



PLAZACORP RETAIL
PROPERTIES LTD.

ANNUAL REPORT

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

**CONSOLIDATED FINANCIAL STATEMENTS
(AUDITED, IN CANADIAN DOLLARS)**

**FOR THE YEARS ENDED
DECEMBER 31, 2013 AND 2012**

DATED: FEBRUARY 26, 2014

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PRESIDENT'S MESSAGE

Fellow Shareholders:

We are pleased to report our results for the year ended December 31, 2013. Our Company has completed a year of great change that has allowed us to increase our distributions per unit and create the foundation for future growth. Five significant events were realized during the year: 1) converted to a REIT structure and changed our name to Plaza Retail REIT; 2) acquired KEYreit and its 225 properties located across 9 provinces for \$348,000,000; 3) graduated to the TSX; 4) raised \$74,000,000 of new capital; and 5) announced an increase in annual distributions to 24¢ per unit for 2014. This represents the 11th consecutive annual distribution increase for our Company.

During the year 8 additional properties, representing approximately 202 thousand square feet (at our ownership percentage), were purchased or became income producing. We invested \$36 million in developments/redevelopment activity and new property additions. Our business continues to grow as we have 7 properties, representing approximately 274 thousand square feet (at our ownership percentage), under development and 4 properties representing approximately 314 thousand square feet (at our ownership percentage) under redevelopment in 2014. These new development and redevelopment properties are representative of our strategy to develop assets leased to Canada's best retailers.

Plaza has been actively pursuing its strategy of extracting value from the KEYreit portfolio. Plaza has been successfully selling non-core assets at prices well above the values that were used to underwrite the transaction. Assets sold include: 1) properties better suited for residential development where the land value of the site is well above the value of applying a capitalization rate to the properties' net operating income; 2) properties that do not represent a geographical fit for our business; and 3) properties that, in our opinion, do not offer long term value for our business. These proceeds have been applied to repay the bank bridge facility contracted for the KEYreit acquisition. We anticipate that the bridge facility will be entirely paid off by the end of April 2014, leaving us with a very comfortable debt level.

Plaza will place in excess of \$100,000,000 in term mortgage financing in 2014. This includes: 1) financing of new projects to replace interim construction financing; 2) refinancing term mortgages that are maturing; and 3) early refinancing of term mortgages in order to replace them with new lower cost long term fixed rate mortgages. These financing and refinancing initiatives will, overtime, produce cash flow growth per unit and strengthen our business by reducing our exposure to interest rate increases. Over the last year, Plaza has successfully placed a number of mortgages with fixed rate terms of 15 to 20 years, matching the mortgage terms to the terms of the leases of major tenants. This strategy is very different than that pursued by most of our peers. While it can be more costly in the short term, placing longer term debt has always been an important part of our business strategy, as it reduces interest rate risk.

Going forward Plaza will continue to: 1) pursue its value-added and opportunity-driven business strategy for its unitholders; 2) remain well-capitalized in order to take advantage of opportunities; 3) pursue its goal of focusing on per unit results that will lead to increasing per unit distributions; and 4) maintain one of the lowest payout ratios (distributions versus FFO or AFFO) among its peers. Very few Canadian public real estate entities offer the potent combination of a secure distribution stream and the ability to consistently grow distributions by developing and redeveloping high quality new retail projects.

I wish to thank everyone responsible for our success: our staff; our Board of Directors; our customers; and our Stakeholders.

Sincerely,



Michael Zakuta
President and CEO

PART I

BASIS OF PRESENTATION

Financial information included in this Management Discussion and Analysis (“MD&A”) includes material information up to February 26, 2014. 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 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 year ended December 31, 2013 should be read in conjunction with the Company’s Consolidated Financial Statements and the notes thereto for the years ended December 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 February 26, 2014 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 term 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 (see reconciliation to profit (loss) for the period attributable to shareholders on page 8). Plazacorp considers FFO a meaningful additional measure as it adjusts for certain non-cash items that do not necessarily provide an appropriate picture of a company’s 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 term 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 (see reconciliation to FFO on page 10). Most of these 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 included in determining AFFO.

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, transaction costs expensed as a result of the purchase of a business or properties, and net revaluation of interest rate swaps (see reconciliation to profit (loss) for the period on page 9).

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FFO, AFFO and EBITDA are not defined by IFRS, and therefore should not be considered as alternatives to profit or net income calculated in accordance with IFRS.

EXPLANATION OF ADDITIONAL GAAP MEASURES USED IN THIS DOCUMENT

Net Property Operating Income (NOI) is an industry term in widespread use. The Company includes NOI as an additional IFRS measure in its consolidated statement of comprehensive income. 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 revenues less total operating expenses as shown in the consolidated statements of comprehensive income (property revenues less total property operating costs, including operating ground rents).

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 July 2, 2013, the Company graduated its listing from the TSX Venture Exchange to the TSX. On December 11, 2002 after receipt of shareholder and regulatory approval, Plazacorp filed articles of amendment to convert to a mutual fund corporation and retained that status until January 1, 2014 when the Company converted into a real estate investment trust (REIT). Headquartered in Fredericton, New Brunswick, Plazacorp acquires, develops and redevelops unenclosed and enclosed retail real estate throughout Canada, which are predominantly occupied by national tenants. The Company's developments are generally focused in Eastern Canada. The Company's portfolio at December 31, 2013 includes interests in 334 properties totaling 6.6 million square feet and additional lands held for development. These include properties directly held by Plazacorp, its subsidiaries and through joint arrangements.

Summary of Properties

| | Number of Properties December 31, 2013 ⁽¹⁾ | Gross Leasable Area (sq. ft.) December 31, 2013 ⁽¹⁾⁽²⁾ | Number of Properties December 31, 2012 ⁽¹⁾ | Gross Leasable Area (sq. ft.) December 31, 2012 ⁽¹⁾⁽²⁾ |
|---------------------------|--|--|--|--|
| Alberta | 14 | 108,687 | - | - |
| British Columbia | 2 | 3,038 | - | - |
| Newfoundland and Labrador | 10 | 623,757 | 10 | 620,644 |
| New Brunswick | 48 | 1,700,629 | 38 | 1,556,826 |
| Nova Scotia | 39 | 1,156,468 | 23 | 1,070,736 |
| Manitoba | 8 | 34,524 | - | - |
| Ontario | 103 | 721,844 | 14 | 261,824 |
| Prince Edward Island | 9 | 493,053 | 8 | 425,747 |
| Quebec | 101 | 1,742,157 | 25 | 1,223,775 |
| Total | 334 | 6,584,157 | 118 | 5,159,552 |

⁽¹⁾ Includes properties under development and non-consolidated investments.

