments Ltd. ....	<u>(9,893)</u>
<b>Balance at December 31, 2011</b> .....	<u>149,185</u>
<u>(\$000s)</u>	<u>DIVISIONAL EQUITY</u>
<b>Balance at December 31, 2011</b> .....	<b>149,185</b>
Net income for the year .....	35,490
Net distribution to Melcor Developments Ltd. ....	<u>(16,344)</u>
<b>Balance at December 31, 2012</b> .....	<u><b>168,331</b></u>

## CARVE-OUT STATEMENTS OF CASH FLOWS

<u>For the years ended December 31 (\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM (USED IN)</b>			
<b>OPERATING ACTIVITIES</b>			
Net income for the year .....	35,490	33,612	16,656
Non cash items:			
Amortization of operating lease incentives .....	2,447	2,672	2,237
Straight-line rent adjustments .....	(449)	—	—
Deferred income tax expense (note 13) .....	5,968	5,896	2,599
Fair value adjustment on investment properties (note 7) .....	(30,163)	(27,931)	(9,486)
	<u>13,293</u>	<u>14,249</u>	<u>12,006</u>
Changes in operating assets and liabilities .....	629	553	391
	<u>13,922</u>	<u>14,802</u>	<u>12,397</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of investment properties .....	(2,760)	—	—
Payment of tenant lease incentives .....	(2,632)	(4,801)	(3,007)
Investment property improvements and development .....	(7,529)	(12,380)	(18,832)
	<u>(12,921)</u>	<u>(17,181)</u>	<u>(21,839)</u>
<b>FINANCING ACTIVITIES</b>			
Proceeds from mortgages payable .....	29,400	25,550	38,162
Repayment of mortgages payable .....	(14,241)	(12,988)	(12,895)
Net distribution to Melcor Developments Ltd. ....	(16,344)	(9,893)	(16,051)
	<u>(1,185)</u>	<u>2,669</u>	<u>9,216</u>
<b>INCREASE (DECREASE) IN CASH &amp; CASH EQUIVALENTS DURING THE</b>			
<b>YEAR</b> .....	(184)	290	(226)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR</b> .....	<u>873</u>	<u>583</u>	<u>809</u>
<b>CASH AND CASH EQUIVALENTS, END OF THE YEAR</b> .....	<u><u>689</u></u>	<u><u>873</u></u>	<u><u>583</u></u>

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

### 1. DESCRIPTION OF THE BUSINESS

These carve-out financial statements include retail, office and industrial investment properties and a land lease community (the "Melcor Initial Properties") that were directly or jointly owned by Melcor Developments Ltd. ("Melcor") at December 31, 2012 and do not represent a legal entity. The Melcor Initial Properties portfolio is comprised of properties located in Western Canada.

Melcor's place of business is Suite 900, 10310 Jasper Avenue Edmonton, AB T5J 1Y8.

The Melcor Initial Properties carve-out financial statements for the year ended December 31, 2012 were authorized for issue by the Board of Directors' of Melcor on ● , 2013, after which date the carve-out financial statements may only be amended with the Board of Directors' approval.

### 2. BASIS OF PRESENTATION

These carve-out financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB"). As these are the first IFRS financial statements prepared for Melcor Initial Properties, they have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards". The application of IFRS 1 had no effect as Melcor had been applying IFRS.

The Melcor Initial Properties are all directly or jointly owned by Melcor. The properties that are wholly-owned by Melcor do not maintain their own cash accounts. Divisional equity represents the net of all capital and financing/cash transactions between Melcor Initial Properties and Melcor.

Management believes that the preservation of historic fees and an allocation of other costs to the Melcor Initial Properties portfolio reflect a reasonable method of allocating an appropriate portion of the historic property operating and other costs of Melcor related to the management of these properties. Other corporate costs, such as public company costs of Melcor, have not been allocated to these carve-out financial statements.

Due to the inherent limitations of carving out activities from larger entities, these carve-out financial statements may not necessarily reflect the Melcor Initial Properties' results of operations, financial position and cash flows for future periods, nor do they necessarily reflect the results of operations, financial position and cash flows that would have been realized had the properties been a stand-alone entity during the periods presented.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these carve-out financial statements are described below.

#### *a) Basis of measurement*

Our carve-out financial statements have been prepared under the historical cost convention, except for the revaluation of investment properties which are measured at fair value.

We prepare our financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the carve-out financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the carve-out financial statements are disclosed in notes 5 and 6 and have been derived from the historical financial statements of Melcor.

