



## **CT Real Estate Investment Trust**

### **2014 Second Quarter Report to Unitholders** **For the quarter ended June 30, 2014**

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## **CT REAL ESTATE INVESTMENT TRUST MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE QUARTER ENDED JUNE 30, 2014**

### **FORWARD-LOOKING DISCLAIMER**

This Management's Discussion and Analysis ("MD&A") contains statements that are forward-looking. Actual results or events may differ materially from those forecasted in this disclosure because of the risks and uncertainties associated with the business of CT Real Estate Investment Trust ("CT REIT", the "Trust" or the "REIT") and the general economic environment. See Part XII in this MD&A for additional important information and a caution on the use of forward-looking statements.

CT REIT cannot provide any assurance that forecasted financial or operational performance will actually be achieved or, if it is, that it will result in an increase in the price of CT REIT's units.

# PART I

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## **BASIS OF PRESENTATION**

The following MD&A is intended to provide readers with an assessment of the performance of CT REIT for the three and six months ended June 30, 2014 (also referred to as Q2 2014 and YTD 2014 respectively) and should be read in conjunction with the REIT's unaudited condensed interim consolidated financial statements ("interim financial statements") and accompanying notes for the three and six months ended June 30, 2014 which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the following MD&A should be read in conjunction with CT REIT's information about and caution with respect to the use of forward-looking statements which can be found in Part XII of this MD&A. Information about CT REIT, including the prospectus dated October 10, 2013 (the "Prospectus") filed in connection with its initial public offering (the "Offering"), 2013 Annual Information Form ("AIF"), 2013 Annual Report, and all other continuous disclosure documents required by the Canadian securities regulators, can be found on the System for Electronic Document Analysis and Retrieval ("SEDAR") website at [www.sedar.com](http://www.sedar.com) and on CT REIT's website in the Investors section at [www.ctreit.com](http://www.ctreit.com).

## **DEFINITIONS**

In this document, the terms "CT REIT", "the REIT", and "the Trust", refer to CT Real Estate Investment Trust and its subsidiaries unless the context requires otherwise. In addition, "the Company", "CTC" and the "Corporation" refer to Canadian Tire Corporation, Limited and its subsidiaries and their collective businesses unless the context requires otherwise. For commonly used terminology refer to the glossary of terms in CT REIT's 2013 Annual Report.

## **ACCOUNTING ESTIMATES AND ASSUMPTIONS**

The preparation of the interim financial statements in accordance with IFRS requires management to make judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenue and expenses during the reporting period. Refer to Part VIII in this MD&A for further information.

Financial data included in this MD&A includes material information up to August 5, 2014. Disclosure contained in this document is current to that date, unless otherwise noted.

All amounts in this MD&A are in thousands of Canadian dollars, except unit, per unit and square foot amounts.

## **NON-GAAP AND OPERATIONAL KEY PERFORMANCE INDICATORS**

Net operating income ("NOI"), earnings before interest and other financing costs, taxes and fair value adjustments ("EBITFV"), funds from operations ("FFO"), FFO per Unit, adjusted funds from operations ("AFFO"), AFFO per Unit, interest coverage ratio, and indebtedness ratio are key performance indicators used by management to track and assess CT REIT's performance. Some of these measures are not defined by IFRS, also referred to as GAAP, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS.

Further, the key performance indicators used by management may not be comparable to similar measures presented by other real estate investment trusts or enterprises. Net income prepared in accordance with IFRS is subject to varying degrees of judgment, and some meaningful differences in accounting policies exist between publicly traded entities in Canada. Accordingly, net income as presented by CT REIT may not be comparable to net income presented by other real estate investment trusts or enterprises.

For further information on the non-GAAP and operational key performance indicators used by management and for reconciliations to the nearest GAAP measures, refer to Part IX.

## **REVIEW AND APPROVAL BY THE BOARD OF TRUSTEES**

The Board of Trustees ("the Board"), on the recommendation of its Audit Committee, authorized for issuance the contents of this MD&A on August 5, 2014.

## **NATURE AND FORMATION**

CT REIT is an unincorporated, closed-end real estate investment trust established on July 15, 2013 pursuant to the declaration of trust under, and governed by, the laws of the Province of Ontario as amended and restated as at October 22, 2013 (the "Declaration of Trust"). CT REIT commenced operations on October 23, 2013. The principal, registered and head office of CT REIT is located at 2180 Yonge Street, Toronto, Ontario M4P 2V8. CT REIT is a subsidiary of CTC, which owns an 83.2% effective interest in CT REIT as of June 30, 2014, consisting of 59,711,094 of the issued and outstanding units of CT REIT ("Units") and all of the issued and outstanding Class B limited partnership units ("Class B LP Units") of CT REIT Limited Partnership (the "Partnership"), which are economically equivalent to and exchangeable for Units. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol CRT.UN.

CT REIT has one segment which comprises the ownership and operation of primarily retail investment properties located in Canada.

## **PART II**

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### **GROWTH STRATEGY AND OBJECTIVES**

The principal objective of CT REIT is to create Unitholder value over the long-term by generating reliable, durable and growing monthly cash distributions on a tax-efficient basis. To achieve this objective, management is focusing on expanding the REIT's asset base while also increasing its AFFO per Unit.

Future growth is expected to be achieved from a number of sources including:

1. The current portfolio of Canadian Tire store leases ("Canadian Tire Leases") contain contractual annual rent escalations of 1.5% per year, on average, over the initial term of the leases and have a weighted average remaining lease term of 15.2 years;
2. CT REIT has contractual arrangements with CTC whereby CT REIT has a right of first offer ("ROFO") on all current and future CTC properties which meet the REIT's investment criteria and preferential rights, subject to certain exceptions, to participate in the development of, and to acquire, certain new retail properties; and
3. CT REIT expects to use its relationship with CTC to obtain insights into potential real estate acquisitions and development opportunities in markets across Canada.

## **PART III**

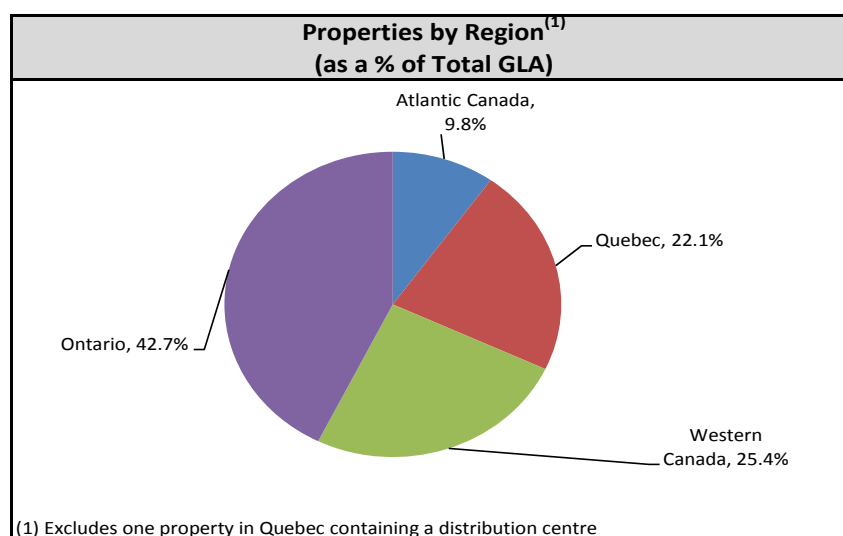
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### **OVERVIEW OF THE PROPERTY PORTFOLIO**

#### **Property Profile**

The property portfolio as at June 30, 2014 consists of 263 retail properties, one distribution centre and two development properties acquired for the future development of Canadian Tire stores. These investment properties ("the Properties") are located in each of the provinces and two territories across Canada and the retail properties and the distribution centre contain 19,447,099 square feet of gross leasable area ("GLA").

| (in square feet)                                  | GLA               | Occupied GLA      | Occupancy    |
|---|-------------------|-------------------|--------------|
| Canadian Tire stores and Petroleum gas bars       | 17,226,494        | 17,226,494        | 100.0%       |
| Canadian Tire distribution centre                 | 1,658,165         | 1,658,165         | 100.0%       |
| Third party tenants (including other CTC banners) | 562,440           | 552,497           | 98.2%        |
| <b>Total</b>                                      | <b>19,447,099</b> | <b>19,437,156</b> | <b>99.9%</b> |



*The following section contains forward-looking information and users are cautioned that actual results may vary.*

### Acquisition Activities

| (in thousands of Canadian dollars, except for GLA amounts) | Acquisition Date | GLA     | Total Acquisition Cost |
|--|------------------|---------|------------------------|
| <b>Property Location</b>                                   |                  |         |                        |
| Burlington, ON   | Feb 27, 2014     | 63,899  |                        |
| Camrose, AB  | Apr 30, 2014     | 28,126  |                        |
| Medicine Hat, AB   | Apr 30, 2014     | 63,023  |                        |
| Oshawa, ON   | Apr 30, 2014     | 87,532  |                        |
| Sherbrooke, QC   | Jun 20, 2014     | 97,522  |                        |
| Stratford, ON  | Jun 20, 2014     | 97,908  |                        |
| Vaudreuil, QC  | Jun 20, 2014     | 73,965  |                        |
| Yorkton, SK  | Jun 20, 2014     | 34,621  |                        |
|  |                  | 546,596 | \$ 108,132             |
| Prior year acquisition costs capitalized in 2014           |                  |         | 76                     |
| <b>Total acquisitions YTD 2014</b>                         |                  |         | <b>\$ 108,208</b>      |

For the three months ended June 30, 2014, seven acquisitions were completed at a total cost of \$94,039. Of the total cost, \$33,917 was paid in cash to CTC, \$509 was paid in cash to third parties, \$19,464 was satisfied with the issuance of Class B LP Units to CTC and the balance of \$40,149 was satisfied with the issuance of Class C LP Units to CTC.

For the six months ended June 30, 2014, eight acquisitions were completed at a total cost of \$108,208. Of the total cost, \$35,417 was paid in cash to CTC, \$6,048 was paid in cash to third parties, \$19,464 was satisfied with the issuance of Class B LP Units to CTC and the balance of \$47,279 was satisfied with the issuance of Class C LP Units to CTC.

Development assets represent \$9,271 of the total value of investment properties. This includes development properties of \$9,069 and capitalized interest of \$202.

### Development Commitments

In addition, CT REIT has committed to expansion and development expenditures representing approximately \$31,045 in payments primarily to CTC, the majority of which are expected to be incurred over the remainder of 2014.

### Subsequent event

In July 2014, CT REIT completed two investment property acquisitions including a distribution centre in Calgary with 201,000 square feet of GLA and a one-third leasehold interest in Canada Square, a mixed-use commercial development in Toronto with a total GLA of 844,000 square feet. The total combined purchase price of approximately \$90,000 was satisfied by a draw on the REIT's credit facility combined with the assumption of existing mortgages on the properties and cash on hand.

### Valuation Method

The fair value of the property portfolio represents 98.9% of the total assets of CT REIT as at June 30, 2014.

| (in thousands of Canadian dollars)             |           | YTD 2014         |
|--|-----------|------------------|
| <b>Balance at beginning of period</b>          | <b>\$</b> | <b>3,547,864</b> |
| Acquisitions                                   |           | 108,208          |
| Capital expenditures                           |           | 976              |
| Capitalized interest                           |           | 202              |
| Straight-line rent                             |           | 13,714           |
| Fair value adjustment on investment properties |           | 129,819          |
| <b>Balance at end of period</b>                | <b>\$</b> | <b>3,800,783</b> |

Investment properties were subject to external appraisals when initially acquired in 2013. At June 30, 2014, management's determination of fair value was updated for current market assumptions, utilizing market capitalization rates provided by independent valuation professionals. CT REIT also obtained independent valuations for certain properties based on a four-year rotation cycle during which substantially all of its properties will be independently valued.

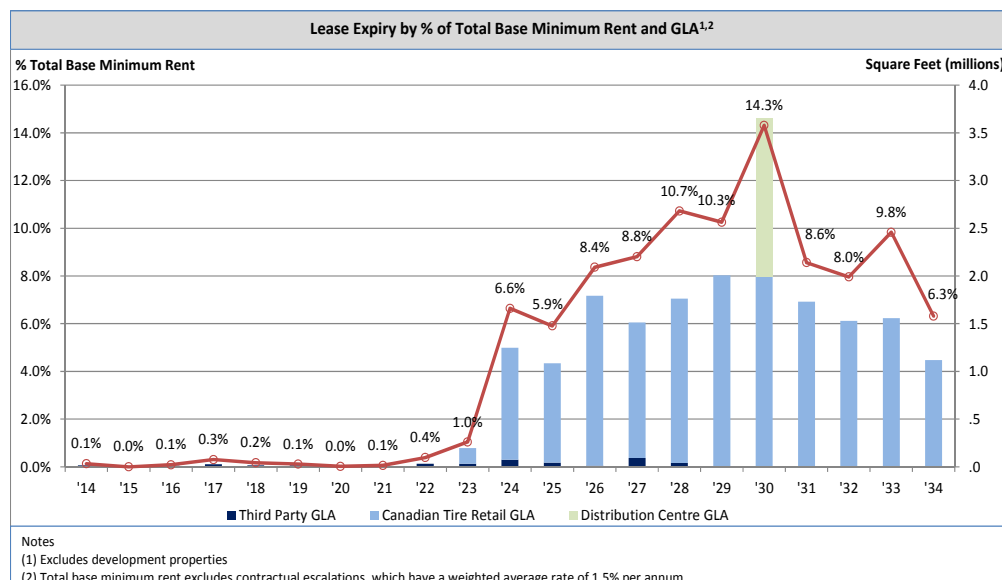
Included in CT REIT's property portfolio are six buildings with a fair value of approximately \$62,610 that are situated on leased land. Assuming all extension periods are exercised, the land leases have terms between 28 and 42 years with an average remaining lease term of 34 years. The fair value of investment properties does not include the value of any properties held under operating leases.



## Lease Maturities

CTC is CT REIT's largest tenant. As at June 30, 2014 CTC had leased 18.9 million square feet of GLA, with approximately 91% and 9% of the GLA attributable to retail and distribution properties, respectively. The weighted average term of the Canadian Tire Leases is 15.2 years, excluding the exercise of any renewals.

The following graph sets out as of June 30, 2014 the lease maturity profile from 2014 to 2034 (assuming tenants do not exercise renewal options or termination rights) as a percentage of total base minimum rent and GLA as of the time of expiry.



## PART IV

### RESULTS OF OPERATIONS

The results of operations contained in this MD&A cover the three and six months ended June 30, 2014. The Prospectus contained forecasted information relating to the expected results for CT REIT in 2014 (the "Forecast") and the Q2 2014 and YTD Q2 2014 results have been compared to this Forecast throughout this MD&A.

As of June 30, 2014, management has identified the following items that have caused the actual Q2 2014 and YTD Q2 2014 results to be different than the Forecast:

- the Forecast did not assume that the over-allotment option would be exercised. Pursuant to the exercise of the over-allotment option, on November 4, 2013 CT REIT issued 3,952,500 additional Units to the public at a price of \$10.00 per unit;
- the Forecast did not assume that CT REIT would complete any property acquisitions following October 23, 2013 and, as such, the Forecast numbers do not reflect this activity;
- the Forecast did not assume a fair value adjustment on the property portfolio. During the quarter, management's determination of fair value incorporated a fair value adjustment of \$2,860 as a result of increased cash flows during the time frame of the valuation models. In addition, management's determination of fair value as at March 31, 2014 incorporated valuation metrics used by the external appraisers, which gave rise to a fair value adjustment of \$126,959 which was recorded in the first quarter of 2014;
- the Forecast had differing assumptions for certain expenses, such as property taxes and general and administrative expenses; and

- the Forecast assumed a lower rate of recovery of operating expenses from tenants than is now expected for 2014.

### Summary of Selected Financial and Operational Information

Readers are reminded that certain key performance indicators may not have standardized meanings under GAAP. For further information on the REIT's operating measures and non-GAAP financial measures, refer to Parts I and IX.

| (in thousands of Canadian dollars, except per Unit, Unit and square footage amounts)                               | Q2 2014      | Q2 2014<br>Forecast | Variance     | YTD 2014     | YTD 2014<br>Forecast | Variance     |
|--|--------------|---------------------|--------------|--------------|----------------------|--------------|
| Property revenue   | \$ 83,364    | \$ 83,273           | \$ 91        | \$ 166,044   | \$ 166,438           | \$(394)      |
| Income before interest and other financing charges, taxes and fair value adjustments <sup>1</sup>                  | \$ 63,213    | \$ 62,607           | \$ 606       | \$ 126,288   | \$ 124,963           | \$ 1,325     |
| Income before interest and other financing charges, taxes and fair value adjustments/unit (basic) <sup>1,2</sup>   | \$ 0.351     | \$ 0.356            | \$(0.005)    | \$ 0.702     | \$ 0.712             | \$(0.010)    |
| Income before interest and other financing charges, taxes and fair value adjustments/unit (diluted) <sup>1,3</sup> | \$ 0.351     | \$ 0.356            | \$(0.005)    | \$ 0.702     | \$ 0.712             | \$(0.010)    |
| Net operating income <sup>1</sup>  | \$ 58,681    | \$ 57,616           | \$ 1,065     | \$ 116,730   | \$ 115,019           | \$ 1,711     |
| Net income   | \$ 45,689    | \$ 42,246           | \$ 3,443     | \$ 215,353   | \$ 84,464            | \$ 130,889   |
| Net income/Unit (basic) <sup>2</sup>   | \$ 0.264     | \$ 0.241            | \$ 0.023     | \$ 1.198     | \$ 0.481             | \$ 0.717     |
| Net income/Unit (diluted) <sup>4</sup>   | \$ 0.200     | \$ 0.176            | \$ 0.024     | \$ 0.751     | \$ 0.350             | \$ 0.401     |
| Funds from operations <sup>1</sup>   | \$ 42,829    | \$ 42,246           | \$ 583       | \$ 85,534    | \$ 84,464            | \$ 1,070     |
| Funds from operations/Unit (diluted) <sup>1,2,3</sup>  | \$ 0.238     | \$ 0.241            | \$(0.003)    | \$ 0.476     | \$ 0.481             | \$(0.005)    |
| Adjusted funds from operations <sup>1</sup>  | \$ 32,228    | \$ 31,590           | \$ 638       | \$ 64,546    | \$ 63,153            | \$ 1,393     |
| Adjusted funds from operations/Unit (diluted) <sup>1,2,3</sup>   | \$ 0.179     | \$ 0.180            | \$(0.001)    | \$ 0.359     | \$ 0.360             | \$(0.001)    |
| Distributions/Unit <sup>2</sup>  | \$ 0.163     | \$ 0.163            | \$ -         | \$ 0.325     | \$ 0.325             | \$ -         |
| AFFO payout ratio  | 91%          | 90%                 | (1%)         | 91%          | 90%                  | (1%)         |
| Excess of AFFO over cash distributions:  |              |                     |              |              |                      |              |
| Cash retained from operations before distribution reinvestment <sup>1</sup>  | \$ 2,938     | \$ 3,159            | \$(221)      | \$ 6,070     | \$ 6,184             | \$(114)      |
| Per Unit <sup>1,2,3</sup>  | \$ 0.016     | \$ 0.018            | \$(0.002)    | \$ 0.034     | \$ 0.036             | \$(0.002)    |
| Weighted average number of Units outstanding <sup>2</sup>  |              |                     |              |              |                      |              |
| Basic  | 179,863,455  | 175,620,865         | 4,242,590    | 179,734,189  | 175,620,865          | 4,113,324    |
| Diluted <sup>4</sup>   | 342,001,032  | 355,620,865         | (13,619,833) | 340,944,721  | 355,620,865          | (14,676,144) |
| Diluted (non-GAAP) <sup>3</sup>  | 179,904,380  | 175,620,865         | 4,283,515    | 179,771,050  | 175,620,865          | 4,150,185    |
| Period-end Units outstanding <sup>2</sup>  | 181,413,111  | 175,620,865         | 5,792,246    | 181,413,111  | 175,620,865          | 5,792,246    |
| Total assets at June 30, 2014  | \$ 3,842,218 | \$ 3,568,943        | \$ 273,275   | \$ 3,842,218 | \$ 3,568,943         | \$ 273,275   |
| Total debt and Class C LP Units as at June 30, 2014  | \$ 1,847,279 | \$ 1,800,000        | \$(47,279)   | \$ 1,847,279 | \$ 1,800,000         | \$(47,279)   |
| Book value per Unit as at June 30, 2014 <sup>1,2</sup>   | \$ 10.79     | \$ 10.07            | \$ 0.72      | \$ 10.79     | \$ 10.07             | \$ 0.72      |
| <b>OTHER DATA</b>  |              |                     |              |              |                      |              |
| Weighted average interest rate - term debt   | 4.44%        | 4.50%               | 0.06%        | 4.44%        | 4.50%                | 0.06%        |
| Indebtedness ratio <sup>1</sup>  | 48.1%        | 50.4%               | 2.3%         | 48.1%        | 50.4%                | 2.3%         |
| Interest coverage (times) <sup>1</sup>   | 3.10         | 3.07                | 0.03         | 3.10         | 3.09                 | 0.01         |
| Debt / enterprise value ratio <sup>1</sup>   | 47.2%        | 50.6%               | 3.4%         | 47.2%        | 50.6%                | 3.4%         |
| Rentable square footage <sup>5</sup>   | 19,447,099   | 18,887,158          | 559,941      | 19,447,099   | 18,887,158           | 559,941      |
| Occupancy rate <sup>6</sup>  | 99.9%        | 99.9%               | -            | 99.9%        | 99.9%                | -            |

<sup>1</sup> Non-GAAP key performance indicators. Refer to Part IX for further information.

<sup>2</sup> Total Units consists of both REIT Units and Class B LP Units outstanding.