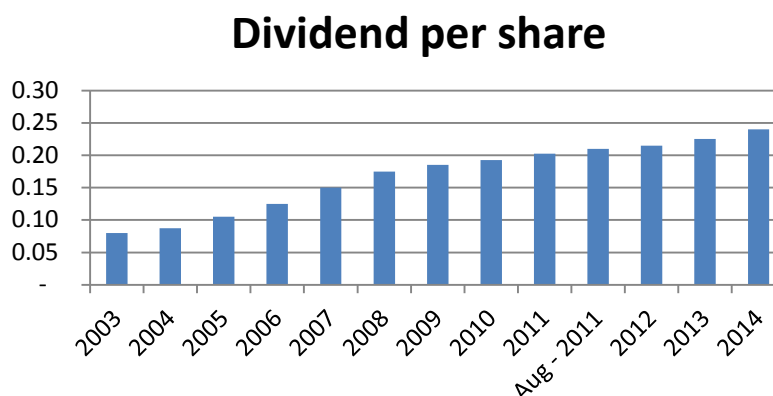
⁽²⁾ At 100%, regardless of the Company's ownership interest in the properties

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 89% occupied by national retailers, providing investors with stable cash flow.

Yearly Dividend Growth

| Year | Dividend per share | Percentage increase |
|-------------|---------------------------|----------------------------|
| 2003 | 8.00¢ | n/a |
| 2004 | 8.75¢ | 9.4% |
| 2005 | 10.50¢ | 20.0% |
| 2006 | 12.50¢ | 19.0% |
| 2007 | 15.00¢ | 20.0% |
| 2008 | 17.50¢ | 16.7% |
| 2009 | 18.50¢ | 5.7% |
| 2010 | 19.25¢ | 4.1% |
| 2011 | 20.25¢ | 5.2% |
| 2011 - Aug | 21.00¢ | 3.7% |
| 2012 | 21.50¢ | 2.4% |
| 2013 | 22.50¢ | 4.7% |
| 2014 | 24.00¢ | 6.7% |



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

Long-term debt financing continues to be available at historically competitive fixed rates with long amortization periods and long terms. In terms of equity financing, the capital markets have been less favourable for real estate entities since the latter half of 2013, making raising equity more difficult.

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;

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- 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;
- properly integrating new properties acquired;
- using internal expertise to ensure that we surface value from all of our properties; 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

Acquisition of KEYreit

The Company completed the acquisition of 100% of the issued and outstanding units of KEYreit, a real estate investment trust previously listed on the TSX. KEYreit unitholders had the option to tender their units for either \$8.35 per unit in cash, subject to a maximum aggregate cash amount of \$62.1 million, 1,7041 shares of the Company, or any combination thereof, subject to proration. The bid expired on May 16, 2013, at which time 13,288,370 units of KEYreit were tendered (or approximately 88.5% of the then issued and outstanding units of KEYreit) and taken up by the Company. The Company then effected a subsequent acquisition transaction on June 26, 2013 in order to acquire all of the remaining units of KEYreit. All of the issued and outstanding units of KEYreit, being 15.0 million units were purchased by the Company through the payment of \$62.1 million in cash and the issuance of 12.9 million shares of the Company, for total consideration of \$121.9 million. As part of the transaction, the asset management and property management agreements with JBM Properties Inc. (a company owned by the former CEO of KEYreit, John Bitove) were terminated. The Company funded the cash portion of the transaction with a secured bridge facility. The acquisition has been accounted for as an asset acquisition and not as a business combination, as no key strategic processes of KEYreit were acquired. The share consideration issued in the transaction has been valued in reference to the fair value of the units of KEYreit acquired.

Plazacorp believed that this transaction was attractive for the following reasons:

- The acquisition is accretive to Plazacorp's AFFO per share, largely as a result of anticipated synergies because of Plazacorp's internalized management team. Given the higher coupon rates on many of KEYreit's mortgages and its convertible debentures, 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.
- The integration of KEYreit's properties has enhanced the geographic diversification of Plazacorp, giving the Company a higher weighting in Ontario and Quebec than what it previously had.
- Over time, the Company believes that it will be able to use its in-house development/redevelopment expertise to create value at many of the properties.

Graduation to the TSX

The Company graduated from the TSX Venture Exchange to the TSX. The graduation took place just following the acquisition of KEYreit on July 2, 2013.

Conversion to a REIT

Effective January 1, 2014, the Company completed its plan of arrangement to convert into a REIT – now known as Plaza Retail REIT. Final approval was granted by the Toronto Stock Exchange and on January 8, 2014, Plaza Retail REIT's units began trading under the symbol "PLZ.UN". A REIT is a more tax efficient structure and is the preferred vehicle in Canada for owning real estate. In conjunction with the conversion, the Company has moved from a quarterly dividend to a monthly distribution.

Since Plaza Retail REIT is the continuation of the Company, the consolidated financial statements of Plaza Retail REIT going forward will be the same as those of the Company, except for deferred taxes, which will reflect the change in tax status to a flow-through vehicle.

Equity and Convertible Debenture Offering

On October 24, 2013, the Company completed a bought deal public offering of 9,400,000 shares at a price of \$4.25 per share for gross proceeds of \$40 million and \$30 million aggregate principal amount of 5.75% convertible unsecured subordinated debentures due December 31, 2018. The debentures are convertible at the option of the holder into shares of the Company (now units of Plaza Retail REIT) at \$5.75 per share. On November 13, 2013 the underwriters exercised the over-allotment option, and purchased an additional \$4 million aggregate principal amount of debentures. Net proceeds of the offering were used as follows: approximately \$15 million was used to repay the outstanding amount on the Company's operating line of credit; \$35 million was used to partially repay the Company's bridge facility; approximately \$16 million was used to redeem the Series A 7.75% convertible debentures on January 7, 2014; and the remainder was used to fund the Company's current and future ongoing developments and for general corporate purposes.

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;
- Profit (loss);
- debt service ratios;
- "same-asset" net property operating income;
- weighted average effective cost of debt; and
- occupancy levels.

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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 definitions previously mentioned in the “Non-GAAP Measures” and “Additional GAAP Measures” sections of 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 year ended December 31, 2013 compared to the year ended December 31, 2012.