#### *b) Joint arrangements*

These carve-out financial statements include investments in three joint arrangements with interests of 50%. These arrangements are undivided interests and we record our proportionate share of the assets, liabilities, revenue and expenses in accordance with the agreements. Refer to note 11 for details on joint arrangements.

All intradivisional transactions and balances are eliminated.

#### *c) Cash and cash equivalents*

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired. These balances relate to our joint ventures or externally managed cash accounts.

#### *d) Investment properties*

Investment properties include retail, office, and industrial properties, and a land lease community held for the long term to earn rental income or for capital appreciation, or both. It also includes properties under development held for future use as investment properties. Property development includes the development, leasing and construction of retail, office and industrial revenue-producing properties.

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

Acquired investment properties are measured initially at cost, including related transaction costs in connection with asset acquisitions.

After initial recognition, investment properties are recorded at their fair value, which is determined by discounting projected future cash flows based on property specific capitalization rates. Valuations are performed as of the period end date by professional valuers who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases based on current market conditions. The value also reflects any cash outflows that could be expected in respect of the property. Changes in fair value are recognized in the carve-out statement of income and comprehensive income.

Investment properties under development are recorded at fair value. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

Subsequent expenditures are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the property and the cost of the item can be measured reliably. All repairs and maintenance costs are expensed when incurred.

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties.

### *e) Capitalization of borrowing costs*

General and specific borrowing costs attributable to the acquisition, construction or production of qualifying assets are added to the cost of those assets. Borrowing costs are capitalized while acquisition or construction is actively underway and ceases once the asset is substantially complete, or suspended if the development of the asset is suspended. The amount of borrowing costs capitalized is determined by applying a weighted average cost of borrowings to qualifying assets. Qualifying assets include our investment properties under development. All other borrowing costs are recognized as an expense in the statement of income and comprehensive income in the period in which they are incurred.

### *f) Other assets*

Other assets include prepaid expenses, straight-line rent adjustments, and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis to revenue over the term of the lease.

### *g) Provision for decommissioning obligations*

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Increases in the provision are recognized as an expense. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

### *h) Recognition of revenue*

Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment property. Revenue from investment properties includes base rents, recoveries of operating expenses including property taxes, parking revenue and incidental income. Revenue recognition under a lease commences when the tenant had a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent adjustment, which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Other revenues are recorded as earned.

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

### i) Income taxes

Since the Melcor Initial Properties are currently owned by Melcor, which is a taxable entity, current and deferred incomes taxes are included in the carve-out financial statements. The Melcor Initial Properties use the liability method of accounting for income taxes. Under the liability method of tax allocation, deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that deductions, tax credits and tax losses can be utilized. The carrying amount of future income tax assets are reviewed at each balance sheet date and reduced to the extent it is no longer probable that the income tax asset will be recovered. Current taxes payable have been treated as a payable to Melcor and included in divisional equity as Melcor holds the obligation to remit the taxes.

We presume that investment property measured at fair value will be recovered entirely through sale. Measurement of the related deferred taxes reflects the tax consequences of recovering the carrying amount through sale.

### j) Financial instruments

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable, and cash and cash equivalents.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

#### Other liabilities

Other liabilities include accounts payable and accrued liabilities, and mortgages payable. Other liabilities are initially recognized at fair value, net of any transaction costs incurred. Subsequently, other liabilities are measured at amortized cost using the effective interest rate method.

## 4. ACCOUNTING STANDARD CHANGES

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

- a) IFRS 9, *Financial Instruments*, was issued in November 2009 and addressed classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, ("OCI") dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.
- b) Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income.

This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

- c) IFRS 10, *Consolidated Financial Statements*, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and the ability to affect them through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, *Consolidation – Special Purpose Entities* and parts of IAS 27, *Consolidated and Separate Financial Statements*.
- d) IFRS 11, *Joint Arrangements*, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, *Interest in Joint Ventures*, and SIC-13, *Jointly Controlled Entities – Non-monetary Contributions by Venturers*.

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

- e) IFRS 12, *Disclosures of Interests in Other Entities*, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosures that address the nature of, and risks associated with an entity's interest in other entities.
- f) IFRS 13, *Fair Value Measurement*, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.
- g) IAS 1, *Presentation of Financial Statements*, has been amended to require entities to separate items presented in OCI into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual periods beginning on or after July 1, 2012 with earlier application permitted.

