**QUARTERLY REPORT**

**MANAGEMENT DISCUSSION AND ANALYSIS
OF RESULTS OF
OPERATIONS AND FINANCIAL CONDITION**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED, IN CANDIAN DOLLARS)**

**FOR THE THREE MONTHS ENDED
MARCH 31, 2013 AND 2012**

**DATED: MAY 8, 2013**

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# PART I

## BASIS OF PRESENTATION

Financial information included in this Management Discussion and Analysis ("MD&A") includes material information up to May 8, 2013. Financial information provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

This MD&A has been reviewed and approved by management of the Company and the Audit Committee on behalf of the Board of Directors.

## FORWARD-LOOKING DISCLAIMER

Management's Discussion and Analysis ("MD&A") of the consolidated financial position and the results of operations of Plazacorp Retail Properties Ltd. (hereinafter referred to as "Plazacorp" or the "Company") for the three months ended March 31, 2013 should be read in conjunction with the Company's Condensed Interim Consolidated Financial Statements and the notes thereto for the three months ended March 31, 2013 and 2012, along with the MD&A for the year ended December 31, 2012, including the section on "Risks and Uncertainties". Historical results, including trends which might appear, should not be taken as indicative of future operations or results.

Certain information contained in this MD&A contains forward-looking statements, based on the Company's estimates and assumptions, which are subject to risks and uncertainties. This may cause the actual results and performance of the Company to differ materially from the forward-looking statements contained in this MD&A. Such factors include, but are not limited to, economic, capital market, and competitive real estate conditions. These forward-looking statements are made as of May 8, 2013 and Plazacorp assumes no obligation to update or revise them to reflect new events or circumstances, except for forward-looking information disclosed in a prior MD&A which, in light of intervening events, required further explanation to avoid being misleading.

## EXPLANATION OF NON-GAAP MEASURES USED IN THIS DOCUMENT

**Funds from Operations (FFO)** is not an IFRS financial measure. FFO is an industry measure and its calculation is prescribed in publications of the Real Property Association of Canada (REALpac). FFO as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. FFO is an industry standard widely used for measuring operating performance and is exclusive of unrealized changes in the fair value of investment properties, deferred income taxes and gains or losses on property dispositions. Plazacorp considers FFO a meaningful additional measure as it adjusts for certain non-cash items that do not necessarily provide an accurate picture of a company's past or recurring performance. It more reliably shows the impact on operations of trends in occupancy levels, rental rates, net property operating income and interest costs compared to profit determined in accordance with IFRS. As well, FFO allows some comparability amongst different real estate entities that have adopted different accounting with respect to investment properties (some entities use the cost model and some entities use the fair value model to account for investment properties).

**Adjusted Funds From Operations (AFFO)** is an industry measure widely used to help evaluate dividend or distribution capacity. AFFO as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. AFFO primarily adjusts FFO for non-cash revenues and expenses and operating capital and leasing requirements that must be made merely to preserve the existing rental stream. Most of these maintenance capital expenditures would normally be considered investing activities in the statement of cash flows. Capital expenditures which generate a new investment or revenue stream, such as the development of a new property or the construction of a new retail pad during property expansion or intensification would not be considered as maintenance capital expenditures and would not be included in determining AFFO.

**Net Property Operating Income (NOI)** is an industry measure in widespread use. NOI as calculated by Plazacorp may not be comparable to similar titled measures reported by other entities. Plazacorp considers NOI a meaningful additional measure of operating performance of property assets, prior to financing considerations. Its calculation is total property revenues less total property operating costs, including operating ground rents. It is used primarily for performance comparison of assets held over the entire reporting period of the financial statements and this MD&A.

**Earnings Before Interest, Taxes, Depreciation, and Amortization (EBITDA)** is not an IFRS financial measure. EBITDA, as calculated by Plazacorp, may not be comparable to similarly titled measures reported by other entities. EBITDA is used in calculations that measure the Company's ability to service debt. Its calculation is profit before finance costs, income tax expense, gains/losses on property dispositions, unrealized change from fair value adjustments and net revaluation of interest rate swaps.

FFO, AFFO, NOI and EBITDA are not defined by IFRS, and therefore should not be considered as alternatives to profit or cash flow from operating activities calculated in accordance with IFRS.

## ACCOUNTING CHANGES

Effective January 1, 2013, the Company implemented a new accounting standard issued - IFRS 11, "Joint Arrangements". The new standard required the Company to evaluate its interests in joint arrangements. Based on the evaluation, the Company determined that a number of its joint arrangements are considered "joint ventures" under the new standard and have therefore now been accounted for using the equity method instead of proportionate consolidation. Prior periods have been restated for this change in accounting policy in accordance with the requirements of the new standard. As a result of this new standard, approximately $26.3 million of gross assets and approximately $14.2 million of gross liabilities were reclassified and netted to investments on the statement of financial position at December 31, 2012. There was no impact to net income, however, certain revenues and expenses had to be reclassified and recorded as share of profit of associates. Comparative discussions throughout this MD&A have been restated for this change in accounting policy.

## OVERVIEW OF THE BUSINESS

Plazacorp was incorporated on February 2, 1999 and commenced trading on the TSX Venture Exchange (PLZ) on July 30, 1999. On December 11, 2002 after receipt of shareholder and regulatory approval, Plazacorp filed articles of amendment to convert to a mutual fund corporation and retains that status. Headquartered in Fredericton, New Brunswick, Plazacorp acquires, develops and redevelops unenclosed and enclosed retail real estate generally throughout Atlantic Canada, Quebec and Ontario, which are predominantly occupied by national tenants. The Company's portfolio at March 31, 2013 includes interests in 118 properties totaling 5.2 million square feet and additional lands held for development. These include properties directly held by Plazacorp, its subsidiaries and through joint ventures.

**Summary of Properties**

| | **Number of Properties March 31, 2013[1]** | **Gross Leasable Area (sq. ft.) March 31, 2013[1] [2]** | Number of Properties March 31, 2012[1] | Gross Leasable Area (sq. ft.) March 31, 2012[1] [2] |
|---|---|---|---|---|
| Newfoundland and Labrador | **10** | **621,726** | 10 | 609,361 |
| New Brunswick | **38** | **1,576,554** | 36 | 1,553,206 |
| Nova Scotia | **23** | **1,070,873** | 22 | 1,008,540 |
| Ontario | **14** | **259,908** | 14 | 259,087 |
| Prince Edward Island | **8** | **425,361** | 7 | 429,745 |
| Quebec | **25** | **1,212,167** | 25 | 1,210,408 |
| **Total** | **118** | **5,166,589** | 114 | 5,070,347 |

(1) Includes properties under development and non-consolidated investments.
(2) At 100%, regardless of the Company's ownership interest in the properties

Plazacorp intends to focus its investments on retail real estate in Canada and expects that unenclosed single tenant and multi-tenant retail centres in primary, secondary or tertiary markets in Central and Eastern Canada will constitute the majority of its acquisition and development activity over the near to medium term.

## BUSINESS ENVIRONMENT

The principal regions in which we operate continue to exhibit stability in retailer demand for space and in consumer spending. Our strategy is to develop or acquire properties tenanted primarily by national retailers, with a focus on retailers in the consumer staples market segment. Our execution of this strategy has produced a portfolio that is currently approximately 90% occupied by national retailers, providing investors with stable cash flow.

**Yearly Dividend Growth**

| Year | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | Aug 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Dividend per share annually | 8.0¢ | 8.75¢ | 10.5¢ | 12.5¢ | 15.0¢ | 17.5¢ | 18.5¢ | 19.25¢ | 20.25¢ | 21.0¢ | 21.5¢ | 22.5¢ |
| Percentage increase | n/a | 9.4% | 20.0% | 19.0% | 20.0% | 16.7% | 5.7% | 4.1% | 5.2% | 3.7% | 2.4% | 4.7% |

Plazacorp has a proven history of dividend growth, having increased its dividend eleven times over the past ten years. Plazacorp began paying dividends in November 2002. Plazacorp's first full year of dividends began in 2003.

The capital markets continue to be good for financing through both debt and equity. Long-term debt financing is available at historically competitive rates with long amortization periods and long terms.

**STRATEGY**

Plazacorp's principal goal is to deliver a reliable and growing yield to shareholders from a diversified portfolio of retail properties. To achieve this goal the Company's Board of Directors has set acquisition and development criteria of a minimum cash yield (unlevered yield) equal to 100 basis points above the mortgage constant for a 10 year mortgage at prevailing rates and assuming a 25 year amortization period.

The Company strives to:

- maintain access to cost effective sources of debt and equity capital to finance acquisitions and new developments;
- acquire or develop properties at a cost that is consistent with the Company's targeted returns on investment;
- maintain high occupancy rates on existing properties while sourcing tenants for properties under development and future acquisitions; and
- diligently manage its properties to ensure tenants are able to focus on their businesses.

The Company invests in the following property types:

- new properties developed on behalf of existing clients or in response to demand;
- well located but significantly amortized shopping malls and strip plazas to be redeveloped; and
- existing properties that will provide stable recurring cash flows with opportunity for growth.

Management intends to achieve Plazacorp's goals by:

- acquiring or developing high quality properties with the potential for increases in future cash flows;
- focusing on property leasing, operations and delivering superior services to tenants;
- managing properties to maintain high occupancies and staggering lease maturities appropriately;
- increasing rental rates when market conditions permit;
- achieving appropriate pre-leasing prior to commencing construction;
- managing debt to obtain both a low cost of debt and a staggered debt maturity profile;
- matching, as closely as practical, the weighted average term to maturity of mortgages to the weighted average lease term;
- retaining sufficient capital to fund capital expenditures required to maintain the properties well;
- raising capital where required in the most cost-effective manner; and
- periodically reviewing the portfolio to determine if opportunities exist to re-deploy equity from slow growth properties into higher growth investments.

## SIGNIFICANT EVENTS DURING 2013

### Potential Acquisition of KEYreit

On April 4, 2013, the Company announced that it entered into a definitive agreement with KEYreit (TSX: KRE.UN) to acquire 100% of the units of KEYreit. KEYreit unitholders will have the option to tender their Units for either $8.35 per unit in cash, subject to a maximum aggregate cash amount of approximately $62.1 million, representing approximately 50% of the consideration, 1.7041 shares of the Company, or any combination thereof, subject to proration. This offer is valued at approximately $124 million. As part of the transaction, the asset management and property management agreement with JBM Properties Inc. (a company owned by John Bitove, CEO of KEYreit) will be terminated.

Plazacorp believes that this transaction is attractive for the following reasons:

- The acquisition is estimated to immediately deliver high single digit percentage accretion to Plazacorp's AFFO per share, largely as a result of anticipated synergies because of Plazacorp's internalized management team. Plazacorp's debt-to-gross-book-value ratio is estimated to be between approximately 57% to 58% post transaction (including KEYreit's convertible debentures, but excluding Plazacorp's well-in-the-money convertible debentures), which is close to its target debt-to-gross book value ratio of 55%. Modest de-levering may occur after the transaction as a result of a small number of property sales. Given the higher coupon rates on many of KEYreit's mortgages and its convertible debentures, it is expected that many favourable refinancing opportunities will exist over time, which are expected to augment AFFO per share accretion.
- KEYreit's properties are compatible with Plazacorp's portfolio. Plazacorp is acquiring 227 properties, comprising approximately 1.2 million square feet of gross leasable area in nine provinces. Many of KEYreit's leases are "quadruple net" and the portfolio has an attractive weighted average lease term of approximately 8 years, which is approximately equal to that of Plazacorp. Post closing, Plazacorp will own approximately 345 retail properties totaling approximately 6.4 million square feet. Shoppers Drug Mart will remain as Plazacorp's largest tenant on a pro forma basis. Both KEYreit's and Plazacorp's portfolios have high occupancy rates.
- The integration of KEYreit’s properties will enhance the pro forma geographic diversification of Plazacorp, giving the Company a higher weighting in Ontario than what it currently has.
- Over time, the Company believes that it will be able to use its in-house development/redevelopment expertise to create value at many of KEYreit’s properties.

A takeover bid circular has been mailed to KEYreit unitholders and the offer is open for acceptance until 8:00 p.m. EST on May 16, 2013 (the “Expiry Time”), unless the offer is extended or withdrawn. The offer is conditional on, among other things, there having been validly deposited by the Expiry Time such number of KEYreit units that constitutes at least 66 2/3% of the KEYreit units then outstanding. The Company will fund the cash portion of the transaction with a secured term credit facility.

### Conversion to a REIT

On March 25, 2013, the Company received a positive ruling from Canada Revenue Agency in respect of converting from a mutual fund corporation to a real estate investment trust ("REIT") structure on a tax-deferred basis. The Company believes that the conversion will be beneficial to shareholders since a REIT is a more tax efficient structure and is the preferred vehicle in Canada for owning real estate.

Completion of this conversion will occur this year and will be subject to shareholder approval. In conjunction with this conversion, the Company will move from a quarterly dividend to a monthly distribution.

# PART II

## KEY PERFORMANCE DRIVERS AND INDICATORS

There are numerous performance drivers, many beyond management's control, that affect Plazacorp's ability to achieve its goals. These key drivers can be divided into internal and external factors.

Management believes that the key internal performance drivers are:

- occupancy rates;
- rental rates;
- tenant service; and
- maintaining competitive operating costs.

Management believes that the key external performance drivers are:

- the availability of new properties for acquisition and development;
- the availability of equity and debt capital; and
- a stable retail market.

The key performance indicators by which management measures Plazacorp's performance are as follows:

- funds from operations (FFO);
- FFO/AFFO payout ratios;
- debt service ratios;
- "same-asset" net property operating income;
- weighted average effective cost of debt; and
- occupancy levels.