| | |
|---|--|
| Funds from Operations | <ul style="list-style-type: none"> ➤ For the year ended December 31, 2013 FFO – adjusted was \$19.3 million, or 26.0¢ per share (26.0¢ per share diluted) compared to \$16.2 million, or 26.4¢ per share (26.4¢ per share diluted) for the year ended December 31, 2012 an increase of 19.0% on a dollar basis and a decrease of 1.5% on a per share basis. Excluding one-time administrative expenses of \$1.4 million relating to the integration of KEYreit, the Company’s move to the TSX and the Company’s REIT conversion, FFO per share would have been 27.8¢, compared to 26.4¢ per share for the prior year, or a 5.3% increase. <p>The principal factors influencing FFO were:</p> <ul style="list-style-type: none"> ➤ Incremental NOI growth of approximately \$1.7 million earned by properties which were acquired or transferred from properties under development to income producing status during 2012 and 2013. ➤ Incremental NOI from the purchase of KEYreit of \$14.6 million. ➤ An increase in same-asset NOI of \$143 thousand. ➤ 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 \$451 thousand. ➤ An increase in finance costs of \$11.8 million mainly due to the acquisition of KEYreit. ➤ An increase in administrative expenses of \$2.5 million mainly affected by an increase in compensation expense due to issuances under the Company’s RSU plan in December 2012 and one-time costs incurred mainly for the integration of KEYreit, the move to the TSX and the REIT conversion. ➤ A decrease in share of profit of associates of approximately \$484 thousand as a result of the sale of Marché de L’Ouest shopping center in 2012. |
| FFO/AFFO Payout Ratios | <ul style="list-style-type: none"> ➤ For the year ended December 31, 2013, the FFO payout ratio was 82.9% compared to 80.9% in the prior year. For the year ended December 31, 2013, the AFFO payout ratio was 86.6% compared to 87.6% in the prior year. Excluding one-time administrative costs, the FFO and AFFO payout ratios would have been 77.3% and 80.5%. |
| Profit (loss) | <ul style="list-style-type: none"> ➤ For the year ended December 31, 2013 the Company reported a net loss of \$13.1 million compared to a profit of \$47.1 million for the prior year. Included in this loss are a non-cash negative fair value adjustment to investment properties of \$24.0 million, one-time costs for the REIT conversion, the acquisition of KEYreit and the graduation to the TSX of \$1.4 million and \$1.6 million of debenture issuance costs required to be expensed under accounting standards. |
| Debt Service Ratios | <ul style="list-style-type: none"> ➤ For the year ended December 31, 2013 the interest and debt service coverage ratios decreased over the prior year to 1.8 times and 1.4 times, respectively, from 2.1 times and 1.7 times, respectively, mainly due to the acquisition of KEYreit and the resultant assumption of convertible debentures and increase in overall leverage. The debt service coverage and interest coverage ratios exceed the requirements under borrowing arrangements and overall leverage is close to the Company’s targeted leverage. |
| Same-Asset Net Property Operating Income | <ul style="list-style-type: none"> ➤ For the year ended December 31, 2013, same-asset NOI increased compared to the prior year by \$143 thousand or 0.5%, which is below historical norms. Same-asset NOI was impacted by a higher overall vacancy in the portfolio. |
| Weighted Average Effective Cost of Debt | <ul style="list-style-type: none"> ➤ At December 31, 2013 the weighted average effective cost of mortgage debt decreased 42 basis points to 5.36% from 5.78% at December 31, 2012. The decrease was a result of continued historically low interest rates as well as the addition of the KEYreit portfolio at a lower weighted average rate (because the majority of KEYreit’s loans are shorter term loans). |
| Occupancy Levels | <ul style="list-style-type: none"> ➤ At December 31, 2013 overall occupancy was 94.8% compared to 95.7% at December 31, 2012. |

PROPERTY AND CORPORATE PERFORMANCE 2013 AND 2012

Funds from Operations (FFO)

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

| (000s – except per share amounts) | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|--|---|---|--|--|
| Profit (loss) for the period attributable to shareholders | \$ (9,204) | \$ 1,058 | \$ (11,591) | \$ 43,598 |
| Add (deduct): | | | | |
| Loss (gain) on disposal of investment properties and land | (15) | 51 | 90 | 43 |
| Transaction-related costs on acquisition of KEYreit | - | - | 9,061 | - |
| Deferred income taxes | (3,553) | (72) | 668 | 13,176 |
| Tax (refundable tax) on disposals | (256) | 835 | (882) | 835 |
| Fair value adjustment to investment properties | 18,082 | 4,168 | 23,989 | (34,603) |
| Fair value adjustment to investments | 839 | (3,236) | (98) | (9,973) |
| Fair value adjustment to convertible debentures | (266) | 547 | (1,628) | 673 |
| Equity accounting adjustment | (16) | (27) | 558 | (48) |
| Non-controlling interest adjustment | (2,388) | 789 | (2,479) | 2,542 |
| Basic FFO | \$ 3,223 | \$ 4,113 | \$ 17,688 | \$ 16,243 |
| Adjustment for debenture issuance costs | 1,634 | - | 1,634 | - |
| Basic FFO - adjusted | \$ 4,857 | \$ 4,113 | \$ 19,322 | \$ 16,243 |
| Interest on dilutive convertible debentures | - | - | - | - |
| Diluted FFO - adjusted | \$ 4,857 | \$ 4,113 | \$ 19,322 | \$ 16,243 |
| Basic Weighted Average Shares Outstanding | 85,359 | 63,833 | 74,426 | 61,447 |
| Diluted Weighted Average Shares Outstanding | 85,359 | 63,833 | 74,426 | 61,447 |
| Basic and diluted FFO per share - adjusted | \$ 0.057 | \$ 0.064 | \$ 0.260 | \$ 0.264 |

Basic FFO - adjusted for the year ended December 31, 2013 increased by 19.0% over the same period in the prior year. Basic FFO – adjusted per share for the year ended December 31, 2013 decreased by 1.5% over the same period in the prior year. Positively impacting FFO was: (i) incremental NOI growth from new developments/acquisitions of approximately \$1.7 million; (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 \$451 thousand of the increase (see further details about this below under the heading "Share of Profit of Associates"); (iii) same-asset NOI growth of \$143 thousand; and (iv) incremental NOI of \$14.6 million from the purchase of KEYreit. Negatively impacting FFO was: (i) an increase in administrative expenses of \$2.5 million, approximately \$1.4 million of which are one-time in nature (relating to the integration of KEYreit, the move to the TSX and the Company's REIT conversion); (ii) a decrease in share of profit of associates of approximately \$484 thousand due to the sale of Marché de L'Ouest in December 2012; and (iii) an increase in finance costs of \$11.8 million mainly due to the acquisition of KEYreit. Excluding the one-time administrative expenses, FFO per share would have been \$0.278, compared to \$0.264 per share for the prior year, or a 5.3% increase over the prior year.

Basic FFO - adjusted for the three months ended December 31, 2013 increased by 18.1% over the same period in the prior year. Basic FFO – adjusted per share for the three months ended December 31, 2013 decreased by 10.9% over the same period in the prior year. Positively impacting FFO was: (i) incremental NOI growth from new developments/acquisitions of approximately \$834 thousand; (ii) incremental NOI of \$5.8 million from the purchase of KEYreit; and (iii) a decrease in current income tax expense of \$258 thousand (net of non-FFO tax or refunds on disposals). Negatively impacting FFO was: (i) a decrease in same-asset NOI of \$221 thousand; (ii) an increase in administrative expenses of \$1.3 million, approximately \$856 thousand of which are one-time in nature as mentioned above; (ii) a decrease in share of profit of associates of

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approximately \$247 thousand due to the sale of Marché de L'Ouest in December 2012; and (iii) an increase in finance costs of \$5.0 million mainly due to the acquisition of KEYreit. Excluding the one-time administrative expenses, FFO per share would have been \$0.067, compared to \$0.064 per share for the prior year, or a 4.7% increase over the prior year.