### 5. CRITICAL ACCOUNTING ESTIMATES

Preparing the carve-out financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported. Management bases its judgments and estimates on historical experience and other factors it believes to be reasonable under the circumstances, but which are inherently uncertain and unpredictable, the result of which forms the basis of the carrying amounts of assets and liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future. The estimates that are critical to the determination of the amounts reported in the financial statements are:

#### *Fair value of investment properties*

Investment properties are valued using a discounted cash flow approach, as completed by qualified valuers. Key estimates and assumptions regarding the discounted cash flows include expected occupancy rates and lease rates, as well as expenditures for operating costs and capital expenditures. Refer to note 7 for further information about methods and assumptions used in determining fair value.

#### *Allocation of expenses*

Allocation of general and administrative expenses for purposes of the carve-out financial statements have been determined using the method disclosed in note 2, which management considers to be reasonable given the nature of each item; a different basis of allocation could result in materially different amounts.

### 6. SIGNIFICANT JUDGMENTS

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the financial statements. These include:

#### *a) Classification of tenant payments*

Payments are often made to tenants of our commercial properties to improve the space when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis over the lease term in accordance with SIC 15, *Operating leases – Incentives*.

#### *b) Investment properties*

Our accounting policies related to investment properties are described in note 3(d). In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property.

#### *c) Leases*

Judgments are made in determining whether certain leases, in particular with long term leases in single tenant properties, are operating or finance leases. We have determined that all of our leases are operating leases.

**NOTES TO CARVE-OUT FINANCIAL STATEMENTS**  
(In \$000s except per share and acre amounts)

**7. INVESTMENT PROPERTIES**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance – beginning of year .....	345,246	304,935	276,617
Additions			
Direct acquisition .....	2,760	—	—
Property improvements .....	3,955	5,963	2,477
Property development activities .....	3,574	6,417	16,355
Net fair value adjustment .....	30,163	27,931	9,486
Change in provision (note 9) .....	(3,317)	—	—
Balance – end of year .....	<u>382,381</u>	<u>345,246</u>	<u>304,935</u>

The cost of investment properties as at December 31, 2012 totalled \$176,318 (2011 – \$166,906; 2010 – \$155,775).

Investment properties were valued by qualified independent external valuation professionals as at December 31, 2012, December 31, 2011 and December 31, 2010. This resulted in fair value gains in 2012, 2011 and 2010 of \$30,163, \$27,931 and \$9,486 respectively, being recognized in the statement of income and comprehensive income. Fair values are primarily determined by discounting the expected future cash flows over ten years plus a terminal value determined by applying a discount rate to estimated year eleven cash flows.

Presented separately from investment properties is \$10,631 (2011 – \$10,446; 2010 – \$8,317) in tenant incentives and \$449 (2011 – \$nil; 2010 – \$nil) in straight-line rent adjustments (included in note 8). The fair value of investment properties has been reduced by these amounts.

The key valuation metrics are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	<u>December 31, 2012</u>			<u>December 31, 2011</u>			<u>December 31, 2010</u>		
	<u>Min</u>	<u>Max</u>	<u>Weighted Average</u>	<u>Min</u>	<u>Max</u>	<u>Weighted Average</u>	<u>Min</u>	<u>Max</u>	<u>Weighted Average</u>
Capitalization rate .....	5.50%	9.00%	6.48%	5.75%	8.00%	6.87%	6.00%	8.00%	7.26%
Terminal cap rate .....	5.75%	8.00%	6.70%	6.00%	8.50%	7.16%	6.25%	8.50%	7.56%

An increase in the discount rates by 50 basis points would decrease the carrying amount of investment properties by \$27,393 (2011 – \$24,140; 2010 – \$20,189). A decrease in the discount rates by 50 basis points would increase the carrying amount of investment properties by \$31,975 (2011 – \$27,931; 2010 – \$23,176).

Investment property assets are comprised of the following:

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Office .....	220,141	197,975	180,434
Retail .....	143,615	132,771	110,171
Land Lease Community .....	13,370	12,400	12,430
Industrial .....	5,255	2,100	1,900
Balance – end of year .....	<u>382,381</u>	<u>345,246</u>	<u>304,935</u>

Included in the retail classification are properties under development with fair values of \$nil (2011 - \$2,831; 2010 - \$7,113). These properties did not earn rental income in the years they were under development.

The table below summarizes our property development activities.