The key performance indicators discussed throughout the MD&A are summarized in the table that follows. For a detailed explanation of the key performance indicators please refer to the appropriate section in this MD&A. Management believes that its key performance indicators allow it to track progress towards the achievement of Plazacorp's primary goal of providing a steady and increasing cash flow to shareholders. The following chart discusses the key performance indicators for the three months ended March 31, 2013 compared to the three months ended March 31, 2012.

| | |
|---|---|
| **Funds from Operations** | Ø For the three months ended March 31, 2013 FFO was $4.0 million, or 6.3¢ per share (6.3¢ per share diluted) compared to $3.8 million, or 6.4¢ per share (6.4¢ per share diluted) for the three months ended March 31, 2012, a 5.6% dollar increase.<br><br>The principal factors influencing FFO were:<br><br>Ø Incremental NOI growth of approximately $190 thousand earned by properties which were acquired or transferred from properties under development to income producing status during 2012.<br>Ø An increase in same-asset NOI of $339 thousand.<br>Ø An increase in the Company's effective joint ownership position in the Village Shopping Centre, as well as an improvement in NOI at the Village Shopping Centre, which increased FFO by approximately $130 thousand.<br>Ø A net increase in administrative costs of $208 thousand mainly affected by an increase in compensation expense due to the issuance of Restricted Share Units ("RSUs") under the Company's RSU plan in December 2012, as well as expenses incurred on software upgrades.<br>Ø A decrease in share of profit of associates of approximately $50 thousand as a result of the sale of Marché de L'Ouest shopping center in 2012.<br>Ø An increase in current income tax expense of $236 thousand, of which $218 thousand is fully refundable through a capital gains dividend which will occur over the course of the next two quarters and will result in a current income tax recovery in those two quarters. Excluding the impact of the current income tax expense, FFO was $4.2 million or 6.6¢ per share compared to $3.8 million or 6.4¢ per share in the prior year.<br>Ø FFO on a per share basis was impacted by conversions of convertible debentures – while cash flow positive, were slightly dilutive to FFO per share. |
| **FFO/AFFO Payout Ratios** | Ø For the three months ended March 31, 2013, the FFO payout ratio was 89.5% compared to 84.5% in the prior year. For the three months ended March 31, 2013, the AFFO payout ratio was 95.3% compared to 95.8% in the prior year. Excluding the impact of the current taxes mentioned above, the FFO payout ratio was 84.9% and the AFFO payout ratio was 90.1%. The first quarter of the year typically has higher payout ratios due to the seasonality in Plazacorp's NOI. |
| **Debt Service Ratios** | Ø For the three months ended March 31, 2013 the interest coverage ratio improved 0.2 times over the prior year to 2.2 times and the debt service coverage ratio improved over the prior year by 0.1 times to 1.7 times. The debt service coverage and interest coverage ratios exceed the requirements under borrowing arrangements. |
| **Same-Asset Net Property Operating Income** | Ø For the three months ended March 31, 2013, same-asset NOI increased compared to the prior year by $339 thousand or 4.3%. This was partly due to a $175 thousand lease termination fee. Normalized same-asset growth (excluding this fee) was 2.0%. |
| **Weighted Average Effective Cost of Debt** | Ø At March 31, 2013 the weighted average effective cost of mortgage debt decreased 27 basis points to 5.78% from 6.05% at March 31, 2012 and remained unchanged from December 31, 2012. The decrease was a result of continued historically low interest rates at which the Company can renew/place debt. |
| **Occupancy Levels** | Ø At March 31, 2013 overall occupancy was 94.7% compared to 96.4% at March 31, 2012. |

## PROPERTY AND CORPORATE PERFORMANCE 2013 AND 2012

### Funds from Operations (FFO)

Plazacorp's summary of FFO for the three months ended March 31, 2013, compared to the three months ended March 31, 2012 is presented below:

| (000s – except per share amounts and debt coverage ratios) | 3 Months Ended March 31, 2013 (unaudited) | 3 Months Ended March 31, 2012 (unaudited) |
|---|---|---|
| **Profit for the period attributable to shareholders** | **$ 8,287** | $ 14,192 |
| Add (deduct): | | |
| Gain on disposal of surplus land | **-** | (8) |
| Deferred income tax expense | **3,177** | 4,444 |
| Fair value adjustment to investment properties | **(6,515)** | (12,496) |
| Fair value adjustment to investments | **(1,282)** | (2,475) |
| Fair value adjustment to convertible debentures | **(350)** | (79) |
| Equity accounting adjustment | **747** | (110) |
| Non-controlling interest adjustment | **(43)** | 340 |
| **Basic FFO** | **$ 4,021** | $ 3,808 |
| Interest on dilutive convertible debentures | **-** | - |
| **Diluted FFO** | **$ 4,021** | $ 3,808 |
| Basic Weighted Average Shares Outstanding | **64,029** | 59,942 |
| Diluted Weighted Average Shares Outstanding | **64,029** | 59,942 |
| **Basic and diluted FFO per share** | **$ 0.063** | $ 0.064 |
| | | |
| **Debt coverage ratios** | | |
| Interest coverage ratio(1) | **2.2 times** | 2.0 times |
| Debt service coverage ratio(2) | **1.7 times** | 1.6 times |

(1) Calculated as EBITDA divided by finance costs.
(2) Calculated as EBITDA divided by total debt service (finance costs plus periodic mortgage principal repayments).

Basic FFO for the three months ended March 31, 2013 increased by 5.6% over the same period in the prior year. Positively impacting FFO was: (i) incremental NOI growth from new developments/acquisitions of approximately $190 thousand; (ii) the increase in the Company's effective joint ownership position in the Village Shopping Centre effective January 1, 2013, as well as an improvement in NOI at the Village Shopping Centre, which accounted for approximately $130 thousand of the increase (see further details about this below under the heading "Share of Profit of Associates"); and (iii) same-asset NOI growth of $339 thousand. Negatively impacting FFO was: (i) an increase in administrative expenses of $208 thousand; (ii) a decrease in share of profit of associates of approximately $50 thousand due to the sale of Marché de L'Ouest in December 2012; and (iii) an increase in current income tax expense of $236 thousand, of which $218 thousand is fully refundable through a capital gains dividend which will occur over the course of the next two quarters and will result in a current income tax recovery in those two quarters. Excluding the impact of the current income tax expense, FFO was $4.2 million or 6.6¢ per share compared to $3.8 million or 6.4¢ per share in the prior year.

FFO per share was impacted by the number of shares outstanding due to the conversions of convertible debentures. These conversions, while cash flow positive, were slightly dilutive to FFO on a per share basis.

### Adjusted Funds from Operations (AFFO)

Adjusted funds from operations removes non-cash revenues and expenses from FFO, deducts maintenance capital expenditures and leasing costs and makes other adjustments necessary to show funds available for distribution as dividends and to pay periodic mortgage payments.

Maintenance capital expenditures include routine capital expenditures for existing properties and leasing costs include leasing commissions and tenant improvement costs for existing properties.

| (000s, except per share amounts and percentage data) | **3 Months Ended March 31, 2013 (unaudited)** | 3 Months Ended March 31, 2012 (unaudited) |
|---|---|---|
| Basic FFO | **$ 4,021** | $ 3,808 |
| Add: Amortization of finance charges included in interest expense | **185** | 184 |
| Principal repayment of tenant loans | **92** | 136 |
| Non-controlling interest adjustment | **8** | 17 |
| Less: Non-cash revenue – straight-line rent | **(253)** | (267) |
| Equity accounting adjustment | **(44)** | (92) |
| Maintenance capital expenditures – existing properties | **(102)** | (130) |
| Leasing costs – existing properties | **(104)** | (297) |
| Mortgage finance charges – existing properties | **(28)** | - |
| **Basic and diluted AFFO** | **$ 3,775** | $ 3,359 |
| **Basic and diluted AFFO per share** | **$ 0.059** | $ 0.056 |
| Gross dividend payments | **3,599** | 3,218 |
| **AFFO after dividends** | **$ 176** | $ 141 |
| **Dividends as a percentage of basic AFFO** | **95.3%** | 95.8% |
| **Dividends as a percentage of basic FFO** | **89.5%** | 84.5% |

For the three months ended March 31, 2013, AFFO increased by $416 thousand, or 12.4% over the prior year mainly due to the increase in FFO, and a decrease in leasing costs on existing properties. Excluding the current income tax expense which will reverse, as previously mentioned, AFFO was $4.0 million or 6.2¢ per share compared to $3.4 million or 5.6¢ per share in the prior year.

The FFO payout ratio for the three months ended March 31, 2013 was 89.5% compared to 84.5% for the three months ended March 31, 2012. The AFFO payout ratio for the three months ended March 31, 2013 was 95.3% compared to 95.8% for the three months ended March 31, 2012. Excluding the impact of the current taxes mentioned above, the FFO payout ratio was 84.9% and the AFFO payout ratio was 90.1%. The first quarter of the year typically has higher payout ratios due to the seasonality in Plazacorp's NOI. The payout ratios for the current year compared to the prior year were impacted by the conversions of convertible debentures as previously mentioned.

**Same-Asset Net Property Operating Income**

Same-asset categorization refers to those properties which were owned and operated by Plazacorp for the three months ended March 31, 2013 and the entire year ended December 31, 2012 and excludes partial year results from certain assets due to timing of acquisition, redevelopment or disposition.

Significant portions of the Company's leases have common cost recoveries from tenants linked to the consumer price index (CPI). Certain anchor tenant leases may restrict recovery of common costs. As a result, certain costs such as snow removal and utility costs may not be completely offset by cost recoveries in a period, or recovery revenues may exceed costs. Municipal taxes are generally net and fully recoverable from all tenants. Most tenants in strip plazas and single use properties are responsible for their own utilities, and changes to these costs do not materially impact NOI.

| (000s, except percentage data) | **3 Months Ended March 31, 2013 (unaudited)** | 3 Months Ended March 31, 2012 (unaudited) |
|---|---|---|
| Same-asset rental revenue | **$ 13,985** | $ 13,516 |
| Same-asset operating expenses | **2,883** | 2,927 |
| Same-asset realty tax expense | **2,853** | 2,679 |
| **Same-asset net property operating income** | **$ 8,249** | $ 7,910 |
| **Total net property operating income** | **$ 9,217** | $ 8,271 |
| **Total net property operating income margin** | **58.0%** | 58.4% |

As noted in the chart above, the NOI for the same-asset pool for the three months ended March 31, 2013, increased by $339 thousand or 4.3% over the same period in the prior year. The increase was mainly due to a lease termination fee recorded of $175 thousand and a net increase in occupancy and other additional recoveries impacting NOI by approximately $187 thousand.

Total NOI grew by $946 thousand, or 11.4% due to the overall growth in investment properties and the movement of the Village Shopping Centre out of equity-accounted investments and into investment properties, effective January 1, 2013, as a result of the restructuring of the Village Shopping Centre Limited Partnership (see further details about this below under the heading “Share of Profit of Associates”). The increase in total NOI was mainly attributable to:

- the full period impact of four properties transferred to income producing status from properties under development in 2012, accounting for approximately $190 thousand of the increase;
- the addition of the Village Shopping Centre increased NOI by approximately $477 thousand due to the change in accounting treatment from equity accounting to proportionate consolidation;
- a same-asset pool increase of $339 thousand.

The following table shows a breakdown of same-asset NOI by province.

| (000s, except percentage data) | **3 Months Ended March 31, 2013 (unaudited)** | 3 Months Ended March 31, 2012 (unaudited) |
|---|---|---|
| New Brunswick | **$ 2,763** | $ 2,715 |
| Quebec | **1,174** | 1,159 |
| Nova Scotia | **2,628** | 2,311 |
| Ontario | **318** | 312 |
| Newfoundland and Labrador | **700** | 706 |
| Prince Edward Island | **666** | 707 |
| **Same-asset net property operating income** | **$ 8,249** | $ 7,910 |
| **Percentage increase over prior period** | **4.3%** | |

The following assets are not included in "same asset" measurements due to timing of acquisition, redevelopment or disposition.

| 2012 Transactions | Property Type | Square Footage | Ownership | Income Producing During |
|---|---|---|---|---|
| Spencer Drive, Charlottetown, PE | Strip Plaza | 95,713 | 100% | Q2 12 |
| Manotick, Manotick (Ottawa), ON | Single Use | 28,968 | 50% | Q3 12 |
| Powell Drive, Carbonear, NL | Single Use | 10,000 | 100% | Q3 12 |
| Buchanan Street Plaza, Charlottetown, PE | Strip Plaza | 56,452 | 100% | Q4 12 |
| Village Shopping Centre, St. John's, NL(1) | Enclosed | 427,623 | 44.5% | Q1 13 |
| Oromocto Mall, Oromocto, NB | Enclosed | 86,025 | 100% | Q4 13 |
| **Total** | | **704,781** | | |

(1) The joint venture arrangement was restructured effective January 1, 2013 and moved from equity-accounted investments to investment properties accounted for using proportionate consolidation and therefore has been excluded from same-asset NOI in order to be able to compare the two years on the same basis.

**Leasing and Occupancy**

The following table represents leases expiring for the next 5 years and thereafter for Plazacorp's property portfolio at March 31, 2013 (excluding non-consolidated investments).

| | Strip Plazas | | Enclosed Malls | | Single-User | | Total | |
|---|---|---|---|---|---|---|---|---|
| **Year** | **Sq Ft(1)** | **%** | **Sq Ft(1)** | **%** | **Sq Ft(1)** | **%** | **Sq Ft(1)** | **%** |
| Remainder of 2013 | 147,657 | 5.9 | 56,951 | 7.3 | - | - | **204,608** | **5.8** |
| 2014 | 197,006 | 7.9 | 113,645 | 14.6 | - | - | **310,651** | **8.5** |
| 2015 | 315,614 | 12.6 | 94,565 | 12.1 | 25,695 | 6.5 | **435,874** | **11.7** |
| 2016 | 295,435 | 11.8 | 103,628 | 13.3 | - | - | **399,063** | **11.0** |
| 2017 | 132,055 | 5.3 | 145,910 | 18.7 | 35,580 | 9.1 | **313,545** | **8.5** |
| 2018 | 147,793 | 5.9 | 82,971 | 10.6 | - | - | **230,764** | **6.2** |
| Thereafter | 1,273,766 | 50.6 | 182,282 | 23.4 | 331,235 | 84.4 | **1,787,283** | **48.3** |
| Subtotal | 2,509,326 | 100.0 | 779,952 | 100.0 | 392,510 | 100.0 | **3,681,788** | **100.0** |
| Vacant | 135,461 | | 70,076 | | - | | **205,537** | |
| **Total** | **2,644,787** | | **850,028** | | **392,510** | | **3,887,325** | |
| **Weighted average lease** | **7.1 years** | | **4.3 years** | | **8.9 years** | | **6.6 years** | |

(1) At 100%, regardless of the Company's ownership interest in the properties.

At March 31, 2013, overall occupancy for the portfolio (excluding properties under development and non-consolidated investments) decreased to 94.7% from 96.4% at March 31, 2012. This decrease was mainly due to the increase in vacancy at Grand Falls Shopping Centre, as well as the Village Shopping Centre, which has a lower occupancy than the average for investment properties and which came out of equity-accounted investments and into investment properties effective January 1, 2013. Excluding the Village Shopping Centre, occupancy was 95.5%, compared to 96.4% at March 31, 2012.

During the first quarter of 2013, the Company completed 181 thousand square feet of new and renewal leasing deals at market rates (including leasing at non-consolidated investments). The 181 thousand square feet of leasing was comprised of 64 thousand square feet on new developments, and 117 thousand square feet on existing properties. Excluding leasing at non-consolidated investments, the Company completed 114 thousand square feet of new and renewal leasing deals at market rates. The 114 thousand square feet of leasing was comprised of 31 thousand square feet on new developments and 83 thousand square feet on existing properties.

On average, Plazacorp's embedded or contractual gross rents expiring in 2013 would be at or below current market rates. Plazacorp's financial exposure to vacancies and lease roll-overs differs among the different retail asset types, as gross rental rates differ dramatically by asset class.

- Occupancy in the strip plazas was 94.9% at March 31, 2013, compared to 96.1% at March 31, 2012, and 95.7% at December 31, 2012.
- Average occupancy for enclosed malls was 91.8 % at March 31, 2013, compared to 94.5% at March 31, 2012 and 91.0% at December 31, 2012.

- Occupancy for single use assets remained stable at 100% at March 31, 2013.
- Pre-leased space in properties in the development phase and in the construction phase is 87.8% at March 31, 2013.

Plazacorp has built a portfolio with a high quality revenue stream. Plazacorp's ten largest tenants based upon current monthly base rents at March 31, 2013 represent approximately 51.5% of total revenues in place.

| | % of Gross Revenue | | % of Gross Revenue |
|---|---|---|---|
| 1. Shoppers Drug Mart | 22.7 | 6. Reitmans | 2.8 |
| 2. Dollarama | 6.9 | 7. Bulk Barn | 2.5 |
| 3. Staples | 4.0 | 8. Winners | 2.5 |
| 4. Mark's Work Wearhouse | 3.1 | 9. Sobeys | 2.4 |
| 5. Best Buy/Future Shop | 2.8 | 10. Michaels | 1.8 |

The Company's mix of tenancy is primarily made up of national tenants. The portfolio is well positioned to resist downturns in its markets and provide stability to cash flows from which it funds operations and dividends.

| | **March 31, 2013** | March 31, 2012 |
|---|---|---|
| National | **89.1%** | 89.5% |
| Regional | **4.2%** | 3.9% |
| Local | **6.5%** | 5.7% |
| Non-Retail | **0.2%** | 0.9% |

**Profit and Total Comprehensive Income for the Period**

Profit and total comprehensive income for the three months ended March 31, 2013 was $8.5 million compared to $14.7 million for the same period in the prior year. Profit was impacted by: (i) a decrease in share of profit of associates of $2.2 million, mainly due to a decrease in fair value of the underlying investment properties, the removal of the Village Shopping Centre from equity-accounted investments and the sale of Marché de L'Ouest in 2012; (ii) an increase in administrative expenses of $208 thousand; (iii) a net gain from fair value adjustments to investment properties of $6.5 million for March 31, 2013 compared to $12.5 million for the prior year, mainly as a result of a smaller change in capitalization rates compared to the prior year; and (iv) an increase in current taxes of $236 thousand. These were offset by: (i) the increase in NOI of $946 thousand mentioned previously; (ii) an increase in the net gain from fair value adjustments to convertible debentures, which increased profit by $271 thousand over the prior year; and (iii) a decrease in deferred taxes of $1.3 million.