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) and Debt Coverage Ratios

Plazacorp's summary of EBITDA and debt coverage ratios for the three and twelve months ended December 31, 2013, compared to the three and twelve months ended December 31, 2012 is presented below:

| (000s – except debt coverage ratios) | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|---|--|--|--|--|
| Profit (loss) for the period | \$ (11,375) | \$ 2,092 | \$ (13,065) | \$ 47,073 |
| Add (deduct): | | | | |
| Loss (gain) on disposal of investment properties and land | (15) | 51 | 90 | 43 |
| Transaction-related costs on acquisition of KEYreit | - | - | 9,061 | - |
| Income taxes | (3,750) | 1,080 | (93) | 14,237 |
| Finance costs | 10,373 | 3,759 | 28,827 | 15,394 |
| Fair value adjustment to investment properties | 18,082 | 4,168 | 23,989 | (34,603) |
| Fair value adjustment to investments | 839 | (3,236) | (98) | (9,973) |
| Fair value adjustment to convertible debentures | (266) | 547 | (1,628) | 673 |
| Equity accounting adjustment | (16) | (27) | 558 | (48) |
| EBITDA | \$ 13,872 | \$ 8,434 | \$ 47,641 | \$ 32,796 |
| Finance costs (excluding debenture issuance costs) | 8,739 | 3,759 | 27,193 | 15,394 |
| Periodic mortgage principal repayments | 1,993 | 1,001 | 6,772 | 3,824 |
| Total debt service | 10,732 | 4,760 | 33,965 | 19,218 |
| Debt coverage ratios | | | | |
| Interest coverage ratio | 1.6 times | 2.2 times | 1.8 times | 2.1 times |
| Debt service coverage ratio | 1.3 times | 1.8 times | 1.4 times | 1.7 times |

The interest and debt service coverage ratios decreased over the prior year mainly due to the acquisition of KEYreit and the resultant new debt (many of which have very short amortization periods), including the assumption of convertible debentures. Excluding one-time administrative costs incurred during the fourth quarter relating to the conversion to a REIT structure, interest coverage and debt service coverage ratios would have been 1.7 times and 1.4 times, respectively. The debt service coverage and interest coverage ratios exceed the requirements under borrowing arrangements and overall leverage is close to the Company's targeted leverage.

Plazacorp Retail Properties Ltd.

Adjusted Funds from Operations (AFFO)

Plazacorp's summary of AFFO for the three and twelve months ended December 31, 2013, compared to the three and twelve months ended December 31, 2012 is presented below:

| (000s, except per share amounts and percentage data) | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|---|--|--|--|--|
| Basic FFO - adjusted ⁽¹⁾ | \$ 4,857 | \$ 4,113 | \$ 19,322 | \$ 16,243 |
| Add: Amortization of finance charges included in interest expense | 891 | 201 | 2,472 | 748 |
| Amortization of mark-to-market on debt assumed from KEYreit | (307) | - | (849) | - |
| Principal repayment of tenant loans | 64 | 108 | 312 | 523 |
| Non-controlling interest adjustment | 25 | 20 | 63 | 147 |
| Less: Non-cash revenue – straight-line rent | (186) | (343) | (749) | (1,001) |
| Equity accounting adjustment | 3 | (37) | (61) | (295) |
| Maintenance capital expenditures – existing properties | (8) | (184) | (445) | (598) |
| Leasing costs – existing properties | (435) | (11) | (1,232) | (768) |
| Mortgage finance charges – existing properties | (227) | - | (337) | - |
| Basic and diluted AFFO - adjusted | \$ 4,677 | \$ 3,867 | \$ 18,496 | \$ 14,999 |
| Basic and diluted AFFO – adjusted per share | \$ 0.055 | \$ 0.061 | \$ 0.249 | \$ 0.244 |
| Gross dividend payments | 4,406 | 3,426 | 16,018 | 13,146 |
| AFFO after dividends | \$ 271 | \$ 441 | \$ 2,478 | \$ 1,853 |
| Dividends as a percentage of basic AFFO | 94.2% | 88.6% | 86.6% | 87.6% |
| Dividends as a percentage of basic FFO | 90.7% | 83.3% | 82.9% | 80.9% |

(1) See reconciliation of Basic FFO to profit (loss) attributable to shareholders in the FFO section of the MD&A above

For the year ended December 31, 2013, AFFO increased by \$3.5 million, or 23.3% over the prior year, and AFFO per share increased by 2.0% over the prior year. The increase was mainly due to the increase in FFO described previously, partly offset by higher leasing costs and mortgage finance charges incurred on refinancings. Excluding the one-time administrative expenses included in AFFO (as mentioned previously in the discussion of FFO), AFFO per share would have been \$0.267, compared to \$0.244 per share for the prior year, or a 9.5% increase over the prior year.

For the three months ended December 31, 2013, AFFO increased by \$810 thousand, or 20.9% over the prior year, while AFFO per share decreased by \$0.006, or 9.8% over the prior year. The dollar increase was mainly due to the same factors affecting the year-to-date amounts. Excluding the one-time administrative expenses included in AFFO (as mentioned previously in the discussion of FFO), AFFO per share would have been \$0.065, compared to \$0.061 per share for the prior year.

The FFO payout ratio for the year ended December 31, 2013 was 82.9% compared to 80.9% for the year ended December 31, 2012, while the AFFO payout ratio for the year ended December 31, 2013 was 86.6% compared to 87.6% for the year ended December 31, 2012. The FFO payout ratio for the three months ended December 31, 2013 was 90.7% compared to 83.3% for the three months ended December 31, 2012, while the AFFO payout ratio for the three months ended December 31, 2013 was 94.2% compared to 88.6% for the three months ended December 31, 2012. Excluding the one-time administrative costs, the FFO and AFFO payout ratios would have been 77.3% and 80.5% for the year ended December 31, 2013 and 77.1% and 79.6% for the three months ended December 31, 2013.

Plazacorp Retail Properties Ltd.

Same-Asset Net Property Operating Income

Same-asset categorization refers to those properties which were owned and operated by Plazacorp for the twelve months ended December 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) | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|---|--|--|--|--|
| Same-asset rental revenue | \$ 13,204 | \$ 13,095 | \$ 52,676 | \$ 51,779 |
| Same-asset operating expenses | 2,876 | 2,752 | 10,472 | 10,513 |
| Same-asset realty tax expense | 2,836 | 2,630 | 11,250 | 10,455 |
| Same-asset net property operating income | \$ 7,492 | \$ 7,713 | \$ 30,954 | \$ 30,811 |
| Total net property operating income | \$ 15,779 | \$ 8,586 | \$ 52,487 | \$ 33,810 |

As noted in the chart above, the NOI for the same-asset pool for the twelve months ended December 31, 2013, increased by \$143 thousand or 0.5%, over the same period in the prior year which is below historical norms. Same-asset NOI was impacted by a higher overall vacancy in the portfolio.

NOI for the same-asset pool for the three months ended December 31, 2013, decreased by \$221 thousand or 2.9% over the same period in the prior year mainly due to the increase in vacancy at Starrs Road, Plaza Boulevard Royale and Nashwaaksis Plaza.