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Balance – beginning of year .....	2,831	7,113	9,218
Property development activities .....	3,574	6,417	16,355
Properties completed .....	(6,405)	(10,699)	(18,460)
Balance – end of year .....	<u>—</u>	<u>2,831</u>	<u>7,113</u>

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

### 8. OTHER ASSETS

(\$000s)	2012	2011	2010
<b>Current Assets</b>			
Prepaid expenses, and other .....	238	192	192
<b>Non-Current Assets</b>			
Straight-line rent adjustments .....	449	—	—
Tenant incentives .....	10,631	10,446	8,317
	<b>11,080</b>	10,446	8,317
	<b>11,318</b>	10,638	8,509

During the year we provided tenant incentives of \$2,632 (2011 – \$4,801; 2010 – \$3,007) and recorded \$2,447 (2011 – \$2,672; 2010 – \$2,237) of amortization expense. In accordance with SIC 15, *Operating leases – Incentives*, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

### 9. OTHER PAYABLES

(\$000s)	2012	2011	2010
<b>Current Liabilities</b>			
Other payables .....	4,353	3,244	2,979
Decommissioning obligation .....	1,052	150	—
	<b>5,405</b>	3,394	2,979
<b>Non-Current Liabilities</b>			
Decommissioning obligation .....	748	5,010	5,130
	<b>6,153</b>	8,404	8,109

We have determined that a decommissioning obligation exists for one of our commercial properties. We used a discount rate based on our current borrowings to estimate the present value of the decommissioning liability. We also obtained an estimate from a remediation provider to estimate the financial impact of this obligation; however, due to uncertainty surrounding the nature and timing of this obligation amounts are subject to change.

During the year, a change in estimate of \$3,317 related to the decommissioning obligation (2011 – \$nil, 2010 – \$nil) was recorded as an adjustment to investment properties.

### 10. MORTGAGES PAYABLE

(\$000s)	2012	2011	2010
Mortgages amortized over 20 - 25 years at fixed interest rates .....	172,502	164,843	152,281
Variable rate mortgage, due on demand .....	7,500	—	—
Current portion of mortgages payable .....	(54,291)	(31,126)	(12,786)
	<b>125,711</b>	<b>133,717</b>	<b>139,495</b>
Interest rate ranges .....	<b>(2.90% – 6.16%)</b>	(2.90% – 7.53%)	(3.94% – 7.53%)

The fair value of mortgages payable at December 31, 2012 is \$197,387 (2011 – \$176,610; 2010 – \$156,440). Fair values are determined by discounting the future cash flows associated with the debt at market interest rates.

Specific investment properties with a carrying value of \$375,061 (2011 – \$342,942; 2010 – \$302,777) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above mortgages. The weighted average effective interest rate for the above mortgages, based on year end balances, is 4.57% (2011 – 5.01%; 2010 – 5.40%).

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

<u>(\$000s)</u>	<u>Principal Installment repayments</u>	<u>Balance Maturing</u>	<u>Total</u>
2013 .....	12,596	41,695	54,291
2014 .....	4,070	16,980	21,050
2015 .....	3,178	42,787	45,965
2016 .....	1,937	21,007	22,944
2017 .....	1,396	2,571	3,967
Thereafter .....	2,910	28,875	31,785
	<u>26,087</u>	<u>153,915</u>	<u>180,002</u>

### 11. JOINT ARRANGEMENTS

The table below discloses our proportionate share of the assets, liabilities, revenue, and earnings of three joint arrangements (2011 – three and 2010 – three) that are recorded in these carve-out financial statements as follows:

	<u>Interest</u>
Capilano Investments Joint Venture .....	50%
Chestermere Communities Joint Venture .....	50%
Watergrove Developments Joint Venture .....	50%

The following summarizes financial information about our share of assets, liabilities, revenue and earnings of our interest in joint arrangements that are recorded in our accounts for the years ended December 31, 2012, 2011 and 2010.

<u>(\$000's)</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Earnings</u>
<b>2012</b> .....	<b>45,476</b>	<b>21,747</b>	<b>3,526</b>	<b>4,484</b>
2011 .....	41,063	15,997	2,003	4,027
2010 .....	37,500	18,171	3,031	49

### 12. RENTAL REVENUE

The components of rental revenue are as follows:

<u>(\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Rental revenue .....	<b>39,483</b>	37,539	34,440
Amortization of tenant leasing incentives .....	<b>(2,447)</b>	(2,672)	(2,237)
Straight-line rent adjustment .....	<b>449</b>	—	—
	<u><b>37,485</b></u>	<u>34,867</u>	<u>32,203</u>

### 13. INCOME TAX EXPENSE

a) *Current tax expense*

<u>(\$000s)</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Current tax expense			
Current year .....	<b>846</b>	(371)	502
Deferred tax expense			
Origination and reversal of temporary differences .....	<b>5,968</b>	6,504	3,138
Reduction in tax rate .....	<b>—</b>	(608)	(539)
	<u><b>5,968</b></u>	<u>5,896</u>	<u>2,599</u>
Total tax expense .....	<u><b>6,814</b></u>	<u>5,525</u>	<u>3,101</u>