<sup>3</sup> Diluted Units used in calculating non-GAAP measures include restricted and deferred units issued under various plans and exclude the effect of assuming that all of the Class C LP Units will be settled with Class B LP Units.

<sup>4</sup> Diluted Units determined in accordance with IFRS includes restricted and deferred units issued under various plans and the effect of assuming that all of the Class C LP Units will be settled with Class B LP Units. Refer to Part VI.

<sup>5</sup> Rentable square footage refers to retail and distribution properties and excludes development lands.

<sup>6</sup> Refers to retail and distribution properties and excludes development lands.

## Financial Results for the three and six months ended June 30, 2014

|  | Q2 2014          | Q2 2014<br>Forecast | Variance        | YTD 2014          | YTD 2014<br>Forecast | Variance          |
|--|------------------|---------------------|-----------------|-------------------|----------------------|-------------------|
| (in thousands of Canadian dollars)             |                  |                     |                 |                   |                      |                   |
| Property revenue                               | \$ 83,364        | \$ 83,273           | \$ 91           | \$ 166,044        | \$ 166,438           | \$ (394)          |
| Property expense                               | (17,785)         | (18,657)            | 872             | (35,690)          | (37,420)             | 1,730             |
| General and administrative expense             | (2,499)          | (2,009)             | (490)           | (4,357)           | (4,055)              | (302)             |
| Interest income                                | 133              | -                   | 133             | 291               | -                    | 291               |
| Interest and other financing charges           | (20,384)         | (20,361)            | (23)            | (40,754)          | (40,499)             | (255)             |
| Fair value adjustment on investment properties | 2,860            | -                   | 2,860           | 129,819           | -                    | 129,819           |
| <b>Net Income and comprehensive income</b>     | <b>\$ 45,689</b> | <b>\$ 42,246</b>    | <b>\$ 3,443</b> | <b>\$ 215,353</b> | <b>\$ 84,464</b>     | <b>\$ 130,889</b> |

### Property Revenue

Property revenue includes all amounts earned from tenants pursuant to lease agreements including property tax, operating cost and other recoveries. Many of CT REIT's expenses are recoverable from tenants pursuant to their leases, with CT REIT absorbing these expenses to the extent of vacancies.

Total revenue for CT REIT was \$83,364 for the three months ended June 30, 2014 which was \$91 higher than Forecast, mainly due to higher base rent related to properties acquired since the Offering which were not included in the Forecast and higher than Forecast common area maintenance ("CAM") recoveries, partially offset by lower property tax recoveries than Forecast. Total revenue included expense recoveries in the amount of \$16,833.

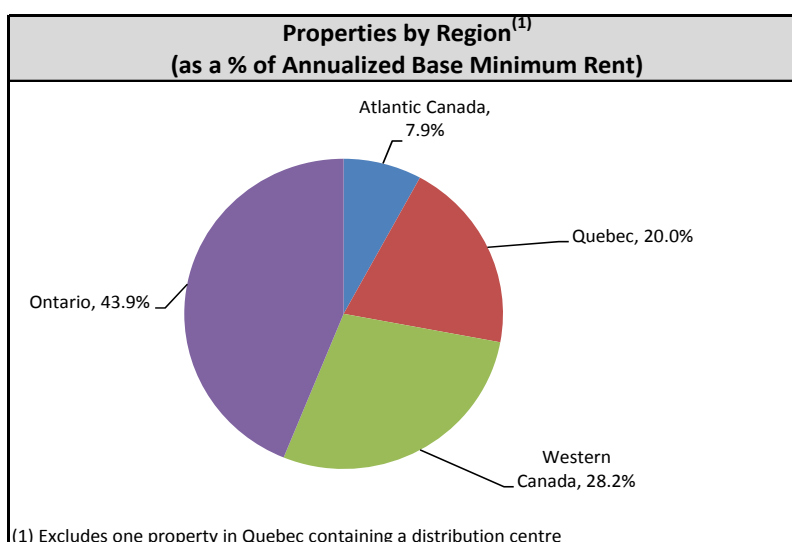
Total revenue for the six months ended June 30, 2014 was \$166,044 which was \$394 less than Forecast, mainly due to lower property tax recoveries than Forecast. Total revenue included expense recoveries in the amount of \$33,756.

The total amount of minimum lease payments to be received from operating leases is recognized on a straight-line basis over the term of the lease. For the second quarter of 2014, straight-line rent of \$6,936 was included in total property revenue. For the six months ended June 30, 2014, straight-line rent of \$13,714 was included in total property revenue.

CTC is CT REIT's largest tenant. At June 30, 2014, CTC represented 97.1% of total GLA and 97.1% of annual base minimum rent.

### Revenue by Province

CT REIT's portfolio is located across Canada with approximately 63.9% of annual base minimum rent received in respect of properties in Ontario and Quebec.



## Property Expense

The major components of property expense consist of realty taxes and costs associated with the property management agreement dated October 23, 2013 between the Partnership, Canadian Tire Real Estate Limited and CTC (the "Property Management Agreement"), as well as other costs, the majority of which are recoverable from tenants, with CT REIT absorbing these expenses to the extent of vacancies. Property expenses were \$17,785 which is \$872 lower than Forecast in the second quarter of 2014, largely due to lower realty tax expense, partially offset by property expenses from acquisitions. Refer to Part VII for additional information on the Property Management Agreement.

For the six month period ended June 30, 2014, property expenses were \$35,690 which is \$1,730 lower than Forecast, largely due to a lower realty tax expense, partially offset by property expenses from acquisitions. The variance reflects a timing difference in recognizing property tax expense compared to Forecast, offset by higher CAM recoveries than Forecast.

## Net Operating Income

CT REIT defines NOI as property revenue less property expense, adjusted further for straight-line rent and land lease adjustments. Management is of the opinion that this provides a more useful presentation of NOI by presenting the measure on a cash basis.

| (in thousands of Canadian dollars)          | Q2 2014          | Q2 2014<br>Forecast | Variance        | YTD 2014          | YTD 2014<br>Forecast | Variance        |
|---|------------------|---------------------|-----------------|-------------------|----------------------|-----------------|
| Property revenue                            | \$ 83,364        | \$ 83,273           | \$ 91           | \$ 166,044        | \$ 166,438           | \$ (394)        |
| Less:                                       |                  |                     |                 |                   |                      |                 |
| Property expense                            | (17,785)         | (18,657)            | 872             | (35,690)          | (37,420)             | 1,730           |
| Straight-line rent adjustment               | (6,936)          | (7,032)             | 96              | (13,714)          | (14,063)             | 349             |
| Add:  |                  |                     |                 |                   |                      |                 |
| Straight-line land lease expense adjustment | 38               | 32                  | 6               | 90                | 64                   | 26              |
| <b>Net operating income<sup>1</sup></b>     | <b>\$ 58,681</b> | <b>\$ 57,616</b>    | <b>\$ 1,065</b> | <b>\$ 116,730</b> | <b>\$ 115,019</b>    | <b>\$ 1,711</b> |

<sup>1</sup> Non-GAAP key performance measure. Refer to Part IX in this MD&A for further information.

For the three and six months ended June 30, 2014, there are three principal reasons for the variance in NOI:

- The Forecast assumed different timing for recognizing property tax expense than is reflected in the actual results. This difference contributed approximately \$62 to the variance in Q2 2014 and \$339 on a year-to-date basis, and is expected to reverse during the year.
- Approximately \$243 of the variance in Q2 2014 and \$469 on a year-to-date basis relates to an improved rate of recovery of operating expenses as compared to the Forecast, and this variance is expected to be ongoing for the balance of the year.
- Acquisitions made to-date contributed \$727 to NOI in Q2 and \$840 to NOI on a year-to-date basis. The Forecast did not assume any acquisitions in 2014.

## General and Administrative Expense

CT REIT has two broad categories of general and administrative expenses i) public entity costs, and ii) outsourced costs. The public entity costs reflect the expenses related to ongoing operations of CT REIT and will fluctuate depending on when such expenses are incurred. The outsourced costs are largely related to the services provided by CTC pursuant to the services agreement dated October 23, 2013 between CT REIT, the Partnership and CTC (the "Services Agreement"). The Services Agreement provides for services to the REIT to be on a cost recovery basis with a fixed maximum fee for the first two calendar years and as such, it is not expected that such costs will fluctuate materially from quarter to quarter during 2014 and 2015. Refer to Part VII for additional information on the Services Agreement.

| (in thousands of Canadian dollars)        | Q2 2014         | Q2 2014<br>Forecast | Variance        | YTD 2014        | YTD 2014<br>Forecast | Variance        |
|---|-----------------|---------------------|-----------------|-----------------|----------------------|-----------------|
| Services Agreement                        | \$ 826          | \$ 822              | (4)             | \$ 1,648        | \$ 1,644             | (4)             |
| Public entity costs                       | 1,673           | 1,187               | (486)           | 2,709           | 2,411                | (298)           |
| <b>General and administrative expense</b> | <b>\$ 2,499</b> | <b>\$ 2,009</b>     | <b>\$ (490)</b> | <b>\$ 4,357</b> | <b>\$ 4,055</b>      | <b>\$ (302)</b> |
| <b>As a percent of rental revenue</b>     | <b>3.0%</b>     | <b>2.4%</b>         | <b>(0.6%)</b>   | <b>2.6%</b>     | <b>2.4%</b>          | <b>(0.2%)</b>   |

General and administrative expenses amounted to \$2,499 or 3.0% of property revenue in Q2 2014 which is \$490 higher than the Forecast mainly due to transfer agency fees and filing fees which were not included in the Forecast, due diligence environmental costs and the timing of reporting and legal fees.

General and administrative expenses amounted to \$4,357 or 2.6% of property revenue on a year-to-date basis which is \$302 higher than Forecast mainly due to transfer agency fees and filing fees which were not included in the Forecast, due diligence environmental costs and the timing of reporting and legal fees; partially offset by lower personnel costs than originally forecasted.

### Interest Expense

The Partnership has issued 1,847,279 Class C LP Units with a value of \$1,847,279 and bearing a weighted average distribution rate of 4.44% per annum. The Class C LP Units are subject to redemption rights. Accordingly, the Class C LP Units are classified as financial liabilities and distributions on the Class C LP Units are presented in interest expense in the condensed consolidated statement of income and comprehensive income. During the three and six months ended June 30, 2014, CTC elected to receive loans in the amount of \$18,584 and \$30,917 respectively, in lieu of distributions on certain of the Class C LP Units. Refer to notes 6 and 8 to the interim financial statements for additional information on distributions during the period.

| (in thousands of Canadian dollars)          | Q2 2014          | Q2 2014<br>Forecast | Variance       | YTD 2014         | YTD 2014<br>Forecast | Variance        |
|---|------------------|---------------------|----------------|------------------|----------------------|-----------------|
| Interest on Class C LP Units <sup>1</sup>   | \$ 20,383        | 20,195              | \$ (188)       | \$ 40,612        | 40,168               | \$ (444)        |
| Other financing costs                       | 1                | 166                 | 165            | 142              | 331                  | 189             |
| <b>Interest and other financing charges</b> | <b>\$ 20,384</b> | <b>20,361</b>       | <b>\$ (23)</b> | <b>\$ 40,754</b> | <b>40,499</b>        | <b>\$ (255)</b> |

<sup>1</sup> CTC elected to defer receipt of distributions on the Series 2-11 Class C LP Units for the three and six months ended June 30, 2014 in the amount of \$18,584 and \$30,917, respectively, until the first date following the end of the fiscal year and receive a loan in lieu thereof, which has been netted against interest on Class C LP Units in accounts payable and other liabilities on the condensed consolidated balance sheets.

CT REIT recognized interest expense of \$20,384 during the second quarter of 2014 which is \$23 higher than Forecast mainly because the Forecast assumed that the annual cost would be recorded on a daily basis throughout the year. The actual results reflect an equal monthly charge throughout the year. In addition there was a new issuance of 40,149 Class C LP Units relating to the seven property acquisitions during the quarter which were not included in the Forecast. The majority of the interest expense recognized in the quarter was for distributions on the 1,847,279 Class C LP Units held by CTC.

CT REIT recognized interest expense of \$40,754 during the six months ended June 30, 2014 which is \$255 higher than Forecast mainly because the Forecast assumed that the annual cost would be recorded on a daily basis throughout the year. The actual results reflect an equal monthly charge throughout the year. In addition, in Q1 2014, there was a new issuance of 7,130 Class C LP Units relating to the acquisition of the Burlington North property and in Q2 2014, there was a total of 40,149 Class C LP Units issued related to seven property acquisitions which were not included in the Forecast. The majority of the interest expense recognized in the quarter was for distributions on the 1,847,279 Class C LP Units held by CTC.

During the second quarter of 2014, CT REIT recorded \$47 in amortization of the facility fee and agency fee and \$120 in standby fees on the REIT's committed, unsecured credit facility (the "Credit Facility"). The standby fee is incurred at 0.24% per annum on the full amount of the Credit Facility. Refer to Part V for additional information on CT REIT's Credit Facility.

For the six months ended June 30, 2014, CT REIT recorded \$94 in amortization of the facility fee and agency fee and \$250 in standby fees on the Credit Facility. There was no balance drawn on the Credit Facility as at June 30, 2014.

#### **Interest Income**

Interest income of \$133 in Q2 2014 and \$291 on a year-to-date basis is attributable to the interest earned on investing the REIT's available cash in short-term marketable securities and funds held in trust.

#### **Fair Value Adjustment on Investment Properties**

During the quarter, CT REIT recorded a fair value gain of \$2,860 on the portfolio of investment properties as a result of increased cash flows during the time frame of the valuation models.

For the six months ended June 30, 2014, CT REIT recorded a fair value gain of \$129,819 on the portfolio of investment properties. Management's determination of value as at March 31, 2014 incorporated valuation parameters used by the external appraisers, which gave rise to a fair value adjustment of \$123,099 in Q1 2014; management had previously placed greater weight on the valuations implied by the Offering. In addition, in Q2 2014, a fair value gain of \$2,860 was recorded as a result of increased cash flows during the time frame of the valuation models (Q1 2014 - \$3,860).

#### **Income Tax Expense**

Management operates CT REIT in a manner that enables CT REIT to continue to qualify as a REIT pursuant to the Income Tax Act (Canada) ("ITA"). CT REIT distributes 100% of its taxable income to Unitholders and therefore does not incur income tax expense in relation to its activities.

If CT REIT fails to distribute the required amount of income to Unitholders or if CT REIT fails to qualify as a REIT under the ITA, substantial adverse tax consequences may occur. Refer to Part X for additional information on tax related risk factors.

#### **Leasing Activities**

The future financial performance of CT REIT will be impacted by occupancy rates, trends in rental rates achieved on leasing or renewing currently leased space, and contractual increases in rent. There was no new leasing activity to tenants not related to CTC during the first or second quarters of 2014.

#### **Recoverable Capital Costs**

Many of the capital items that will be incurred by CT REIT are recoverable from tenants pursuant to the terms of their leases. The recoveries will occur either in the year in which such expenditures are incurred or, in the case of a major item of repair, maintenance or replacement, on a straight-line basis over the expected useful life together with an imputed rate of interest on the unrecovered balance at any point in time. From time to time, as a result of specific lease terms which limit the recovery of expenses, CT REIT is unable to recover these costs from certain tenants. Capital expenditures of \$866 and \$976 were incurred during the three and six month periods ended June 30, 2014, respectively. Management expects that most of the REIT's recoverable capital expenditures should relate to parking lots and roofs, activities that are typically sensitive to weather conditions. Accordingly expenditures for these items are expected to be higher in the second and third quarters of the year.

## **PART V**

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#### **LIQUIDITY AND FINANCIAL CONDITION**

CT REIT intends to fund capital expenditures for acquisitions and development activities through (i) cash on hand, (ii) issuances of Units, Class B LP Units and Class C LP Units (iii) draws on the Credit Facility, and/or (iv) other long-term financing.

Cash flow generated from operating the property portfolio represents the primary source of liquidity to service debt and to fund planned maintenance expenditures, leasing costs, general and administrative expenses and distributions to Unitholders (other sources being interest income as well as cash on hand).

|  | Q2 2014            | YTD 2014           |
|--|--------------------|--------------------|
| (in thousands of Canadian dollars)       |                    |                    |
| Cash generated from operating activities | \$ 47,372          | \$ 103,196         |
| Cash used for investing activities       | (35,294)           | (42,441)           |
| Cash used for financing activities       | (48,910)           | (97,990)           |
| <b>Cash used in the period</b>           | <b>\$ (36,832)</b> | <b>\$ (37,235)</b> |

### Discussion of Cash Flows During the Period

Cash used during the three and six month periods in the amount of \$36,832 and \$37,235 is primarily the result of investing activity exceeding the combined amount of retained cash flow and distribution reinvestments.

### Credit Ratings

CT REIT is rated by two independent credit rating agencies: DBRS Limited ("DBRS") and Standard & Poor's Financial Services LLC ("S&P") who provide credit ratings of debt securities for commercial entities. A credit rating generally provides an indication of the risk that the borrower will not fulfill its full obligations in a timely manner with respect to both interest and principal commitments. Rating categories range from highest credit quality (generally "AAA") to default in payment (generally "D").

CT REIT's ratings are related to and currently equivalent to those of CTC, CT REIT's most significant tenant for the foreseeable future. This ratings equivalence is largely based on CTC's significant ownership position in CT REIT and the strategic relationship and integration of CT REIT and CTC.

The following table sets out the current credit ratings of CT REIT:

| Credit Ratings (Canadian Standards) | DBRS              |               | S&P           |               |
|-------------------------------------|-------------------|---------------|---------------|---------------|
|                                     | Credit Rating     | Trend         | Credit Rating | Trend         |
| <b>Issuer rating</b>                | <b>BBB (high)</b> | <b>Stable</b> | <b>BBB+</b>   | <b>Stable</b> |

### Debt and Capital Structure

CT REIT's debt and capital structure as at June 30, 2014 is as follows:

| (in thousands of Canadian dollars) | Q2 2014             | Q4 2013             |
|------------------------------------|---------------------|---------------------|
| Class C LP Units                   | \$ 1,847,279        | \$ 1,800,000        |
| Variable rate bank credit facility | -                   | -                   |
| <b>Total indebtedness</b>          | <b>\$ 1,847,279</b> | <b>\$ 1,800,000</b> |

CT REIT's total indebtedness at June 30, 2014 is higher than for the period ended December 31, 2013 due to the issuance of the additional Class C LP Units in connection with the acquisition of eight properties on a year-to-date basis.

### Class C LP Units

At June 30, 2014 there were 1,847,279 Class C LP Units outstanding, all of which were held by CTC. The Class C LP Units are designed to provide CTC with an interest in the Partnership that entitles holders to fixed, cumulative, preferential cash distributions in priority to distributions made to holders of the Class A LP Units, Class B LP Units and the General Partner ("GP") Units (subject to certain exceptions), if, as and when declared by the Board of Directors of the GP, payable monthly at an annual distribution rate for

each series as set out in the table below. In addition, the Class C LP Units have voting rights pursuant to Special Voting Units issuable by the REIT to holders of Class C LP Units in certain limited circumstances ("Special Voting Units").

Immediately following the completion of the Initial Fixed Rate Period for each series and each five-year period thereafter, the fixed distribution rate for the applicable series of Class C LP Units will be reset, and the holders of the applicable series of Class C LP Units will be entitled, subject to certain conditions, to elect either a fixed rate or floating rate option.

On expiry of the Initial Fixed Rate Period applicable to each series of Class C LP Units, and every five years thereafter, each such series of Class C LP Units is redeemable at par (together with all accrued and unpaid distributions thereon) at the option of the Partnership or the holder, upon giving at least 120 days' prior notice. The Partnership also has the ability to redeem any of the Class C LP Units at any time after January 1, 2019 at a price equal to the greater of par and a price to provide a yield equal to the then equivalent Government of Canada bond yield plus a spread determined upon the issuance of the Class C LP Units, so long as such redemption is in connection with a sale of properties.

Redemptions of Class C LP Units (other than upon a change of control of CT REIT) can be settled, at the option of the Partnership, in cash or Class B LP Units of an equivalent value.

| Series of Class C LP Units      | Initial Subscription Price (\$000) | Annual Distribution Rate During Initial Fixed Rate Period | Expiry of Initial Fixed Rate Period | % of Total Class C LP Units <sup>1</sup> |
|---------------------------------|------------------------------------|---|-------------------------------------|--|
| Series 1                        | \$ 200,000                         | 3.50%   | May 31, 2015 (0.9 years)            | 10.8%                                    |
| Series 2                        | \$ 200,000                         | 3.50%   | May 31, 2016 (1.9 years)            | 10.8%                                    |
| Series 3                        | \$ 200,000                         | 4.50%   | May 31, 2020 (5.9 years)            | 10.8%                                    |
| Series 4                        | \$ 200,000                         | 4.50%   | May 31, 2024 (9.9 years)            | 10.8%                                    |
| Series 5                        | \$ 200,000                         | 4.50%   | May 31, 2028 (13.9 years)           | 10.8%                                    |
| Series 6                        | \$ 200,000                         | 5.00%   | May 31, 2031 (16.9 years)           | 10.8%                                    |
| Series 7                        | \$ 200,000                         | 5.00%   | May 31, 2034 (19.9 years)           | 10.8%                                    |
| Series 8                        | \$ 200,000                         | 5.00%   | May 31, 2035 (20.9 years)           | 10.8%                                    |
| Series 9                        | \$ 200,000                         | 5.00%   | May 31, 2038 (23.9 years)           | 10.8%                                    |
| Series 10                       | \$ 7,130                           | 2.38%   | May 31, 2017 (2.9 years)            | 0.4%                                     |
| Series 11                       | \$ 20,685                          | 2.20%   | May 31, 2017 (2.9 years)            | 1.1%                                     |
| Series 12                       | \$ 19,464                          | 2.23%   | May 31, 2017 (2.9 years)            | 1.1%                                     |
| <b>Total / weighted average</b> | <b>\$ 1,847,279</b>                | <b>4.44%</b>  | <b>12.5 years</b>                   | <b>100%</b>                              |

<sup>1</sup> This column adds to 100%, the percentages of individual series have been rounded.