The following table shows a breakdown of total net property operating income by entity.

| (000s) | Gross Leasable Area as at December 31, 2013 (sq ft) | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|--|---|--|--|--|--|
| Plazacorp properties | 5,374 | \$ 10,012 | \$ 8,586 | \$ 37,873 | \$ 33,810 |
| KEYreit properties | 1,211 | 5,767 | n/a | 14,614 | n/a |
| Total net property operating income | 6,585 | \$ 15,779 | \$ 8,586 | \$ 52,487 | \$ 33,810 |

Total NOI for the twelve months ended December 31, 2013 grew by \$18.7 million, or 55.2% due to the overall growth in investment properties, purchase of KEYreit 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"). More specifically, 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 \$699 thousand of the increase;
- the full period impact of four properties transferred to income producing status from properties under development and four acquired in 2013, accounting for approximately \$999 thousand of the increase (annualized impact to NOI of approximately \$2.5 million);
- the addition of the Village Shopping Centre, which increased NOI by approximately \$2.1 million due to the change in accounting treatment from equity accounting to proportionate consolidation;
- incremental NOI from the purchase of KEYreit on May 16, 2013 of \$14.6 million; and
- the same-asset pool increase of \$143 thousand, mentioned previously.

Plazacorp Retail Properties Ltd.

Total NOI for the three months ended December 31, 2013 grew by \$7.2 million, or 83.8% due to the overall growth in investment properties, purchase of KEYreit 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”). More specifically, the increase in total NOI was mainly attributable to:

- the full period impact of eight properties transferred to income producing status from properties under development and acquired in 2012 and 2013, accounting for approximately \$834 thousand of the increase;
- the addition of the Village Shopping Centre, which increased NOI by approximately \$547 thousand due to the change in accounting treatment from equity accounting to proportionate consolidation;
- incremental NOI from the purchase of KEYreit of \$5.8 million; and partly offset by
- the same-asset pool decrease of \$221 thousand, mentioned previously.

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

| (000s, except percentage data) | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|--|--|--|--|--|
| New Brunswick | \$ 2,308 | \$ 2,450 | \$ 9,793 | \$ 10,119 |
| Quebec | 1,102 | 1,104 | 4,387 | 4,168 |
| Nova Scotia | 2,415 | 2,391 | 9,885 | 9,522 |
| Ontario | 319 | 307 | 1,271 | 1,238 |
| Newfoundland and Labrador | 659 | 717 | 2,827 | 2,881 |
| Prince Edward Island | 689 | 744 | 2,791 | 2,883 |
| Same-asset net property operating income | \$ 7,492 | \$ 7,713 | \$ 30,954 | \$ 30,811 |
| Percentage increase(decrease) over prior period | (2.9)% | | 0.5% | |

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

| | Property Type | Square Footage | Ownership | Income Producing/ Acquired or Redeveloped During |
|--|---------------------|-------------------|-----------|---|
| Spencer Drive Plaza, Charlottetown, PE | Strip Plaza | 95,713 | 100% | Q2 12 |
| Powell Drive Plaza, Carbonear, NL | Single Use | 10,000 | 100% | Q3 12 |
| Buchanan Street Plaza, Charlottetown, PE | Strip Plaza | 56,528 | 100% | Q4 12 |
| Village Shopping Centre, St. John’s, NL ⁽¹⁾ | Enclosed | 429,654 | 44.5% | Q1 13 |
| Beauport, Quebec City, QC | Single Use | 2,925 | 100% | Q2 13 |
| 4999 Queen Mary Road, Montreal, QC | Strip Plaza | 13,041 | 25% | Q2 13 |
| 210 Wyse Road, Dartmouth (Halifax), NS | Single Use | 60,979 | 50% | Q2 13 |
| Lansdowne Plaza Phase 1, Saint John, NB | Strip Plaza | 102,780 | 100% | Q3 13 |
| Commercial Street 2, New Minas, NS | Strip Plaza | 9,537 | 100% | Q3 13 |
| Plaza HDB, Boisbriand, QC | Strip Plaza | 6,951 | 33% | Q3 13 |
| 1086 Lariviere, Rouyn-Noranda, QC | Single Use | 2,700 | 100% | Q3 13 |
| Plaza De L’Ouest (Phase 1), Sherbrooke, QC | Strip Plaza | 96,081 | 50% | Q3 13 |
| Oromocto Mall, Oromocton, NB | Enclosed | 86,025 | 100% | Q4 13 |
| Grand Falls Shopping Centre, Grand Falls, NB | Enclosed | 133,998 | 100% | Q4 13 |
| Les Promenades St-Francois, Laval, QC | Strip Plaza | 54,694 | 100% | Q4 13 |
| KEYreit portfolio | Single Use/Strip | 1,210,949 | 100% | Q2 13 |
| Total | | 2,372,555 | | |

⁽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.

Plazacorp Retail Properties Ltd.

Leasing and Occupancy

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

| Year | Strip Plazas | | Enclosed Malls | | Single-User | | Total | |
|-------------------------------|----------------------|-------|----------------------|-------|----------------------|-------|----------------------|--------------|
| | Sq Ft ⁽¹⁾ | % | Sq Ft ⁽¹⁾ | % | Sq Ft ⁽¹⁾ | % | Sq Ft ⁽¹⁾ | % |
| 2014 | 204,999 | 6.8 | 116,229 | 17.5 | 5,500 | 0.4 | 326,728 | 6.6 |
| 2015 | 342,004 | 11.3 | 88,281 | 13.3 | 25,695 | 2.1 | 455,980 | 9.2 |
| 2016 | 356,229 | 11.8 | 94,369 | 14.2 | 49,345 | 4.0 | 499,943 | 10.1 |
| 2017 | 210,962 | 7.0 | 115,213 | 17.3 | 91,923 | 7.4 | 418,098 | 8.5 |
| 2018 | 197,829 | 6.5 | 79,429 | 12.0 | 245,595 | 19.8 | 522,853 | 10.6 |
| Thereafter | 1,715,740 | 56.6 | 170,661 | 25.7 | 820,886 | 66.3 | 2,707,287 | 55.0 |
| Subtotal | 3,027,763 | 100.0 | 664,182 | 100.0 | 1,238,944 | 100.0 | 4,930,889 | 100.0 |
| Vacant | 191,136 | | 53,879 | | 23,655 | | 268,670 | |
| Total | 3,218,899 | | 718,061 | | 1,262,599 | | 5,199,559 | |
| Weighted average lease | 7.1 years | | 3.8 years | | 8.4 years | | 7.0 years | |

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

At December 31, 2013, overall occupancy for the portfolio (excluding properties under development and non-consolidated investments) decreased to 94.8% from 95.7% at December 31, 2012. This decrease was mainly due to the increase in vacancy at Starrs Road, Plaza Boulevard Royale, Madawaska Road and Nashwaaksis Plaza. The decrease in occupancy was also due to: (i) 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; and (ii) Buchanan Street, which has a lower occupancy than the average for investment properties and which came out of properties under development to income-producing status after Q3 2012. Excluding the Village Shopping Centre and Buchanan Street, occupancy was 95.6%, compared to 95.7% at December 31, 2012.