**Share of Profit of Associates**

Share of profit of associates consists of income from equity and cost-accounted investments as well as fair value changes in the underlying investment properties included within these equity-accounted investments and other changes to the equity position of the equity-accounted investments that would impact the residual returns on wind-up (such as debt financing incurred). The following schedule shows Plazacorp's ownership position, rates of preferred returns on investment and Plazacorp's interest in cash on capital appreciation beyond the preferred returns.

| | Ownership Position | Preferred Return | Residual Return |
|---|---|---|---|
| **Equity Accounted Investments**[1] | | | |
| Centennial Plaza Limited Partnership | 10% | 10% | 20% |
| Trois Rivieres Limited Partnership | 15% | 10% | 30% |
| Plazacorp – Shediac Limited Partnership | 10% | 8% | 50% |
| Plazacorp Ontario1 Limited Partnership | 25% | 4% | 25% |
| Plazacorp Ontario2 Limited Partnership[2] | 50% | n/a | n/a |
| Plazacorp Ontario3 Limited Partnership[2] | 50% | n/a | n/a |
| Plazacorp Ontario4 Limited Partnership[2] | 50% | n/a | n/a |
| RBEG Limited Partnership[2] | 50% | n/a | n/a |
| CPRDL Limited Partnership[2] | 50% | n/a | n/a |
| Fundy Retail Limited[2] | 50% | n/a | n/a |
| VGH Limited Partnership[3] | 20% | 8% | 27% |
| | | | |
| **Cost Accounted Investments**[1] | | | |
| Northwest Plaza Commercial Trust | 10% | n/a | n/a |

(1) Equity and cost accounted investments consist of the following properties: 3550 Sources, Centennial Plaza, Place Du Marche and BPK Levis (Centennial Plaza Limited Partnership); Plaza des Recollets (Trois Rivieres Limited Partnership); Shediac West (Plazacorp – Shediac Limited Partnership); Ottawa Street Almonte, Hastings Street Bancroft and Main Street Alexandria (Plazacorp Ontario1 Limited Partnership); Amherstview and Scugog Street Port Perry (Plazacorp Ontario2 Limited Partnership); King & Mill (Plazacorp Ontario3 Limited Partnership); Manotick (Plazacorp Ontario4 Limited Partnership); Bureau en Gros (RBEG Limited Partnership); CPRDL (CPRDL Limited Partnership); Gateway Mall (Fundy Retail Limited); St. Jerome (VGH Limited Partnership); and the Northwest Centre (Northwest Plaza Commercial Trust).
(2) These properties were added to equity-accounted investments as a result of the accounting change under IFRS 11.
(3) The land within this partnership is currently in the planning phases of development.

Share of profit of associates for the three months ended March 31, 2013 includes Plazacorp's share of NOI of approximately $740 thousand. Share of profit of associates decreased by $2.2 million for the three months ended March 31, 2013 compared to the three months ended March 31, 2012. The decreases were mainly due to a fair value decrease of the underlying investment properties due to a smaller change in capitalization rates compared to the prior year, the sale of Marché de L'Ouest in 2012 and the removal of the Village Shopping Centre Limited Partnership from equity-accounted investments.

The joint venture for the Village Shopping Centre was reorganized and converted from a preferred return/residual return structure to a pari-passu co-ownership structure effective January 1, 2013, with the Company's ownership position becoming 44.5%. As part of the reorganization, the Village Shopping Centre Limited Partnership was dissolved. As a result, the Village Shopping Centre was moved from equity-accounted investments to investment properties and is now being accounted for on a proportionate consolidation basis.

Distributions received from associates for the three months ended March 31, 2013 (excluding the final distribution to the partners on the sale of Marché de L'Ouest) were $0.5 million compared to $0.6 million for the three months ended March 31, 2012.

**Change in Fair Value of Investment Properties**

The net gain from the fair value adjustment to investment properties for the three months ended March 31, 2013 was $6.5 million (for the three months ended March 31, 2012 - $12.5 million). The decrease was mainly due to a smaller change in capitalization rates compared to the prior year. The weighted average capitalization rate at March 31, 2013 was 6.87% compared to 7.25% at March 31, 2012. At March 31, 2013 a decrease of 0.25% in the capitalization rates used to determine

the fair value of investment properties would have resulted in an increase in investment properties of approximately $21.1 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately $19.6 million.

**Change in Fair Value of Convertible Debentures**

The net gain from the fair value adjustment to convertible debentures for the three months ended March 31, 2013 was $350 thousand and for the three months ended March 31, 2012 was $79 thousand. The increase was mainly due to changes in the Company's share price.

**Administrative Expenses**

Administrative expenses increased by $208 thousand for the three months ended March 31, 2013, compared to the same period in the prior year, mainly due to an increase in compensation expense for the issuance of RSUs under the Company's RSU plan, and expenses relating to software upgrades.

**Income Tax Expense**

The financial statements include the current and deferred income taxes payable by the Company and its consolidated subsidiaries.

| (000s) | **3 Months Ended March 31, 2013 (unaudited)** | 3 Months Ended March 31, 2012 (unaudited) |
|---|---|---|
| Current income taxes | **$ 247** | $ 11 |
| Deferred income taxes | **3,177** | 4,444 |
| **Total income tax expense** | **$ 3,424** | $ 4,455 |

Deferred income taxes decreased for the three months ended March 31, 2013 compared to the prior year, mainly as a result of lower profit before income taxes, mainly driven by a decrease in fair value adjustments compared to the prior year.

Current income taxes increased for the three months ended March 31, 2013, as a result of a capital gain recorded on the restructuring of the Village Shopping Centre Limited Partnership. The $218 thousand of current income tax expense related to the Village Shopping Centre is fully refundable through a capital gains dividend which will occur over the course of the next two quarters and will result in a current income tax recovery in those two quarters.

## OUTLOOK

Plazacorp's development and leasing efforts over the years have produced a property portfolio that is dominated by national retailers and provides investors with a very stable cash flow. Performance to date has demonstrated the strength of current strategies and operating capabilities. Barring unforeseen events, management is confident of delivering solid performance in 2013, as well as growth to the portfolio. The primary benefit to shareholders of the Company's performance and tenant profile is reliable cash flow and, over time, increasing dividends. Plazacorp's current dividend policy is to pay shareholders 22.50¢ per share for 2013 compared to 21.50¢ per share for 2012.

The Company looks forward to the acquisition of KEYreit and integrating that portfolio with that of Plazacorp's. As mentioned previously, the acquisition is estimated to immediately deliver accretion to AFFO mostly as a result of synergies to be realized and the elimination of external management fees.

In terms of Plazacorp's development pipeline, Plazacorp currently owns an interest in eleven projects under development and five land assemblies in progress which, upon completion, are expected to be accretive to the Company's earnings. The following properties, in which the Company currently owns an interest, are under construction, active development or active planning and are anticipated to become income producing at various points over the next three years as follows:

| Properties under development | Property Type | Status | Square Footage | Ownership | Occupied or Committed at March 31, 2013 | Income Producing |
|---|---|---|---|---|---|---|
| 90 Blvd. Tache Ouest, Montmagny, QC | Strip Plaza | In Planning[2] | 6,000[1] | 50% | n/a | 1-2 years |
| Bourque & Haut-Bois, Sherbrooke, QC – Phase I | Strip Plaza | In Construction | 88,000[1] | 50% | 78% | Q3 2013 |
| Bourque & Haut-Bois, Sherbrooke, QC – Phase II | Strip Plaza | In Planning[2] | 100,000[1] | 50% | n/a | 2-3 years |
| Jean Talon, Montreal, QC | Strip Plaza | In Planning[2,3] | 15,000[1] | 50% | n/a | 1-3 years |
| Magog, Magog, QC – Phase I | Strip Plaza | In Development | 53,000[1] | 50% | 100% | Q4 2013 |
| Magog, Magog, QC – Phase II | Strip Plaza | In Planning[2] | 27,000[1] | 50% | n/a | 2014 |
| Commercial Street Plaza – 2, New Minas, NS | Strip Plaza | In Planning[2] | 10,000[1] | 100% | n/a | 1-3 years |
| Boisbriand, QC | Strip Plaza | In Development | 7,300[1] | 33% | 100% | Q4 2013 |
| Fairville Boulevard – 3, Saint John, NB | Strip Plaza | In Planning[2] | 24,000[1] | 100% | n/a | 1-2 years |
| Oromocto Mall, Oromocto, NB[4] | Enclosed | In Planning[2] | 86,025 | 100% | 70% | Q4 2013 |
| Spencer Drive – 2, Charlottetown, PE | Strip Plaza | In Planning[2] | 80,000[1] | 100% | n/a | 1-2 years |
| St. Jerome, St. Jerome, QC[5] | Strip Plaza | In Planning[2] | 200,000[1] | 20% | n/a | 2-3 years |
| Wyse Road, Dartmouth, NS | Single Use | In Construction | 60,979 | 50% | 100% | Q2 2013 |
| Champlain Plaza II, Dieppe (Moncton), NB | Strip Plaza | In Planning[2] | 60,000[1] | 100% | n/a | Q4 2014 |
| Total | | | 817,304 | | | |

(1) Approximate square footage.
(2) All are appropriately zoned for the intended use.
(3) There is a conditional sale for a portion of the land with an option in favour of the buyer to purchase the remainder.
(4) This is an existing mall that is in the planning phases of a de-malling redevelopment.
(5) This is owned in a limited partnership that is part of the Company's non-consolidated trusts and partnerships. Square footage includes a second parcel of land that is conditional under purchase agreement.

There is excess density at existing properties that the Company plans to develop in the short term which would represent approximately 50 thousand additional square feet at completion.

At March 31, 2013, there were three other conditional land assemblies which were under purchase agreements and subject to due diligence or other conditions. These three land assemblies would represent 63 thousand additional square feet of retail space at completion (at the Company's ownership percentage). As well, at March 31, 2013, there were two income producing properties totaling 28 thousand square feet under purchase agreement and subject to due diligence or other conditions.

The Company also benefits from growth stemming from contractual rental rate increases from existing tenants' leases that generally grow at or above the expected rate of inflation.

On March 25, 2013, the Company received a positive ruling from Canada Revenue Agency in respect of converting from a mutual fund corporation to a real estate investment trust ("REIT") structure on a tax-deferred basis. Completion of this conversion will occur later this year and will be subject to shareholder approval. In conjunction with this conversion, the Company will move from a quarterly dividend to a monthly distribution.

The Company intends to graduate from the TSX Venture Exchange to the TSX, subject to TSX approval. Assuming TSX approval, the Company expects this graduation to take place just following the acquisition of KEYreit.

# PART III

## SUMMARY OF SELECTED QUARTERLY INFORMATION

Plazacorp's summary of selected quarterly information for the last eight quarters is presented below:

| (000s except per share, percentage and number of properties data) (unaudited) | Q1'13 | Q4'12[(3)] | Q3'12[(3)] | Q2'12[(3)] | Q1'12[(3)] | Q4'11[(3)] | Q3'11[(3)] | Q2'11[(3)] |
|---|---|---|---|---|---|---|---|---|
| Total revenue [(1)] | **$ 17,279** | $ 19,022 | $ 16,135 | $ 18,685 | $ 17,177 | $ 17,237 | $ 14,704 | $ 15,440 |
| Profit (loss) and total comprehensive income | **$ 8,507** | $ 2,092 | $ 13,242 | $ 17,023 | $ 14,716 | $ 7,889 | $ 5,807 | $ 8,339 |
| Dividends per share | **5.625¢** | 5.38¢ | 5.38¢ | 5.38¢ | 5.38¢ | 5.25¢ | 5.25¢ | 5.06¢ |
| Funds from operations per share – basic [(2)] | **6.3¢** | 6.4¢ | 6.9¢ | 6.7¢ | 6.4¢ | 6.1¢ | 7.1¢ | 6.8¢ |
| Funds from operations per share – diluted [(2)] | **6.3¢** | 6.4¢ | 6.9¢ | 6.7¢ | 6.4¢ | 6.1¢ | 7.1¢ | 6.8¢ |
| Dividends as a percentage of basic FFO | **89.5%** | 83.3% | 76.8% | 79.5% | 84.5% | 86.0% | 73.6% | 73.6% |
| Dividends as a percentage of basic AFFO | **95.3%** | 88.6% | 79.3% | 88.5% | 95.8% | 97.4% | 87.3% | 85.2% |
| Total assets | **$616,030** | $607,221 | $605,677 | $586,424 | $569,405 | $550,345 | $548,796 | $526,191 |
| Total mortgages, bonds, debentures, notes and bank indebtedness | **$281,229** | $287,756 | $284,646 | $292,777 | $292,851 | $295,915 | $305,133 | $313,394 |
| Basic weighted average shares outstanding | **64,029** | 63,833 | 61,538 | 60,449 | 59,942 | 59,716 | 52,341 | 51,013 |
| Number of properties under development | **11** | 10 | 10 | 12 | 9 | 7 | 8 | 9 |
| Number of income producing properties (including non-consolidated investments) | **107** | 108 | 108 | 105 | 105 | 105 | 104 | 103 |
| Total number of properties in portfolio | **118** | 118 | 118 | 117 | 114 | 112 | 112 | 112 |
| **Gross Leasable Area (000s of sq. ft.) (at 100% and excluding non-consolidated investments and properties under development)** | | | | | | | | |
| Strip Plazas | **2,645** | 2,674 | 2,616 | 2,587 | 2,491 | 2,432 | 2,329 | 2,281 |
| Enclosed Malls | **850** | 670 | 671 | 671 | 671 | 671 | 672 | 680 |
| Single Use | **392** | 510 | 510 | 500 | 554 | 611 | 611 | 611 |
| Total income producing properties | **3,887** | 3,854 | 3,797 | 3,758 | 3,716 | 3,714 | 3,612 | 3,572 |
| | | | | | | | | |
| Strip Plazas | **94.9** | 95.9 | 96.2 | 96.1 | 96.1 | 95.7 | 97.8 | 97.4 |
| Enclosed Malls | **91.8** | 92.5 | 93.2 | 94.7 | 95.1 | 96.1 | 96.1 | 95.9 |
| Single Use | **100.0** | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total income producing properties | **94.7** | 95.9 | 96.2 | 96.4 | 96.5 | 96.5 | 97.9 | 97.6 |

(1) Includes investment income, other income and share of profit of associates.
(2) Adjusted for debenture issuance costs if applicable.
(3) All previous quarters have not been restated for the IFRS 11 change in accounting policy.

During the last eight quarters occupancy has remained high which contributes to stability of cash flow. Significant fluctuations in profit and loss are mainly due to non-cash fair value adjustments on the Company's investment properties and convertible debentures. Fair value adjustments are based on market parameters for which the Company has no control or ability to predict.

Some of Plazacorp's properties are leased on a base year or semi-gross basis or otherwise have caps on operating costs. At March 31, 2013, approximately 58.8% of the Company's leased area is tied to a CPI cost recovery formula. As well, anchor tenant leases may restrict Common Area Maintenance (CAM) cost recoveries. As a result of both of these factors, seasonal fluctuations in NOI and FFO occur primarily due to winter costs and yearly repair and maintenance activities which typically

occur in spring and early summer which may create inconsistencies in quarterly recovery revenues compared with quarterly expenses.

# PART IV

## OPERATING LIQUIDITY AND WORKING CAPITAL

Cash flow, in the form of recurring rent generated from the portfolio, represents the primary source of liquidity to service debt including recurring monthly amortization of mortgage debt, to pay operating, leasing and property tax costs, and to fund dividends. Costs of development activities, which form a large portion of accounts payable and accrued liabilities, are funded by a combination of debt, equity and operating cash flow.