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

b) The initial properties effective income tax rate is derived as follows:

(\$000s)	<u>2012</u>	<u>2011</u>	<u>2010</u>
Income before income taxes .....	42,304	39,137	19,757
Statutory rate .....	25.0%	26.5%	28.0%
	<u>10,576</u>	<u>10,371</u>	<u>5,532</u>
Non-deductible expenses .....	2	2	2
Impact of substantively enacted rates .....	—	(608)	(539)
Non-taxable portion of capital gains and fair value adjustments .....	(3,764)	(4,220)	(1,895)
Rate differential on loss carry back .....	—	(20)	—
Income tax expense .....	<u>6,814</u>	<u>5,525</u>	<u>3,101</u>

c) The movement in deferred tax balances during the year are as follows:

(\$000s)	<u>December 31, 2012</u>		
	<u>Opening</u>	<u>Recognized in profit or loss</u>	<u>Closing</u>
Investment property and capital assets .....	32,971	5,022	37,993
Tenant leasing costs .....	2,612	46	2,658
Straight-line rent adjustments .....	—	60	60
Provision for decommissioning obligation .....	(1,290)	840	(450)
Deferred tax liability .....	<u>34,293</u>	<u>5,968</u>	<u>40,261</u>

(\$000s)	<u>December 31, 2011</u>		
	<u>Opening</u>	<u>Recognized in profit or loss</u>	<u>Closing</u>
Investment property and capital assets .....	27,587	5,384	32,971
Tenant leasing costs .....	2,093	519	2,612
Provision for decommissioning obligation .....	(1,283)	(7)	(1,290)
Deferred tax liability .....	<u>28,397</u>	<u>5,896</u>	<u>34,293</u>

(\$000s)	<u>December 31, 2010</u>		
	<u>Opening</u>	<u>Recognized in profit or loss</u>	<u>Closing</u>
Investment property and capital assets .....	24,887	2,700	27,587
Tenant leasing costs .....	2,194	(101)	2,093
Provision for decommissioning obligation .....	(1,283)	—	(1,283)
Deferred tax liability .....	<u>25,798</u>	<u>2,599</u>	<u>28,397</u>

### 14. SEGMENTED INFORMATION

All the properties included in these carve-out financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer of Melcor) as one operating segment in the context of these carve-out financial statements.

### 15. RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

#### a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents and accounts receivable. Our maximum exposure to credit risk is the carrying amount of these instruments.

## NOTES TO CARVE-OUT FINANCIAL STATEMENTS

(In \$000s except per share and acre amounts)

We invest our cash and cash equivalents in bank accounts with a major Canadian chartered bank. Accounts receivable balances include amounts due from other joint arrangement participants for their portion of management fees due to us as well as other various smaller balances due from tenants.

We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant. Management has reviewed outstanding receivable balances at December 31, 2012 and expect full payment of balances outstanding. No allowance for doubtful accounts has been recorded.

### *b) Liquidity Risk*

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations and meet long-term mortgage repayments. We monitor rolling forecasts of our liquidity, which includes cash and cash equivalents, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against mortgage covenant requirements and maintain on-going debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

Refer to note 10 for the maturity analysis of mortgages payable. Accounts payable and accrued liabilities are expected to be repaid in the next twelve months.

### *c) Market Risk*

We are not subject to interest rate cash flow risk as all of our mortgages payable bear interest at fixed rates. We are not subject to other significant market risks pertaining to our financial instruments.

## 16. SUBSEQUENT EVENTS

On April 1, 2013, Melcor entered into an underwriting agreement in connection with the initial public offering (the "Offering") of Melcor Real Estate Investment Trust (the "REIT"), whereby the REIT is expected to raise gross proceeds of \$86,250 through the issuance of 8,625,000 Trust Units at a price of \$10 per unit. The closing (the "Closing") of the Offering and the transaction contemplated by the prospectus filed in connection with the Offering is expected to close on April 1, 2013 and will occur no later than May 1, 2013. On Closing the REIT will indirectly acquire from Melcor the Melcor Initial Properties.

## APPENDIX A – BOARD MANDATE

### Trustees' Responsibilities

The Trustees are explicitly responsible for the stewardship of the REIT. To discharge this obligation, the

Trustees shall:

### Strategic Planning Process

- Provide input to management on emerging trends and issues.
- Review and approve management's strategic plans.
- Review and approve the REIT's financial objectives, plans and actions, including significant capital allocations and expenditures.

### Monitoring Tactical Progress

- Monitor the REIT's performance against the strategic and business plans, including assessing operating results to evaluate whether the business is being properly managed.