For the year ended December 31, 2013, the Company completed 841 thousand square feet of new and renewal leasing deals at market rates (including leasing at non-consolidated investments). The 841 thousand square feet of leasing was comprised of 247 thousand square feet on new developments, and 594 thousand square feet on existing properties. Excluding leasing at non-consolidated investments, the Company completed 642 thousand square feet of new and renewal leasing deals at market rates. The 642 thousand square feet of leasing was comprised of 142 thousand square feet on new developments and 500 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 94.1% at December 31, 2013, compared to 95.9% at December 31, 2012.
- Average occupancy for enclosed malls was 92.5 % at December 31, 2013, compared to 91.0% at December 31, 2012.
- Occupancy for single use assets was 98.1% at December 31, 2013, compared to 100.0% at December 31, 2012.
- Pre-leased space in properties in the development phase and in the construction phase is 81.3% at December 31, 2013.

Plazacorp Retail Properties Ltd.

Plazacorp has built a portfolio with a high quality revenue stream. Plazacorp's ten largest tenants based upon current monthly base rents at December 31, 2013 represent approximately 57.4% of total revenues in place.

| | % of Gross Revenue | | % of Gross Revenue |
|-----------------------|-------------------------------|--------------------------|-------------------------------|
| 1. Shoppers Drug Mart | 24.1 | 6. Mark's Work Wearhouse | 1.9 |
| 2. KFC ⁽¹⁾ | 14.2 | 7. Pharma Plus | 1.9 |
| 3. Dollarama | 4.4 | 8. Reitman's Inc. | 1.8 |
| 4. Staples | 3.3 | 9. Best Buy/Future Shop | 1.7 |
| 5. Sobeys | 2.5 | 10. Bulk Barn | 1.6 |

⁽¹⁾ Represented by 6 tenants.

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.

| | December 31, 2013 | December 31, 2012 |
|------------|------------------------------|----------------------|
| National | 89.2% | 89.2% |
| Regional | 3.1% | 3.8% |
| Local | 7.1% | 6.0% |
| Non-Retail | 0.6% | 1.0% |

Profit (Loss) and Total Comprehensive Income (Loss) for the Period

The Company recorded a loss and total comprehensive loss for the year ended December 31, 2013 of \$13.1 million compared to a profit of \$47.1 million for the same period in the prior year. This loss was impacted by: (i) a decrease in share of profit of associates of \$11.7 million, mainly due to a decrease in the fair value adjustment 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 \$2.5 million, of which \$1.4 million is one-time in nature; (iii) \$9.1 million in transaction-related costs expensed as a result of the acquisition of KEYreit; (iv) an increase of \$11.8 million in finance costs mainly due to the acquisition of KEYreit; (v) \$1.6 million incurred for debenture issuance costs; and (vi) a net loss from fair value adjustments to investment properties of \$24.0 million for December 31, 2013 compared to a \$34.6 million gain for the prior year, mainly as a result of the fair value adjustment on capitalized transaction costs on acquisition of KEYreit, and an increase in capitalization rates compared to the prior year. These were partly offset by: (i) the increase in NOI of \$18.7 million mainly due to the acquisition of KEYreit and properties acquired or developed and put into income producing status; (ii) an increase in the net gain from fair value adjustments to convertible debentures which increased profit by \$2.3 million over the prior year; and (iii) a decrease in income taxes of \$14.3 million, mainly due to the overall net loss recorded.

The Company recorded a loss and total comprehensive loss for the three months ended December 31, 2013 of \$11.4 million compared to a profit of \$2.1 million for the same period in the prior year. This loss was impacted by mostly the same factors affecting the year-to-date results.

Plazacorp Retail Properties Ltd.

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 year ended December 31, 2013 includes Plazacorp's share of NOI of approximately \$3.0 million. Share of profit of associates decreased by \$11.7 million for the year ended December 31, 2013 compared to the year ended December 31, 2012. The decrease was mainly due to: (i) a decrease in the fair value adjustment of the underlying investment properties due to an increase in capitalization rates compared to the prior year; (ii) the sale of Marché de L'Ouest in 2012; and (iii) the removal of the Village Shopping Centre Limited Partnership from equity-accounted investments.

Share of profit of associates for the three months ended December 31, 2013 includes Plazacorp's share of NOI of approximately \$720 thousand. Share of profit of associates decreased by \$4.5 million for the three months ended December 31, 2013 compared to the three months ended December 31, 2012. The decrease was mainly due to the same factors affecting the year-to-date results.

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 year ended December 31, 2013 (excluding the final distribution to the partners on the sale of Marché de L'Ouest) were \$1.3 million compared to \$2.2 million for year ended December 31, 2012.

Finance Costs

Finance costs for the year ended December 31, 2013 were \$28.8 million, compared to \$15.4 million for the same period in the prior year. The increase in finance costs was mainly due to: the new mortgages and debentures assumed by Plazacorp on the acquisition of KEYreit, accounting for approximately \$6.6 million of the difference; interest and other commitment fees incurred on the bridge facility, accounting for approximately \$2.8 million of the difference; debenture issuance costs of \$1.6 million on the new Series D debentures issued in the fourth quarter; amortization of deferred financing charges on the bridge facility, accounting for approximately \$1.7 million of the difference; higher interest expense incurred on the Company's lines of credit (as a result of higher outstanding balances), accounting for approximately \$0.3 million of the difference; the inclusion of the Village Shopping Centre as it is now being proportionately consolidated, accounting for approximately \$0.5 million of the difference; and lower capitalized interest, accounting for approximately \$0.4 million of the difference. These were partly offset by amortization of the mark-to-market on debt recorded on the acquisition of KEYreit of \$0.8 million and a decrease in interest on convertible debentures of approximately \$0.6 million as a result of conversions since the prior year.

Finance costs for the three months ended December 31, 2013 were \$10.4 million, compared to \$3.8 million for the same period in the prior year. The increase was due mostly to the same factors mentioned above.

Change in Fair Value of Investment Properties

The Company recorded a fair value decrease to investment properties for the year ended December 31, 2013 of \$24.0 million, compared to a fair value increase of \$34.6 million for the year ended December 31, 2012. The decrease was mainly due to the fair value adjustment on capitalized transaction costs on acquisition of KEYreit, and an increase in capitalization rates compared to the prior year. The weighted average capitalization rate at December 31, 2013 was 7.08% which is 25 basis points higher than December 31, 2012. At December 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 \$31.3 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately \$31.2 million.

Change in Fair Value of Convertible Debentures

Series A, B, C and D convertible debentures are publicly traded and their fair values are based on their traded prices. Series VI convertible debentures are not publicly traded and the fair value is based on inputs other than quoted market prices.

The net gain from the fair value adjustment to convertible debentures for the year ended December 31, 2013 was \$1.6 million and for the year ended December 31, 2012 was a net loss of \$673 thousand. The change was mainly due to the Company's Series VI convertible debentures, which fair value was affected mainly by changes in the Company's share price.