Assuming a future economic environment that is substantially similar to the current environment, management does not foresee any material impediments to refinancing a redemption request.

### Liquidity

CT REIT's sources of liquidity are comprised of cash and cash equivalents and access to a committed, unsecured floating rate, revolving credit facility of \$200,000 with an option to increase it by an additional \$100,000. The Credit Facility expires in October 2017, but a request to extend the Credit Facility can be made at any time, subject to agreement from all lenders. The Credit Facility bears interest at a rate based on the bank's prime rate of interest or bankers' acceptances plus a margin. A stand-by fee is charged on undrawn amounts. No amount had been drawn on the Credit Facility as at June 30, 2014. The unamortized balance of transaction costs incurred in connection with the arrangement of the Credit Facility of \$521 is recorded in other assets on the condensed consolidated balance sheets. For the three and six months ended June 30, 2014, amortization of the transaction costs of \$47 and \$94, respectively, as well as the standby fee of \$120 and \$250, respectively, are included in interest and other financing charges on the condensed consolidated statement of income and comprehensive income.

The Credit Facility is subject to the maintenance of certain financial covenants and as at June 30, 2014 CT REIT was in compliance with all such financial covenants.



### **Capital Strategy**

Management expects the REIT's future debt will be in the form of:

- Class C LP Units (treated as debt for accounting purposes);
- funds drawn on the Credit Facility;
- unsecured public debt; and
- limited use of secured debt assumed upon acquisition of properties.

Management's objectives are to access the lowest cost of capital with the most flexible terms, to have a maturity/redemption schedule (for fixed term obligations) spread over a time horizon so as to manage refinancing risk, and to be in a position to finance acquisition opportunities when they become available.

The Declaration of Trust limits the REIT's overall indebtedness ratio to 60% of total assets, excluding convertible debentures, and 65% including convertible debentures. This limitation is in relation to the assets of CT REIT in aggregate.

CT REIT's indebtedness ratio was 48.1% as at June 30, 2014. The REIT manages its capital structure so that its indebtedness ratio is below 60%, excluding convertible debentures, 65% including convertible debentures. Refer to Part IX for the definition and calculation of CT REIT's indebtedness ratio.

At June 30, 2014 CT REIT was in compliance with all investment guidelines and operating policies as contained in the Declaration of Trust.

CT REIT has also adopted interest coverage guidelines which provide an indication of the ability to service or pay the interest charges relating to the underlying debt.

CT REIT will generally operate its affairs and manage its capital structure so that its interest coverage ratio is in a range of 2.4 to 3.8 times. For the three months ended June 30, 2014, CT REIT's interest coverage ratio was 3.1 times. Refer to Part IX for the definition and calculation of CT REIT's interest coverage ratio.

### **Commitments and Contingencies**

CT REIT has committed to expansion and development expenditures representing approximately \$31,045, primarily to CTC, the majority of which are expected to be incurred over the remainder of 2014. Refer to Part III of this MD&A for additional information about CT REIT's commitments as at June 30, 2014.

CT REIT has sufficient liquidity to fund these future commitments as a result of (i) its conservative use of leverage on the balance sheet, (ii) liquidity on hand, (iii) a committed Credit Facility, (iv) an investment grade credit rating, (v) unencumbered assets, and (vi) sufficient operating cash flow retained in the business.

## **PART VI**

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### **EQUITY**

#### **Authorized Capital and Outstanding Units**

CT REIT is authorized to issue an unlimited number of Units. As of June 30, 2014, CT REIT had a total of 90,115,539 Units outstanding, 59,711,094 of which were held by CTC. In addition, 91,297,572 Class B LP Units were outstanding (together with a corresponding number of Special Voting Units), all of which were held by CTC.

Class B LP Units are economically equivalent to Units, are accompanied by a Special Voting Unit and are exchangeable at the option of the holder for Units (subject to certain conditions). Holders of the Class B LP Units are entitled to receive distributions when declared by the Partnership equal to the per unit amount of distributions payable on the Units. However, Class B LP Units have limited voting rights over the Partnership.

The following table summarizes the total number of Units issued as at June 30, 2014:

|   | YTD 2014           |
|---|--------------------|
| <b>TRUST UNITS ISSUED:</b>  |                    |
| Issued and outstanding at beginning of period   | 90,026,773         |
| 2014 Distribution Reinvestment Plan (DRIP)  | 88,766             |
| Total Units issued and outstanding at end of period                                       | 90,115,539         |
| <b>CLASS B LP UNITS ISSUED:</b>   |                    |
| Issued and outstanding at beginning of period   | 89,559,871         |
| Issuance of Class B LP Units  | 1,737,701          |
| Total Class B LP Units issued and outstanding at end of period                            | 91,297,572         |
| <b>Total number of Units and Class B LP Units issued and outstanding at end of period</b> | <b>181,413,111</b> |

Each Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT. Each Unit entitles the holder to one vote at all meetings of Unitholders.

Special Voting Units are only issued in tandem with Class B LP Units, or in limited circumstances, to holders of the Class C LP Units and are not transferable separately from the Class B LP Units or Class C LP Units to which they relate. Each Special Voting Unit entitles the holder thereof to one vote at all meetings of Unitholders or with respect to any resolution in writing of Unitholders. Except for the right to attend and vote at meetings of the Unitholders with respect to written resolutions of the Unitholders, Special Voting Units do not confer upon the holders thereof any other rights.

For the second quarter of 2014, the weighted average number of Units and Class B LP Units outstanding was 90,093,532 and 89,769,923 respectively and was 342,001,032 on a fully diluted basis, including the effect of assuming that all of the Class C LP Units will be settled with Class B LP Units.

Net income attributable to Unitholders and weighted average Units outstanding used in determining basic and diluted net income per Unit are calculated as follows:

|  | For the three months ended June 30, 2014 |                  |                    |
|--|--|------------------|--------------------|
|  | Units                                    | Class B LP Units | Total              |
| Net income attributable to unitholders - basic                     | \$ 22,882                                | \$ 22,807        | \$ 45,689          |
| Income effect of settling Class C LP Units with Class B LP Units   |  |                  | 20,383             |
| Net income attributable to unitholders - diluted                   |  |                  | \$ 66,072          |
| Weighted average Units outstanding - basic                         | 90,093,532                               | 89,769,923       | 179,863,455        |
| Dilutive effect of other Unit plans                                |  |                  | 40,925             |
| Dilutive effect of settling Class C LP Units with Class B LP Units |  |                  | 162,096,652        |
| Weighted average Units outstanding - diluted                       |  |                  | <b>342,001,032</b> |

| For the six months ended June 30, 2014                             |            |                  |                    |
|--|------------|------------------|--------------------|
|  | Units      | Class B LP Units | Total              |
| Net income attributable to unitholders - basic                     | \$ 108,153 | \$ 107,200       | \$ 215,353         |
| Income effect of settling Class C LP Units with Class B LP Units   |            |                  | 40,612             |
| Net income attributable to unitholders - diluted                   |            |                  | \$ 255,965         |
| Weighted average Units outstanding - basic                         | 90,068,712 | 89,665,477       | 179,734,189        |
| Dilutive effect of other Unit plans                                |            |                  | 36,861             |
| Dilutive effect of settling Class C LP Units with Class B LP Units |            |                  | 161,173,671        |
| Weighted average Units outstanding - diluted                       |            |                  | <b>340,944,721</b> |

The calculation of diluted per Unit amounts is determined on a combined basis for the Units and the Class B LP Units as the Class B LP Units are exchangeable into Units on a one for one basis and are entitled to an equivalent amount of net income per Unit as the Units, and the dilutive effect of potentially settling Class C LP Units with Class B LP Units.

## Equity

| (in thousands of Canadian dollars)  | YTD 2014            |
|---|---------------------|
| Equity - beginning of the period  | \$ 1,780,386        |
| Issuance of Class B LP Units classified as equity (non-controlling interests) | 19,464              |
| Net income for the period   | 215,353             |
| Issuance of Units under Distribution Reinvestment Plan                        | 971                 |
| Distributions to non-controlling interests                                    | (29,201)            |
| Distributions to Unitholders  | (29,275)            |
| <b>Equity - end of the period</b>   | <b>\$ 1,957,698</b> |

## Cash Distributions

CT REIT's primary business goal is to accumulate a portfolio of high-quality real estate assets, and deliver the benefits of such real estate ownership to Unitholders. The primary benefit to Unitholders is expected to be reliable, durable and growing cash distributions, over time.

In determining the amount of the monthly cash distributions paid to Unitholders, the REIT's Board applies discretionary judgment to forward-looking cash flow information, which includes forecasts and budgets and many other factors including provisions in the Declaration of Trust, the macro-economic and industry-specific environment, debt maturities and covenants and taxable income.

The Board regularly reviews CT REIT's rate of distributions to ensure an appropriate level of cash distributions.

On August 5, 2014, the Board reviewed the current rate of distributions of \$0.65 per Unit per year and resolved to maintain the rate at that time.

Net income prepared in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt or payment of cash. Therefore, in applying judgment, consideration is given to AFFO (which is the product of the cash generated from, and required for, operating activities) and other factors when establishing cash distributions to Unitholders.

| (in thousands of Canadian dollars, except per Unit amounts) | Q2 2014          | YTD 2014         | Q4 2013          |
|---|------------------|------------------|------------------|
| Cash distributions before distribution reinvestment         | \$ 29,290        | \$ 58,476        | \$ 22,333        |
| Distribution reinvestment                                   | 616              | 971              | 136              |
| <b>Cash distributions net of distribution reinvestment</b>  | <b>\$ 28,674</b> | <b>\$ 57,505</b> | <b>\$ 22,197</b> |
| <b>Distributions per Unit</b>                               | <b>\$ 0.163</b>  | <b>\$ 0.325</b>  | <b>\$ 0.125</b>  |

The monthly cash distributions per unit for the first two quarters of the year are higher than Q4 2013 because the fourth quarter of 2013 reflected a partial period with only 70 days of operations. The monthly cash distributions are consistent with the Forecast.

## PART VII

### RELATED PARTY TRANSACTIONS

CT REIT's controlling Unitholder is CTC, which, on June 30, 2014, held an approximate 83.2% effective interest in the REIT, on a fully diluted basis, through ownership of 59,711,094 Units and all of the issued and outstanding Class B LP Units and Class C LP Units.

In addition to its ownership interest, CTC is CT REIT's largest tenant representing approximately 97.1% of the annual base minimum rent earned by CT REIT and approximately 97.1% of its GLA as at June 30, 2014.

In the normal course of its operations, CT REIT enters into various transactions with related parties that have been valued at amounts agreed to between the parties and recognized in the interim financial statements. Investment property transactions with CTC amounted to \$93,530 and \$102,160 for the three and six months ended June 30, 2014. Refer to note 4 to the interim financial statements for additional information.

#### Services Agreement

Under the Services Agreement, CTC provides CT REIT with certain administrative, legal, financial, information technology, internal audit and other support services as may be reasonably required from time to time (the "Services"). CTC provides these Services to CT REIT on a cost recovery basis pursuant to which CT REIT reimburses CTC for all costs and expenses incurred by CTC in connection with providing the Services, plus applicable taxes, with a fixed maximum fee not to exceed \$3,288 for the year ended December 31, 2014 with subsequent adjustments to such fee based on the Consumer Price Index ("CPI"), for the following year. The Services Agreement's initial term ends on December 31, 2015 and is renewable for further one year terms thereafter.

#### Property Management Agreement

Under the Property Management Agreement CTC provides the Partnership with customary property management services (the "Property Management Services"). CTC has agreed to provide the Property Management Services to the Partnership on a cost-recovery basis pursuant to which the Partnership reimburses CTC for all costs and expenses incurred by CTC in connection with providing the Property Management Services, plus applicable taxes, with a fixed maximum fee not to exceed \$2,333 for the year ended December 31, 2014, with subsequent adjustments to such fee based on the CPI for the following year. The Property Management Agreement's initial term ends on December 31, 2015 and is renewable for further one year terms thereafter.

Refer to CT REIT's 2013 AIF for additional information on related party agreements and arrangements with CTC.

CT REIT's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions. The following table summarizes CT REIT's related party transactions as at June 30, 2014:

| (in thousands of Canadian dollars)                 | Q2 2014   | YTD 2014   |
|--|-----------|------------|
| Rental revenue                                     | \$ 81,048 | \$ 161,359 |
| Property Management and Services Agreement expense | 1,359     | 2,711      |
| Interest expense on Class C LP Units               | 20,383    | 40,612     |

In addition, certain amounts payable to CTC by CT REIT remained outstanding as at June 30, 2014 and December 31, 2013 and the net balance due to CTC is comprised of the following:

| (in thousands of Canadian dollars)                            | Q2 2014             | Q4 2013             |
|---|---------------------|---------------------|
| Tenant and other receivables                                  | \$ (12,980)         | \$ (554)            |
| Class C LP Units  | 1,847,279           | 1,800,000           |
| Interest payable on Class C LP Units                          | 37,732              | 14,778              |
| Loans receivable in lieu of distributions on Class C LP Units | (30,917)            | (7,991)             |
| Accounts payable and other liabilities                        | 14,774              | 2,503               |
| Distributions payable on Class B LP Units and Units           | 8,180               | 8,086               |
| <b>Net due to CTC</b>   | <b>\$ 1,864,068</b> | <b>\$ 1,816,822</b> |

## PART VIII

### ACCOUNTING POLICIES AND ESTIMATES

#### Significant Areas of Estimation

The preparation of the interim financial statements requires management to apply judgments, and to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Estimates are based upon historical experience and on various other assumptions that are reasonable under the circumstances. The result of ongoing evaluation of these estimates forms the basis for applying judgment with regards to the carrying values of assets and liabilities and the reported amounts of revenues and expenses. Actual results may differ from estimates. CT REIT's significant accounting policies are described in note 2 to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report, the most significant of which is the fair value of investment properties.

#### Fair Value of Investment Properties

To determine fair value, CT REIT uses the income approach. Fair value is estimated by capitalizing the cash flows that the property can reasonably be expected to produce over its remaining economic life. The income approach is derived from two methods: the overall capitalization rate ("OCR") method, whereby the net operating income is capitalized at the requisite OCR, or the discounted cash flow ("DCF") method, in which the cash flows are projected over the anticipated term of the investment and a terminal value is estimated, then all are discounted using an appropriate discount rate.

Properties under development are measured using the DCF method, net of costs to complete, as of the balance sheet date. Development sites in the planning phases are measured using comparable market prices for similar assets.

Investment properties were subject to external appraisals when initially acquired in 2013. At March 31, 2014, management's determination of fair value was updated for current market assumptions, utilizing market capitalization rates provided by independent valuation professionals. As a result of the updates, a gain of \$126,959 was recorded in investment properties during the first quarter. In addition, during the

second quarter of 2014, management recorded a fair value gain of \$2,860 on the portfolio of investment properties as a result of increased cash flows during the time frame of the valuation models.

CT REIT also obtained independent valuations for certain properties based on a four-year rotation cycle during which substantially all of its properties will be independently valued.

|                              | Properties valued by the<br>OCR method | Properties valued by<br>the DCF method |
|------------------------------|--|--|
| Number of properties         | 221                                    | 43                                     |
| Value as at June 30, 2014    | \$ 3,040,286                           | \$ 751,226                             |
| Discount rate                | -                                      | 7.36%                                  |
| Terminal capitalization rate | -                                      | 6.84%                                  |
| Overall capitalization rate  | 6.35%                                  | -                                      |
| Hold period (years)          | -                                      | 11                                     |

| OCR Sensitivity   |              |                      | DCF Sensitivity |                      |
|-------------------|--------------|----------------------|-----------------|----------------------|
| Rate sensitivity  | Fair value   | Change in fair value | Fair value      | Change in fair value |
| + 75 basis points | \$ 2,727,362 | \$ (312,924)         | \$ 712,036      | \$ (39,190)          |
| + 50 basis points | 2,824,009    | (216,277)            | 724,788         | (26,438)             |
| + 25 basis points | 2,928,023    | (112,263)            | 737,849         | (13,377)             |
| Base rate         | 3,040,286    | -                    | 751,226         | -                    |
| - 25 basis points | 3,161,821    | 121,535              | 764,930         | 13,704               |
| - 50 basis points | 3,293,833    | 253,547              | 778,968         | 27,742               |
| - 75 basis points | 3,437,744    | 397,458              | 793,351         | 42,125               |

## New standards implemented

### Financial instruments: Asset and liability offsetting

In December 2011, the IASB amended IAS 32 – *Financial Instruments: Presentation* (“IAS 32”) to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of IAS 32 amendments did not have an impact on CT REIT.

### Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 Financial Instruments: Recognition and Measurement provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of IAS 39 amendments did not have an impact on CT REIT.

### Levies

In May 2013, the IASB issued IFRIC Interpretation 21 – *Levies* (“IFRIC 21”), which is an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The implementation of IFRIC 21 did not have an impact on CT REIT.

**Standards, amendments and interpretations issued and not yet adopted**

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 31, 2014, and, accordingly, have not been applied in preparing the interim financial statements for the three month period ended June 30, 2014.

**Financial instruments**

In November 2009, the IASB issued IFRS 9 – *Financial Instruments* (“IFRS 9”), which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* (“IAS 39”) in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity’s credit risk are presented in OCI instead of net income unless this would create an accounting mismatch. An accounting mismatch may occur when financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities would not.

In November 2013, the IASB issued a new version of IFRS 9 which incorporates a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by an entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting.

IFRS 9 does not have a mandatory effective date. Early adoption is permitted. CT REIT is assessing the potential impact of this standard.

## **PART IX**

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**NON-GAAP AND OPERATIONAL KEY PERFORMANCE INDICATORS**

CT REIT uses non-GAAP key performance indicators including NOI, FFO, FFO per Unit, AFFO, AFFO per Unit, interest coverage ratio, indebtedness ratio and EBITFV. CT REIT believes these non-GAAP measures and ratios provide useful supplemental information to both management and investors in measuring the financial performance and financial condition of CT REIT for the reasons outlined below. When calculating diluted FFO and AFFO per Unit, management excludes the effect of settling the Class C LP Units with Class B LP Units, which is required when calculating diluted Units in accordance with IFRS.

These measures and ratios do not have a standardized meaning prescribed by GAAP and therefore they may not be comparable to similarly titled measures and ratios presented by other publicly traded REITs, and should not be construed as an alternative to other financial measures determined in accordance with GAAP.

**Net Operating Income**

CT REIT defines NOI as property revenue less property expense, adjusted further for straight-line rent and land lease adjustments. Management believes that calculating the NOI measure on a cash basis provides a more useful presentation of performance over which management has control. Refer to Part IV for a calculation of NOI.

**Funds From Operations**

FFO is not a term defined under IFRS and may not be comparable to similar measures used by other real estate entities. CT REIT calculates its FFO in accordance with the Real Property Association of Canada White Paper on FFO for IFRS issued in March 2014. The purpose of the White Paper was to provide

reporting issuers and investors with greater guidance on the definition of FFO and to help promote more consistent disclosure amongst reporting issuers.

Management believes that FFO provides an operating performance measure that, when compared period-over-period, reflects the impact on operations of trends in occupancy levels, rental rates, operating costs and realty taxes, acquisition activities and interest costs, and provides a perspective of the financial performance that is not immediately apparent from net income determined in accordance with IFRS. FFO adds back to net income items that do not arise from operating activities, such as fair value adjustments.

FFO, however, still includes non-cash revenues related to accounting for straight-line rent and makes no deduction for the recurring capital expenditures necessary to sustain the existing earnings stream.

### **Adjusted Funds From Operations**

AFFO is a supplemental measure of operating performance widely used in the real estate industry. Management believes that AFFO is an effective measure of the cash generated from operations, after providing for operating capital requirements which are referred to as 'productive capacity maintenance expenditures.'

CT REIT calculates AFFO by adjusting FFO for non-cash income and expense items such as amortization of straight-line rents. FFO is also adjusted for a reserve for maintaining productive capacity required for sustaining property infrastructure and revenue from real estate properties and direct leasing costs. Property capital expenditures do not occur evenly during the fiscal year or from year to year. The property capital reserve in the AFFO calculation is intended to reflect an average annual spending level. The reserve is based on a 15-year average expenditure as determined by building condition reports prepared during 2013 by an independent expert. The amount is also consistent with actual average amounts spent by CTC prior to 2013.

There is currently no standard industry-defined measure of AFFO. As such, CT REIT's method of calculating AFFO may differ from that of other real estate entities and, accordingly, may not be comparable to such amounts reported by other issuers.