### Risk Assessment

- Identify the principal risks of the REIT's businesses and ensure that appropriate systems are in place to manage these risks.

### Senior Level Staffing

- Select, monitor and evaluate the Chief Executive Officer ("CEO") and other senior executives, and ensure management succession.
- Approve a position description for the CEO including limits to management's responsibilities and corporate objectives which the CEO is responsible for meeting, all upon recommendation from the C&G Committee.

### Integrity

- Ensure the integrity of the REIT's internal control and management information systems.
- Ensure ethical behaviour and compliance with laws and regulations, audit and accounting principles, and the REIT's own governing documents.

### Material Transactions

- Review and approve material transactions not in the ordinary course of business.

### Monitoring Trustees' Effectiveness

- Assess its own effectiveness in fulfilling the above and Trustees' responsibilities, including monitoring the effectiveness of individual Trustees.

### Other

- Perform such other functions as prescribed by law or assigned to the Trustees in the REIT's Declaration of Trust.

## APPENDIX B – AUDIT COMMITTEE MANDATE

### 1. PURPOSE

The overall purpose of the Audit Committee (the “Committee”) of the REIT is to monitor the REIT’s system of internal financial controls, to evaluate and report on the integrity of the financial statements of the REIT, to enhance the independence of the REIT’s external auditors and to oversee the financial reporting process of the REIT.

### 2. COMPOSITION, PROCEDURES AND ORGANIZATION

- 2.1 The Committee shall consist of at least three members of the Board of the REIT (the “Board”), each of whom shall be, in the determination of the Board, “independent” as that term is defined by Multilateral Instrument 52-110, as amended from time to time, and the majority of whom shall be resident Canadians. Each member shall complete and return to the REIT annually a questionnaire regarding the member’s independence. The definition of “independent” is set out in Exhibit A hereto.
- 2.2 All members of the Committee shall be, in the determination of the Board, “financially literate” as that term is defined by Multilateral Instrument 52-110, and at least one member of the Committee must have, in the determination of the Board, “accounting or related financial expertise”. The definition of “financially literate” is set out in Exhibit A hereto.
- 2.3 The Board, at its organizational meeting held in conjunction with each annual meeting of unitholders, shall appoint the members of the Committee for the ensuing year. The Board may at any time remove or replace any member of the Committee and may fill any vacancy in the Committee. Any member of the Committee ceasing to be a trustee of the REIT shall cease to be a member of the Committee.
- 2.4 Unless the Board shall have appointed a chair of the Committee, the members of the Committee shall elect a chair from among their number.
- 2.5 The Committee shall have access to such officers and employees of the REIT and to the REIT’s external auditors and its legal counsel, and to such information respecting the REIT as it considers to be necessary or advisable in order to perform its duties.
- 2.6 Notice of every meeting shall be given to the external auditors, who shall, at the expense of the REIT, be entitled to attend and to be heard thereat.
  - (a) Meetings of the Committee shall be conducted as follows:
    - (a) the Committee shall meet on a regular basis, at such times and at such locations as the chair of the Committee shall determine;
    - (b) the external auditors or any member of the Committee may call a meeting of the Committee;
    - (c) any trustee of the REIT may request the chair of the Committee to call a meeting of the Committee and may attend such meeting to inform the Committee of a specific matter of concern to such trustee, and may participate in such meeting to the extent permitted by the chair of the Committee; and
    - (d) the external auditors and management employees shall, when required by the Committee, attend any meeting of the Committee.
- 2.7 The external auditors shall be entitled to communicate directly with the chair of the Committee and may meet separately with the Committee. The Committee, through its chair, may contact directly any employee in the REIT as it deems necessary, and any employee may bring before the Committee any matter involving questionable, illegal or improper practices or transactions.
- 2.8 Compensation to members of the Committee shall be limited to trustee’s fees, either in the form of cash or equity, and members shall not accept consulting, advisory or other compensatory fees from the REIT (other than as members of the Board and Board committee members).
- 2.9 The Committee is authorized, at the REIT’s expense, to retain independent counsel and other advisors as it determines necessary to carry out its duties and to set their compensation.

### 3. DUTIES

3.1 The overall duties of the Committee shall be to:

- (a) assist the Board in the discharge of its duties relating to the REIT's accounting policies and practices, reporting practices and internal controls;
- (b) establish and maintain a direct line of communication with the REIT's external auditors and assess their performance;
- (c) oversee the co-ordination of the activities of the external auditors;
- (d) ensure that the management of the REIT has designed, implemented and is maintaining an effective system of internal controls;
- (e) monitor the credibility and objectivity of the REIT's financial reports;
- (f) report regularly to the Board on the fulfillment of the Committee's duties;
- (g) assist the Board in the discharge of its duties relating to the REIT's compliance with legal and regulatory requirements; and
- (h) assist the Board in the discharge of its duties relating to risk assessment and risk management.