Cash flow from operations is dependent upon occupancy levels of properties owned, rental rates achieved, effective collection of rents, and efficiencies in operations as well as other factors.

Plazacorp's cash distribution policy generally reflects repayment of recurring mortgage principal amortization from cash flow in determining cash available for distribution. New debt or equity capital raised is generally directed to acquisitions or continuing development activities, which are discretionary, based on the availability of such capital.

## CAPITAL RESOURCES, EQUITY AND DEBT ACTIVITIES

### Operating and Development Facilities

| (000s) | $10.0 Million Operating | $20.0 Million Development | $15.0 Million Development |
|---|---|---|---|
| December 31, 2012 | $ 3,647 | $ 4,912 | $ 5,094 |
| Net Change | (2,717) | - | 224 |
| March 31 , 2013 | $ 930 | $ 4,912 | $ 5,318 |
| Interest rate | Prime + 1.00% or BA + 2.50% | Prime + 1.00% or BA + 2.75% | Prime + 1.00% or BA + 2.50% |
| Maturity | November 30, 2013 | July 31, 2013 | July 31, 2013 |
| Security | First charges on pledged property | First charges on applicable pledged development property | First charges on applicable pledged development property |
| Other terms | Debt service, interest coverage, occupancy & equity maintenance covenants | Debt service, occupancy & leverage | Debt service, interest coverage, occupancy & equity maintenance covenants |
| Line reservations available for letters-of-credit | $2.0 million | $1.5 million | $500 thousand |
| Issued and outstanding | $137 thousand | - | - |

Funding is secured by first mortgage charges on properties or development properties as applicable. The Company must maintain certain financial ratios to comply with the facilities. These covenants include loan-to-value, debt service coverage, maximum leverage, interest coverage, occupancy and shareholder equity thresholds.

As of March 31, 2013, all debt covenants in respect of the above facilities have been maintained.

### Debentures and Mortgage Bonds

Mortgage bonds are required to be secured by either property or cash. Mortgage bonds can be deployed up to 90% of the cost of a property under a first or second charge on that property. If it is a second charge, the total debt, including mortgage bonds cannot exceed 90%. .

Convertible debentures are recorded at fair value and changes in the fair value are recorded quarterly in profit and loss. During the three months ended March 31, 2013, $333 thousand of Series VI convertible debentures were converted to 88 thousand common shares.

On February 26, 2013, the Company closed $1.6 million Tranche A unsecured debentures. On April 15, 2013, the Company closed $2.3 million Tranche B unsecured debentures and on May 2, 2013, the Company closed $100 thousand Tranche C unsecured debentures. All tranches have a term of 5 years and an interest rate of 5%.

### Mortgages

During 2013 long-term financing in the amount of $3.5 million (at Plazacorp's consolidated share) with a weighted average term of 10 years was obtained on the refinancing of 2 properties at a weighted average interest rate of 4.16%.

The Company's strategy is to balance maturities and terms on new debt with existing debt maturities to minimize maturity exposure in any one year and to reduce overall interest costs. Maintaining or improving the average cost of debt will be dependent on market conditions at the time of refinancing. Plazacorp's debt strategy involves maximizing the term of long-term debt available based on the tenant profiles for the assets being financed, at current market rates, in order to stabilize cash flow available for reinvestment and dividend payments.

The Company's use of floating-rate debt has generally been limited to assets under development or redevelopment. At March 31, 2013, fixed-rate debt represents 94.6% of mortgages and lines of credit secured on investment properties. Management is of the view that such a strategy results in the most conservative interest rate risk management practice.

The following is a mortgage maturity chart by year:

| (000s, except percentage data) | Remainder 2013 | Year 1 2014 | Year 2 2015 | Year 3 2016 | Year 4 2017 | Year 5 2018 | After 5 Years | Total |
|---|---|---|---|---|---|---|---|---|
| Long-term mortgages due at maturity | $23,183 | $19,286 | $13,968 | $27,191 | $21,557 | $5,628 | $98,900 | $209,713 |
| Principal repayments | 3,172 | 3,818 | 3,587 | 3,485 | 3,040 | 2,885 | 13,561 | 33,548 |
| Sub total long-term mortgages | 26,355 | 23,104 | 17,555 | 30,676 | 24,597 | 8,513 | 112,461 | 243,261 |
| Bank operating facility | - | 930 | - | - | - | - | - | 930 |
| Variable rate construction loan | 3,389 | - | - | - | - | - | - | 3,389 |
| Development lines of credit | 10,230 | - | - | - | - | - | - | 10,230 |
| Total | $39,974 | $24,034 | $17,555 | $30,676 | $24,597 | $8,513 | $112,461 | $257,810 |
| As a percentage | 15.5% | 9.3% | 6.8% | 11.9% | 9.5% | 3.3% | 43.7% | 100% |
| Weighted average expiring rate on long-term | 6.09% | 6.52% | 6.11% | 5.15% | 5.37% | 6.65% | 5.16% | |

At March 31, 2013 and March 31, 2012, the Company's cost of mortgage debt was as follows:

| (000s, except percentage data) | Balance Outstanding March 31, 2013 | Effective Rates March 31, 2013 | Effective Rates December 31, 2012 |
|---|---|---|---|
| Fixed rate mortgage loans | **$ 243,261** | **5.78%** | 5.78% |
| $10 million bank operating facility | **$ 930** | **Prime + 1.00%** | Prime + 1.00% |
| $20 million bank development facility | **$ 4,912** | **Prime + 1.00%** | Prime + 1.00% |
| $15 million bank development facility | **$ 5,318** | **Prime + 1.00%** | Prime + 1.00% |
| Variable rate secured construction loan | **$ 3,389** | **Prime + 1.25%** | Prime + 1.25% |

At March 31, 2013 the weighted average effective cost of mortgage debt is unchanged at 5.78% compared to December 31, 2012. Compared to March 31, 2012, the weighted average effective cost of mortgage debt dropped 27 basis points as a result of continued historically low interest rates at which the Company can renew/place debt.

The weighted average term to maturity for the long-term mortgages is 6.1 years. The average remaining repayment (amortization) period on long-term mortgage debt is 24.8 years.

The ratio of debt to gross book value of assets at March 31, 2013 (excluding convertible debentures) is 42.0% compared to 42.5% at December 31, 2012.

**Shares Outstanding**

If all rights to convert shares under the provisions of convertible debt were exercised, the impact on shares outstanding would be as follows:

| At May 8, 2013 (000s) | Shares | Share Capital |
|---|---|---|
| Current outstanding shares | **64,345** | **$ 108,948** |
| Series VI convertible debentures | **4,063** | **19,888** |
| **Total adjusted shares outstanding** | **68,408** | **$ 128,836** |

**Land Leases**

Return on invested cash or equity is a measure Plazacorp uses to evaluate development and strategic acquisitions. Investing in a project subject to a land lease reduces the cash equity required for an individual project and increases the number of projects which can be undertaken with available capital. This spreads risk and enhances overall shareholder return. In some instances use of a land lease will enhance project feasibility where a project might not otherwise be undertaken without use of a land lease. Currently Plazacorp has 24 long-term land leases (affecting 23 properties) with total annual rent of $2.7 million. One of the land leases relates to shared parking facilities. The other properties under land lease represent approximately 15% of the Company's fair value of investment properties and investments. Land leases expire (excluding any non-automatic renewal periods) on dates ranging from 2017 to 2084 with an average life of 44 years, with some of the leases also containing non-automatic renewal options, extending the average life of the leases to 70 years including these non-automatic renewal options. Of the 24 land leases, 11 of the land leases have options to purchase, generally at fair market value.

**Gross Capital Additions Including Leasing Fees:**

| (000s) | **3 Months Ended March 31, 2013 (unaudited)** | 3 Months Ended March 31, 2012 (unaudited) |
|---|---|---|
| Leasing fees – existing properties | **$ 4** | $ 32 |
| Leasing fees – redevelopment properties | **-** | - |
| Leasing fees – new developments | **40** | 27 |
| Total leasing fees | **44** | 59 |
| Capital additions – existing properties | **202** | 395 |
| Capital additions – redevelopment properties | **-** | 155 |
| Capital additions – new developments | **969** | 3,434 |
| Total capital additions | **1,171** | 3,984 |
| **Total gross additions** | **$ 1,215** | $ 4,043 |

## COMMITMENTS AND CONTINGENT LIABILITIES

The Company has $8.5 million in short-term commitments in respect of development activities. Management believes that Plazacorp has sufficient unused bank line availability, and/or mortgage bond deployment potential, to fund these commitments.

The Company also has a contingent liability as original borrower on a mortgage assumed by the purchasers of a property in 2007. This commitment is subject to an indemnity agreement. The sale did not relieve the Company's obligation as original borrower in respect of this mortgage. The debt subject to such guarantee at March 31, 2013 totals $6.3 million with a remaining term of 0.1 years.

The Company has contingent liabilities as original borrower on four mortgages partially assumed by the purchasers of properties where a 75% interest in each was sold in 2009. These commitments are subject to indemnity agreements. These sales did not relieve the Company's obligations as original borrower in respect of these mortgages. The debt subject to such guarantees at March 31, 2013 totals $7.7 million with remaining terms ranging from 2.1 years to 9.8 years.

The Company guarantees mortgage debt in excess of its pro-rata position in joint ventures and non-consolidated subsidiaries in the amount of $4.6 million.

# PART V

## RISKS AND UNCERTAINTIES

All property investments are subject to a degree of risk and uncertainty. Property investments are affected by various factors including general economic conditions and local market circumstances. Local business conditions such as oversupply of space or a reduction in demand for space particularly affect property investments. Management attempts to manage these risks through geographic and retail asset class diversification in the portfolio. At March 31, 2013, the Company held interests in 118 properties spread geographically among six provinces in Canada. Some of the more important risks are outlined below. See Financial Risk Management Note 25 to the December 31, 2012 Annual Consolidated Financial Statements for further details. Also see the Company's Annual Information Form dated February 28, 2013 for a complete list of risks and uncertainties.

### Interest Rate, Financing and Refinancing Risk

Management attempts to lock in cash returns on assets for the longest period, consistent with exposure to debt maturing and leases expiring in any given year.

The Company mitigates interest rate risk by maintaining the majority of its debt at fixed rates. At March 31, 2013, 94.6% of the Company's mortgages and lines of credit secured by investment properties are at fixed rates. Floating rate debt is typically used for development or redevelopment projects as interim financing, until the projects are completed and are then able to attract the appropriate long-term financing. The Company mitigates its exposure to fixed-rate interest risk by staggering maturities in order to avoid excessive amounts of debt maturing in any one year. If market conditions warrant, the Company may attempt to renegotiate its existing debt to take advantage of lower interest rates.

At existing financing rates, the Company is able to obtain positive returns from debt financing. The quality of the Company's projects and properties makes management confident of obtaining suitable long-term financing for those projects on completion of development as well as those properties with maturing existing debt. The Company has an ongoing requirement to access the debt markets and there is a risk that lenders will not refinance such maturing debt on terms and conditions acceptable to the Company or on any terms at all. Management believes that all debts maturing in 2013 will be able to be financed or refinanced as they come due.

### Credit Risk

Credit risk mainly arises from the possibility that tenants may be unable to fulfill their lease commitments. Management mitigates this risk by ensuring that Plazacorp's tenant mix is diversified and heavily weighted to national tenants and by ensuring any significant individual revenue exposures are to tenants of significant credit worthiness. Plazacorp also maintains a portfolio that is diversified geographically so that exposure to local business is lessened.

Currently one tenant, Shoppers Drug Mart, represents 22.7% of current monthly gross rents in place. The top 10 tenants collectively represent approximately 51.5% of total revenues in place. National and regional tenants represent 93.3% of the in-place tenant base.

### Lease Roll-Over and Occupancy Risk

Lease roll-over risk arises from the possibility that Plazacorp may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants.

Management attempts to stagger the lease expiry profile so that Plazacorp is not faced with a disproportionate amount of square footage of leases expiring in any one year. Management further mitigates this risk by maintaining a diversified portfolio mix both by retail asset type and geographic location and ensuring that the Company maintains a well staffed and highly skilled leasing department to deal with all leasing issues.

One of Plazacorp's performance drivers is related to occupancy levels. The majority of Plazacorp's leases in place are referred to as net leases, meaning tenants reimburse Plazacorp fully for their share of property operating costs (subject to consumer price index adjustments in many cases) and realty taxes. Many of Plazacorp's operating costs and realty taxes

are not reduced by vacancy. Certain costs such as utilities and janitorial costs would not decline with a decline in occupancy.

The hypothetical impact to NOI of a change in occupancy of 1% would be approximately $392 thousand per annum. The analysis does not identify a particular cause of such changing occupancy and as a result, it does not reflect the actions management may take in relation to the changes. Plazacorp's principal management of occupancy risk is the skewing of tenancies towards national tenants, the signing of longer term leases and significant pre-leasing of development space.

### Development and Acquisition Risk

Plazacorp's external growth prospects will depend in large part on identifying suitable development, redevelopment and acquisition opportunities, pursuing such opportunities, conducting necessary due diligence, consummating acquisitions (including obtaining necessary consents) and effectively operating the properties acquired or developed by the Company. If Plazacorp is unable to manage its growth and integrate its acquisitions and developments effectively, its business, operating results and financial condition could be adversely affected. Developments and acquisitions may not meet operational or financial expectations due to unexpected costs or market conditions, which could impact the Company's performance.

### Environmental Risk

Plazacorp is subject to various laws relating to the environment which deal primarily with the costs of removal and remediation of hazardous substances such as asbestos or petroleum products. Environmental risk is relevant to Plazacorp's ability to sell or finance affected assets and could potentially result in liabilities for the costs of removal and remediation of hazardous substances or claims against Plazacorp. Management is not aware of any material non-compliance with environmental laws or regulations with regard to Plazacorp's portfolio, or of any material pending or threatened actions, investigations or claims against Plazacorp relating to environmental matters. Plazacorp manages environmental exposures in a proactive manner during every aspect of the property life cycle including extensive due diligence in respect of environmental risk before purchase or development.

# PART VI

## RELATED PARTY TRANSACTIONS

### Notes Payable to Related Parties

Notes payable fall into two categories:

- Interest bearing unsecured notes that are advanced from time-to-time to assist in financing property acquisitions and development costs and are retired on funding of interim or long-term debt or upon sale of the property to which the note relates.

- Non-interest bearing notes that existed at the time of acquisition of properties in September 2000. Certain of the notes are owed to parties controlled directly or indirectly by Michael Zakuta. The notes are repayable on sale or refinancing of the related asset.

| (000s) | Interest Rate | **March 31, 2013 (unaudited)** | December 31, 2012 |
|---|---|---|---|
| **Non-interest bearing notes:** | | | |
| Entities owned (directly or indirectly), controlled or significantly influenced by Michael Zakuta, President, Chief Executive Officer and Director of the Company | n/a | **$ 261** | $ 261 |

**Bonds and Debentures Held**

The Directors directly or indirectly held convertible debentures and mortgage bonds of the Company as follows (stated at face value):

| (000s) | **March 31, 2013 (unaudited)** | December 31, 2012 |
|---|---|---|
| Earl Brewer | **$ 219** | $ 219 |
| Edouard Babineau | **350** | 350 |
| Michael Zakuta | **670** | 670 |
| Stephen Johnson | **750** | 750 |
| **Total** | **$ 1,989** | $ 1,989 |

Other key management personnel own $45 thousand in mortgage bonds of the Company at March 31, 2013 (December 31, 2012 - $45 thousand).

**Other Related Party Transactions**

Two directors, directly or beneficially, hold interests in common with the Company's 25% interest in the Gateway Mall, Sussex, NB, being Earl Brewer (25%) and Michael Zakuta (21.5%). There are no loans outstanding or fees charged by the related parties as a result of the joint ownership.