The following table reconciles FFO and AFFO to GAAP net income and comprehensive income:



| (in thousands of Canadian dollars, except per unit amounts) | Q2 2014          | Q2 2014 Forecast | Variance      | YTD 2014         | YTD 2014 Forecast | Variance        |
|---|------------------|------------------|---------------|------------------|-------------------|-----------------|
| Property revenue  | \$ 83,364        | \$ 83,273        | \$ 91         | \$ 166,044       | \$ 166,438        | \$ (394)        |
| Property expense  | (17,785)         | (18,657)         | 872           | (35,690)         | (37,420)          | 1,730           |
| General and administrative expense                          | (2,499)          | (2,009)          | (490)         | (4,357)          | (4,055)           | (302)           |
| Interest income   | 133              | -                | 133           | 291              | -                 | 291             |
| Interest and other financing charges                        | (20,384)         | (20,361)         | (23)          | (40,754)         | (40,499)          | (255)           |
| Fair value adjustment on investment properties              | 2,860            | -                | 2,860         | 129,819          | -                 | 129,819         |
| <b>Net income and comprehensive income</b>                  | <b>45,689</b>    | <b>42,246</b>    | <b>3,443</b>  | <b>215,353</b>   | <b>84,464</b>     | <b>130,889</b>  |
| Fair value adjustment of investment property                | (2,860)          | -                | (2,860)       | (129,819)        | -                 | (129,819)       |
| <b>Funds from operations</b>                                | <b>42,829</b>    | <b>42,246</b>    | <b>583</b>    | <b>85,534</b>    | <b>84,464</b>     | <b>1,070</b>    |
| Properties straight-line rent adjustment                    | (6,936)          | (7,032)          | 96            | (13,714)         | (14,063)          | 349             |
| Land lease straight-line expense adjustment                 | 38               | 32               | 6             | 90               | 64                | 26              |
| Capital expenditure reserve <sup>1</sup>                    | (3,703)          | (3,656)          | (47)          | (7,364)          | (7,312)           | (52)            |
| <b>Adjusted funds from operations</b>                       | <b>\$ 32,228</b> | <b>\$ 31,590</b> | <b>\$ 638</b> | <b>\$ 64,546</b> | <b>\$ 63,153</b>  | <b>\$ 1,393</b> |
| FFO per Unit - basic  | \$ 0.238         | \$ 0.241         | \$ (0.003)    | \$ 0.476         | \$ 0.481          | \$ (0.005)      |
| FFO per Unit - diluted <sup>2</sup>                         | \$ 0.238         | \$ 0.241         | \$ (0.003)    | \$ 0.476         | \$ 0.481          | \$ (0.005)      |
| AFFO per Unit - basic                                       | \$ 0.179         | \$ 0.180         | \$ (0.001)    | \$ 0.359         | \$ 0.360          | \$ (0.001)      |
| AFFO per Unit - diluted <sup>2</sup>                        | \$ 0.179         | \$ 0.180         | \$ (0.001)    | \$ 0.359         | \$ 0.360          | \$ (0.001)      |
| AFFO payout ratio   | 91%              | 90%              | (1%)          | 91%              | 90%               | (1%)            |
| Distribution per Unit                                       | \$ 0.163         | \$ 0.163         | \$ -          | \$ 0.325         | \$ 0.325          | \$ -            |
| Weighted average units outstanding - basic                  | 179,863,455      | 175,620,865      |               | 179,734,189      | 175,620,865       |                 |
| Weighted average units outstanding - diluted <sup>2</sup>   | 179,904,380      | 175,620,865      |               | 179,771,050      | 175,620,865       |                 |
| Number of units outstanding, end of period                  | 181,413,111      | 175,620,865      |               | 181,413,111      | 175,620,865       |                 |

<sup>1</sup> Normalized Q2 2014 and YTD 2014 maintenance capital expenditures are approximately \$3,703 and \$7,364, respectively. In Q2 2014 and YTD 2014, \$866 and \$976, respectively, of actual sustaining capital expenditures were incurred.

<sup>2</sup> For the purposes of calculating diluted FFO and AFFO per Unit, diluted Units includes restricted and deferred units issued under various plans and excludes the effects of settling the Class C LP Units with Class B LP Units.

FFO for the three and six months ended June 30, 2014 amounted to \$42,829 or \$0.238 per unit and \$85,534 or \$0.476 per unit respectively. FFO for the three and six months ended June 30, 2014 was \$583 and \$1,070 higher than Forecast largely due to the impact of NOI variances discussed earlier, differing assumptions in the Forecast for general and administrative expenses and due to interest income earned on investing the REIT's existing cash balances which are higher than Forecast, all partially offset by higher interest expense.

AFFO for the three and six months ended June 30, 2014 amounted to \$32,228 or \$0.179 per unit and \$64,546 or \$0.359 per unit respectively. AFFO for the three and six months ended June 30, 2014 was \$638 and \$1,393 higher than Forecast largely due to the reasons noted above as well as lower than anticipated straight-line rent adjustments.

The AFFO payout ratio for the three and six months ended June 30, 2014 was 91% which is in line with the REIT's stated intention of delivering an AFFO payout ratio of approximately 90%.

A reconciliation of the IFRS term "Cash Generated from Operating Activities" (refer to the condensed consolidated statement of cash flow for three and six months ended June 30, 2014) to AFFO is as follows:

|   | Q2 2014         | YTD 2014        |
|---|-----------------|-----------------|
| (in thousands of Canadian dollars)                  |                 |                 |
| Cash generated from operating activities            | \$ 47,372       | \$ 103,196      |
| Working capital items:                              |                 |                 |
| Changes in other non-cash operating items           | 8,943           | 9,468           |
| Interest and other financing charges                | (20,384)        | (40,754)        |
| Straight-line rental income                         | 6,936           | 13,714          |
| Straight-line land lease expense                    | (38)            | (90)            |
| <b>FFO</b>  | <b>42,829</b>   | <b>85,534</b>   |
| Less:   |                 |                 |
| Straight-line rent adjustment                       | (6,936)         | (13,714)        |
| Straight-line land lease expense adjustment         | 38              | 90              |
| Capital expenditure reserve <sup>1</sup>            | (3,703)         | (7,364)         |
| <b>AFFO</b>   | <b>32,228</b>   | <b>64,546</b>   |
| AFFO  | 32,228          | 64,546          |
| Cash distributions before distribution reinvestment | 29,290          | 58,476          |
| <b>Excess of AFFO over cash distributions</b>       | <b>\$ 2,938</b> | <b>\$ 6,070</b> |

<sup>1</sup> Normalized Q2 2014 and YTD 2014 maintenance capital expenditure is approximately \$3,703 and \$7,364, respectively. In Q2 2014 and YTD 2014, \$866 and \$976, respectively, of actual sustaining capital expenditures were incurred.

### Earnings Before Interest and other Financing Costs, Taxes and Fair Value Adjustments

EBITFV is a generally accepted measure of a REIT's operating cash flow and represents earnings before interest expense and other financing costs, income tax expense, fair value adjustments on investment properties, losses or gains on disposition of property, and excluding other non-recurring items that may occur under IFRS.

EBITFV is used in some of CT REIT's debt metrics in place of net income because it excludes major non-cash items and interest expense. For the three and six months ended June 30, 2014, EBITFV was calculated as follows:

|  | Q2 2014          | Q2 2014<br>Forecast | Variance      | YTD 2014          | YTD 2014<br>Forecast | Variance        |
|--|------------------|---------------------|---------------|-------------------|----------------------|-----------------|
| (in thousands of Canadian dollars)             |                  |                     |               |                   |                      |                 |
| Net Income and comprehensive income            | \$ 45,689        | \$ 42,246           | \$ 3,443      | \$ 215,353        | \$ 84,464            | \$ 130,889      |
| Fair value adjustment on investment properties | (2,860)          | -                   | (2,860)       | (129,819)         | -                    | (129,819)       |
| Interest expense and other financing charges   | 20,384           | 20,361              | 23            | 40,754            | 40,499               | 255             |
| <b>EBITFV</b>                                  | <b>\$ 63,213</b> | <b>\$ 62,607</b>    | <b>\$ 606</b> | <b>\$ 126,288</b> | <b>\$ 124,963</b>    | <b>\$ 1,325</b> |

### Interest Coverage Ratio

Interest coverage ratios test an entity's ability to service its debt, including construction financing or development debt. Generally speaking, the higher the ratio is, the lower the risk of default on debt.

CT REIT will generally operate its affairs and manage its capital structure so that its interest coverage ratio is in the range of 2.4 to 3.8 times. The ratio is calculated as follows:

| (in thousands of Canadian dollars)  | Q2 2014          | YTD 2014          | Q4 2013          |
|---|------------------|-------------------|------------------|
| Net income  | \$ 45,689        | \$ 215,353        | \$ 30,996        |
| Add (subtract):   |                  |                   |                  |
| Unrealized fair value gains on investment properties                        | (2,860)          | (129,819)         | 468              |
| Interest and other financing charges  | 20,384           | 40,754            | 15,649           |
| <b>EBITFV (A)</b>   | <b>\$ 63,213</b> | <b>\$ 126,288</b> | <b>\$ 47,113</b> |
| <b>Interest and other financing charges (B)</b>                             | <b>20,384</b>    | <b>40,754</b>     | <b>15,649</b>    |
| <b>Interest coverage (A)/(B)</b>  | <b>3.10</b>      | <b>3.10</b>       | <b>3.01</b>      |
| <b>Interest coverage normalized for one-time start-up costs<sup>1</sup></b> | <b>3.10</b>      | <b>3.10</b>       | <b>3.06</b>      |

<sup>1</sup> One-time start-up costs were \$822 and expensed in Q4 2013.

### Indebtedness Ratio

CT REIT has adopted an indebtedness ratio guideline which management uses as a measure to evaluate its leverage and the strength of its equity position, expressed as a percentage of financing provided by debt. CT REIT's Declaration of Trust limits its indebtedness (plus the aggregate par value of the Class C LP Units) to a maximum of 60% of the gross book value, excluding convertible debentures, and 65% including convertible debentures. Gross book value is defined as total assets as reported on the latest consolidated balance sheet. CT REIT calculates its indebtedness ratio as follows:

| (in thousands of Canadian dollars)        | Q2 2014             | Q4 2013             |
|---|---------------------|---------------------|
| <b>Total assets<sup>1</sup> (A)</b>       | <b>\$ 3,842,218</b> | <b>\$ 3,603,252</b> |
| <b>Total indebtedness<sup>2</sup> (B)</b> | <b>\$ 1,847,279</b> | <b>\$ 1,800,000</b> |
| <b>Indebtedness ratio (B)/(A)</b>         | <b>48.1%</b>        | <b>50.0%</b>        |

<sup>1</sup> Total assets, as reported on the condensed consolidated balance sheets as at June 30, 2014 and December 31, 2013 as restated. Refer to note 19 of the condensed consolidated financial statements for the period ended June 30, 2014.

<sup>2</sup> Total indebtedness as at June 30, 2014 and December 31, 2013 reflects the value of the Class C LP Units.

The indebtedness ratio calculation is slightly lower than for the period ended December 31, 2013 as the Q2 2014 balance reflects a higher total asset balance as at June 30, 2014 due to the fair value adjustments made to the investment property portfolio, and the net investments made in the eight properties acquired year-to-date, partially offset by an increase in indebtedness during the quarter.

### Debt to Enterprise Value Ratio

| (in thousands of Canadian dollars)                | Q2 2014             | Q4 2013             |
|---|---------------------|---------------------|
| <b>Total Debt (A)</b>                             | <b>\$ 1,847,279</b> | <b>\$ 1,800,000</b> |
| <b>Equity Value (B)</b>                           |                     |                     |
| Period-end Units and Class B LP Units outstanding | 181,413,111         | 179,586,644         |
| Unit closing price                                | \$ 11.40            | \$ 10.92            |
| <b>Equity Value (B)<sup>1</sup></b>               | <b>\$ 2,068,109</b> | <b>\$ 1,961,086</b> |
| <b>Debt / Enterprise Value A / (A + B)</b>        | <b>47.2%</b>        | <b>47.9%</b>        |

<sup>1</sup> Equity value represents period-end Units and Class B LP Units outstanding times the closing price.

## Book Value per Unit

| (in thousands of Canadian dollars)                           | Q2 2014             | Q4 2013             |
|--|---------------------|---------------------|
| <b>Total Equity (A)</b>                                      | <b>\$ 1,957,698</b> | <b>\$ 1,780,386</b> |
| <b>Period-end Units and Class B LP Units outstanding (B)</b> | <b>181,413,111</b>  | <b>179,586,544</b>  |
| <b>Book value per Unit (A / B) <sup>1</sup></b>              | <b>\$ 10.79</b>     | <b>\$ 9.91</b>      |

<sup>1</sup> Book value per Unit represents total equity from the condensed consolidated balance sheets divided by period-end Units and Class B LP Units outstanding.

## PART X

### ENTERPRISE RISK MANAGEMENT

To preserve and enhance Unitholder value over the long-term, CT REIT is approaching the management of risk strategically through a disciplined approach. That approach:

- addresses strategic, financial and operational risks and the potential related impacts;
- is cross-functional in its perspective, and, is designed to help support and optimize risk/reward related decisions;
- is integrated into the strategic, planning and reporting processes; and
- assesses and incorporates risk mitigation strategies.

The risk factors section below highlights those factors previously disclosed in the Prospectus, except for the risk factors relating to the Offering. Consistent with the presentation of risks in the Prospectus, the risk factors are divided into three groupings, specifically, risk factors related to the:

- real estate industry and the business of the REIT;
- REIT's relationship with CTC; and,
- business of the REIT's key tenant.

Over the course of 2014, as part of its regular review of its risk disclosures, CT REIT will assess these risk factors in terms of their continued relevancy as the REIT's principal risks are defined and its enterprise risk program ("ERM program") is further developed.

### Risk Governance

The mandate of the Board includes the responsibility to monitor the REIT's ERM program and oversee management's implementation of appropriate systems to effectively identify, monitor, manage, and mitigate the impact of risks inherent in the REIT's business and operations.

The Board has delegated primary responsibility to the Audit Committee to:

- consider the principal risks of the REIT as identified by management and ensure appropriate policies and systems have been implemented to manage these risks;
- review the REIT's ERM program, including its policies and processes with respect to risk identification, assessment, and management of the REIT's risks;
- receive periodic reports from the head of the risk management function; and
- periodically report to the Board on any major issues arising from the ERM program.

### Risk Factors

The REIT faces a variety of significant and diverse risks, many of which are inherent in the business conducted by the REIT and the tenants of its properties.

Described below are certain risks that could materially adversely affect the REIT. Other risks and uncertainties that the REIT does not presently consider to be material, or of which the REIT is not presently aware, may become important factors that affect the REIT's future financial condition and results of operations. The occurrence of any of the risks discussed below could materially and adversely affect the business, prospects, financial condition, results of operations or cash flow of the REIT.

The REIT's risk mitigation strategies employ various practices including policies, controls, processes, management activities, contractual arrangements, acceptance, avoidance, and insurance to assist with reducing the nature, exposure and impact of risks on the organization.

## **Risk Factors Related to the Real Estate Industry and the Business of the REIT**

### **Real Property Ownership and Tenant Risks**

Real estate ownership is generally subject to numerous factors and risks, including changes in general economic conditions, local economic conditions, local real estate conditions, the attractiveness of properties to potential tenants or purchasers, competition with other landlords with similar available space, and the ability of the owner to provide adequate maintenance at competitive costs.

There is no assurance that the operations of the REIT will be profitable or that cash from operations will be available to make distributions to Unitholders. Real estate, like many other types of long term investments, experiences significant fluctuation in value and, as a result, specific market conditions may result in temporary or permanent reductions in the value of the Properties. The marketability and value of the Properties will depend on many factors, including: (i) changes in general economic conditions (such as the availability, terms and cost of financing and other types of credit); (ii) local economic conditions (such as business layoffs, industry slowdowns, changing demographics and other factors); (iii) local real estate conditions (such as an oversupply of properties or a reduction in demand for real estate in the area); (iv) changes in occupancy rates; (v) the attractiveness of properties to potential tenants or purchasers; (vi) competition with other landlords with similar available space; (vii) the ability of the REIT to provide adequate maintenance and capital expenditures at competitive costs; (viii) the promulgation and enforcement of governmental regulations relating to land-use and zoning restrictions, environmental protection and occupational safety; (ix) the financial condition of borrowers and of tenants, buyers and sellers of property; (x) changes in real estate tax rates and other operating expenses; (xi) the imposition of rent controls; (xii) various uninsured or uninsurable risks; and (xiii) natural and man-made disasters.

The rights of first offer and refusal provided under the Canadian Tire Leases and ROFO Agreement may affect or restrict the marketability or value of the Properties. There can be no assurance of profitable operations because the costs of operating the portfolio, including debt service, may exceed gross rental income therefrom, particularly since certain expenses related to real estate, such as property taxes, utility costs, maintenance costs and insurance, tend to increase even if there is a decrease in the REIT's income from such investments.

The Properties generate income through rent payments made by tenants, and particularly rent payments made by CTC as the REIT's largest tenant. While CTC has held investment grade credit ratings for over 20 years, there is no assurance that it will maintain such ratings or that its financial position will not change over time. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced for a number of reasons. Furthermore, the terms of any subsequent lease may be less favourable than the existing lease, including the addition of restrictive covenants. In addition, historical occupancy rates and rents are not necessarily an accurate prediction of future occupancy rates and rents for the Properties. The REIT's cash flows and financial position would be materially adversely affected if its tenants (and especially CTC) were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties was not able to be leased on economically favourable lease terms. In the event of default by a tenant, the REIT may experience delays or limitations in enforcing its rights as lessor and incur substantial costs in protecting its investment. In addition, restrictive covenants which may be registered on title, and the terms of the Canadian Tire Leases may narrow the field of potential tenants at a property and could contribute to difficulties in leasing space to new tenants. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and thereby cause a reduction in the REIT's cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

The distribution centre represents approximately 3.9% of the REIT's annualized base minimum rent. In the event that the Canadian Tire Lease for the distribution centre is not renewed following the initial term, or any subsequent extension term, the size, location and nature of the distribution centre may limit the extent to which, or the terms on which, the REIT is able to re-lease the distribution centre to another party. No assurance can be given that the REIT will be able to quickly re-lease space vacated by CTC at the distribution centre on favourable terms, if at all. The REIT's inability to quickly re-lease space vacated by CTC at the distribution centre on similar terms, or at all, could cause a reduction in the REIT's cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

### **Current and Future Economic Environment**

Continued concerns about the uncertainty over whether the economy will be adversely affected by inflation, deflation or stagflation, and the systemic impact of unemployment, volatile energy costs, geopolitical issues and the availability and cost of credit have contributed to increased market volatility and weakened business and consumer confidence. This difficult operating environment and its effects could materially adversely affect the REIT's ability to generate revenues, thereby reducing its operating income and earnings. It could also have a material adverse effect on the ability of the REIT's operators to maintain occupancy rates at the Properties, which could harm the REIT's financial condition. If these economic conditions continue, the REIT's tenants may be unable to meet their rental payments and other obligations due to the REIT, which could have a material adverse effect on the REIT. In the future, the national and global economic environments may also affect the REIT's ability to obtain debt or equity on favourable terms or at all.

### **Economic Stability of Local Markets**

Some of the Properties are located in regions where the economy is dominated by a small number of industries with only a few major participants. The economic stability and development of these local markets would be negatively affected if such major industry participants failed to maintain a significant presence in such markets. An economic downturn in these markets may adversely affect revenues derived by tenants of the REIT from their businesses and their ability to pay rent to the REIT in accordance with their leases. An enduring economic decline in a local market may affect the ability of the REIT to: (i) lease space in its properties, (ii) renew existing leases at current rates, and (iii) derive income from the properties located in such market, each of which could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution.

### **Geographic Concentration**

The Properties are all located in Canada, the majority of which are located in Ontario, Quebec and Western Canada. Currently, Ontario contains 42.7% of the Properties' GLA (43.9% of annualized base minimum rent), Quebec contains 22.1% of the Properties' GLA (20.0% of annualized base minimum rent), and Western Canada contains 25.4% of the Properties' GLA (28.2% of annualized base minimum rent). As a result, the REIT's performance, the market value of the Properties and the income generated by the REIT are particularly sensitive to changes in the economic condition and regulatory environment of Ontario, Quebec and Western Canada. Adverse changes in the economic condition or regulatory environment of Ontario, Quebec and Western Canada may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders.

### **Tenant Concentration**

CTC is the REIT's most significant tenant for the foreseeable future with Canadian Tire stores and the distribution centre that form part of the Properties, representing approximately 94.7% of the REIT's annualized base minimum rent as at June 30, 2014, or approximately 97.1% of the REIT's annualized base minimum rent if all CTC Banner stores are included. CTC leases the distribution centre directly and has guaranteed the Canadian Tire Leases, but has not guaranteed the leases with the other CTC banner stores. The REIT's revenues will be dependent on the ability of CTC to meet its rent obligations and the REIT's ability to collect rent from CTC. If CTC were to fail to renew its tenancies, default on or cease to

satisfy its payment obligations, it would have a material adverse effect on the REIT's financial condition or results of operations and its ability to make distributions to Unitholders.

### **Asset Class Diversification**

The REIT's investments are not widely diversified by asset class. Substantially all of the REIT's investments, including the Properties, are in retail properties. A lack of asset class diversification increases risk because retail properties are subject to their own set of risks, such as vacancies, changes in retail trends and formats and population shifts.

### **Environmental Matters**

Environmental legislation and regulations have become increasingly important in recent years. As an owner of real property in Canada, the REIT is subject to various Canadian federal, provincial, territorial and municipal laws relating to environmental matters. In the event that the REIT acquires properties in the United States, it will also be subject to various U.S. federal and state and municipal environmental laws, as applicable. Such laws provide that the REIT, its officers and directors could be, or become, liable for environmental harm, damage or costs, including with respect to the release of hazardous or other regulated substances into the environment, and the removal or other remediation of hazardous or other regulated substances that may be present at or under its properties. Further, liability may be incurred by the REIT with respect to the release of such substances from or to the REIT's properties. These laws often impose liability regardless of whether the property owner knew of, or was responsible for, the presence of such substances. Additional liability may be incurred by the REIT with respect to the improper use, disposal or storage of such substances or the release of such substances from the REIT 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. These laws also govern the maintenance and removal of materials containing asbestos and also govern emissions of, and exposure to, asbestos fibres in the air. Certain of the Properties contain or might contain materials containing asbestos. The costs of investigation, removal and remediation of such substances or properties, if any, may be substantial and could materially adversely affect the REIT's financial condition and results of operations. The presence of contamination or the failure to remediate contamination may also materially adversely affect the REIT's ability to sell such property, realize the full value of such property or borrow using such property as collateral security, and could potentially result in significant claims against the REIT by public or private parties.