Administrative Expenses

Administrative expenses increased by \$2.5 million for the year ended December 31, 2013, compared to the same period in the prior year, mainly due to: an increase in compensation expense relating to RSUs under the Company's RSU plan, amounting to approximately \$337 thousand; approximately \$321 thousand in additional consulting and other one-time costs for the integration of KEYreit; an increase in net salary expense (mainly as a result of annual salary increases and head count) of approximately \$173 thousand; one-time costs of approximately \$894 thousand incurred for the REIT conversion; and one-time costs of \$185 thousand for the Company's graduation to the TSX. The acquisition of KEYreit is forecasted to result in approximately \$500 thousand to \$600 thousand in additional administrative expenses on a steady-state basis.

Administrative expenses increased by \$1.3 million for the three months ended December 31, 2013, compared to the same period in the prior year, mainly due to: one-time costs of approximately \$736 thousand incurred for the REIT conversion; other one-time costs of \$120 thousand incurred; and \$140 in additional compensation expense (mainly as a result of annual salary increases and head count);

Plazacorp Retail Properties Ltd.

Income Tax Expense

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

| | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|--|---|---|--|--|
| (000s) | | | | |
| Current income taxes (recovery) | \$ (197) | \$ 1,152 | \$ (761) | \$ 1,061 |
| Deferred income taxes (recovery) | (3,553) | (72) | 668 | 13,176 |
| Total income tax expense (recovery) | \$ (3,750) | \$ 1,080 | \$ (93) | \$ 14,237 |

Deferred income tax expense decreased for the three and twelve months ended December 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 and for the year-to-date was also driven by \$9.1 million of transaction-related costs recorded on the acquisition of KEYreit.

The Company recorded a current income tax recovery for the three and twelve months ended December 31, 2013, compared to a current income tax expense for the prior year as a result of higher taxes being refunded through capital gains dividends paid to shareholders. Capital gains taxes were previously recognized on the sale of investment properties and on the restructuring of the Village Shopping Centre.

Acquisitions/Dispositions

During the year ended December 31, 2013, the Company acquired a 202,000 square foot retail strip centre in Saint John, NB for \$10.6 million (approximately 100,000 square feet is vacant and was purchased for re-development); two single-use properties in Rouyn-Noranda and Beauport, QC for \$3.7 million and a 25% interest in a 13,563 square foot property in Montreal, QC for \$627 thousand.

During the year ended December 31, 2013, the Company disposed of land in Charlottetown, PE for net proceeds of \$2.8 million, Sherbrooke, QC for net proceeds of \$70 thousand and Montreal, QC for net proceeds of \$1.4 million. The Company sold an income producing property in Aurora, ON for net proceeds (at the Company's ownership percentage) of \$1.6 million. As well, the Company sold non-core KEYreit properties for net proceeds of \$12.2 million in Olds and Brooks, AB; Burnaby, Victoria, Squamish and Westbank, BC; Humboldt, SK; La Tuque and Montreal, QC and Essex, Toronto and Windsor, ON. This is approximately \$5.6 million more than the Company underwrote the properties for when it bought KEYreit.

OUTLOOK

Plazacorp's acquisition, 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 believes it can deliver solid performance in 2014, 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 24.0¢ per share for 2014.

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In terms of Plazacorp's development pipeline, Plazacorp currently owns an interest in eleven projects under development or redevelopment 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 ⁽¹⁾ | Ownership | Occupied or Committed at December 31, 2013 | Income Producing |
|---|---------------|----------------------------|-------------------------------|-----------|--|------------------|
| 90 Blvd. Tache Ouest, Montmagny, QC | Strip Plaza | In Planning ⁽²⁾ | 6,000 | 50% | n/a | Q1 2015 |
| Plaza de L'Ouest, Sherbrooke, QC – Phase II | Strip Plaza | In Planning ⁽²⁾ | 20,000 | 50% | n/a | Q1 2015 |
| Plaza de L'Ouest, Sherbrooke, QC – Phase III | Strip Plaza | In Planning ⁽²⁾ | 80,000 | 50% | n/a | 2-3 years |
| Plaza SP Magog, Magog, QC – Phase I | Strip Plaza | In Construction | 50,414 | 50% | 100% | Q1 2014 |
| Plaza SP Magog, Magog, QC – Phase II | Strip Plaza | In Construction | 23,614 | 50% | 80% | Q2 2014 |
| Fairville Boulevard – 3, Saint John, NB | Strip Plaza | In Planning ⁽²⁾ | 24,000 | 100% | n/a | 1-2 years |
| Oromocto Mall, Oromocto, NB ⁽³⁾ | Enclosed | In Planning ⁽²⁾ | 86,025 | 100% | 70% | 2014 |
| Grand Falls Shopping Centre, Grand Falls, NB ⁽³⁾ | Enclosed | In Planning ⁽²⁾ | 133,998 | 100% | 83.8% | 2014 |
| St. Jerome, St. Jerome (Montreal), QC - Phase I ⁽⁴⁾ | Strip Plaza | In Planning ⁽²⁾ | 26,000 | 20% | n/a | Q4 2014 |
| St. Jerome, St. Jerome (Montreal), QC -Phase II ⁽⁴⁾ | Strip Plaza | In Planning ⁽²⁾ | 54,000 | 20% | n/a | Q3 2015 |
| St. Jerome, St. Jerome (Montreal), QC -Phase III ⁽⁴⁾ | Strip Plaza | In Planning ⁽²⁾ | 120,000 | 20% | n/a | 2-3 years |
| Champlain Plaza II, Dieppe (Moncton), NB | Strip Plaza | In Planning ⁽²⁾ | 60,000 | 100% | n/a | Q1 2015 |
| Lansdowne Place Phase II, Saint John, NB | Strip Plaza | In Planning ⁽²⁾ | 60,000 | 100% | n/a | 2015 |
| Les Promenades St-Francois, Laval (Montreal), | Strip Plaza | In Planning ⁽²⁾ | 54,694 | 100% | 87.5% | 2014 |
| Plaza Chemin Chambly, Longueuil (Montreal), QC | Strip Plaza | In Planning ⁽²⁾ | 39,431 | 100% | 100% | Q2 2015 |
| Total | | | 838,176 | | | |

⁽¹⁾ Approximate square footage.

⁽²⁾ All are appropriately zoned for the intended use.

⁽³⁾ This is an existing mall that is in the planning phases of a de-malling redevelopment.

⁽⁴⁾ This is owned in a limited partnership that is part of the Company's non-consolidated trusts and partnerships.

There is excess density and expansions at existing properties that the Company plans to develop in the short term which would represent approximately 50 thousand additional square feet at completion. The Company is currently developing 19 thousand square feet of the 50 thousand additional square feet.

At December 31, 2013, there were two income producing properties totaling 105 thousand square feet (at the Company's proposed ownership percentage) under purchase agreements 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.