TC Land LP, an entity controlled by Michael Zakuta and Earl Brewer, leases nine parcels of land to Plazacorp at a total annual rent of $877 thousand. The land leases expire at various times from October 2043 to November 2047, subject to options to renew. All of these land leases have options to purchase, of which one is at a fixed price and the others are at fair market value. The business purpose of the leases was to enhance levered equity returns on the affected assets.

Earl Brewer and Michael Zakuta hold interests in common with the Company's 10% interest in Northwest Plaza Commercial Trust, the owner of the Northwest Centre, Moncton, NB. There are no loans outstanding or fees charged by the related parties as a result of the joint ownership.

Plaza Group Management Limited (a wholly-owned subsidiary of Plazacorp) is a party to an aircraft operating agreement with Plaza Atlantic Limited (a company owned by Michael Zakuta and Earl Brewer) with respect to the use and operation of a turbo-prop airplane, used from time to time by Plazacorp to facilitate more timely access to properties across the Corporation's portfolio, mainly for construction and development. Costs associated with the use of the airplane for the three months ended March 31, 2013 were $34 thousand (March 31, 2012 - $243 thousand).

Plaza Group Management Limited is a party to an office lease for Plazacorp's corporate headquarters in Fredericton, NB. The owner of the office building (and counter-party to the office lease) is a company indirectly owned by Michael Zakuta and Earl Brewer. Basic minimum rent under this office lease is $201 thousand per year. The lease expires on March 31, 2014.

Plaza Group Management Limited manages certain properties owned directly or indirectly by Michael Zakuta and Earl Brewer, namely 527 Queen Street, Fredericton, NB and 271 Queen Street, Fredericton, NB.

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. Management is also responsible for establishing adequate internal controls over financial reporting to provide sufficient knowledge to support the representations made in this MD&A, the Consolidated Financial Statements for March 31, 2013 and all related public filings.

In contrast to the certificate required under National Instrument 52-109 *Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), the TSX Venture Exchange Issuer Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in NI 52-109. In particular, the certifying officers filing certificates for TSX Venture issuers are not making any representations relating to the establishment and maintenance of:

i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and

ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificate(s).

Investors should be aware that inherent limitations on the ability of certifying officers of a TSX Venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## CRITICAL ACCOUNTING POLICIES

### Critical Accounting Estimates

Plazacorp's significant accounting policies are described in its consolidated financial statements.

Management chooses the accounting policies and estimates that it believes are appropriate to fairly report the Company's operating results and financial position. Management regularly assesses its critical accounting estimates in light of current and forecasted economic conditions and reviews these estimates with its Audit Committee. The following outlines the more significant judgments and estimates used in the preparation of the financial statements.

### Fair Value of Investment Properties

Investment properties include all of the Company's income producing commercial properties, properties under development and surplus lands. Investment properties are recorded at fair value except for properties under development when fair value is not determinable. Fair value is based on a combination of external appraisals and internal valuations. Significant assumptions and estimates are made in determining the fair value of investment properties, including the normalized level of NOI for a particular property and which capitalization rate to use on each property. External appraisals use a number of different valuation approaches, including a discounted cash flow approach and a direct comparison approach. The discounted cash flow approach discounts expected future cash flows.

### Properties Under Development

The Company capitalizes all direct expenditures incurred in connection with the development and construction of properties. These expenditures consist of all direct costs and direct and indirect borrowing costs on debt attributable to the specific development. Borrowing costs are reduced by any interest earned by the Company on borrowed funds prior to utilization.

The development period commences when expenditures are being incurred and activities necessary to prepare the asset for its intended use are in progress. Capitalization ceases when substantially all the activities necessary to prepare the asset for its intended use are complete.

**Fair Value of Convertible Debentures**

In determining the fair value of convertible debentures, the Company must make assumptions regarding credit spreads, share price volatility and bond yields, considering the terms of the convertible debentures and their risk.

**Fair Value of Debt**

In determining estimates of the fair values of financial instruments, the Company must make assumptions regarding current market rates, considering the terms of the instruments and their risk. Current market rates are generally selected from a range of potentially acceptable rates and accordingly, other effective rates and fair values are possible.

**Financial Instruments**

The Company reviews all significant contracts to determine if they contain embedded derivatives**.** As of August 1, 2010 the Company had entered into interest rate swaps to fix the rates for two variable rate mortgages. These swaps are valued quarterly and are recognized at fair value in investments with changes in the fair value reflected in share of profit and associates. At March 31, 2013, there are no embedded derivatives in the Company's financial instruments that require separation and measurement.

## FUTURE ACCOUNTING POLICY CHANGES

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ending December 31, 2013, and have not been applied in preparing the consolidated financial statements. Please see Note 3 to the condensed interim consolidated financial statements for further details about future accounting policy changes.

## ADDITIONAL INFORMATION

Additional information relating to Plazacorp including the Management Information Circular, Material Change reports and all other continuous disclosure documents required by the securities regulators, are filed on the System for Electronic Document Analysis and Retrieval (SEDAR) and can be accessed electronically at www.sedar.com or on the Plazacorp website at www.plaza.ca.

Attached as Appendix A is a chart listing the Company's properties at March 31, 2013.

## APPENDIX A

### PROPERTIES OF THE COMPANY[4]

| Property | Location | Year Built/ Redeveloped | Gross Leasable Area (sq. ft.) | Ownership Interest (%) | Occupied or Committed as at 31-Mar-13 | Major Tenants[1] |
|---|---|---|---|---|---|---|
| **Strip Plazas** | | | | | | |
| Les Promenades St. Francois | Laval, QC | 1987/2001 | 54,694 | 100% | 84% | Jean Coutu, Dollarama |
| Plaza Hotel de Ville | Rivière-du-Loup, QC | 1990 | 20,412 | 100% | 100% | Bouclair, Yellow Shoes |
| Plaza Theriault[2] | Rivière-du-Loup, QC | 1995 | 25,780 | 100% | 100% | National Bank, SuperClub Videotron |
| Plaza BBRF | Sherbrooke, QC | 2008 | 20,631 | 50% | 100% | Shoppers Drug Mart |
| Plaza Boulevard Royal | Shawinigan, QC | 1997/2008 | 128,222 | 100% | 95% | Rossy, Caisse Populaire |
| Carrefour des Seigneurs[3] | Terrebonne, QC | 1992/2004 | 33,900 | 25% | 86% | Jean Coutu |
| St. Anne Street Plaza | Bathurst, NB | 2006 | 25,299 | 100% | 96% | Dollarama, Reitmans |
| St. Peter Avenue Plaza | Bathurst, NB | 2006 | 23,273 | 100% | 100% | Shoppers Drug Mart |
| Champlain Plaza | Dieppe (Moncton), NB | 2005 | 48,815 | 100% | 100% | Mark's Work Wearhouse, Shoppers Drug Mart |
| Boulevard Hebert Plaza | Edmundston, NB | 2006 | 26,689 | 100% | 100% | Shoppers Drug Mart |
| Victoria Street Plaza | Edmundston, NB | 2007 | 21,875 | 100% | 93% | Reitmans, Dollarama |
| Dundonald & Smythe | Fredericton, NB | 1962/1997 | 19,779 | 100% | 100% | Dollarama |
| Empire Plaza[2] | Fredericton, NB | 2003 | 13,743 | 100% | 100% | Dollarama |
| FHS Plaza | Fredericton, NB | 1999 | 24,274 | 100% | 100% | Cleve's , Bulk Barn |
| Main Place[2] | Fredericton, NB | 1992/2004 | 31,416 | 100% | 93% | Shoppers Drug Mart |
| Nashwaaksis Plaza | Fredericton, NB | 1997 | 55,914 | 100% | 65% | Dollarama |
| Madawaska Road Plaza | Grand Falls, NB | 2005 | 10,410 | 100% | 100% | Pizza Delight, Tim Horton's |
| KGH Plaza | Miramichi, NB | 2007 | 18,969 | 25% | 100% | Shoppers Drug Mart |
| Miramichi Power Center – 1 | Miramichi, NB | 2005 | 38,033 | 100% | 100% | Staples, Mark's Work Wearhouse |
| Miramichi Power Center – 2 | Miramichi, NB | 2005 | 21,936 | 100% | 100% | Dollarama, Boston Pizza |
| Boulevard Plaza[2] | Moncton, NB | 2004 | 83,021 | 100% | 100% | Winners, Michael's |
| Wedgewood Plaza[2] | Riverview (Moncton), NB | 1999 | 12,768 | 100% | 69% | Dollarama |
| Crown Street[2] | Saint John, NB | 2006 | 21,764 | 100% | 100% | Shoppers Drug Mart |
| Exhibition Plaza[2] | Saint John, NB | 2004 | 75,204 | 55% | 100% | Empire Cinemas |
| Fairville Boulevard – 1 | Saint John, NB | 2008 | 57,000 | 100% | 100% | Sobeys |
| Fairville Boulevard – 2 | Saint John, NB | 2009 | 56,698 | 100% | 93% | Bulk Barn, Staples, Dollarama |
| Major Brook Drive Plaza[2] | Saint John, NB | 2005 | 40,597 | 55% | 100% | Michael's, Boston Pizza |
| McAllister Drive Plaza[2] | Saint John, NB | 1999 | 24,921 | 55% | 100% | Cleve's |
| SCA Plaza[2] | Saint John, NB | 2002 | 17,517 | 55% | 100% | Great Canadian Dollar Store, Bulk Barn |
| Main and Western Street Plaza | Sussex, NB | 2007 | 14,300 | 100% | 100% | Dollarama |
| Connell Road Plaza | Woodstock, NB | 2004 | 19,645 | 100% | 88% | Mark's Work Wearhouse, Dollarama |
| 303 Main Street Plaza | Antigonish, NS | 2005 | 19,542 | 100% | 92% | Shoppers Drug Mart |
| Bedford Commons | Bedford (Halifax), NS | 2009 | 72,622 | 100% | 92% | Future Shop, Dollarama |
| Bedford Commons – 2 | Bedford (Halifax), NS | 2011 | 105,327 | 100% | 89% | Winners, Staples, Sportchek |
| Tacoma Centre | Dartmouth (Halifax), NS | 1983/2002 | 157,936 | 50% | 99% | Sobeys, Dollarama |
| Tacoma Valley Field | Dartmouth (Halifax), NS | 2005 | 26,817 | 50% | 86% | Shoppers Drug Mart |
| 201 Chain Lake Drive[3] | Halifax, NS | 1995/2004 | 119,320 | 50% | 89% | Home Outfitters |
| 209 Chain Lake Drive[3] | Halifax, NS | 1998 | 89,549 | 50% | 100% | Value Village, Mark's Work Wearhouse, Dollarama |
| Joseph Howe Drive Plaza[2] | Halifax, NS | 2007 | 23,599 | 100% | 100% | Shoppers Drug Mart |
| Staples Plaza | New Glasgow, NS | 2001 | 33,763 | 100% | 100% | Staples |
| V-8 Plaza[2] | New Glasgow, NS | 2004 | 16,565 | 100% | 100% | Dollarama, Swiss Chalet |
| Commercial Street Plaza | New Minas, NS | 2003 | 15,342 | 100% | 100% | Swiss Chalet, Penningtons |
| Granite Drive Plaza | New Minas, NS | 2009 | 86,514 | 100% | 100% | Lawtons, Future Shop, Winners |
| Silver Fox Plaza | New Minas, NS | 2010 | 42,078 | 100% | 100% | Giant Tiger, Michael's |
| North Sydney Plaza | North Sydney, NS | 2007 | 20,372 | 100% | 100% | Shoppers Drug Mart |
| Welton Street Plaza[2] | Sydney, NS | 2004 | 21,006 | 100% | 100% | Dollarama, Bulk Barn |
| Robie Street Plaza | Truro, NS | 2007 | 21,890 | 25% | 100% | Shoppers Drug Mart |
| Pleasant Street | Yarmouth, NS | 2005 | 22,586 | 100% | 100% | Shoppers Drug Mart |

| Property | Location | Year Built/ Redeveloped | Gross Leasable Area (sq. ft.) | Ownership Interest (%) | Occupied or Committed as at 31-Mar-13 | Major Tenants[1] |
|---|---|---|---|---|---|---|
| Starrs Road Plaza | Yarmouth, NS | 1976/2005 | 64,319 | 100% | 100% | Empire Theatres, Dollarama |
| Belvedere Plaza | Charlottetown, PE | 1979/2000 | 77,459 | 60% | 100% | Mark's Work Wearhouse, Indigo, The Brick |
| Spencer Drive Plaza | Charlottetown, PE | 2012 | 95,713 | 100% | 79% | Sobeys, Petsmart |
| Spring Park Plaza | Charlottetown, PE | 1998 | 49,348 | 85% | 100% | Fabricville, Value Village |
| UAS Plaza | Charlottetown, PE | 2006 | 23,386 | 100% | 100% | Shoppers Drug Mart, TD Bank |
| University Plaza | Charlottetown, PE | 1977/1998 | 62,046 | 43% | 85% | Dollarama, Smitty's, The Bargain Shop |
| Buchanan Street Plaza | Charlottetown, PE | 2012 | 56,452 | 100% | 81% | ToysRUs, Reitmans |
| Granville Street Plaza | Summerside, PE | 1977/2011 | 60,957 | 60% | 96% | Dollarama, Mark's Work Wearhouse |
| 15260 Yonge Street[3] | Aurora, ON | 2006 | 14,177 | 50% | 92% | Dollarama |
| Scott Street Plaza[3] | St. Catharines, ON | 2007 | 25,709 | 50% | 100% | Shoppers Drug Mart |
| Bay Roberts Plaza | Bay Roberts, NL | 2006 | 20,468 | 100% | 100% | Shoppers Drug Mart |
| Conception Bay South Plaza[2] | Conception Bay South, NL | 2006 | 22,980 | 100% | 100% | Shoppers Drug Mart |
| Kenmount Road Plaza[2] | St. John's, NL | 2006 | 20,576 | 100% | 100% | XS Cargo, Montana's |
| Le Marchant Road Plaza | St. John's, NL | 2007 | 18,307 | 100% | 100% | Shoppers Drug Mart |
| Stavanger Drive Plaza | St. John's, NL | 2011 | 50,563 | 90% | 100% | Best Buy, Petsmart, Montana's |
| **Sub-total** | | | **2,644,787** | | **94.9%** | |
| **Enclosed Malls** | | | | | | |
| Les Galaries Montmagny | Montmagny, QC | 1997/1990 | 138,725 | 50% | 96% | Maxi, Hart, Uniprix |
| Les Promenades du Cuivre | Rouyn-Noranda, QC | 1987/2003 | 149,682 | 100% | 100% | Hart, Familiprix, Royal Bank, Staples |
| Grand Falls Shopping Centre | Grand Falls, NB | 1972/2005 | 133,998 | 100% | 89% | Staples, Shoppers Drug Mart |
| Village Shopping Centre | St. John's, NL | 1978/2006 | 427,623 | 44.5% | 89% | Hart, Labels, Dollarama, SportChek, Bed Bath & Beyond |
| **Sub-total** | | | **850,028** | | **91.8%** | |
| **Single Use** | | | | | | |
| Plaza BDP[2], [3] | Deux Montagnes, QC | 2007 | 16,940 | 37.5% | 100% | Shoppers Drug Mart |
| Bureau en Gros | Granby, QC | 2000 | 25,695 | 50% | 100% | Staples |
| Plaza TS Magog | Magog, QC | 2006 | 17,452 | 50% | 100% | Shoppers Drug Mart |
| Plaza Jean XXIII[2], [3] | Trois-Rivieres, QC | 2007 | 16,721 | 50% | 100% | Shoppers Drug Mart |
| Miramichi West Plaza | Miramichi, NB | 2009 | 18,210 | 100% | 100% | Shoppers Drug Mart |
| 681 Mountain Road | Moncton, NB | 2004 | 19,504 | 25% | 100% | Shoppers Drug Mart |
| Staples[2] | Saint John, NB | 1997 | 25,293 | 100% | 100% | Staples |
| Main and Sackville | Shediac, NB | 2009 | 23,652 | 100% | 100% | Shoppers Drug Mart |
| Main and Victoria | Shediac, NB | 2007 | 10,287 | 100% | 100% | Dollarama |
| 201 Main Street | Sussex, NB | 2007 | 16,915 | 25% | 100% | Shoppers Drug Mart |
| Central Avenue Plaza | Greenwood, NS | 2006 | 16,989 | 100% | 100% | Shoppers Drug Mart |
| 912 East River Road | New Glasgow, NS | 2005 | 16,912 | 100% | 100% | Shoppers Drug Mart |
| Kings Road Plaza[2] | Sydney River, NS | 2006 | 16,847 | 100% | 100% | Shoppers Drug Mart |
| 615 King Street[2] | Gananoque, ON | 2008 | 16,619 | 50% | 100% | Shoppers Drug Mart |
| St. Josephs Boulevard | Orleans (Ottawa), ON | 2008 | 16,799 | 50% | 100% | Shoppers Drug Mart |
| Dufferin & Wilson (Perth) | Perth, ON | 2008 | 16,782 | 50% | 100% | Shoppers Drug Mart |
| Civic Center Road | Petawawa, ON | 2008 | 17,036 | 50% | 100% | Shoppers Drug Mart |
| Port Hope Plaza | Port Hope, ON | 2008 | 22,650 | 50% | 100% | Shoppers Drug Mart |
| Powell Drive | Carbonear, NL | 2012 | 10,000 | 100% | 100% | Dollarama |
| Airport Blvd. Plaza[2] | Gander, NL | 2008 | 18,077 | 100% | 100% | Shoppers Drug Mart |
| Ville Marie Drive Plaza | Marystown, NL | 2010 | 14,580 | 100% | 100% | Dollarama |
| Torbay & MacDonald[2] | St. John's, NL | 2011 | 18,550 | 100% | 100% | Shoppers Drug Mart |
| **Sub-total** | | | **392,510** | | **100%** | |
| **Income producing properties** | | | **3,887,325** | | **94.7%** | |
| **Projects Under Development/Redevelopment** | | | | | | |
| Boisbriand | Boisbriand, QC | - | 7,300 | 33% | 100% | In Planning |
| 90 Blvd. Tache Ouest | Montmagny, QC | - | - | 50% | - | In Planning |
| Jean Talon[3,5] | Montreal, QC | - | - | 50% | - | In Planning |
| Magog | Magog, QC | - | 53,000 | 50% | 100% | IGA (Sobeys) |