The Properties may contain contamination, hazardous or other regulated substances and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous or regulated substances above the allowable or recommended thresholds, or other environmental risks could be associated with the buildings. Subject to the terms of its leases, the REIT might bear the risk of cost-intensive assessment, remediation or removal of such contamination, hazardous or other regulated substances or other residual pollution. The discovery of any such contamination or 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 on the REIT and could involve considerable additional costs. The REIT will also be exposed to the risk that recourse against the polluter or the previous owners of the properties might not be possible. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous or other regulated substances or other residual pollution or the use of a property for an environmentally sensitive business (such as the sale of gasoline and related products) can materially adversely affect the value of a property and the REIT's ability to lease or sell such property.

Some of the Properties have, or have had, tenants that would or currently use, hazardous or other regulated substances. For example, automotive service centres, retail gas bars and propane tank centres are currently located, or have been located in the past, at the Properties. Currently, all of the Properties

(excluding the distribution centre and development lands) have automotive service centres, 86 of the Properties have retail gas bars and all of the Properties (excluding the distribution centre) have, or could in the future have, propane tank centres. The environmental risks with automotive service centres, gas bars and propane tank centres are primarily associated with the handling of gasoline, oil, lubricants, propane and other fluids required for the maintenance of automobiles.

The REIT's operating policy is to obtain or be entitled to rely on a recent (dated no earlier than 24 months prior to receipt by the REIT), Phase I environmental site assessment conducted by an independent and experienced environmental consultant prior to acquiring a property. The risk of relying on a Phase I environmental site assessment that is not current is that such assessment may not disclose more recent areas or events of concern.

Pursuant to the Canadian Tire Leases, CTC indemnified the REIT for any environmental issues existing as of October 23, 2013 (subject to environmental site condition reports, if any), and for any failure by CTC or any other person for whom CTC is responsible (or regarding a property under the care and control of CTC pursuant to its lease) to comply with environmental laws. At the expiry of a Canadian Tire Lease, if required by law or if the REIT so requests, CTC is required to remediate any contamination of the property which is CTC's responsibility under the Lease to the standard then applicable to commercial properties. The REIT may not be able to successfully enforce an indemnity contained in the Canadian Tire Leases against CTC or such indemnity may not be sufficient to fully indemnify the REIT from third party claims or remediation costs that the REIT otherwise undertakes.

The REIT has limited environmental liability coverage under its general liability insurance policy for third party bodily injury and property damage claims arising from unexpected and unintentional pollution incidents (commonly referred to as "sudden and accidental" coverage) that are discovered and reported quickly. It also has more extensive coverage under a separate environmental liability insurance policy which adds coverage for certain gradual pollution conditions and first party cleanup costs.

The REIT shall make the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues and such costs relating to environmental matters that may have a material adverse effect on the REIT's business, financial condition or results of operation and decrease or eliminate the amount of cash available for distribution to Unitholders. However, environmental laws can change and the REIT may become subject to even more stringent environmental laws in the future, with increased enforcement of laws by the government. Compliance with more stringent environmental laws, which may be more rigorously enforced, 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 financial condition and results of operation and decrease or eliminate the amount of cash available for distribution to Unitholders.

#### **Acquisitions and Associated Undisclosed Defects and Obligations**

The REIT's business plan contemplates, among other things, growth through identifying suitable acquisition opportunities, pursuing such opportunities, consummating acquisitions and leasing the properties. The REIT intends to make acquisitions and dispositions of properties in accordance with its growth strategy. If the REIT is unable to manage its growth effectively, it could materially adversely impact the REIT's financial position and results of operation and decrease or eliminate the amount of cash available for distribution to Unitholders. 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 be maintained or increase in the future.

Properties, including the existing Properties, may be subject to unknown, unexpected or undisclosed liabilities, and these circumstances could lead to additional costs and could have a material adverse effect on rental income of the relevant properties or the sale prices of such properties upon a disposition of such properties.



The REIT's ability to acquire properties on satisfactory terms and successfully integrate and operate them is subject to the following additional risks: (a) the REIT may be unable to acquire desired properties because of (i) constraints imposed by the terms of the Declaration of Trust, the Canadian Tire Leases, the ROFO Agreement and the Development Agreement and the exercise by CTC of its rights under such agreements, or (ii) competition from other real estate investors with more capital, including other real estate operating companies, REITs and investment funds; (b) the REIT may acquire properties that are not accretive to its results upon acquisition, and the REIT may not successfully manage and lease those properties to meet its expectations; (c) competition from other potential acquirers may significantly increase the purchase price of a desired property; (d) the REIT may be unable to generate sufficient cash from operations, or obtain the necessary debt or equity financing to consummate an acquisition or, if obtainable, financing may not be on satisfactory terms; (e) the REIT may need to spend more than budgeted amounts to make necessary improvements or renovations to acquired properties; (f) agreements for the acquisition of properties are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and the REIT may spend significant time and money on potential acquisitions that the REIT does not consummate; (g) the process of acquiring or pursuing the acquisition of a new property may divert the attention of the REIT's senior management team from existing business operations; (h) the REIT may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into existing operations; (i) market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and (j) the REIT may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties. In addition, the REIT's ability to undertake any material acquisition, disposition, or development is restricted under the Declaration of Trust and requires the prior written consent of CTC (in its sole and absolute discretion).

If the REIT cannot complete property acquisitions on favourable terms, or operate properties to meet the REIT's goals or expectations, the REIT's business, financial condition, results of operations and cash flow, the per Unit trading price and the REIT's ability to satisfy debt service obligations and to make distributions to Unitholders could be materially and adversely affected.

### **Development Risk**

To the extent that the REIT engages in development, redevelopment or major renovation activities with respect to certain properties, it will be subject to certain risks, including: (a) the availability and pricing of financing on satisfactory terms or at all; (b) the availability and timely receipt of zoning and other regulatory approvals; (c) the ability to achieve an acceptable level of occupancy upon completion; (d) the potential that the REIT may fail to recover expenses already incurred if it abandons redevelopment opportunities after commencing to explore them; (e) the potential that the REIT may expend funds on and devote management time to projects which it does not complete; (f) construction or redevelopment costs of a project, including certain financial or other obligations to CTC under the Development Agreement, may exceed original estimates, possibly making the project less profitable than originally estimated, or unprofitable; (g) the time required to complete the construction or redevelopment of a project or to lease up the completed project may be greater than originally anticipated, thereby adversely affecting the REIT's cash flow and liquidity; (h) the cost and timely completion of construction (including risks beyond the REIT's control, such as weather, labour conditions or material shortages); (i) contractor and subcontractor disputes, strikes, labour disputes or supply disruptions; (j) delays with respect to obtaining, or the inability to obtain, necessary zoning, occupancy, land use and other governmental permits, and changes in zoning and land use laws; (k) occupancy rates and rents of a completed project may not be sufficient to make the project profitable; and (l) the availability and pricing of financing to fund the REIT's development activities on favourable terms or at all.

The above risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent the initiation of redevelopment activities or the completion of redevelopment activities once undertaken. In addition, redevelopment projects entail risks that investments may not

perform in accordance with expectations and can carry an increased risk of litigation (and its attendant risks) with contractors, subcontractors, suppliers, partners and others. Any of these risks could have an adverse effect on the REIT's financial condition, results of operations, cash flow, the trading price of the Units, distributions to Unitholders and ability to satisfy the REIT's principal and interest obligations.

### **Limit on Activities**

In order to maintain its status as a closed-ended "mutual fund trust", which is treated as a "real estate investment trust" under the Income Tax Act (Canada), the REIT cannot carry on most active business activities and is limited in the types of investments it may make. In particular the REIT cannot hold real property that is non-capital property, including but not limited to condominium or residential mixed-use developments, which restricts its ability to develop real estate for sale.

### **Competition**

The REIT competes with other investors, managers and owners of properties in seeking tenants and for the purchase and development of desirable real estate properties. Some of the properties of the REIT's competitors may be newer or better located than the Properties. Certain of these competitors may have greater financial and other resources and greater operating flexibility than the REIT. An increase in the availability of funds for investment or an increase in interest in real estate property investments may increase the competition for real estate property investments, thereby increasing purchase prices and reducing the yield on them.

### **Capital Expenditures and Fixed Costs**

While the Canadian Tire Leases are triple net, there can be no assurances that other leases assumed or entered into will be on similar terms. Certain significant expenditures, including, as applicable, property taxes, ground rent, maintenance costs, capital repairs, debt service payments, insurance costs and related charges, must be made throughout the period of ownership of real property, regardless of whether the property is producing any income. This may include expenditures to fulfill mandatory requirements. In order to retain desirable rentable space and to generate adequate revenue over the long term, the REIT must maintain or, in some cases, improve each property's condition to meet market demand. Maintaining a rental property in accordance with market standards can entail significant costs, which the REIT may not be able to recover from its tenants. In addition, property tax reassessments based on updated appraised values may occur, which the REIT may not be able to recover from its tenants. As a result, the REIT will bear the economic cost of such operating costs and/or taxes which may adversely impact the REIT's financial condition and results from operations and decrease the amount of cash available for distribution to Unitholders. Numerous factors, including the age of the relevant building, the materials used at the time of construction or currently unknown building code violations could result in substantial unbudgeted costs for refurbishment or modernization. In addition, the timing and amount of capital expenditures may 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.

If the actual costs of maintaining or upgrading a property exceed the REIT's estimates, or if hidden defects are discovered during maintenance or upgrading which are not covered by insurance or contractual warranties, or if the REIT is not permitted to increase rents due to legal or other constraints, the REIT will incur additional and unexpected costs. If competing properties of a similar type are built in the area where one of the REIT's properties is located or similar properties located in the vicinity of one of the REIT's properties are substantially refurbished, the net operating income derived from, and the value of, the REIT's property could be reduced. Any failure by the REIT to undertake appropriate maintenance and refurbishment work in response to the factors described above could materially adversely affect the rental income that the REIT earns from such properties. Any such event could have a material adverse effect on the REIT's cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

**Reliance on Key Personnel**

The management and governance of the REIT depends on the services of certain key personnel, including certain executive officers and the Trustees. The REIT relies on CTC to supply necessary services to operate the REIT, including in respect of financial reporting and controls. Failure to receive these services, or the requirement to replace the service provider in a short period of time, could have a material adverse effect on the REIT. External pressures and/or ineffective internal human resource practices can negatively impact the REIT's ability to attract and retain sufficiently appropriately skilled people who have the expertise to support the achievement of the REIT's strategic objective.

**Operational Risk**

Operational risk is the risk that a direct or indirect loss may result from inadequate or failed operations, systems, and processes in terms of design, integration, and/or execution to support the REIT's key business objectives. The impact of this loss may be financial loss, loss of reputation or legal and regulatory proceedings. Management endeavours to minimize losses in this area by ensuring that effective infrastructure and controls exist and, in certain circumstances, by obtaining insurance coverage.

**Reliance on the Partnership**

The REIT is dependent on the business of the Partnership for NOI. The cash distributions made to Unitholders are dependent on the ability of the Partnership to make distributions in respect of the limited partnership units of the Partnership, including the Class C LP Units which are entitled to distributions in priority to the Class A LP Units held by the REIT (subject to certain exceptions). The ability of the Partnership to make distributions or make other payments or advances to the REIT depends on the Partnership's results of operations and may be restricted by, among other things, applicable tax and other laws and regulations and may be subject to contractual restrictions contained in any instruments governing the indebtedness of the Partnership, any priority distribution contained in the Limited Partnership Agreement and any other agreements governing the Partnership. If the Partnership is unable to make distributions or other payments or advances to the REIT, such failure could have a material adverse effect on the REIT's financial condition or results of operations and its ability to make distributions to Unitholders.

**Redemptions of Class C LP Units**

The Class C LP Units are subject to redemption rights, including those of the holder. Pursuant to the Limited Partnership Agreement, the Class C LP Units may be redeemed upon payment of an amount equal to \$1,000 per Class C LP Unit, together with all accrued and unpaid distributions up to but excluding the date fixed for redemption. Alternately, the Partnership may elect to settle any such redemption payment, in whole or in part, with Class B LP Units. The number of Class B LP Units to be issued on the applicable redemption date will be determined based on the 20-day volume-weighted average price of the Units as of the end of the trading day prior to redemption. In addition, the Partnership's ability to incur debt or issue equity in order to finance the redemption of Class C LP Units for cash is subject to CTC's prior written consent (in its sole and absolute discretion). In connection with the redemption of Class C LP Units, the REIT may issue additional Class B LP Units, which are economically equivalent to and exchangeable for Units, from time to time and the interests of Unitholders may be diluted thereby.

**Potential Conflicts of Interest**

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. Pursuant to the Declaration of Trust, all decisions to be made by the Board which involve the REIT are required to be made in accordance with the Trustee's duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the Unitholders. In addition, the Declaration of Trust contains provisions requiring the Trustees to disclose their interests in certain contracts and transactions and to refrain from voting on those matters. Conflicts may also exist as certain Trustees will be affiliated with CTC and may be nominated by CTC in certain circumstances in the future. There can be no assurance that the provisions of the Declaration of Trust will

adequately address potential conflicts of interest or that such actual or potential conflicts of interest will be resolved in favour of the REIT.

### **Regulation**

The REIT is subject to laws and regulations governing the REIT ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, territorial, state, municipal, 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 Properties. It is impossible to predict whether there will be any future changes in the regulatory regimes to which the REIT will be subject or the effect of any such change on its investments.

### **General Insured and Uninsured Risks**

The REIT carries, directly or indirectly, general liability, umbrella liability and/or excess liability insurance with limits which are typically obtained for similar real estate portfolios and otherwise acceptable to the Board. For property risks, the REIT carries directly or indirectly, "All Risks" property insurance, which includes, but is not limited to, flood, earthquake and loss of rental income insurance (with a 12 month indemnity period). The REIT also carries, directly or indirectly, boiler and machinery insurance covering certain losses and expenses resulting from the accidental breakdown of boilers, pressure vessels, HVAC systems, mechanical and electrical equipment. There are, however, certain types of risks (generally of a catastrophic nature, such as from war or nuclear accident) which are uninsurable under any insurance policy. Furthermore, there are other risks that are not economically viable to insure. The REIT has insurance for earthquake risks, subject to certain policy limits and deductibles. Should an uninsured or underinsured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, one or more of its properties, but would continue to be obligated to repay any recourse mortgage debt on such properties which would likely adversely impact the REIT's financial condition and results of operation and decrease the amount of cash available for distribution.

Many insurance companies have eliminated coverage for acts of terrorism from their policies, and it may not be possible to obtain coverage for terrorist acts at commercially reasonable rates or at any price. Damage to a property sustained as a result of an uninsured terrorist or similar act would likely adversely impact the REIT's financial condition and results of operation and decrease the amount of cash available for distribution.

The REIT bears 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, and it expects to regularly assess the adequacy of its coverage, 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, windstorm and flood), 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 Unitholders.

### **Disasters**

Future natural and man-made disasters may materially adversely affect the REIT's operations and properties and, more specifically, may cause the REIT to experience reduced rental revenue (including from increased vacancy), incur clean-up costs or otherwise incur costs in connection with such events. Any of these events may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and its ability to make distributions to Unitholders. While the REIT has insurance, either directly or indirectly through certain of its tenants, to cover a substantial portion of the cost of natural disasters, such insurance includes customary deductible amounts and certain items may not be covered by insurance.

### **Financial Reporting and Other Public Company Requirements**

The REIT is subject to reporting and other obligations under applicable Canadian securities laws and rules of the stock exchange on which the Units are listed, including National Instrument 52-109 — Certification of Disclosure in Issuers' Annual and Interim Filings. These reporting and other obligations place significant demands on the REIT's management, administrative, operational and accounting resources, including those provided pursuant to the Services Agreement. The REIT is partially reliant on CTC, pursuant to the Services Agreement, for certain financial reporting and internal control functions. Any failure of the REIT, or its service provider, to maintain effective internal controls could cause the REIT to fail to meet its reporting obligations or result in material misstatements in its financial statements. If the REIT cannot provide reliable financial reports or prevent fraud, its reputation and operating results could be materially harmed which could also cause investors to lose confidence in the REIT's reported financial information, which could result in a reduction in the trading price of the Units. However, the REIT's disclosure controls and procedures and internal controls over financial reporting cannot prevent all error and all fraud. A control system, no matter how well-designed and implemented, can provide only reasonable, not absolute, assurance that the control system's objectives will be met.

### **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 which could have a material adverse effect on the REIT's cash flows, financial condition or results of operations and its ability to make distributions to Unitholders.

### **Return on Investment and Cash Distributions are Not Guaranteed**

There can be no assurance regarding the amount of income to be generated by the REIT's properties. The ability of the REIT to make cash distributions, and the actual amount distributed, is entirely dependent on the operations and assets of the REIT, and is subject to various factors, including financial performance, obligations under the Credit Facility and other outstanding debt, fluctuations in working capital, the sustainability of income derived from the tenants of the REIT's properties and any capital expenditure requirements. The Units are equity securities of the REIT and are not traditional fixed income securities. Unlike fixed income securities, there is no obligation of the REIT to distribute to Unitholders any fixed amount and there is no promise to return the initial purchase price of a Unit on a certain date in the future, and reductions in, or suspensions of, cash distributions may occur at any time that would reduce the yield of a Unit. The market value of the Units will deteriorate if the REIT is unable to meet its

distribution and AFFO targets in the future, and that deterioration may be significant. In addition, the composition of cash distributions for tax purposes may change over time and may affect the after-tax return for investors. Therefore, the rate of return over a defined period for a Unitholder may not be comparable to the rate of return on a fixed income security that provides a “return on capital” over the same period.

### **Tax-Related Risk Factors**

**Mutual Fund Trust Status** — The Tax Act contains restrictions on investments and income which must be complied with by closed-end trusts. Generally, in order to qualify as a “closed-end” mutual fund trust, the REIT must restrict its activities to the making of passive investments (such as the ownership of Canadian real property that is capital property) and must satisfy all of the following conditions:

- a) at all times, at least 80% of the REIT’s assets must consist of shares (or rights to acquire shares), cash, bonds, debentures, mortgages, notes or other similar obligations, marketable securities or Canadian real estate;
- b) not less than 95% of the REIT’s income (computed without regard to any distributions) for each taxation year must be derived from, or from the disposition of, investments described in (a);
- c) not more than 10% of the REIT’s assets at any time may consist of shares, bonds or securities of any one corporation or debtor; and
- d) all units of the REIT must be listed on a designated stock exchange in Canada.

Management of the REIT ensures that the REIT satisfies the conditions to qualify as a closed-end mutual fund trust by complying with the restrictions in the Tax Act as they are interpreted and applied by the Canada Revenue Agency (“CRA”). No assurance can be given that the REIT will be able to comply with these restrictions at all times. If the REIT were not to qualify as a mutual fund trust for purposes of the Tax Act, the consequences could be material and adverse. There can be no assurance that the Canadian federal income tax laws respecting mutual fund trusts, or the ways in which these rules are interpreted and applied by the CRA, will not be changed in a manner which adversely affects the REIT and/or its security holders.

Under current law, a trust may lose its status under the Tax Act as a mutual fund trust if it can reasonably be considered that the trust was established or is maintained primarily for the benefit of non-resident persons, except in limited circumstances. Accordingly, the Declaration of Trust provides that Non-Residents may not be the beneficial owners of more than 49% of the Units (determined on a basic or a fully-diluted basis). The Trustees will also have various powers that can be used for the purpose of monitoring and controlling the extent of Non-Resident ownership of the Units.

The restriction on the issuance of Units by the REIT to Non-Residents may adversely affect the REIT’s ability to raise financing for future acquisitions or operations. In addition, the Non-Resident ownership restriction could adversely impact the liquidity of the Units and the market price at which Units can be sold.

**REIT Exception** — Unless the REIT Exception applies to the REIT, the SIFT Rules may have an adverse impact on the taxation of the REIT and on the taxation of distributions to Unitholders. Although management believes that the REIT presently meets the requirements of the REIT Exception, there can be no assurance that the REIT will be able to qualify for the REIT Exception such that the REIT and the Unitholders will not be subject to the SIFT Rules in 2014 or in future years.

Should the REIT cease to qualify under the REIT Exception for a taxation year, the income tax considerations could be materially different from those described under the heading “Certain Canadian Federal Income Tax Considerations” in the Prospectus. In particular, non-deductible distribution amounts could be taxable to the REIT (with the result that the amount of cash available for distribution by the REIT would be reduced which could negatively impact the value of a Unit and could also be included in the

income of Unitholders for purposes of the Tax Act as taxable dividends). The REIT Exception is applied on a taxation year basis. Accordingly, even if the REIT does not qualify for the REIT Exception in a particular taxation year, it may be able to do so in a subsequent taxation year.

In the event that the SIFT Rules apply to the REIT, the impact to Unitholders 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.

**Tax Basis of the Properties** — Certain properties were acquired by the Partnership on a tax deferred basis, such that the tax cost of these properties was less than their fair market value. If one or more of such properties are disposed of, the gain realized 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 allowance, the undepreciated capital cost of such properties acquired by the Partnership from CTC was equal to the amounts jointly elected by the Partnership and CTC on the tax-deferred acquisition of such property. The undepreciated capital cost of such property was 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 is less than it would have been if such Properties had been acquired with a tax cost basis equal to their fair values.

**Change in Law** — There can be no assurance that income tax laws applicable to the REIT, including the treatment of real estate investment trusts and mutual fund trusts under the Tax Act, will not be changed in a manner which adversely affects the REIT or the Unitholders. Any such changes could have a negative effect on the value of the Units.