3.2 The Committee shall be directly responsible for overseeing the work of the external auditors engaged for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the REIT, including the resolution of disagreements between management and the external auditors regarding financial reporting, and in carrying out such oversight the Committee's duties shall include:

- (a) recommending to the Board a firm of external auditors to be nominated for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the REIT;
- (b) reviewing, where there is to be a change of external auditors, all issues related to the change, including the information to be included in the notice of change of auditor called for under National Instrument 51-102 – Continuous Disclosure Obligations or any successor legislation (“NI 51-102”), and the planned steps for an orderly transition;
- (c) reviewing all reportable events, including disagreements, unresolved issues and consultations, as defined in NI 51-102 or any successor legislation, on a routine basis, whether or not there is to be a change of external auditor;
- (d) reviewing the engagement letters of the external auditors, both for audit and non-audit services;
- (e) reviewing the performance, including the fee, scope and timing of the audit and other related services and any non-audit services provided by the external auditors; and
- (f) reviewing and approving the nature of and fees for any non-audit services performed for the REIT by the external auditors and consider whether the nature and extent of such services could detract from the firm's independence in carrying out the audit function.

3.3 The duties of the Committee as they relate to audits and financial reporting shall be to:

- (a) review the audit plan with the external auditor and management;
- (b) review with the external auditor and management any proposed changes in accounting policies, the presentation of the impact of significant risks and uncertainties, and key estimates and judgments of management that may in any such case be material to financial reporting;
- (c) review the contents of the audit report;
- (d) question the external auditor and management regarding significant financial reporting issues discussed during the fiscal period and the method of resolution;
- (e) review the scope and quality of the audit work performed;
- (f) review the adequacy of the REIT's financial and auditing personnel;
- (g) review the co-operation received by the external auditor from the REIT's personnel during the audit, any problems encountered by the external auditors and any restrictions on the external auditor's work;

- (h) review the internal resources used;
  - (i) review the evaluation of internal controls by the internal auditor (or persons performing the internal audit function) and the external auditors, together with management's response to the recommendations, including subsequent follow-up of any identified weaknesses;
  - (j) review the appointments of the chief financial officer, internal auditor (or persons performing the internal audit function) and any key financial executives involved in the financial reporting process;
  - (k) review and approve the REIT's annual audited financial statements and those of its subsidiaries in conjunction with the report of the external auditors thereon, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
  - (l) review and approve the REIT's interim unaudited financial statements, and obtain an explanation from management of all significant variances between comparative reporting periods before release to the public;
  - (m) establish a procedure for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters and employees' confidential anonymous submission of concerns regarding accounting and auditing matters; and
  - (n) review the terms of reference for an internal auditor or internal audit function.
- 3.4 The duties of the Committee as they relate to accounting and disclosure policies and practices shall be to:
- (a) review changes to accounting principles of the Canadian Institute of Chartered Accountants which would have a significant impact on the REIT's financial reporting as reported to the Committee by management and the external auditors;
  - (b) review the appropriateness of the accounting policies used in the preparation of the REIT's financial statements and consider recommendations for any material change to such policies;
  - (c) review the status of material contingent liabilities as reported to the Committee by management;
  - (d) review the status of income tax returns and potentially significant tax problems as reported to the Committee by management;
  - (e) review any errors or omissions in the current or prior year's financial statements;
  - (f) review and approve before their release all public disclosure documents containing audited or unaudited financial information, including all earnings, press releases, MD&A, prospectuses, annual reports to unitholders, annual information forms and management's discussion and analysis; and
  - (g) oversee and review all financial information and earnings guidance provided to analysts and rating agencies.
- 3.5 The other duties of the Committee shall include:
- (a) reviewing any inquiries, investigations or audits of a financial nature by governmental, regulatory or taxing authorities;
  - (b) formulating clear hiring policies for employees or former employees of the REIT's external auditors;
  - (c) reviewing annual operating and capital budgets;
  - (d) reviewing the funding and administration of the REIT's compensation and pension plans;
  - (e) reviewing and reporting to the Board on difficulties and problems with regulatory agencies which are likely to have a significant financial impact;
  - (f) inquiring of management and the external auditors as to any activities that may be or may appear to be illegal or unethical;
  - (g) ensuring procedures are in place for the receipt, retention and treatment of complaints and employee concerns received regarding accounting or auditing matters and the confidential, anonymous submission by employees of the REIT of concerns regarding such; and
  - (h) any other questions or matters referred to it by the Board.