| Property | Location | Year Built/ Redeveloped | Gross Leasable Area (sq. ft.) | Ownership Interest (%) | Occupied or Committed as at 31-Mar-13 | Major Tenants[1] |
|---|---|---|---|---|---|---|
| Bourque & Haut-Bois | Sherbrooke, QC | - | 76,391 | 50% | 89% | Dollarama, Metro |
| Wyse Road | Dartmouth (Halifax), NS | | 60,979 | 50% | 100% | Sobeys |
| Commercial Street Plaza – 2 | New Minas, NS | - | - | 100% | - | In Planning |
| Champlain Plaza – 2 | Dieppe (Moncton), NB | - | - | 100% | - | In Planning |
| Oromocto Mall | Oromocto, NB | 1976/2008 | 86,025 | 100% | 70% | Shoppers Drug Mart, Dollarama |
| Fairville Boulevard – 3 | Saint John, NB | - | - | 100% | - | In Planning |
| Spencer Drive Plaza – 2 | Charlottetown, PE | - | - | 100% | - | In Planning |
| **Sub-total** | | | **283,695** | | **87.8%** | |
| **Total Excluding Non-Trust and Partnerships** | | | **4,171,020** | | **94.2%** | |
| **Non-Consolidated Trusts and Partnerships** | | | | | | |
| 3550 Sources[3] | DDO (Montreal), QC | 2006 | 8,391 | 10% | 100% | National Bank |
| Centennial Plaza[3] | DDO (Montreal), QC | 1979/2008 | 152,422 | 10% | 96% | Value Village, Jean Coutu |
| Place Du Marche[3] | DDO (Montreal), QC | 1979/2008 | 35,205 | 10% | 100% | Laurentian Bank, Starbucks |
| BPK Levis[3] | Levis, QC | 1985 | 89,535 | 10% | 91% | Jeans Depot, Maxidollar, Ressourcerie De Levis |
| Bureau en Gros | Rimouski, QC | 2001 | 25,771 | 50% | 100% | Staples |
| CPRDL | Rivière-du-Loup, QC | 2007 | 41,568 | 50% | 100% | Caisse Populaire |
| St. Jerome[3] [6] | St. Jerome, QC | - | - | 20% | 100% | In Planning |
| Plaza des Recollets | Trois-Rivieres, QC | 2006 | 73,730 | 15% | 87% | Winners/Home Sense |
| Northwest Centre | Moncton, NB | 1998/2003 | 210,859 | 10% | 96% | Zellers, Princess Auto |
| Shediac West | Shediac, NB | 2009 | 65,842 | 10% | 100% | Canadian Tire, Sobeys |
| Gateway Mall | Sussex, NB | 1978/2008 | 162,110 | 25% | 97% | Sobeys, Canadian Tire |
| Main Street Alexandria | Alexandria, ON | 2009 | 17,242 | 25% | 100% | Shoppers Drug Mart |
| Ottawa Street | Almonte, ON | 2010 | 18,365 | 25% | 100% | Shoppers Drug Mart |
| Amherstview | Amherstview, ON | 2010 | 18,029 | 50% | 100% | Shoppers Drug Mart |
| Hastings Street Bancroft | Bancroft, ON | 2009 | 17,538 | 25% | 100% | Shoppers Drug Mart |
| Manotick[2] | Manotick (Ottawa), ON | 2012 | 27,052 | 50% | 100% | Shoppers Drug Mart |
| King & Mill | Newcastle, ON | 2011 | 15,134 | 50% | 100% | Shoppers Drug Mart |
| Scugog Street Port Perry | Port Perry, ON | 2010 | 16,776 | 50% | 100% | Shoppers Drug Mart |
| **Sub-total** | | | **995,569** | | **96.1%** | |
| **Grand Total** | | | **5,166,589** | | **94.6%** | |

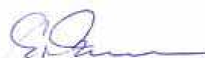
(1) Based on square footage.
(2) Currently subject to land leases. The land leases for Plaza BDP, Boulevard Plaza, Conception Bay South Plaza, Kenmount Road Plaza, Kings Road Plaza, Joseph Howe Drive Plaza, Plaza Jean XXIII, Airport Blvd. Plaza and 615 King Street all have options to purchase at fair market value. The V-8 Plaza and Main Place land leases have fixed options to purchase. All other land leases do not have an option to purchase. Land leases for Plaza BDP, Conception Bay South Plaza, Kenmount Road Plaza, Kings Road Plaza, Joseph Howe Drive Plaza, Plaza Jean XXIII, Airport Blvd. Plaza, 615 King Street and the V-8 Plaza are all with related parties.
(3) Co-managed by Plazacorp.
(4) All but 18 of these properties were either developed or redeveloped by the Company. The 18 that were not developed or redeveloped by the Company consist of Place Du Marche, Northwest Centre, BPK Levis, Plaza Hotel de Ville, Plaza Theriault, Nashwaaksis Plaza, Wedgewood Plaza, Exhibition Plaza, McAllister Drive Plaza, SCA Plaza, 209 Chain Lake Drive, Belvedere Plaza, Spring Park Plaza, University Plaza, Les Galaries Montmagny, Gateway Mall, Bureau en Gros Rimouski and Staples Saint John.
(5) There is a conditional sale for a portion of the land with an option in favour of the buyer to purchase the remainder.
(6) This is a non consolidated investment in the planning phase of development.

**Plazacorp Retail Properties Ltd.**
**Condensed Interim Consolidated Statements of Financial Position**
**(unaudited)**
**(in thousands of Canadian dollars)**

| | **March 31, 2013** | Restated (Note 3) December 31, 2012 | Restated (Note 3) January 1, 2012 |
|---|---|---|---|
| **Assets** | | | |
| **Non-Current Assets** | | | |
| Investment properties (Note 5) | **$ 569,075** | $ 531,764 | $ 472,060 |
| Investments | **28,929** | 52,562 | 38,747 |
| Tenant loans | **2,552** | 591 | 1,096 |
| Deferred income tax asset | **951** | 951 | 609 |
| | **601,507** | 585,868 | 512,512 |
| **Current Assets** | | | |
| Cash | **4,075** | 2,900 | 3,652 |
| Receivables | **2,332** | 1,128 | 1,004 |
| Prepaid expenses and deposits | **7,529** | 2,938 | 3,311 |
| Current portion of investments | **-** | - | 15,548 |
| Notes receivable | **587** | 263 | 2,518 |
| | **14,523** | 7,229 | 26,033 |
| | **$ 616,030** | $ 593,097 | $ 538,545 |
| **Liabilities and Shareholders' Equity** | | | |
| **Non-Current Liabilities** | | | |
| Debentures payable (Note 6) | **$ 22,655** | $ 21,865 | $ 39,532 |
| Mortgage bonds payable (Note 7) | **2,065** | 2,065 | 2,045 |
| Mortgages payable (Note 8) | **209,920** | 201,192 | 216,748 |
| Deferred income tax liability | **64,562** | 61,385 | 47,867 |
| | **299,202** | 286,507 | 306,192 |
| **Current Liabilities** | | | |
| Bank indebtedness (Note 9) | **930** | 3,647 | - |
| Current portion of mortgage bonds payable (Note 7) | **-** | - | 6,000 |
| Current portion of mortgages payable (Note 8) | **44,440** | 44,084 | 19,038 |
| Accounts payable and accrued liabilities | **13,405** | 5,720 | 7,503 |
| Income taxes payable | **211** | 1,022 | 141 |
| Notes payable | **1,219** | 906 | 884 |
| | **60,205** | 55,379 | 33,566 |
| | **359,407** | 341,886 | 339,758 |
| Shareholders' equity | **242,855** | 237,570 | 187,509 |
| Non-controlling interests | **13,768** | 13,641 | 11,278 |
| | **256,623** | 251,211 | 198,787 |
| | **$ 616,030** | $ 593,097 | $ 538,545 |

Subsequent events – see Note 13.

Michael Zakuta, Director



Earl Brewer, Director

The notes on pages 33 to 44 are an integral part of these condensed interim consolidated financial statements.

## Plazacorp Retail Properties Ltd.
**Condensed Interim Consolidated Statements of Comprehensive Income (unaudited)**
**(in thousands of Canadian dollars)**

| | **3 Months Ended March 31, 2013** | Restated (Note 3) 3 Months Ended March 31, 2012 |
|---|---|---|
| Revenues | **$ 15,896** | $ 14,156 |
| Operating expenses | **(6,679)** | (5,885) |
| **Net property operating income** | **9,217** | 8,271 |
| | | |
| Share of profit of associates | **995** | 3,216 |
| Administrative expenses | **(1,635)** | (1,427) |
| Investment income | **36** | 49 |
| Other income | **352** | 435 |
| Other expenses | **-** | (8) |
| **Income before finance costs, fair value adjustments, gain (loss) on disposals and income taxes** | **8,965** | 10,536 |
| | | |
| Finance costs | **(3,899)** | (3,948) |
| Finance costs - net gain from fair value adjustments to convertible debentures | **350** | 79 |
| Net gain from fair value adjustments to investment properties | **6,515** | 12,496 |
| Gain on disposal of land | **-** | 8 |
| **Profit before income tax** | **11,931** | 19,171 |
| | | |
| Income tax expense | | |
| - Current | **(247)** | (11) |
| - Deferred | **(3,177)** | (4,444) |
| | **(3,424)** | (4,455) |
| | | |
| **Profit and total comprehensive income for the period** | **$ 8,507** | $ 14,716 |
| | | |
| **Profit and total comprehensive income for the period attributable to:** | | |
| - Shareholders | **$ 8,287** | $ 14,192 |
| - Non-controlling interests | **220** | 524 |
| | **$ 8,507** | $ 14,716 |

The notes on pages 33 to 44 are an integral part of these condensed interim consolidated financial statements.

# Plazacorp Retail Properties Ltd.

## Condensed Interim Consolidated Statements of Changes in Equity

**(unaudited)**

**(in thousands of Canadian dollars)**

| | Share Capital (Note 10) | Retained Earnings | Total Attributable to Shareholders | Non-Controlling Interests | Total Equity |
|---|---|---|---|---|---|
| **Balance as at December 31, 2011** | $ 87,550 | $ 99,959 | $ 187,509 | $ 11,278 | $ 198,787 |
| Profit and total comprehensive income for the period | - | 14,192 | 14,192 | 524 | 14,716 |
| Transactions with shareholders, recorded directly in equity: | | | | | |
| - Contributions by shareholders | 788 | - | 788 | - | 788 |
| - Dividends to shareholders | - | (3,218) | (3,218) | - | (3,218) |
| - Distributions to non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control | - | - | - | (482) | (482) |
| **Balance as at March 31, 2012** | $ 88,338 | $ 110,933 | $ 199,271 | $ 11,320 | $ 210,591 |
| **Balance as at December 31, 2011** | $ 87,550 | $ 99,959 | $ 187,509 | $ 11,278 | $ 198,787 |
| Profit and total comprehensive income for the year | - | 43,598 | 43,598 | 3,475 | 47,073 |
| Transactions with shareholders, recorded directly in equity: | | | | | |
| - Contributions by shareholders | 19,609 | - | 19,609 | - | 19,609 |
| - Dividends to shareholders | - | (13,146) | (13,146) | - | (13,146) |
| - Distributions to non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control | - | - | - | (1,112) | (1,112) |
| **Balance as at December 31, 2012** | $ 107,159 | $ 130,411 | $ 237,570 | $ 13,641 | $ 251,211 |
| **Balance as at December 31, 2012** | $ 107,159 | $ 130,411 | $ 237,570 | $ 13,641 | $ 251,211 |
| Profit and total comprehensive income for the period | - | 8,287 | 8,287 | 220 | 8,507 |
| Transactions with shareholders, recorded directly in equity: | | | | | |
| - Contributions by shareholders | 597 | - | 597 | - | 597 |
| - Dividends to shareholders | - | (3,599) | (3,599) | - | (3,599) |
| - Distributions to non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control | - | - | - | (93) | (93) |
| **Balance as at March 31, 2013** | $ 107,756 | $ 135,099 | $ 242,855 | $ 13,768 | $256,623 |

The notes on pages 33 to 44 are an integral part of these condensed interim consolidated financial statements.