## **Risk Factors Related to the REIT's Relationship with CTC**

### **Significant Ownership by CTC**

As of June 30, 2014 CTC holds an approximate 83.2% effective interest in the REIT on a fully-diluted basis through ownership of 59,711,094 Units and all of the Class B LP Units, where each Class B LP Unit is attached to a Special Voting Unit of the REIT, providing for voting rights in the REIT. CTC also holds all of the non-voting Class C LP Units which, in limited circumstances, have voting rights pursuant to Special Voting Units issuable by the REIT to holders of Class C LP Units in certain limited circumstances. As a shareholder, CTC does not have a duty to act in the best interest of the REIT. In situations where the interest of CTC and the REIT are in conflict, CTC may utilize its ownership interest in, and contractual rights with, the REIT to further CTC's own interest which may not be the same as the REIT's interests in all cases.

As of June 30, 2014 the REIT does not have any debt, however, the Partnership has issued Class C LP Units, which are designed to provide CTC with an interest in the Partnership that entitles CTC to cumulative distributions, in priority to distributions to holders of the Class A LP Units, Class B LP Units and GP Unit, subject to certain exceptions. The weighted average annual distribution rate on the Class C LP Units during the Initial Fixed Rate Period is approximately 4.44% with distributions on a monthly basis.

In addition, the Declaration of Trust provides CTC with the exclusive right to nominate to the Board between one and four Trustees depending on the size of the board and CTC's effective interest in the REIT, on a fully-diluted basis. Currently, the REIT has seven Trustees and CTC has the right to nominate three Trustees.

For so long as CTC directly or indirectly holds a majority of the Voting Units, the REIT may not undertake, without the prior written consent of CTC (in its sole and absolute discretion): (i) any material acquisition, disposition or development; (ii) subject to the CTC Refinancing Obligations, any financings (debt or equity), refinancings or similar transactions; (iii) any direct or indirect granting of security over any assets of the REIT or any related entity; or (iv) the replacement of the Chief Executive Officer of the REIT. For

example, this precludes the REIT from engaging in mortgage financing without the prior written consent of CTC (in its sole and absolute discretion).

In addition, pursuant to the ROFO Agreement, the REIT has granted CTC a change of control Right of First Refusal (the "Change of Control ROFR"). The Change of Control ROFR provides that if a Competitor acquires more than 50% of the Units, on a fully diluted basis, at a time when the properties of the REIT leased by CTC represent at least 50% of the GLA of all of the properties of the REIT, then CTC will have the right to acquire such properties leased by it at fair market value, which may have a significant, adverse effect on Unitholders, including any acquirer of the REIT. Both the Change of Control ROFR, CTC's significant effective interest in the REIT and certain restrictions set out in the Declaration of Trust may effectively preclude or substantially 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 is exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). If CTC 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.

There can be no assurance that the credit ratings assigned to CTC will remain in effect for any given period of time or that the ratings will not be lowered, withdrawn or revised by DBRS or S&P at any time. The likelihood that CTC's creditors will receive payments owing to them will depend on CTC's financial health and creditworthiness. As discussed above, the REIT's revenues are dependent on the ability of CTC to meet its rent obligations under the Canadian Tire Leases. If CTC were to default on or cease to satisfy its payment obligations, it would have a material adverse effect on the REIT's financial condition or results of operations and its ability to make distributions to Unitholders. Credit ratings assigned by a ratings agency provide an opinion of that ratings agency on the risk that an issuer will fail to satisfy its financial obligations in accordance with the terms under which an obligation has been issued. A credit rating provides no guarantee of CTC's future creditworthiness.

#### **Risks Associated with Services Agreement and Property Management Agreement**

The REIT relies on CTC with respect to the provision of certain services under both the Services Agreement and the Property Management Agreement. This means that certain of the REIT's day-to-day operational and property management matters is dependent upon CTC's ability to successfully hire, train, supervise and manage its personnel and its ability to maintain its operating systems. If the REIT were to lose the services provided by CTC, if CTC fails to perform its obligations under the Services Agreement and Property Management Agreement, or the scope of services offered under the Services Agreement and/or the Property Management Agreement are inadequate, the REIT may experience a material adverse impact on its business operations. The REIT may be unable to duplicate the quality and depth of the services available to it by handling such services internally or by retaining another service provider.

Both the Services Agreement and the Property Management Agreement may be terminated in certain circumstances and they are only renewable on certain conditions. Accordingly, there can be no assurance that the REIT will continue to have the benefit of CTC's services pursuant to such agreements. If CTC should cease for whatever reason to provide such services, the cost of obtaining substitute services will likely be greater than the cost-recovery fee basis that the REIT pays CTC under the Services Agreement and Property Management Agreement, and this may materially adversely affect the REIT's ability to meet its objectives and execute its strategy which could materially and adversely affect the REIT's cash flows, operating results and financial condition and its ability to make distributions to Unitholders. Even if CTC continues providing services under the Services Agreement and the Property Management Agreement, costs may increase materially after the expiry of the maximum fee cap.



**Acquisition of Future Properties from CTC**

The REIT's ability to expand its asset base through acquisitions from CTC is affected by the REIT's ability to leverage its relationship with CTC to access opportunities to acquire additional properties that satisfy the REIT's investment criteria, all in accordance with the ROFO Agreement and the Development Agreement. There can be no assurance that the REIT will be able to access such opportunities and acquire additional properties or do so on terms that will result in an increase to the REIT's AFFO per Unit. In addition, there can be no assurance that the rights of first offer granted to the REIT by CTC to acquire CTC's interest in certain properties will be exercised or that CTC will elect to dispose of interests in its properties. The inability of the REIT to expand its asset base by virtue of its relationship with CTC may have a material adverse effect on the ability to expand its asset base.

**Sale and Other Disposition Restrictions under the Canadian Tire Leases**

Pursuant to the Canadian Tire Leases, the REIT granted CTC the ROFO and the ROFR. The ROFO provides that if the REIT wishes to sell, enter into a lease or otherwise dispose of a property, all or part of which is leased or was leased to CTC, then the REIT shall first provide an offer to CTC setting out the price and material terms and conditions of the proposed disposition or lease. The existence of such rights and the time period provided to CTC to exercise such rights may impair the marketability and value of the properties owned by the REIT and its ability to attract tenants other than CTC. In addition to the ROFO, the ROFR provides that if the REIT has received a bona fide offer from a Competitor to purchase, lease or otherwise acquire a property, all or part of which is leased or was leased to CTC, the REIT shall provide such offer to CTC and CTC shall have the right to match such offer.

In the event that the REIT desires to sell a property, the existence of the ROFO and, in certain circumstances, a ROFR as well as restrictions on use under the Canadian Tire Leases in favour of CTC could limit the number of purchasers of such property, make it more difficult to sell such property and/or decrease the potential purchase price that could be obtained for such property, which, in turn, could have a material adverse effect on the REIT.

**Competitive Tenant Restrictions under the Lease**

The REIT is subject to significant restrictions with respect to tenants in retail businesses that are competitive to those of the existing CTC business for a period ending on the later of: (a) 10 years after the term of such leases; and (b) when CTC ceases to hold, directly or indirectly, a majority of the Voting Units. The REIT is not able to enter into leases with such prospective tenants without the consent of CTC, which may be withheld in CTC's absolute discretion. The REIT may be limited in achieving higher rents or longer term leases with tenants other than CTC owing to these restrictions. The REIT may also be limited in achieving higher rents or longer term leases with tenants other than CTC owing to the operation of the right of first offer to lease in favour of CTC. As well, the rights of first offer and refusal in favour of CTC over the sale, lease or other disposition of the REIT's properties may impede the ability of the REIT to dispose of its properties or affect the price that the REIT may attain therefor, particularly if CTC has not renewed or otherwise terminated the Canadian Tire Lease in respect of such property. In any case, these restrictions may result in the inability of the REIT to access otherwise viable commercial lease opportunities and have a material adverse effect on the REIT's business, cash flows, financial conditions and results of operations and its ability to make distributions to Unitholders.

**Potential Conflicts of Interest with CTC**

CTC is not limited or restricted from owning, acquiring, constructing, developing or redeveloping properties required by CTC to operate its business, and, subject to the Non-Competition and Non-Solicitation Agreement, may itself in certain limited situations compete with the REIT in seeking tenants and for the purchase, development and operation of desirable commercial properties. While CTC is required in certain circumstances, subject to the terms and conditions of the ROFO Agreement and the Development Agreement, to provide the REIT with certain opportunities, including rights to acquire or participate in the development of properties, those circumstances are not comprehensive. In addition, there can be no assurance that the REIT will be able to access such opportunities or that CTC will exercise its consent rights over acquisitions and financings to allow the REIT to access such

opportunities. As a result, CTC may compete with the REIT in seeking tenants for, and in the development and operation of, properties.

CTC's continuing businesses may lead to other conflicts of interest between CTC 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 has entered into with CTC may be amended upon agreement between the parties, subject to applicable law and approval of the Independent Trustees. Because of CTC'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 effective Unitholder.

Under the Canadian Tire Leases, the REIT has granted alteration and expansion rights in favour of CTC that will have priority over the REIT's development rights to the extent of any conflict between such rights. As a result, the REIT may not be able to develop its properties in a way that is most favourable to the REIT, which could materially and adversely affect the REIT's cash flows, operating results and financial condition and its ability to make distributions to Unitholders.

### **CTC Competition Risk**

The Non-Competition and Non-Solicitation Agreement does not prevent CTC from acquiring or developing its own stores and properties; provided that if more than 20% of the GLA of the property is rented to non-CTC Banner tenants, CTC must offer the REIT the opportunity to participate. Thus CTC could compete with the REIT for Canadian Tire stores upon expiry of Canadian Tire Leases and for other tenants generally. The vast majority of properties acquired or developed by CTC to date contain less than 20% of the GLA leased to non-CTC Banner tenants. The Non-Competition and Non-Solicitation Agreement does not prevent CTC from redeveloping any properties for its use or other uses.

### **Indemnities**

The Acquisition Agreement contains representations and warranties typical of those contained in acquisition agreements negotiated between sophisticated purchasers and vendors acting at arm's length, certain of which are qualified as to knowledge and materiality and subject to reasonable exceptions, relating to CTC (as vendor), the Partnership and the Properties. 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 CTC will be in a position to satisfy a successful claim by the REIT in the event any such breach occurs.

### **Right of First Offer and Right of First Refusal**

To the extent that CTC assigns a Canadian Tire Lease, the Canadian Tire Leases provide that, notwithstanding such assignment, the Lease ROFO and the Lease ROFR remain in effect in favour of CTC beyond the term of such lease (including renewals). As a result, the period during which the REIT would be required to comply with the terms of either the Lease ROFO and/or the Lease ROFR, as applicable, notwithstanding the fact that CTC has assigned such lease, may be significant.

### **Restrictive Covenants**

To the extent that CTC assigns a Canadian Tire Lease, the Canadian Tire Leases provide that the REIT remains obligated to CTC to comply with certain restrictive covenants under the terms of such lease in favour of CTC until the end of such assigned lease term and for ten years thereafter. Depending on the term of such lease and including any renewals, the period during which CTC no longer remains liable under such lease, but where the REIT continues to remain bound by the terms of such restrictive covenants in favour of CTC, may be significant.

### **Inhibitions of Take-Over Bids**

The right of CTC to purchase all of the properties leased to CTC by the REIT in the event that a Competitor acquires more than 50% of the Units of the REIT (at a time when the fair market value of the properties leased to CTC exceeds 50% of the total assets of the REIT on GLA basis) will inhibit take-over

bids even if CTC ceases to retain a direct or indirect material ownership interest in the REIT as the right to purchase assets of the REIT may have significant adverse tax consequences to the acquirer and the remaining Unitholders of the REIT.

### **Risk Factors Related to the Business of the REIT's Key Tenant**

The future financial performance and operating results of CTC are subject to inherent risks, uncertainties, and other factors. Some of the factors, many of which are beyond CTC's control and the effects of which can be difficult to predict, include (a) credit, market, currency, operational, liquidity and funding risks, including changes in economic conditions, interest rates or tax rates; (b) the ability of CTC to attract and retain high quality employees, Associate Dealers, Canadian Tire Petroleum agents, PartSource, Mark's, and FGL Sports store operators and franchisees, as well as CTC's financial arrangements with such parties; (c) the growth of certain business categories and market segments and the willingness of customers to shop at Canadian Tire stores or acquire CTC's financial products and services; (d) CTC's margins and sales and those of its competitors; (e) risks and uncertainties relating to information management, technology, supply chain management, product safety, changes in law, regulations, competition, seasonality, commodity prices and business disruption, the relationships with suppliers and manufacturers, changes to existing accounting pronouncements, the risk of damage to the reputation of brands promoted by CTC and the cost of store network expansion and retrofits; and (f) CTC capital structure, funding strategy, cost management programs and share price. The foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect CTC's results which, consequently, could materially adversely affect the financial performance of the REIT and its ability to make distributions to Unitholders.

### **Financial Risk Factors**

In the normal course of business, the REIT is exposed to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives, and could materially adversely affect the financial performance of the REIT, its ability to make distributions to Unitholders, and the trading price of the Units.

Management's involvement in operations helps identify risks and variations from expectations. As a part of the overall operation of the REIT, management takes steps to avoid undue concentrations of risk. Various risk management policies support the management of financial risks. These risks, and the actions taken to manage them, are as follows:

#### **Liquidity**

An investment in real estate is relatively illiquid. Such illiquidity will tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. In recessionary times it may be difficult to dispose of certain types of real estate. The costs of holding real estate are considerable and during an economic recession the REIT may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for the REIT to dispose of properties at lower prices in order to generate sufficient cash for operations and for making distributions to Unitholders.

#### **Interest Rate Risk**

The REIT will require access to financial resources to implement its investment and growth strategy. When concluding financing agreements or extending such agreements, the REIT will depend on its ability to agree on terms that will not impair the REIT's desired AFFO and that do not restrict its ability to make distributions to Unitholders. In addition to the Credit Facility and any floating rate term of the Class C LP Units, the REIT may enter into future financing agreements with variable rates. An increase in interest rates could result in a significant increase in the cost incurred by the REIT to service debt or make distributions on the Class C LP Units, resulting in a decrease in or the elimination of distributions to Unitholders, which could materially adversely affect the trading price of the Units. In addition, increasing interest rates may put competitive pressure on the levels of distributable income made available to

Unitholders, increasing the level of competition for capital requirements of the REIT, which could have a material adverse effect on the trading price of the Units.

The REIT may use interest rate swaps from time to time to manage interest rate risk and to provide more certainty regarding the distributable income available to Unitholders, subject to the REIT's investment guidelines. However, to the extent that the REIT fails to adequately manage interest rate risk, its financial results, and its ability to pay distributions to Unitholders and interest payments under the Credit Facility and future financings, the REIT may be materially adversely affected. An increasing interest rate environment generally decreases the demand for real property. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by lenders, could have a material adverse effect on the REIT's ability to sell any of its properties.

### **Financing Risks**

The REIT has outstanding debt plus the aggregate par value of the Class C LP Units as of June 30, 2014 of approximately \$1,847,279. Although a portion of the cash flow generated by the Properties is devoted to servicing such debt and the distributions on the Class C LP Units, there can be no assurance that the REIT will continue to generate sufficient cash flow from operations to meet, as applicable, required distributions, interest payments, principal repayments and redemption amounts upon an applicable maturity date or redemption date. If the REIT is unable to meet distribution, interest, principal payments or redemption amounts, it could be required to seek renegotiation of such payments or obtain additional equity, debt or other financing. The REIT's ability to undertake a financing (equity or debt), refinancing or similar transaction or any direct or indirect granting of security over any assets of the REIT or any related entity is restricted under the Declaration of Trust and requires the prior written consent of CTC (in its sole and absolute discretion). This would, for example, preclude the REIT from engaging in mortgage financing without the prior written consent of CTC (in its sole and absolute discretion). The failure of the REIT to make or renegotiate interest, principal payments, or redemption amounts, or obtain additional equity, debt or other financing could materially adversely affect the REIT's financial condition and results of operations and decrease or eliminate the amount of cash available for distribution to Unitholders.

The REIT is subject to the risks associated with debt financing, including the risk that any outstanding debt (including the aggregate par value of the Class C LP Units) will not be able to be refinanced or that the terms of such refinancing will not be as favourable as the terms of existing debt (including the aggregate par value of the Class C LP Units), which may reduce AFFO. If the REIT were to incur variable rate debt (such as under the Credit Facility) or renew Class C LP Units at variable distribution rates, this will result in fluctuations in the REIT's cost as rates change. To the extent that rates rise, the REIT's operating results and financial condition could be materially adversely affected and decrease the amount of cash available for distribution to Unitholders. No variable rate debt or Class C LP Units with variable distribution rates currently exist. The REIT's Credit Facility also contains 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 to Unitholders may be limited or suspended.

### **Access to Capital**

The real estate industry is highly capital intensive. The REIT requires access to capital to maintain its properties, refinance its debt and its Class C LP Units, if necessary, as well as to fund its growth strategy and certain capital expenditures from time to time. There is no assurance that the REIT will otherwise have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, refinancing its debt and Class C LP Units, 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 limitations set forth in the Declaration of Trust, which in certain circumstances includes obtaining CTC's prior written consent for such borrowing. Failure by the REIT to access required capital could have a material adverse effect on the REIT's financial condition or results of operations and its ability to make distributions to Unitholders.

### **Degree of Leverage**

The ratio of debt of the REIT plus the aggregate par value of the Class C LP Units to Gross Book Value is approximately 48.1%, as of June 30, 2014. The REIT's degree of leverage could have important consequences to Unitholders, including: (i) making the REIT more vulnerable to a downturn in business or the economy in general; (ii) the REIT's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general trust purposes could be diminished; and (iii) reducing the total amount of funds available for distributions to Unitholders. Under the Declaration of Trust, the REIT's total Indebtedness plus the aggregate par value of the Class C LP Units shall not exceed 60% of Gross Book Value (or 65% of Gross Book Value including convertible Indebtedness).

## **PART XI**

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### **DISCLOSURE AND INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management is responsible for establishing and maintaining a system of controls and procedures over the public disclosure of financial and non-financial information regarding CT REIT. Such controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported, on a timely basis, to senior management, including the Chief Executive Officer and the Chief Financial Officer, so that they can make appropriate decisions regarding public disclosure.

Management is also responsible for establishing and maintaining appropriate internal control over financial reporting. CT REIT's internal controls over financial reporting include, but are not limited to, detailed policies and procedures related to financial accounting and reporting and controls over systems that process and summarize transactions.

All control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

During the three months ended June 30, 2014, there have been no changes in CT REIT's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, CT REIT's internal control over financial reporting.

## **PART XII**

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### **FORWARD LOOKING INFORMATION**

This MD&A, and the documents incorporated by reference herein, contain forward-looking statements that involve a number of risk and uncertainties, including statements regarding the outlook for CT REIT's business results of operations. Forward-looking statements are provided for the purposes of providing information about CT REIT's future outlook and anticipated events or results and may include statements regarding known and unknown risks and uncertainties and other factors that may cause the actual results to differ materially from those indicated. Such factors include, but are not limited to, general economic conditions, financial position, business strategy, availability of acquisition opportunities, budgets, capital expenditures, financial results, taxes, plans and objectives of or involving CT REIT. Particularly, statements regarding future acquisitions, results, performance, achievements, prospects or opportunities for CT REIT or the real estate industry are forward-looking statements. In some cases, forward-looking information can be identified by such terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", "likely", "schedule", or the negative thereof or other similar expressions concerning matters that are not historical facts. Some of the specific forward-looking statements in this document include, but are not limited to, statements with respect to the following:

- CT REIT's relationship with CTC, including in respect of (i) CTC's retained interest in the REIT and its current intention with respect thereto, (ii) the services to be provided to the REIT (whether directly or indirectly) by CTC pursuant to the Services Agreement and the Property Management Agreement, (iii) expected transactions to be entered into between CTC and the REIT (including the REIT's future acquisition of certain interests in properties held by CTC), (iv) the ROFO Agreement, and (v) the Development Agreement;
- CT REIT's ability to execute its growth strategies;
- CT REIT's capital expenditure requirements and capital expenditures to be made by the REIT and CTC;
- CT REIT's distribution policy and the distributions to be paid to Unitholders;
- the distributions to be paid to holders of units of the Partnership;
- CT REIT's capital structure strategy and its impact on the financial performance of the REIT and distributions to be paid to Unitholders;
- CT REIT's access to available sources of debt and/or equity financing;
- future compensation and governance practices by CT REIT;
- future legislative and regulatory developments which may affect CT REIT;
- the expected tax treatment of CT REIT and its distributions to Unitholders;
- CT REIT's ability to meet its stated obligations;
- CT REIT's ability to expand its asset base, make accretive acquisitions, develop or intensify its property and participate with CTC in the development or intensification of the properties;
- the ability of CT REIT to qualify as a "mutual fund trust", as defined in the Tax Act, and as a "real estate investment trust", as defined in the SIFT Rules; and
- interest rates and the future interest rate environment.

CT REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that the Canadian economy will remain stable over the next 12 months, that inflation will remain relatively low, that tax laws remain unchanged, that conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate, that the Canadian capital markets will provide CT REIT with access to equity and/or debt at reasonable rates when required and that CTC will continue its involvement with CT REIT on the basis described in its 2013 AIF.

Although the forward-looking statements contained in this MD&A are based upon assumptions that management of CT REIT believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the REIT's control, that may cause CT REIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the factors discussed under "Risk Factors" section of the 2013 AIF and also in Part X of this MD&A.

For more information on the risks, uncertainties and assumptions that could cause CT REIT's actual results to differ from current expectations, please also refer to CT REIT's public filings available on SEDAR at [www.sedar.com](http://www.sedar.com) and at [www.ctreit.com](http://www.ctreit.com).