## EXHIBIT A TO MANDATE OF AUDIT COMMITTEE FOR DEFINITIONS

### Definitions.

“Financially Literate” means the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the issuer’s financial statements.

Meaning of “Independence”:

1. A member of an audit committee is independent if the member has no direct or indirect material relationship with the REIT.
2. For the purposes of paragraph 1, a material relationship means a relationship which could, in the view of the Board, reasonably interfere with the exercise of a member’s independent judgment.
3. Despite paragraph 2, the following persons are considered to have a material relationship with the REIT:
  - (a) a person who is, or whose immediate family member is, or at any time during the prescribed period has been, an officer or employee of the REIT, its parent, or of any of its subsidiary entities or affiliated entities;
  - (b) a person who is, or has been an affiliated entity of, a partner of, or employed by, a current or former internal or external auditor of the REIT, unless the prescribed period has elapsed since the person’s relationship with the internal or external auditor, or the auditing relationship, has ended;
  - (c) a person whose immediate family member is, or has been, an affiliated entity of, a partner of, or employed in a professional capacity by, a current or former internal or external auditor of the REIT, unless the prescribed period has elapsed since the person’s relationship with the internal or external auditor, or the auditing relationship, has ended;
  - (d) a person who is, or has been, or whose immediate family member is or has been, employed as an executive officer of an entity if any of the REIT current executives serve on the entity’s compensation committee, unless the prescribed period has elapsed since the end of the service or employment;
  - (e) a person who accepts, or has accepted at any time during the prescribed period, directly or indirectly, any consulting, advisory or other compensatory fee from the REIT or any subsidiary entity of the REIT, other than as remuneration for acting in his or her capacity as a member of the Committee, the Board, or any other Board committee; and
  - (f) a person who is an affiliated entity of the REIT or any of its subsidiary entities.
4. For the purposes of paragraph 3, the prescribed period is the three year period ending immediately prior to the determination required by paragraph 3.
5. For the purposes of paragraphs 3(b) and 3(c), a partner does not include a limited partner whose interest in the internal or external auditor is limited to the receipt of fixed amounts of compensation (including deferred compensation) for prior service with an internal or external auditor if the compensation is not contingent in any way or continued service.
6. For the purpose of paragraph 3(e), compensatory fees do not include the receipt of fixed amounts of compensation under a retirement plan (including deferred compensation) for prior service with the issuer if the compensation is not contingent in any way on continued service.
7. For the purposes of paragraph 3(e), the indirect acceptance by a person of any consulting, advisory or other compensatory fee includes acceptance of a fee by:
  - (a) an immediate family member, or
  - (b) a partner, member or executive officer of, or a person who occupies a similar position with, an entity that provides accounting, consulting, legal, investment banking or financial advisory services to the REIT or any subsidiary entity of the REIT, other than limited partners, non-managing members and those occupying similar positions who, in each case, have no active role in providing services to the REIT.

## CERTIFICATE OF THE REIT AND MELCOR

Dated: March 20, 2013

This prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

### MELCOR REAL ESTATE INVESTMENT TRUST

By: (Signed) "Darin Rayburn"  
Chief Executive Officer

By: (Signed) "Jonathan W. Chia"  
Chief Financial Officer

On behalf of the Board

By: (Signed) "Andrew J. Melton"  
Trustee

By: (Signed) "Brian D. Baker"  
Trustee

### MELCOR DEVELOPMENTS LTD. (as Promoter)

By: (Signed) "Ralph B. Young"  
Chief Executive Officer

By: (Signed) "Jonathan W. Chia"  
Chief Financial Officer

On behalf of the Board of Directors

By: (Signed) "Timothy C. Melton"  
Executive Chair and Director

By: (Signed) "Andrew J. Melton"  
Director

## CERTIFICATE OF THE UNDERWRITERS

Dated: March 20, 2013

To the best of our knowledge, information and belief, this prospectus constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by the securities legislation of each of the provinces and territories of Canada.

RBC DOMINION SECURITIES INC.

CIBC WORLD MARKETS INC.

(Signed) "William Wong"

(Signed) "Jeff Appleby"

## Exposure to High-Growth Canadian Western Markets

- > Above-average GDP Growth 2013 – 2016
- > 97% of Forecast NOI in Alberta & Saskatchewan
- > 90-year heritage and continued strong relationship with Melcor



Tradition.  
Growth.  
Results.



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Tradition. Growth. Results.

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