**Plazacorp Retail Properties Ltd.**
**Condensed Interim Consolidated Statements of Cash Flows (unaudited)**
**(in thousands of Canadian dollars)**

| | **3 Months Ended March 31, 2013** | Restated (Note 3) 3 Months Ended March 31, 2012 |
|---|---|---|
| **Cash obtained from (used for):** | | |
| **Operating activities** | | |
| Profit and total comprehensive income for the period | **$ 8,507** | $ 14,716 |
| Interest expense | **3,714** | 3,764 |
| Items not affecting cash: | | |
| Share of profit of associates | **(995)** | (3,216) |
| Amortization of finance charges included in interest expense | **185** | 184 |
| Net change in fair value of investment properties | **(6,515)** | (12,496) |
| Net change in fair value of convertible debentures | **(350)** | (79) |
| Gain on disposal of land | **-** | (8) |
| Current and deferred income taxes | **3,424** | 4,455 |
| Straight-line rent revenue | **(253)** | (267) |
| Interest paid | **(3,603)** | (3,805) |
| Income taxes paid | **(1,058)** | (15) |
| Leasing commissions | **(44)** | (59) |
| Change in non-cash working capital (Note 11) | **1,960** | 881 |
| | **4,972** | 4,055 |
| **Financing activities** | | |
| Issue (repayment) of notes payable | **313** | (842) |
| Issue of common shares | **-** | 208 |
| Dividends paid to shareholders | **(3,599)** | (3,218) |
| Dividend reinvestment proceeds | **161** | 180 |
| Cash received on change in ownership structure of joint arrangement (Note 4) | **553** | - |
| Net proceeds of bonds and debentures | **1,575** | - |
| Gross mortgage proceeds | **3,879** | 3,860 |
| Financing charges incurred from mortgage placement | **(28)** | 8 |
| Mortgages repaid | **(3,524)** | (5,413) |
| Periodic mortgage principal repayments | **(1,069)** | (1,007) |
| | **(1,739)** | (6,224) |
| **Investing activities** | | |
| Acquisitions, developments and redevelopments | **(1,171)** | (3,984) |
| Proceeds from disposal of land (Note 5) | **-** | 22 |
| Payments of bonds purchased for mortgage defeasances | **-** | 5,769 |
| Equity accounted investments – (contributions to) and distributions from | **5,128** | (407) |
| Contributions paid by subsidiaries to non-controlling interests | **(93)** | (482) |
| Increase in deposits for acquisitions and financings | **(955)** | (1,097) |
| Decrease (increase) in notes receivable | **(324)** | 68 |
| Repayment of tenant loans | **92** | 136 |
| Funding of tenant loans | **(2,018)** | - |
| | **659** | 25 |
| **Net increase (decrease) in cash** | **3,892** | (2,144) |
| Cash less bank indebtedness, beginning of the period | **(747)** | 3,652 |
| **Cash less bank indebtedness, end of the period** | **$ 3,145** | $ 1,508 |

The notes on pages 33to 44 are an integral part of these condensed interim consolidated financial statements.

## 1. Reporting Entity

Plazacorp Retail Properties Ltd. (the “Company”) is incorporated and domiciled in Canada. The address of the Company’s registered office is 527 Queen Street, Fredericton, New Brunswick.

The Company operates a retail real estate ownership and development business in Ontario, Quebec, and the Atlantic Provinces. The Company was incorporated under the New Brunswick Business Corporations Act on February 2, 1999. On December 11, 2002 the Company amended its articles of incorporation to become a Mutual Fund Corporation as defined in the Income Tax Act of Canada.

## 2. Basis of Preparation

*(a) Statement of Compliance*

The condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, “Interim Financial Reporting”; on a basis consistent with the accounting policies disclosed in Note 3 of the December 31, 2012 consolidated financial statements.

The condensed interim financial statements do not include all the information required for full annual financial statements. The condensed interim financial statements should be read in conjunction with the 2012 annual financial statements.

The condensed interim consolidated financial statements were authorized for issue by the Audit Committee on behalf of the Board of Directors of the Company on May 8, 2013.

*(b) Basis of Measurement*

The condensed interim consolidated financial statements have been prepared on a historical cost basis, except for the following items in the condensed interim consolidated statements of financial position:

- Interest rate swaps measured at fair value;
- Share-based payments measured at fair value;
- Convertible debentures measured at fair value;
- Investment property measured at fair value; and
- Investment property included in investments measured at fair value.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the Company’s functional currency.

*(c) Use of Estimates and Judgements*

The preparation of the Company’s condensed interim consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of certain assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. The significant estimates and judgements include the assessment of fair values, the discount rates used in the valuation of the Company’s assets and liabilities, capitalization rates, the relative credit worthiness of the Company to its counterparties, the ability to use tax losses and other tax measurements, the determination of the degree of control that exists in determining the corresponding accounting basis, the amount of borrowing costs to capitalize to properties under development and the selection of accounting policies.

One significant judgement and key estimate that affects the reported amounts of assets and liabilities at the date of the condensed interim consolidated financial statements and the reported amounts of revenues and expenses during the period, relates to property valuations. Investment properties, which are carried on the condensed interim consolidated statements of financial position at fair value, are valued either by the Company or by external valuators. The valuation of investment properties is one of the principal estimates and uncertainties of these financial statements. The valuations are based on a number of assumptions, such as appropriate discount rates and capitalization rates and estimates of future rental income, operating expenses and capital expenditures. These investment properties are sensitive to fluctuations in capitalization and discount rates.

## 3. Summary of Significant Accounting Policies

The Company's accounting policies are included in the December 31, 2012 consolidated financial statements. These policies have been applied consistently to all periods presented in these condensed interim consolidated financial statements.

*(a) General and Consolidation*

The condensed interim consolidated financial statements comprise the financial statements of the Company and the entities that it controls. Entities subject to joint arrangements characterized as joint ventures are accounted for using the equity method. Entities subject to joint arrangements characterized as joint operations are accounted for using proportionate consolidation. Entities subject to significant influence are accounted for using the equity method. Entities over which the Company does not exercise significant influence are accounted for using the cost method. The financial statements of the consolidated and equity accounted entities are prepared for the same reporting period as the Company, using consistent accounting policies.

All intra-group balances, transactions, income and expenses resulting from intra-group transactions are eliminated in full.

*(b) Changes in Accounting Policies*

(i) Joint arrangements

Effective January 1, 2013, the Company implemented IFRS 11, "Joint Arrangements". The new standard required the Company to evaluate its interests in joint arrangements. Based on the evaluation, the Company has determined a number of the joint arrangements are joint ventures under IFRS 11, and will now be accounted for using the equity method instead of proportionate consolidation. Prior periods have been restated for this change in accounting policy in accordance with the requirements of the new standard.

The impact of the application of IFRS 11, "Joint Arrangements" on the consolidated statements of financial position for December 31, 2012 and January 1, 2012 is as follows:

| **December 31, 2012** | **Consolidated Statement of Financial Position as Previously Reported** | **Elimination of Carrying Values of Entities Proportionately Consolidated** | **Presentation of Proportionately Consolidated Entities Using Equity Accounting** | **Consolidated Statement of Financial Position After IFRS 11** |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets: | | | | |
| Investment properties | $ 557,373 | $ (25,609) | $ - | $ 531,764 |
| Investments | 40,470 | - | 12,092 | 52,562 |
| Other | 1,891 | (349) | - | 1,542 |
| | 599,734 | (25,958) | 12,092 | 585,868 |
| Current assets | 7,528 | (299) | - | 7,229 |
| **Total Assets** | $ 607,262 | $ (26,257) | $ 12,092 | $ 593,097 |
| **Liabilities and Shareholders' Equity** | | | | |
| Non-current liabilities | $ 299,963 | $ (13,456) | $ - | $ 286,507 |
| Current liabilities | 56,088 | (709) | - | 55,379 |
| | 356,051 | (14,165) | - | 341,886 |
| Shareholders' equity | 237,570 | - | - | 237,570 |
| Non-controlling interests | 13,641 | - | - | 13,641 |
| | 251,211 | - | - | 251,211 |
| **Total Liabilities and Shareholders' Equity** | $ 607,262 | $ (14,165) | $ - | $ 593,097 |

| January 1, 2012 | Consolidated Statement of Financial Position as Previously Reported | Elimination of Carrying Values of Entities Proportionately Consolidated | Presentation of Proportionately Consolidated Entities Using Equity Accounting | Consolidated Statement of Financial Position After IFRS 11 |
|---|---|---|---|---|
| **Assets** | | | | |
| Non-current assets: | | | | |
| Investment properties | $ 493,445 | $ (21,385) | $ - | $ 472,060 |
| Investments | 29,657 | - | 9,090 | 38,747 |
| Other | 1,996 | (291) | - | 1,705 |
| | 525,098 | (21,676) | 9,090 | 512,512 |
| Current assets | 25,247 | 786 | - | 26,033 |
| **Total Assets** | $ 550,345 | $ (20,890) | $ 9,090 | $ 538,545 |
| **Liabilities and Shareholders' Equity** | | | | |
| Non-current liabilities | $ 317,470 | $ (11,278) | $ - | $ 306,192 |
| Current liabilities | 34,088 | (522) | - | 33,566 |
| | 351,558 | (11,800) | - | 339,758 |
| Shareholders' equity | 187,509 | - | - | 187,509 |
| Non-controlling interests | 11,278 | - | - | 11,278 |
| | 198,787 | - | - | 198,787 |
| **Total Liabilities and Shareholders' Equity** | $ 550,345 | $ (11,800) | $ - | $ 538,545 |

The impact of the application of IFRS 11, "Joint Arrangements" on the consolidated statements of comprehensive income for the three months ended March 31, 2012 and for the year ended December 31, 2012 is as follows:

| Three Months Ended March 31, 2012 | Consolidated Statement of Comprehensive Income as Previously Reported | Adoption of IFRS 11 | Consolidated Statement of Comprehensive Income After IFRS 11 |
|---|---|---|---|
| Revenues | $ 14,643 | $ (487) | $ 14,156 |
| Operating expenses | (6,020) | 135 | (5,885) |
| **Net property operating income** | 8,623 | (352) | 8,271 |
| Share of profit of associates | 2,043 | 1,173 | 3,216 |
| Administrative expenses | (1,427) | - | (1,427) |
| Investment income | 56 | (7) | 49 |
| Other income | 435 | - | 435 |
| Other expenses | (8) | - | (8) |
| **Income before finance costs, fair value adjustments, gains (loss) on disposals and income taxes** | 9,722 | 814 | 10,536 |
| Finance costs | (4,109) | 161 | (3,948) |
| Finance costs – net gain from fair value adjustments to convertible debentures | 79 | - | 79 |
| Finance costs – net revaluation of interest rate swaps | 110 | (110) | - |
| Net gain from fair value adjustments to investment properties | 13,361 | (865) | 12,496 |
| Gain on disposal of land | 8 | - | 8 |
| **Profit before income tax** | 19,171 | - | 19,171 |
| Income tax expense | | | |
| - Current | (11) | - | (11) |
| - Deferred | (4,444) | - | (4,444) |
| | (4,455) | - | (4,455) |
| **Profit and total comprehensive income for the period** | $ 14,716 | $ - | $ 14,716 |

| **Year Ended December 31, 2012** | **Consolidated Statement of Comprehensive Income as Previously Reported** | **Adoption of IFRS 11** | **Consolidated Statement of Comprehensive Income After IFRS 11** |
|---|---|---|---|
| Revenues | $ 59,412 | $ (2,098) | $ 57,314 |
| Operating expenses | (24,114) | 610 | (23,504) |
| **Net property operating income** | 35,298 | (1,488) | 33,810 |
| Share of profit of associates | 9,623 | 3,373 | 12,996 |
| Administrative expenses | (5,934) | - | (5,934) |
| Investment income | 240 | (30) | 210 |
| Other income | 1,744 | - | 1,744 |
| Other expenses | (9) | - | (9) |
| **Income before finance costs, fair value adjustments, gains (loss) on disposals and income taxes** | 40,962 | 1,855 | 42,817 |
| Finance costs | (16,075) | 681 | (15,394) |
| Finance costs – net gain from fair value adjustments to convertible debentures | (673) | - | (673) |
| Finance costs – net revaluation of interest rate swaps | 48 | (48) | - |
| Net gain from fair value adjustments to investment properties | 37,091 | (2,488) | 34,603 |
| Gain on disposal of land | (43) | - | (43) |
| **Profit before income tax** | 61,310 | - | 61,310 |
| Income tax expense | | | |
| - Current | (1,061) | - | (1,061) |
| - Deferred | (13,176) | - | (13,176) |
| | (14,237) | - | (14,237) |
| **Profit and total comprehensive income for the period** | $ 47,073 | $ - | $ 47,073 |

The impact of the application of IFRS 11, "Joint Arrangements" on the consolidated statements of cash flows for the three months ended March 31, 2012 and for the year ended December 31, 2012 is as follows:

| **Three Months Ended March 31, 2012** | **Consolidated Statement of Cash Flows as Previously Reported** | **Adoption of IFRS 11** | **Consolidated Statement of Cash Flows After IFRS 11** |
|---|---|---|---|
| Cash provided by (used in) operating activities | $ 4,710 | $ (655) | $ 4,055 |
| Cash used in financing activities | (5,493) | (731) | (6,224) |
| Cash provided by (used in) investing activities | (1,244) | 1,269 | 25 |
| Cash less bank indebtedness, beginning of period | 3,767 | (115) | 3,652 |
| Cash less bank indebtedness, end of period | $ 1,740 | $ (232) | $ 1,508 |

| **Year Ended December 31, 2012** | **Consolidated Statement of Cash Flows as Previously Reported** | **Adoption of IFRS 11** | **Consolidated Statement of Cash Flows After IFRS 11** |
|---|---|---|---|
| Cash provided by (used in) operating activities | $ 13,956 | $ (771) | $ 13,185 |
| Cash used in financing activities | (6,733) | (2,410) | (9,143) |
| Cash provided by (used in) investing activities | (11,485) | 3,044 | (8,441) |
| Cash less bank indebtedness, beginning of period | 3,767 | (115) | 3,652 |
| Cash less bank indebtedness, end of period | $ (495) | $ (252) | $ (747) |

(ii) Consolidated financial statements

Effective January 1, 2013, the Company implemented IFRS 10, "Consolidated Financial Statements" which replaced IAS 27, "Consolidated and Separate Financial Statements". This standard identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The adoption of the new standard did not have an impact on the Company's assessment of control or which entities are subject to consolidation in the Company's financial statements.

(iii) Disclosure of interest in other entities

Effective January 1, 2013, the Company implemented IFRS 12, "Disclosure of Interest in Other Entities". This standard establishes disclosure requirements for interests in other entities, including joint arrangements, associates, special purpose entities and other off balance sheet entities. The Company's financial statements for the year ending December 31, 2013 will contain this additional disclosure.

(iv) Fair value measurement

Effective January 1, 2013, the Company implemented IFRS 13, "Fair Value Measurement". This is a comprehensive standard for fair value measurement and disclosure of fair value measurements across various IFRS standards. IFRS 13 provides a definition of fair value, sets out a single IFRS framework for measuring fair value, and outlines requirements for disclosure of fair value measurements. The adoption of the new standard did not have an impact on the Company's measurement of fair value.

*(c) Future Changes in Accounting Policies*

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ending December 31, 2013, and have not been applied in preparing these condensed interim consolidated financial statements.

(i) Financial instruments

The IASB has issued a new standard, IFRS 9 (2010), "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments – Recognition and Measurement" and augments the previously issued IFRS 9 (2009). The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. This standard becomes effective on January 1, 2015. The Company is currently evaluating the impact of this new standard.

## 4. Restructuring of the Village Shopping Centre Joint Arrangement

Effective January 1, 2013 the Company restructured the ownership arrangement of the Village Shopping Centre. The existing limited partnership agreement was dissolved and a new co-ownership agreement was entered into. The new agreement changed the ownership percentage and method of holding that interest. The joint arrangement was reorganized from a preferred return/residual return structure to a pari-passu co-ownership structure. The Company's ownership position moved to 44.5%.

As a result, the Company has accounted for this transaction as an acquisition by contract alone, and effective January 1, 2013 began to proportionately consolidate its 44.5% interest in the Village Shopping Centre. Previously the Village Shopping Centre was considered an investment and was accounted for using the equity method, having a carrying value of $20.4 million at January 1, 2013. The identifiable assets acquired and liabilities assumed were as follows:

| | |
|---|---|
| Investment properties | $ 28,933 |
| Tenant loans | 35 |
| Cash | 553 |
| Receivables | 125 |
| Prepaid expenses and deposits | 9 |
| Mortgages payable | (9,653) |
| Accounts payable and accrued liabilities | (532) |
| | $ 19,470 |

Assets acquired and liabilities assumed were recorded at estimated fair values at the date of acquisition.

No cash consideration was transferred as part of this transaction.

The difference between the carrying value of the Company's net investment and the fair value of the net assets acquired/assumed is recorded as a loss on change in ownership, recorded in share of profit of associates.

## 5. Investment Properties

| | **March 31, 2013** | December 31, 2012 |
|---|---|---|
| Balance, beginning of period: | **$ 531,764** | $ 472,060 |
| Additions (deductions): | | |
| Additions to investment properties | **1,501** | 13,584 |
| Additions – acquisitions | **-** | 10,733 |
| Additions – the Village Shopping Centre (see Note 4) | **28,933** | - |
| Disposals | **-** | (470) |
| Straight line rent receivable change | **362** | 1,254 |
| Fair value adjustment | **6,515** | 34,603 |
| Balance, end of period: | **$ 569,075** | $ 531,764 |

The majority of the Company's investment properties have been pledged as security under various mortgage and mortgage bond agreements.