CT REIT cautions that the foregoing list of important factors and assumptions is not exhaustive and other factors could also adversely affect its results. Investors and other readers are urged to consider the foregoing risks, uncertainties, factors and assumptions carefully in evaluating the forward-looking information and are cautioned not to place undue reliance on such forward-looking information. Statements that include forward-looking information do not take into account the effect that transactions

or non-recurring or other special items announced or occurring after the statements are made have on CT REIT's business. For example, they do not include the effect of any dispositions, acquisitions, asset write-downs or other charges announced or occurring after such statements are made. The forward-looking information in this MD&A is based on certain factors and assumptions made as of the date hereof or the date of the relevant document incorporated herein by reference, as applicable. CT REIT does not undertake to update the forward-looking information, whether written or oral, that may be made from time to time by it or on its behalf, to reflect new information, future events or otherwise, except as required by applicable securities laws.

Information contained in or otherwise accessible through the websites referenced in this MD&A or the documents incorporated by reference herein (other than CT REIT's profile on SEDAR at [www.sedar.com](http://www.sedar.com)) does not form part of this MD&A or the documents incorporated by reference herein and is not incorporated by reference into this MD&A. All references to such websites are inactive textual references and are for information only.

### **Commitment to disclosure and investor communication**

The Investor Relations section of the REIT's website [www.ctreit.com](http://www.ctreit.com) includes the following documents and information of interest to investors:

- Annual Information Form;
- Management Information Circular;
- the Prospectus;
- quarterly reports; and
- conference call webcasts (archived for one year).

Additional information about the REIT has been filed electronically with various securities regulators in Canada through SEDAR and is available online at [www.sedar.com](http://www.sedar.com).

If you would like to contact the Investor Relations department directly, call Andrea Orzech at (416) 480-3195 or email [investor.relations@ctreit.com](mailto:investor.relations@ctreit.com).

August 5, 2014

***CT REAL ESTATE INVESTMENT TRUST  
INTERIM FINANCIAL STATEMENTS  
(UNAUDITED)***

***SECOND QUARTER 2014***



# Condensed Consolidated Balance Sheets (Unaudited)

| As at<br>(C\$ in thousands)            | Note  | June 30, 2014       | December 31, 2013   |
|--|-------|---------------------|---------------------|
| <b>Assets</b>                          |       |                     | (Note 19)           |
| <b>Non-current assets</b>              |       |                     |                     |
| Investment properties                  | 4     | \$ 3,800,783        | \$ 3,547,864        |
| Other assets                           |       | 2,224               | 638                 |
|  |       | <b>3,803,007</b>    | <b>3,548,502</b>    |
| <b>Current assets</b>                  |       |                     |                     |
| Tenant and other receivables           |       | 13,540              | 696                 |
| Other assets                           |       | 15,907              | 7,055               |
| Cash and cash equivalents              |       | 9,764               | 46,999              |
|  |       | <b>39,211</b>       | <b>54,750</b>       |
| <b>Total assets</b>                    |       | <b>\$ 3,842,218</b> | <b>\$ 3,603,252</b> |
| <b>Liabilities</b>                     |       |                     |                     |
| <b>Non-current liabilities</b>         |       |                     |                     |
| Class C LP Units                       | 6     | \$ 1,847,279        | \$ 1,800,000        |
| Other liabilities                      |       | 366                 | 275                 |
|  |       | <b>1,847,645</b>    | <b>1,800,275</b>    |
| <b>Current liabilities</b>             |       |                     |                     |
| Accounts payable and other liabilities | 7     | 27,048              | 12,864              |
| Distributions payable                  | 8     | 9,827               | 9,727               |
|  |       | <b>36,875</b>       | <b>22,591</b>       |
| <b>Total liabilities</b>               |       | <b>1,884,520</b>    | <b>1,822,866</b>    |
| <b>Equity</b>                          |       |                     |                     |
| Unitholders' equity                    | 9     | 960,048             | 880,199             |
| Non-controlling interests              | 9, 11 | 997,650             | 900,187             |
| <b>Total equity</b>                    |       | <b>1,957,698</b>    | <b>1,780,386</b>    |
| <b>Total liabilities and equity</b>    |       | <b>\$ 3,842,218</b> | <b>\$ 3,603,252</b> |

The related notes form an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statements of Income and Comprehensive Income (Unaudited)

| (C\$ in thousands, except per unit amounts)                 | Note | For the three months<br>ended June 30, 2014 |               | For the six months<br>ended June 30, 2014 |                |
|---|------|---|---------------|---|----------------|
| Property revenue  | 12   | \$  | 83,364        | \$  | 166,044        |
| Property expense  | 12   |   | (17,785)      |   | (35,690)       |
| General and administrative expense                          | 13   |   | (2,499)       |   | (4,357)        |
| Interest income   |      |   | 133           |   | 291            |
| Interest and other financing charges                        | 14   |   | (20,384)      |   | (40,754)       |
| Fair value adjustment on investment properties              | 4    |   | 2,860         |   | 129,819        |
| <b>Net income and comprehensive income</b>                  |      | <b>\$</b>                                   | <b>45,689</b> | <b>\$</b>                                 | <b>215,353</b> |
| <b>Net income and comprehensive income attributable to:</b> |      |   |               |   |                |
| Unitholders   |      | \$  | 22,882        | \$  | 108,153        |
| Non-controlling interests                                   |      |   | 22,807        |   | 107,200        |
|   |      | <b>\$</b>                                   | <b>45,689</b> | <b>\$</b>                                 | <b>215,353</b> |
| <b>Net income per unit – basic</b>                          | 9    | <b>\$</b>                                   | <b>0.26</b>   | <b>\$</b>                                 | <b>1.20</b>    |
| <b>Net income per unit – diluted</b>                        | 9    | <b>\$</b>                                   | <b>0.20</b>   | <b>\$</b>                                 | <b>0.75</b>    |

The related notes form an integral part of these condensed consolidated financial statements.

# Condensed Consolidated Statements of Cash Flows (Unaudited)

| (C\$ in thousands)                              | Note | For the three months<br>ended June 30, 2014 | For the six months<br>ended June 30, 2014 |
|---|------|---|---|
| <b>Cash generated from (used for):</b>          |      |   |   |
| <b>Operating activities</b>                     |      |   |   |
| Net income                                      |      | \$ 45,689                                   | \$ 215,353                                |
| Add (deduct):                                   |      |   |   |
| Fair value adjustment on investment properties  |      | (2,860)                                     | (129,819)                                 |
| Straight-line rental income                     |      | (6,936)                                     | (13,714)                                  |
| Straight-line land lease expense                |      | 38  | 90  |
| Interest and other financing charges            |      | 20,384                                      | 40,754                                    |
| Changes in working capital and other            | 15   | (8,943)                                     | (9,468)                                   |
| <b>Cash generated from operating activities</b> |      | <b>47,372</b>                               | <b>103,196</b>                            |
| <b>Investing activities</b>                     |      |   |   |
| Acquisition of investment properties            |      | (34,428)                                    | (41,465)                                  |
| Capital expenditures recoverable from tenants   |      | (866)                                       | (976)                                     |
| <b>Cash used for investing activities</b>       |      | <b>(35,294)</b>                             | <b>(42,441)</b>                           |
| <b>Financing activities</b>                     |      |   |   |
| Unit distributions                              | 8    | (14,022)                                    | (28,299)                                  |
| Class B LP Unit distributions                   | 8    | (14,554)                                    | (29,107)                                  |
| Class C LP Unit distributions paid or loaned    | 6    | (20,334)                                    | (40,584)                                  |
| <b>Cash used for financing activities</b>       |      | <b>(48,910)</b>                             | <b>(97,990)</b>                           |
| <b>Cash used in the period</b>                  |      | <b>(36,832)</b>                             | <b>(37,235)</b>                           |
| Cash and cash equivalents, beginning of period  |      | 46,596                                      | 46,999                                    |
| <b>Cash and cash equivalents, end of period</b> |      | <b>\$ 9,764</b>                             | <b>\$ 9,764</b>                           |

The related notes form an integral part of these condensed consolidated financial statements.

## Condensed Consolidated Statement of Changes in Equity (Unaudited)

| (C\$ in thousands)                                     | Note | Units             | Retained Earnings | Unitholders' equity | Non-controlling interests | Total Equity        |
|--|------|-------------------|-------------------|---------------------|---------------------------|---------------------|
| <b>Balance at December 31, 2013</b>                    |      | <b>\$ 876,124</b> | <b>\$ 4,075</b>   | <b>\$ 880,199</b>   | <b>\$ 900,187</b>         | <b>\$ 1,780,386</b> |
| Net income and comprehensive income for the period     |      | -                 | 108,153           | 108,153             | 107,200                   | 215,353             |
| Issuance of Class B LP Units                           | 4    | -                 | -                 | -                   | 19,464                    | 19,464              |
| Distributions  | 8    | -                 | (29,275)          | (29,275)            | (29,201)                  | (58,476)            |
| Issuance of Units under Distribution Reinvestment Plan | 8    | 971               | -                 | 971                 | -                         | 971                 |
| <b>Balance at June 30, 2014</b>                        |      | <b>\$ 877,095</b> | <b>\$ 82,953</b>  | <b>\$ 960,048</b>   | <b>\$ 997,650</b>         | <b>\$ 1,957,698</b> |

The related notes form an integral part of these condensed consolidated financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

## 1. NATURE OF CT REAL ESTATE INVESTMENT TRUST

CT Real Estate Investment Trust ("CT REIT") is an unincorporated, closed-end real estate investment trust. CT REIT commenced operations on October 23, 2013, and was formed to own income-producing commercial properties located primarily in Canada. The principal and registered head office of CT REIT is located at 2180 Yonge Street, Toronto, Ontario M4P 2V8.

CT REIT is a subsidiary of Canadian Tire Corporation, Limited ("CTC"), which owns an 83.2 per cent effective interest in CT REIT as of June 30, 2014, consisting of 59,711,094 of the issued and outstanding units of CT REIT ("Units") and all of the issued and outstanding Class B limited partnership units ("Class B LP Units") of CT REIT Limited Partnership (the "Partnership"), which are economically equivalent to and exchangeable for Units. CT REIT Units are listed on the Toronto Stock Exchange (the "TSX") under the symbol CRT.UN.

CT REIT has one segment, which comprises the ownership and operation of primarily retail investment properties located in Canada.

## 2. BASIS OF PRESENTATION

### Statement of compliance

These condensed interim consolidated financial statements ("interim financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). CT REIT prepared these interim financial statements for the three and six months ended June 30, 2014 in accordance with International Accounting Standard ("IAS") 34 – *Interim Financial Reporting*. These interim financial statements should be read in conjunction with the annual consolidated financial statements contained in CT REIT's 2013 Annual Report. They have been prepared using the same accounting policies that were described in Note 2 to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report, except as described in Note 3 under New standards implemented.

These interim financial statements for the three and six months ended June 30, 2014 were authorized for issuance by CT REIT's Board of Trustees on August 5, 2014.

### Basis of presentation

These interim financial statements have been prepared on the historical cost basis except for investment properties and liabilities for unit-based compensation plans, which are measured at fair value.

These financial statements are presented in Canadian dollars ("C\$") rounded to the nearest thousand, except per unit amounts.

### Basis of Consolidation

The interim financial statements include the accounts of CT REIT and its consolidated subsidiaries consisting of the Partnership and CT REIT GP Corp., the general partner of the Partnership, which are entities over which CT REIT has control.

### Critical judgments in applying accounting policies

The preparation of these interim financial statements in accordance with IFRS requires management to make judgments and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of these interim financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results may differ from estimates made in these interim financial statements.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

Judgments are made in the selection and assessment of CT REIT's accounting policies. Estimates are used mainly in determining the measurement of recognized transactions and balances. Estimates are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Judgment and estimates are often interrelated. CT REIT's judgments and estimates are continually re-evaluated to ensure they remain appropriate. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Details of the accounting policies subject to judgments and estimates that CT REIT believes could have the most significant impact on the amounts recognized in these interim financial statements are described in Note 2 to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report.

## 3. ACCOUNTING POLICY CHANGES

### New standards implemented

#### Financial instruments: Asset and liability offsetting

In December 2011, the IASB amended IAS 32 – *Financial Instruments: Presentation* ("IAS 32") to clarify the requirements which permit offsetting a financial asset and liability in the financial statements. The IAS 32 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 32 amendments did not have an impact on CT REIT.

#### Financial Instruments: Novation of derivatives and continuation of hedge accounting

In June 2013, the IASB issued *Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39*. This amendment to IAS 39 Financial Instruments: Recognition and Measurement provides an exception to the requirement to discontinue hedge accounting in situations where over-the-counter derivatives designated in hedging relationships are directly or indirectly novated to a central counterparty as a consequence of laws or regulations, or the introduction of laws or regulations. The IAS 39 amendments were applied retrospectively for annual periods beginning on or after January 1, 2014. The implementation of the IAS 39 amendments did not have an impact on CT REIT.

### Levies

In May 2013, the IASB issued IFRIC Interpretation 21 – *Levies* ("IFRIC 21"), which is an interpretation of IAS 37 – *Provisions, Contingent Liabilities and Contingent Assets*. IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014 and must be applied retrospectively. The implementation of IFRIC 21 did not have an impact on CT REIT.

### Standards, amendments and interpretations issued and not yet adopted

The following new standards, amendments and interpretations have been issued but are not effective for the fiscal year ended December 31, 2014, and, accordingly, have not been applied in preparing the interim financial statements.

### Financial instruments

In November 2009, the IASB issued IFRS 9 – *Financial Instruments* ("IFRS 9"), which contained requirements for financial assets. In October 2010, requirements for financial liabilities were added to IFRS 9. IFRS 9 will replace IAS 39 – *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, the approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in OCI instead of net income unless this would create an accounting mismatch. An accounting mismatch may occur when

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

financial liabilities that are measured at fair value are managed with assets that are measured at fair value through profit or loss. A mismatch could arise because the entire change in the fair value of the financial assets would be presented in net income but a portion of the change in the fair value of the related financial liabilities would not.

In November 2013, the IASB issued a new version of IFRS 9 which incorporates a new general hedge accounting model. The new general hedge accounting model more closely aligns hedge accounting with risk management activities undertaken by an entities when hedging their financial and non-financial risk exposures as it provides more opportunities to apply hedge accounting.

IFRS 9 does not have a mandatory effective date. Early adoption is permitted. CT REIT is assessing the potential impact of this standard.

## 4. INVESTMENT PROPERTIES

|  |    | For the six months<br>ended June 30, 2014 |
|--|----|---|
| <b>Balance at beginning of year</b>            | \$ | 3,547,864                                 |
| Acquisitions (including acquisition costs)     |    | 108,208                                   |
| Capital expenditures                           |    | 976                                       |
| Capitalized interest                           |    | 202                                       |
| Straight-line rent                             |    | 13,714                                    |
| Fair value adjustment on investment properties |    | 129,819                                   |
| <b>Balance at end of period</b>                | \$ | 3,800,783                                 |

To determine fair value, CT REIT uses the income approach. Fair value is estimated by capitalizing the cash flows that the property can reasonably be expected to produce over its remaining economic life. The income approach is derived from two methods: the overall capitalization rate ("OCR") method, whereby the net operating income is capitalized at the requisite OCR, or the discounted cash flow ("DCF") method, in which the cash flows are projected over the anticipated term of the investment plus a terminal value discounted using an appropriate discount rate.

Properties under development are measured using a DCF model, net of costs to complete, as of the balance sheet date. Development sites in the planning phases are measured using comparable market prices for similar assets.

Investment properties were subject to external appraisals when initially acquired in 2013. At June 30, 2014, management's determination of fair value was updated for current market assumptions, utilizing market capitalization rates provided by independent valuation professionals.

CT REIT also obtained independent valuations for certain properties based on a four-year rotation cycle during which substantially all of its properties will be independently valued.

The fair value of investment properties is based on Level 3 inputs (see Note 24(a) to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report for definition of levels). There have been no transfers during the period between levels.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

The significant inputs used to determine the fair value of CT REIT's investment properties are as follows:

|                              | Properties valued by the<br>OCR method | Properties valued by<br>the DCF method |
|------------------------------|--|--|
| Number of properties         | 221                                    | 43                                     |
| Value as at June 30, 2014    | \$ 3,040,286                           | \$ 751,226                             |
| Discount rate                | -                                      | 7.36%                                  |
| Terminal capitalization rate | -                                      | 6.84%                                  |
| Overall capitalization rate  | 6.35%                                  | -                                      |
| Hold period (years)          | -                                      | 11                                     |

Valuations determined by the OCR method are most sensitive to changes in capitalization rates. Valuations determined by the DCF method are most sensitive to changes in discount rates.

The below table summarizes the sensitivity of the fair value of investment properties to changes in the capitalization rate:

| Rate sensitivity  | OCR Sensitivity |                      | DCF Sensitivity |                      |
|-------------------|-----------------|----------------------|-----------------|----------------------|
|                   | Fair value      | Change in fair value | Fair value      | Change in fair value |
| + 75 basis points | \$ 2,727,362    | \$ (312,924)         | \$ 712,036      | \$ (39,190)          |
| + 50 basis points | 2,824,009       | (216,277)            | 724,788         | (26,438)             |
| + 25 basis points | 2,928,023       | (112,263)            | 737,849         | (13,377)             |
| Base rate         | 3,040,286       | -                    | 751,226         | -                    |
| - 25 basis points | 3,161,821       | 121,535              | 764,930         | 13,704               |
| - 50 basis points | 3,293,833       | 253,547              | 778,968         | 27,742               |
| - 75 basis points | 3,437,744       | 397,458              | 793,351         | 42,125               |

Included in investment properties is \$18,900 of straight-line rent receivables arising from the recognition of rental revenue on a straight-line basis over the lease term.

For the three months ended June 30, 2014, seven acquisitions were completed at a total cost of \$94,039. Of the total cost, \$33,917 was paid in cash to CTC, \$509 was paid in cash to third parties, \$19,464 was satisfied with the issuance of Class B LP Units to CTC and the balance of \$40,149 was satisfied with the issuance of Class C LP Units to CTC. See Note 6. For the six months ended June 30, 2014, eight acquisitions were completed at a total cost of \$108,208. Of the total cost, \$35,417 was paid in cash to CTC, \$6,048 was paid in cash to third parties, \$19,464 was satisfied with the issuance of Class B LP Units to CTC and the balance of \$47,279 was satisfied with the issuance of Class C LP Units to CTC. See Note 6.

Development assets represent \$9,271 of the total value of investment properties. This includes development properties of \$9,069 and capitalized interest of \$202.

Investment properties with a fair value of approximately \$62,610 are situated on land held under leases with remaining initial terms of between 5 and 42 years, and an average of 19 years. Investment properties do not include any properties held under operating leases.

CT REIT has committed to expansion and development expenditures representing approximately \$31,045 in payments primarily to CTC, which are expected to be primarily incurred over the remainder of 2014.



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014  
(All dollar amounts are in thousands, except per unit amounts)

## 5. CREDIT FACILITY

The Partnership has a \$200,000 four-year, unsecured revolving credit facility (the "Credit Facility") which is available to the Partnership until October 2017. The Credit Facility bears interest at a rate based on the bank's prime rate of interest or bankers' acceptances plus a margin. A stand-by fee is charged on undrawn amounts. As at June 30, 2014, no amount has been drawn on the Credit Facility. The unamortized balance of transaction costs incurred in connection with the arrangement of the Credit Facility of \$521 is recorded in other assets on the condensed consolidated balance sheets. For the three and six months ended June 30, 2014, amortization of the transaction costs of \$47 and \$94, respectively, as well as the standby fee of \$120 and \$250, respectively, are included in interest and other financing charges on the condensed consolidated statement of income and comprehensive income.

## 6. CLASS C LP UNITS

The Class C LP Units entitle the holder to a fixed cumulative monthly distribution during the initial fixed rate period for each Series of Class C LP Units (the "Initial Fixed Rate Period") equal to a weighted average of 4.44 per cent of the aggregate capital amount ascribed to the Class C LP Units, in priority to distributions made to holders of the Class A LP Units, Class B LP Units and GP Units, subject to certain exceptions. During the five-year period beginning immediately following the completion of the Initial Fixed Rate Period, and each five-year period thereafter, the fixed distribution rate for Class C LP Units will be reset, and the holders of Class C LP Units will be entitled, subject to certain conditions, to elect either a fixed rate or floating rate option.

On expiry of the Initial Fixed Rate Period applicable to each series of Class C LP Units, and every five years thereafter, each such series of Class C LP Units is redeemable at par (together with all accrued and unpaid distributions thereon) at the option of the Partnership or the holder, upon giving at least 120 days' notice. The Partnership further has the ability to settle any of the Class C LP Units at any time after January 1, 2019 at a price equal to the greater of par and a price to provide a yield equal to the then equivalent Government of Canada bond yield plus a spread, so long as such redemption is in connection with a sale of properties.

Such redemptions of Class C LP Units (other than upon a change of control at CT REIT) can be settled at the option of the Partnership, in cash or Class B LP Units of equal value.