Acquisitions consist of land and existing properties purchased for future development and land consolidation.

Investment properties are stated at fair value using the following methods, estimates and key assumptions:

(i) External appraisals

Independent appraisals are obtained in the normal course of business as refinancing activities require them. Where available, the fair value of various investment properties are based on these external appraisals. Of the total fair value in the chart above, $25.2 million of investment properties were based on such external appraisals (December 31, 2012 - $52.7 million).

(ii) Internal approach - direct capitalization income approach

Under this method the Company determines the fair value based upon capitalization rates applied to normalized net operating income (property revenue less property operating expenses). The key assumption is the capitalization rate for each specific property. The Company receives quarterly capitalization rate matrices from an external independent appraiser. The capitalization rate matrices provide a range of rates for various geographic regions and for various types and qualities of properties within each region. The Company utilizes capitalization rates within the range of rates provided. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

As at March 31, 2013 the Company has utilized the following range of capitalization rates:

| | Number of Properties[1] | Weighted average capitalization rates | Primary Market | Secondary Market |
|---|---|---|---|---|
| Freestanding | 34 | 6.35% | 5.75% – 6.75% | 6.00% - 7.50% |
| Anchored Strip – Class A | 11 | 6.75% | 5.75% - 6.75% | 6.25% - 8.25% |
| Anchored Strip – Class B | 18 | 6.60% | 6.00% - 7.25% | 6.50% - 8.75% |
| Unanchored Strip | 30 | 7.56% | 6.75% - 7.75% | 7.00% - 9.25% |
| Enclosed Malls – Community | 5 | 7.80% | 6.25% - 8.50% | 7.00% - 9.50% |
| | 98 | 6.87% | | |

(1) Excludes properties under development and non-consolidated trusts and partnerships.

Freestanding - defined as freestanding retail space leased to a national tenant. May include nominal additional gross leasable area (“GLA”) if the additional GLA is 15% or less than the total GLA or gross revenue.
Anchored Strip – Class A - defined as a food or equivalent-anchored retail strip, 20,000-125,000 square feet and where the anchor tenant represents 70% or more of GLA or gross revenue.

Anchored Strip – Class B - defined as a food or equivalent-anchored retail strip, 20,000-200,000 square feet and where the anchor tenant represents less than 70% of GLA or gross revenue.

Unanchored Strip - defined as an unanchored retail strip less than 75,000 square feet.

Enclosed Malls - Community - defined as an enclosed community mall with food or department/junior department store or equivalent anchors.

As at December 31, 2012 the Company has utilized the following range of capitalization rates:

| | Number of Properties[1] | Weighted average capitalization rates | Primary Market | Secondary Market |
|---|---|---|---|---|
| Freestanding | 33 | 6.34% | 5.75% – 6.75% | 6.00% - 7.25% |
| Anchored Strip – Class A | 11 | 6.70% | 5.75% - 6.75% | 6.25% - 8.00% |
| Anchored Strip – Class B | 17 | 6.57% | 6.00% - 7.25% | 6.50% - 8.50% |
| Unanchored Strip | 29 | 7.73% | 6.75% - 7.75% | 7.00% - 9.25% |
| Enclosed Malls – Community | 4 | 8.14% | 6.25% - 8.50% | 7.00% - 9.50% |
| | 94 | 6.83% | | |

(1) Excludes properties under development and non-consolidated trusts and partnerships.

At March 31, 2013 a decrease of 0.25% in the capitalization rates used to determine the fair value of investment properties would have resulted in an increase in investment properties of approximately $21.1 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately $19.6 million.

*(a) Straight-line Rent*

Included in investment properties as at March 31, 2013 is $7.8 million (December 31, 2012 - $7.5 million) of straight line rents receivable arising from the recognition of rental revenue on a straight line basis over the lease terms in accordance with IAS 17, “Leases”.

*(b) Surplus Land*

Included in investment properties as at March 31, 2013 is $1.2 million of surplus lands at fair value (December 31, 2012 - $1.2 million).

*(c) Properties Under Development*

Included in investment properties as at March 31, 2013 is $27.7 million of properties under development (December 31, 2012 - $22.2 million), of which $13.9 million are recorded at cost as fair value was not determinable (December 31, 2012 - $17.7 million).

*(d) Borrowing Costs*

The total amount of borrowing costs capitalized for the three months ended March 31, 2013 is $184 thousand (for the three months ended March 31, 2012 - $335 thousand).

*(e) Disposals*

There were no disposals during the three months ended March 31, 2013.

During the three months ended March 31, 2012, the Company disposed of land in Riviere-du-Loup and Shawinigan, QC for net proceeds of $22 thousand and an accounting gain of $8 thousand.

## 6. Debentures Payable

Debentures payable consist of the following:

| | **Maturity Date** | **Interest Rate** | **March 31, 2013** | December 31, 2012 |
|---|---|---|---|---|
| Convertible[1] | | | | |
| Series VI | March 31, 2015 | 7.5% | **$ 21,080** | $ 21,865 |
| Total convertible debentures | | | **21,080** | 21,865 |
| Non-convertible[2] [3] | February 26, 2018 | 5.0% | **1,575** | - |
| Total debentures | | | **$ 22,655** | $ 21,865 |

[1] Recorded at fair value
[2] Recorded at amortized cost
[3] Net of unamortized finance charges of $10 thousand

Convertible and non-convertible debentures are subordinate and unsecured.

Convertible debenture terms are as follows:

| | Series VI |
|---|---|
| Conversion price | $3.80 |
| Company's first redemption date | March 31, 2013 |
| Maturity date | March 31, 2015 |
| Face value outstanding March 31, 2013 | $16,362 |

For the three months ended March 31, 2013, holders of $333 thousand of Series VI convertible debentures (for the three months ended March 31, 2012 - $150 thousand of Series V convertible debentures and $150 thousand of Series VI convertible debentures) exercised their option to convert to 88 thousand common shares (for the three months ended March 31, 2012 – 44 thousand common shares and 39 thousand common shares, respectively).

On February 26, 2013, the Company closed Tranche A of a private placement of unsecured non-convertible debentures for gross proceeds of $1.6 million. On April 15, 2013 the Company closed $2.3 million of Tranche B and the remaining $100 thousand of Tranche C debentures closed May 2, 2013. The debentures have a term of 5 years and an interest rate of 5%.

## 7. Mortgage Bonds Payable

Mortgage bonds payable are secured by the following properties:

| | Series V | Series VI | March 31, 2013 Total | December 31, 2012 Total |
|---|---|---|---|---|
| Fairville Boulevard (ANBL), Saint John, NB, 1st Mortgage | $ - | $ 900 | **$ 900** | $ 900 |
| Boulevard Hebert Plaza, Edmundston, NB, 1st | 1,185 | - | **1,185** | 1,185 |
| Gross mortgage bonds payable | $ 1,185 | $ 900 | **$ 2,085** | $ 2,085 |
| Less: unamortized finance charges | | | **(20)** | (20) |
| Net mortgage bonds payable – long-term portion | | | **$ 2,065** | $ 2,065 |

| | Series V | Series VI |
|---|---|---|
| Interest Rate | 8.0% | 5.25% |
| Maturity Date | June 4, 2016 | February 24, 2016 |
| Amount | $1,185 | $900 |

The mortgage bonds have been secured by first or second charges against the respective properties. Mortgage bonds can be deployed up to 90% of the cost of a property under a first or second charge on that property. If it is a second charge, the total debt, including mortgage bonds, cannot exceed 90%.

The Company has no right to redeem the Series V or VI bonds prior to the maturity date.

## 8. Mortgages Payable

| | Rate Range | Weighted Average | Maturity Dates | March 31, 2013 | December 31, 2012 |
|---|---|---|---|---|---|
| Fixed rate loans | 4.16% - 7.97% | 5.78% | Up to June 2031 | **$ 243,261** | $ 234,572 |
| Less: unamortized finance charges | | | | **(2,466)** | (2,474) |
| Total net fixed rate loans | | | | **240,795** | 232,098 |
| Variable rate loans: | | | | | |
| - $20 million development facility | Prime plus 1.00% or BA plus 2.75% | | July 31, 2013 | **4,912** | 4,912 |
| - $15 million development facility | Prime plus 1.00% or BA plus 2.50% | | July 31, 2013 | **5,318** | 5,094 |
| - $4 million secured construction loan | Prime plus 1.25% | | June 30, 2013 | **3,389** | 3,259 |
| Less: unamortized finance charges | | | | **(54)** | (87) |
| Total net variable rate loans | | | | **13,565** | 13,178 |
| Net mortgages payable | | | | **254,360** | 245,276 |
| Less: current portion of mortgages payable | | | | **(44,440)** | (44,084) |
| Total mortgages payable – long-term portion | | | | **$ 209,920** | $ 201,192 |

All mortgages are secured by charges against specific assets. The unamortized finance charges are made up of fees and costs incurred to obtain the mortgage financing less accumulated amortization.

To fund development activities the Company has two 365-day revolving acquisition and development facilities with Canadian chartered banks available upon pledging of specific assets. One is a $20 million facility that bears interest at prime plus 1.00% or BAs plus 2.75%, and the other is a $15 million facility that bears interest at prime plus 1.00% or BAs plus 2.50%. At March 31, 2013 there is $25 million available on these development lines (December 31, 2012 - $25 million). Funding is secured by first mortgage charges on development properties. The Company must maintain certain financial ratios to comply with the facilities. These covenants include loan-to-value, debt service, interest coverage and occupancy ratios, as well as shareholder equity tests. As of March 31, 2013 the Company is in compliance with all covenants.

## 9. Bank Indebtedness

The Company has a $10.0 million operating line of credit facility with a Canadian chartered bank at the rate of prime plus 1.00% or BAs plus 2.50%, maturing November 30, 2013. The amount available to be drawn fluctuates depending on the specific assets pledged as security. At March 31, 2013, $930 thousand (December 31, 2012 – $3.6 million) was drawn on the facility and therefore the maximum amount available to be drawn on the facility was $8.9 million (December 31, 2012 – $6.2 million), net of letters of credit outstanding of $137 thousand (December 31, 2012 - $137 thousand). As security, the Company has provided a $12 million demand debenture secured by a first mortgage over seven properties.

## 10. Share Capital

*(a) Authorized*

The Company has authorized an unlimited number of preferred shares and an unlimited number of common voting shares.

*(b) Issued and Outstanding*

| | **March 31, 2013** | | December 31, 2012 | |
|---|---|---|---|---|
| | **Shares (000s)** | **Amount** | Shares (000s) | Amount |
| Common shares outstanding, beginning of the period | **63,980** | **$ 107,159** | 59,878 | $ 87,550 |
| Issuance of common shares: | | | | |
| Shares issued through exercise of stock options | **-** | **-** | 120 | 582 |
| Shares issued through dividend reinvestment plan | **33** | **161** | 146 | 687 |
| Shares issued through RSU plan | **1** | **-** | - | - |
| Shares issued through debt conversion | | | | |
| - face value debentures | **88** | **333** | 3,836 | 13,227 |
| - impact of fair value of convertible debentures | **-** | **103** | - | 5,113 |
| Common shares outstanding, end of the period | **64,102** | **$ 107,756** | 63,980 | $ 107,159 |

The Company is a mutual fund corporation as defined in the Income Tax Act (Canada) and as such, shareholders have the right to redeem their common shares at 90% of the lesser of the Market Price of the share (Market Price is defined as the weighted average trading price of the previous 180 trading days) and the most recent Closing Market Price at the time of the redemption. The redemption price may be satisfied by either cash or a note payable, at the discretion of the Company. The note payable would bear interest at a rate equal to the prescribed rate of interest under the Income Tax Act (Canada) in effect at the time of its issue, and will mature and be fully repaid two years after issuance. The notes may also be prepaid without penalty. For the three months ended March 31, 2013 no shareholder had redeemed shares under the mutual fund corporation provisions (December 31, 2012 – nil).

The Company has a Dividend Reinvestment Plan to enable Canadian resident shareholders to acquire additional shares of the Company through the reinvestment of dividends on their shares. Shares issued in connection with the Dividend Reinvestment Plan are issued directly from the treasury of the Company at a price based on the weighted average closing price of the shares for the 20 trading days immediately preceding the relevant dividend date. Participants also receive “bonus shares” in an amount equal to 3% of the dividend amount reinvested. Pursuant to the Company’s Dividend Reinvestment Plan, during the three months March 31, 2013, shareholders were issued 33 thousand shares at a weighted average price of $4.92 per share (for the three months ended March 31, 2012 – 38 thousand shares at a weighted average price of $4.75 per share).

## 11. Change in Non-Cash Working Capital

| | **3 Months Ended March 31, 2013** | 3 Months Ended March 31, 2012 |
|---|---|---|
| Receivables | **$ (1,188)** | $ (2,321) |
| Prepaid expenses and mortgage deposits | **(3,627)** | (3,568) |
| Accounts payable and accrued liabilities | **6,766** | 6,762 |
| Income taxes payable | **9** | 8 |
| Total cash from change in non-cash working capital | **$ 1,960** | $ 881 |

## 12. Financial Instruments and Risk Management

In accordance with IFRS, the Company is required to classify its financial instruments carried at fair value in the financial statements using a fair value hierarchy that exhibits the significance of the inputs used in making the measurements.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
Level 3 - Inputs for the asset or liability that are not based on observable market data.

Financial assets and liabilities valued within Level 1 of the hierarchy include cash and bank indebtedness. The Company's interest rate swaps included within investments and convertible debentures are valued under Level 2 of the fair value hierarchy.

The fair values of cash, bank indebtedness, accounts receivable and accounts payable and accrued liabilities approximate their carrying values due to the short-term maturity of those instruments.

To mitigate the interest rate risk on two of the variable rate mortgages, included in investments, interest rate swaps are in place and mature on July 31, 2020. The fair value is calculated as the present value of the estimated future cash flows based on observable yield curves.

The fair value of the convertible debentures payable has been determined by using an industry standard pricing model which uses the Company's share price, share volatility and yields on government of Canada bonds.

## 13. Subsequent Events

*Financing*

On April 4, 2013, the Company obtained long-term financing for Queen Mary Road, a property located in Montreal, QC in the amount of $3.3 million with a 20 year term. The Company owns 25% of this property.

On May 1, 2013, the Company repaid mortgages at Spring Park Plaza and Nashwaaksis Plaza totalling $2.5 million.

*Investment Properties*

On April 5, 2013, the Company acquired a 25% interest in Queen Mary Road, a property located in Montreal, QC for consideration of $625 thousand.

*Debentures*

On April 15, 2013, the Company closed $2.3 million Tranche B unsecured debentures and on May 2, 2013, the Company closed $100 thousand Tranche C unsecured debentures. Both tranches have a term of 5 years and an interest rate of 5%.

*Proposed Acquisition of KEYreit*

On April 4, 2013, the Company announced that it entered into a definitive agreement with KEYreit (TSX: KRE.UN) to acquire 100% of the units of KEYreit. KEYreit unitholders will have the option to tender their Units for either $8.35 per unit in cash, subject to a maximum aggregate cash amount of approximately $62.1 million, representing approximately 50% of the consideration, 1.7041 shares of the Company, or any combination thereof, subject to proration. This offer is valued at approximately $124 million. A takeover bid circular has been mailed to KEYreit unitholders and the offer is open for acceptance until 8:00 p.m. (Toronto time) on May 16, 2013 (the "Expiry Time"), unless the offer is extended or withdrawn. The offer is conditional on, among other things, there having been validly deposited by the Expiry Time such number of KEYreit units that constitutes at least 66 2/3% of the KEYreit units then outstanding. The Company will fund the cash portion of the transaction with a secured term credit facility.

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