The following table presents the details of the Class C LP Units:

| Series                          | Expiry of initial fixed rate period | Annual distribution rate during initial fixed rate period | Carrying amount     |
|---------------------------------|-------------------------------------|---|---------------------|
| Series 1                        | May 31, 2015                        | 3.50%   | \$ 200,000          |
| Series 2                        | May 31, 2016                        | 3.50%   | 200,000             |
| Series 3                        | May 31, 2020                        | 4.50%   | 200,000             |
| Series 4                        | May 31, 2024                        | 4.50%   | 200,000             |
| Series 5                        | May 31, 2028                        | 4.50%   | 200,000             |
| Series 6                        | May 31, 2031                        | 5.00%   | 200,000             |
| Series 7                        | May 31, 2034                        | 5.00%   | 200,000             |
| Series 8                        | May 31, 2035                        | 5.00%   | 200,000             |
| Series 9                        | May 31, 2038                        | 5.00%   | 200,000             |
| Series 10                       | May 31, 2017                        | 2.38%   | 7,130               |
| Series 11                       | May 31, 2017                        | 2.20%   | 20,685              |
| Series 12                       | May 31, 2017                        | 2.23%   | 19,464              |
| <b>Weighted average / Total</b> |                                     | <b>4.44%</b>  | <b>\$ 1,847,279</b> |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

There are no principal payments on the Class C LP Units during the Initial Fixed Rate Period. For the three and six months ended June 30, 2014, interest expense of \$20,383 and \$40,612, respectively, was recognized in respect of the Class C LP Units. See Note 14. At the election of the holder, distributions on the Class C LP Units for the three and six months ended June 30, 2014, of \$18,584 and \$30,917, respectively, were deferred until the first day following the end of the fiscal year and non-interest bearing loans equal to the deferred distributions were advanced in lieu thereof. The net amount of distributions payable in respect of the Class C LP Units at June 30, 2014 of \$6,815 (December 31, 2013 - \$6,787) is included in accounts payable and other liabilities on the condensed consolidated balance sheet. See Note 7.

## 7. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities comprised the following:

|   | June 30, 2014    | December 31, 2013 |
|---|------------------|-------------------|
| Property operating costs <sup>(1)</sup>       | \$ 3,340         | \$ 2,751          |
| Interest on Class C LP Units <sup>(2)</sup>   | 6,815            | 6,787             |
| Deferred revenue <sup>(3)</sup>               | 14,351           | -                 |
| Other <sup>(4)</sup>                          | 2,542            | 3,326             |
| <b>Accounts payable and other liabilities</b> | <b>\$ 27,048</b> | <b>\$ 12,864</b>  |

<sup>(1)</sup> Includes \$355 payable to CTC (December 31, 2013 - \$2,483).

<sup>(2)</sup> Net of loans receivable of \$30,917 (December 31, 2013 - \$7,991). See Note 19.

<sup>(3)</sup> Prepaid rent from CTC.

<sup>(4)</sup> Includes \$68 payable to CTC (December 31, 2013 - \$20).

## 8. DISTRIBUTIONS

The following table presents total distributions declared to unitholders:

|                                 | For the three months ended June 30, 2014 |                        | For the six months ended June 30, 2014 |                        |
|---------------------------------|--|------------------------|--|------------------------|
|                                 | Total Distributions                      | Distributions per Unit | Total Distributions                    | Distributions per Unit |
| Units <sup>(1)</sup>            | \$ 14,642                                | \$ 0.16                | \$ 29,275                              | \$ 0.33                |
| Class B LP Units <sup>(2)</sup> | \$ 14,648                                | \$ 0.16                | \$ 29,201                              | \$ 0.33                |

<sup>(1)</sup> Includes \$9,703 and \$19,406, respectively, paid or payable to CTC.

<sup>(2)</sup> Paid or payable to CTC.

CT REIT has adopted a distribution reinvestment plan ("DRIP"), which allows certain Canadian resident Unitholders to elect to have all or a portion of their cash distributions reinvested in additional Units (at price per unit calculated by reference to the five-day volume weighted average for the Units on the TSX during the five business days preceding the distribution payment date). No brokerage commissions or service charges are payable in connection with the purchase of Units under the DRIP and CT REIT will pay all administrative costs. The automatic reinvestment of distributions under the DRIP does not relieve holders of Units of any income tax applicable to such distributions. Unitholders who participate in the DRIP receive an additional distribution of units equal to 3.0% of each distribution that was reinvested by them.

For the three and six months ended June 30, 2014, 55,966 Units and 88,766 Units, respectively, were issued under the DRIP for \$616 and \$971, respectively.

On June 13, 2014, CT REIT's Board of Trustees declared a distribution of \$0.054167 per unit payable on July 15, 2014 to holders of Units and Class B LP Units of record as of June 30, 2014.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014  
(All dollar amounts are in thousands, except per unit amounts)

On July 15, 2014, CT REIT's Board of Trustees declared a distribution of \$0.054167 per unit payable on August 15, 2014 to holders of Units and Class B LP Units of record as of July 31, 2014.

The holders of the Units, Class B LP Units and Class C LP Units may elect to defer receipt of all or a portion of distributions declared by CT REIT until the first day following the end of the fiscal year. If the holder so elects to defer receipt of distributions, CT REIT will loan the holder the amount equal to the deferred distribution without interest, and the loan will be due and payable in full on the first business day following the end of the fiscal year the loan was advanced, the holder having irrevocably directed that any payment of the deferred distributions be applied to repay such loans. For the three and six months ended June 30, 2014, the holders of the Class C LP Units elected to defer distributions in the amount of \$18,584 and \$30,917, respectively. See Note 6.

## 9. EQUITY

### Authorized and Outstanding Units

CT REIT is authorized to issue an unlimited number of Units. As of June 30, 2014, CT REIT had a total of 90,115,539 Units outstanding, 59,711,094 of which were held by CTC, and 91,297,572 Class B LP Units outstanding (together with a corresponding number of Special Voting Units), all of which were held by CTC.

The following tables summarize the changes in Units and Class B LP Units during 2014:

|  | Units      | Class B LP Units |
|--|------------|------------------|
| Total outstanding at beginning of year | 90,026,773 | 89,559,871       |
| Issued                                 | 88,766     | 1,737,701        |
| Total outstanding at end of period     | 90,115,539 | 91,297,572       |

Net income attributable to Unitholders and weighted average units outstanding used in determining basic and diluted net income per unit are calculated as follows:

| For the three months ended June 30, 2014                           |            |                  |             |
|--|------------|------------------|-------------|
|  | Units      | Class B LP Units | Total       |
| Net income attributable to unitholders - basic                     | \$ 22,882  | \$ 22,807        | \$ 45,689   |
| Income effect of settling Class C LP Units with Class B LP Units   |            |                  | 20,383      |
| Net income attributable to unitholders - diluted                   |            |                  | \$ 66,072   |
| Weighted average Units outstanding - basic                         | 90,093,532 | 89,769,923       | 179,863,455 |
| Dilutive effect of other Unit plans                                |            |                  | 40,925      |
| Dilutive effect of settling Class C LP Units with Class B LP Units |            |                  | 162,096,652 |
| Weighted average Units outstanding - diluted                       |            |                  | 342,001,032 |

| For the six months ended June 30, 2014                             |            |                  |             |
|--|------------|------------------|-------------|
|  | Units      | Class B LP Units | Total       |
| Net income attributable to unitholders - basic                     | \$ 108,153 | \$ 107,200       | \$ 215,353  |
| Income effect of settling Class C LP Units with Class B LP Units   |            |                  | 40,612      |
| Net income attributable to unitholders - diluted                   |            |                  | \$ 255,965  |
| Weighted average Units outstanding - basic                         | 90,068,712 | 89,665,477       | 179,734,189 |
| Dilutive effect of other Unit plans                                |            |                  | 36,861      |
| Dilutive effect of settling Class C LP Units with Class B LP Units |            |                  | 161,173,671 |
| Weighted average Units outstanding - diluted                       |            |                  | 340,944,721 |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

The calculation of diluted per unit amounts is determined on a combined basis for the Units and Class B LP Units as the Class B LP Units are exchangeable into Units on a one for one basis and are entitled to an equivalent amount of net income per unit as the Units.

Details and descriptions of the Units, Class B LP Units and Special Voting Units are available in Note 16 to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report.

## 10. DEFERRED UNIT PLANS

### Deferred Unit Plan for Trustees

CT REIT offers a Deferred Unit Plan (the "DU Plan") for Trustees who are not employees or officers of CT REIT or CTC or any of their subsidiaries. The amount payable by CT REIT in respect of the DU Plan changes as a result of distributions and unit price movements. All of the amounts attributed to changes in the amounts payable by CT REIT are recorded as trustee compensation expense in the period of change. As at June 30, 2014, accrued Trustee compensation costs relating to the DU Plan totaled \$247. The fair value of DUs is equal to the traded price of Units. Compensation expense recorded for the three and six months ended June 30, 2014 for DUs issued to Trustees was \$80 and \$168, respectively, and is included in general and administrative expense.

### Performance Unit Plan

CT REIT offers Performance Units ("PUs") to executive officers. The amount payable by CT REIT in respect of the PU Plan changes as a result of unit price movements and the applicable multiplier at the end of the performance period. All of the amounts attributed to changes in the amounts payable by CT REIT are recorded as employee compensation expense in the period of change. As at June 30, 2014, the accrued compensation costs relating to the PU Plan totaled \$70. The fair value of PUs is equal to the traded price of Units. Compensation expense recorded for the three and six months ended June 30, 2014 for PUs granted to executive officers was \$61 and \$70, respectively, and is included in general and administrative expense.

### Restricted Unit Plan for Executives

CT REIT offers a Restricted Unit Plan for Executives (the "RU Plan") to executive officers. All of the amounts attributed to changes in the amounts payable by CT REIT are recorded as employee compensation expense in the period of change. As at June 30, 2014, accrued RU compensation costs relating to the RU Plan totaled \$295. The fair value of RUs is equal to the traded price of Units. Compensation expense recorded for the three and six months ended June 30, 2014 for RUs issued to executive officers was \$10 and \$20, respectively, and is included in general and administrative expense.

## 11. NON-CONTROLLING INTERESTS

Details of non-wholly owned subsidiaries of CT REIT that have material non-controlling interests are as follows:

| Name of subsidiary          | Proportion of ownership<br>interests held by non-<br>controlling interests |        | Net income and comprehensive income<br>allocated to non-controlling interests |   | Accumulated non-<br>controlling interests |                      |
|-----------------------------|--|--------|---|---|---|----------------------|
|                             | December 31,<br>June 30, 2014  | 2013   | For the three months<br>ended June 30, 2014                                   | For the six months<br>ended June 30, 2014 | June 30,<br>2014                          | December 31,<br>2013 |
|                             |  |        |   |   |   |                      |
| CT REIT Limited Partnership | 50.33%   | 49.87% | \$ 22,807   | \$ 107,200                                | \$ 997,650                                | \$ 900,187           |

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(All dollar amounts are in thousands, except per unit amounts)

The following is a continuity of non-controlling interests for the six months ended June 30, 2014:

|   |    | <b>For the six<br/>months ended<br/>June 30, 2014</b> |
|---|----|---|
| Balance at beginning of year  | \$ | 900,187   |
| Non-controlling interests arising on the issuance of Class B LP Units |    | 19,464  |
| Share of net income and comprehensive income                          |    | 107,200   |
| Distributions   |    | (29,201)  |
| Balance at end of period  | \$ | 997,650   |

There are no restrictions on CT REIT's ability to access or use the assets and settle the liabilities of its subsidiaries and there are no contractual arrangements that could require CT REIT to provide financial support.

## 12. REVENUE AND EXPENSES

### (a) Property revenue

CT REIT leases income producing commercial properties to tenants under operating leases. The CTC leases have staggered initial terms ranging from 10 to 21 years, with a weighted average remaining initial term of approximately 15.2 years. Annual base minimum rent for CTC leases will have weighted average annual rent escalations of approximately 1.5% per year, commencing January 1, 2015.

The components of revenue for the three and six months ended June 30, 2014, are as follows:

|   |    | <b>CTC</b> |    | <b>Other</b> | <b>For the three<br/>months ended<br/>June 30, 2014</b> |
|---|----|------------|----|--------------|---|
| Base minimum rent                             | \$ | 58,041     | \$ | 1,554        | \$ 59,595   |
| Straight-line rental                          |    | 6,790      |    | 146          | 6,936   |
| Subtotal base rent                            |    | 64,831     |    | 1,700        | 66,531  |
| Property tax and operating expense recoveries |    | 16,217     |    | 616          | 16,833  |
| Property revenue                              | \$ | 81,048     | \$ | 2,316        | \$ 83,364   |

|   |    | <b>CTC</b> |    | <b>Other</b> | <b>For the six<br/>months ended<br/>June 30, 2014</b> |
|---|----|------------|----|--------------|---|
| Base minimum rent                             | \$ | 115,476    | \$ | 3,098        | \$ 118,574  |
| Straight-line rental                          |    | 13,494     |    | 220          | 13,714  |
| Subtotal base rent                            |    | 128,970    |    | 3,318        | 132,288   |
| Property tax and operating expense recoveries |    | 32,389     |    | 1,367        | 33,756  |
| Property revenue                              | \$ | 161,359    | \$ | 4,685        | \$ 166,044  |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

## (b) Property expense

The major components of operating costs consist of realty taxes and other recoverable costs:

|                                    | For the three<br>months ended<br>June 30, 2014 | For the six<br>months ended<br>June 30, 2014 |
|------------------------------------|--|--|
| Property taxes                     | \$ 16,380                                      | \$ 32,817                                    |
| Property management <sup>(1)</sup> | 586  | 1,169  |
| Other recoverable operating costs  | 348  | 768  |
| Ground rent                        | 461  | 915  |
| Property insurance                 | 10   | 21   |
| Property expense                   | \$ 17,785                                      | \$ 35,690                                    |

<sup>(1)</sup> Includes \$533 and \$1,063, respectively, with CTC.

## 13. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses comprised the following:

|  | For the three<br>months ended<br>June 30, 2014 | For the six<br>months ended<br>June 30, 2014 |
|--|--|--|
| Services Agreement with CTC <sup>(1)</sup> | \$ 826   | \$ 1,648                                     |
| Personnel expense                          | 488  | 910  |
| Other                                      | 1,185  | 1,799  |
| General and administrative expenses        | \$ 2,499                                       | \$ 4,357                                     |

<sup>(1)</sup> See Note 18.

## 14. INTEREST AND OTHER FINANCING CHARGES

Interest and other financing charges consist of the following:

|   | For the three<br>months ended<br>June 30, 2014 | For the six<br>months ended<br>June 30, 2014 |
|---|--|--|
| Interest on Class C LP Units                      | \$ 20,383                                      | \$ 40,612                                    |
| Capitalized interest                              | (166)  | (202)  |
| Standby fees - Credit Facility                    | 120  | 250  |
| Amortization of financing costs - Credit Facility | 38   | 76   |
| Amortization of agency fees - Credit Facility     | 9  | 18   |
| Interest and other financing charges              | \$ 20,384                                      | \$ 40,754                                    |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

## 15. CHANGES IN WORKING CAPITAL AND OTHER

Change in working capital comprises the following:

|  | For the three<br>months ended<br>June 30, 2014 | For the six<br>months ended<br>June 30, 2014 |
|--|--|--|
| Changes in working capital and other   |  |  |
| Tenant and other receivables           | \$ (6,836)                                     | \$ (12,844)                                  |
| Other assets                           | (9,712)  | (10,531)                                     |
| Accounts payable and other liabilities | 7,533  | 13,816                                       |
| Other long-term liabilities            | 72   | 91   |
| Changes in working capital and other   | \$ (8,943)                                     | \$ (9,468)                                   |

## 16. CAPITAL MANAGEMENT AND LIQUIDITY

CT REIT's objectives when managing capital are to ensure access to capital and sufficient liquidity is available to support ongoing property operations, developments and acquisitions while generating reliable, durable and growing monthly cash distributions on a tax-efficient basis to maximize long term Unitholder value.

The definition of capital varies from entity to entity, industry to industry and for different purposes. CT REIT's strategy and process for managing capital is driven by requirements established under the Declaration of Trust and the syndicated credit facility. Details of CT REIT's capitalization, financial covenants and the contractual maturities are described in Note 25 to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report.

As at June 30, 2014, CT REIT was in compliance with all of its financial covenants. Under these financial covenants, CT REIT has sufficient flexibility to fund business growth and maintain or amend distribution rates within its existing distribution policy.

## 17. FINANCIAL INSTRUMENTS

### Fair value of financial instruments

The fair value of the Class C LP Units is determined by discounting contractual principal and interest payments at estimated current market interest rates for the instrument. Current market interest rates are determined with reference to current benchmark rates for a similar term and current credit spreads for debt with similar terms and risks.

The fair value of the Class C LP Units at June 30, 2014, is \$1,907,129. The fair value measurement of the Class C LP Units is based on Level 2 inputs (see Note 24(a) to the annual consolidated financial statements contained in CT REIT's 2013 Annual Report for definition of levels). The significant inputs used to determine the fair value of the Class C LP Units are interest rates, interest rate volatility, and credit spreads. There have been no transfers during the period between levels.

Current financial assets consist of cash and cash equivalents, tenant and other receivables, and loans receivable, which are classified as loans and receivables and carried at amortized cost. Current financial liabilities consist of accounts payable and other liabilities and distributions payable, which are classified as other liabilities and carried at amortized cost. The carrying amounts approximate their fair value due to their short-term nature.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

## 18. RELATED-PARTY TRANSACTIONS

In the normal course of operations, CT REIT enters into various transactions with related parties that have been measured at amounts agreed to between the parties and are recognized in these interim financial statements.

### (a) Arrangements with CTC

#### *Property Management Agreement*

CTC has agreed to provide property management services to the Partnership, pursuant to the Property Management Agreement, on a cost-recovery basis only with a fixed maximum fee of \$2,333 for each of the first two years, pursuant to which the Partnership will reimburse CTC for all reasonable out of pocket costs and expenses incurred by CTC, subject to adjustments for inflation in year two, in connection with performance of the property management services, including costs related to leasing fees payable to third parties, overhead attributable to such services, employees, contractors, out-of-pocket expenses and other direct and indirect costs of providing the property management services, plus applicable taxes.

#### *Services Agreement*

CTC has agreed to provide administrative and other support services to CT REIT, pursuant to the Services Agreement, on a cost-recovery basis only with a fixed maximum fee of \$3,288 for each of the first two years, pursuant to which CT REIT will reimburse CTC for all costs and expenses incurred by CTC, subject to adjustments for inflation in year two, in connection with the performance of the administrative and other support services, including costs related to overhead attributable to such services, employees, contractors, out-of-pocket expenses and other direct and indirect costs of providing the administrative and other support services, plus applicable taxes.

#### *Development Agreement*

CT REIT, the Partnership and CTC have entered into the Development Agreement for a term expiring on the later of: (i) 10 years from the Closing; and (ii) the time when CTC ceases to hold, directly or indirectly, a majority of the Voting Units comprising any combination of Units and Special Voting Units. Pursuant to the Development Agreement CT REIT has a preferential right to participate in property developments that meet CT REIT's investment criteria and an option to purchase development properties. The Agreement allows CT REIT to provide mezzanine financing for development projects on mutually acceptable terms and in certain circumstances requires CTC to present new shopping centre acquisition opportunities in Canada.

### (b) Transactions and balances with related parties

Transactions with CTC comprised the following:

|  |    | <b>For the three<br/>months ended<br/>June 30, 2014</b> | <b>For the six<br/>months ended<br/>June 30, 2014</b> |
|--|----|---|---|
| Rental revenue                             | \$ | 81,048  | \$ 161,359  |
| Management and services agreements expense |    | 1,359   | 2,711   |
| Interest expense on Class C LP Units       |    | 20,383  | 40,612  |



# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three and six months ended June 30, 2014

(All dollar amounts are in thousands, except per unit amounts)

The net balance due to CTC is comprised of the following:

|   | June 30, 2014       | December 31, 2013   |
|---|---------------------|---------------------|
| Tenant and other receivables                                  | \$ (12,980)         | \$ (554)            |
| Class C LP Units  | 1,847,279           | 1,800,000           |
| Interest payable on Class C LP Units                          | 37,732              | 14,778              |
| Loans receivable in lieu of distributions on Class C LP Units | (30,917)            | (7,991)             |
| Accounts payable and other liabilities                        | 14,774              | 2,503               |
| Distributions payable on Class B LP Units and Units           | 8,180               | 8,086               |
| <b>Net due to CTC</b>   | <b>\$ 1,864,068</b> | <b>\$ 1,816,822</b> |

## 19. COMPARATIVE FIGURES

Certain of the prior period's figures have been restated to correspond to the current period presentation.

## 20. SUBSEQUENT EVENTS

In July 2014, CT REIT completed two investment property acquisitions, a distribution centre in Calgary, and a one-third leasehold interest in Canada Square, a mixed-use commercial development in Toronto. The total purchase price of approximately \$90,000 was satisfied by a draw on the REIT's credit facility combined with the assumption of existing mortgages on the properties and cash on hand.

## CORPORATE INFORMATION

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### Home Office

CT REIT  
2180 Yonge Street  
P.O. Box 770, Station K  
Toronto, Ontario M4P 2V8  
Canada  
Telephone: 416-480-2029  
Toll-free: 1-855-770-7348 (REIT)  
Website: [www.ctreit.com](http://www.ctreit.com)

### Registrar and Transfer Agent

Computershare Trust Company of  
Canada  
100 University Avenue, 8<sup>th</sup> Floor  
Toronto, Ontario M5J 2Y1  
Canada  
Telephone: 514-982-7555  
Toll-free: 1-877-982-8768  
Fax: 1-866-249-7775  
Email: [service@computershare.com](mailto:service@computershare.com)

### Exchange Listings

The Toronto Stock Exchange  
(CRT.UN)

### Corporate and Unitholder Information

Lisa Greatrix  
Vice President, Corporate Financial  
Planning and Analysis & Investor  
Relations  
[lisa.greatrix@cantire.com](mailto:lisa.greatrix@cantire.com)

Investor Relations email:  
[investor.relations@ctreit.com](mailto:investor.relations@ctreit.com)

Website:  
[www.ctreit.com](http://www.ctreit.com)

For Unitholder inquiries related to participation in the distribution reinvestment plan, electronic delivery of Unitholder documents, distribution payments or direct deposit of distributions into your Canadian bank account, change of address, transfer of Units, consolidation of multiple mailings to one Unitholder, estate settlements or for other Unitholder account inquiries, please contact the principal offices of Computershare Trust Company of Canada in Halifax, Montreal, Toronto, Calgary or Vancouver.