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) | Q4'13 | Q3'13 | Q2'13 | Q1'13 | Q4'12 ⁽³⁾ | Q3'12 ⁽³⁾ | Q2'12 ⁽³⁾ | Q1'12 ⁽³⁾ |
|---|------------|-----------|------------|-----------|----------------------|----------------------|----------------------|----------------------|
| Total revenue ⁽¹⁾ | \$ 24,406 | \$ 24,145 | \$ 20,363 | \$ 17,279 | \$ 19,022 | \$ 16,135 | \$ 18,685 | \$ 17,177 |
| Profit (loss) and total comprehensive income (loss) | \$(11,375) | \$ 1,708 | \$(11,905) | \$ 8,507 | \$ 2,092 | \$ 13,242 | \$ 17,023 | \$ 14,716 |
| Dividends per share | 5.625¢ | 5.625¢ | 5.625¢ | 5.625¢ | 5.38¢ | 5.38¢ | 5.38¢ | 5.38¢ |
| Funds from operations per share – basic ⁽²⁾ | 5.7¢ | 7.2¢ | 6.9¢ | 6.3¢ | 6.4¢ | 6.9¢ | 6.7¢ | 6.4¢ |
| Funds from operations per share – diluted ⁽²⁾ | 5.7¢ | 7.2¢ | 6.9¢ | 6.3¢ | 6.4¢ | 6.9¢ | 6.7¢ | 6.4¢ |
| Dividends as a percentage of basic FFO | 90.7% | 78.3% | 74.9% | 89.5% | 83.3% | 76.8% | 79.5% | 84.5% |
| Dividends as a percentage of basic AFFO | 94.2% | 82.3% | 77.0% | 95.3% | 88.6% | 79.3% | 88.5% | 95.8% |
| Total assets | \$975,841 | \$977,397 | \$963,100 | \$616,030 | \$607,221 | \$605,677 | \$586,424 | \$569,405 |
| Total mortgages, bonds, debentures, notes and bank indebtedness | \$573,856 | \$595,112 | \$578,689 | \$281,229 | \$287,756 | \$284,646 | \$292,777 | \$292,851 |
| Basic weighted average shares outstanding | 85,359 | 78,219 | 69,819 | 64,029 | 63,833 | 61,538 | 60,449 | 59,942 |
| Number of properties under development | 11 | 10 | 11 | 11 | 10 | 10 | 12 | 9 |
| Number of income producing properties (including non-consolidated investments) | 323 | 337 | 335 | 107 | 108 | 108 | 105 | 105 |
| Total number of properties in portfolio | 334 | 347 | 346 | 118 | 118 | 118 | 117 | 114 |
| Gross Leasable Area (000s of sq. ft.) (at 100% and excluding non-consolidated investments and properties under development) | | | | | | | | |
| Strip Plazas | 3,219 | 3,283 | 3,063 | 2,645 | 2,674 | 2,616 | 2,587 | 2,491 |
| Enclosed Malls | 718 | 850 | 850 | 850 | 670 | 671 | 671 | 671 |
| Single Use | 1,263 | 1,282 | 1,279 | 392 | 510 | 510 | 500 | 554 |
| Total income producing properties | 5,200 | 5,415 | 5,192 | 3,887 | 3,854 | 3,797 | 3,758 | 3,716 |
| Strip Plazas | 94.1 | 94.5 | 94.4 | 94.9 | 95.9 | 96.2 | 96.1 | 96.1 |
| Enclosed Malls | 92.5 | 91.4 | 91.7 | 91.8 | 92.5 | 93.2 | 94.7 | 95.1 |
| Single Use | 98.1 | 98.3 | 98.2 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total income producing properties | 94.8 | 94.9 | 94.9 | 94.7 | 95.9 | 96.2 | 96.4 | 96.5 |

(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, as well as the 2013 KEYreit acquisition. 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 December 31, 2013, approximately 45.3% 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,

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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) | \$21.5 Million Operating | \$20.0 Million Development | \$15.0 Million Development |
|--|---|---|---|
| December 31, 2012 ⁽¹⁾ | \$ 3,647 | \$ 4,912 | \$ 5,094 |
| Net Change | (3,647) | 7,349 | 1,913 |
| December 31, 2013 ⁽¹⁾ | \$ - | \$ 12,261 | \$ 7,007 |
| Interest rate | Prime + 1.00% or BA + 2.50% | Prime + 1.00% or BA + 2.75% | Prime + 1.00% or BA + 2.50% |
| Maturity | July 31, 2014 | July 31, 2014 | July 31, 2014 |
| Security | First charges on pledged properties | 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 covenants | 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 | - | - |

⁽¹⁾ Excludes unamortized finance charges

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, interest coverage, occupancy and shareholder equity thresholds. As of December 31, 2013, all debt covenants in respect of the above facilities have been maintained.

Bridge Facility

On May 17, 2013, the Company entered into a one-year secured credit facility with a Canadian chartered bank for up to \$122.5 million, to fund the acquisition of KEYreit, acquisition-related costs for the acquisition of KEYreit and other working capital requirements of the Company. On July 11, 2013 the unused portion of the facility was reduced by the Company by \$15 million and on November 13, 2013, the facility was reduced by another \$7.6 million. Of the \$99.9 million, \$82.5 million is extendible for 2 additional 6-month periods at the Company's request and with the lender's consent. Prepayment of the facility may be made in whole or in part at any time without penalty. The Company must maintain certain financial ratios, including debt service, debt to gross assets, equity maintenance and distribution covenants. As of December 31, 2013, the Company is in compliance with all applicable covenants. Interest is payable at prime plus 3.25% or BAs plus 4.25%, escalating to prime plus 3.625% or BAs plus 4.625% after 6 months and to prime plus 4.00% or BAs plus 5.00% after 9 months. The Company is currently paying interest on this facility at approximately 6.22%. At December 31, 2013, \$45.4 million is outstanding on the facility. The Company intends to repay the remainder of the bridge facility through moderate asset sales as well as pursuing refinancing opportunities. At the date of this MD&A, the balance is \$36.1 million.

Debentures and Mortgage Bonds

Mortgage bonds are secured by either property or cash.

Convertible debentures are recorded at fair value and changes in the fair value are recorded quarterly in profit and loss. With the acquisition of KEYreit, the Company assumed \$52.3 million in convertible debentures of KEYreit (Series A, B and C). These debentures are listed on the TSX. Due to the resulting change of control of KEYreit, the Company was required to make a repurchase offer for these debentures at a price equal to 101% of their respective principal amounts. The repurchase offer expired on June 28, 2013 with \$10.3 million of face value of debentures tendering to the offer. The tendered debentures were paid out on July 8, 2013.

During the year ended December 31, 2013, \$1.5 million of Series VI convertible debentures were converted to 390 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%.

On August 15, 2013, the Company closed \$4.0 million of Series VII mortgage bonds which have a term of 1 year and an interest rate of 6.0%. These bonds provide interim financing for a redevelopment property acquired in Saint John, NB. On August 30, 2013, the Company closed \$5.0 million of Series VIII mortgage bonds which have a term of 1 year and an interest rate of 6.0%. These bonds provide interim financing for redevelopment work being done to a property in Fredericton, NB.

On October 24, 2013, the Company completed a bought deal public offering of \$30 million aggregate principal amount of 5.75% Series D convertible unsecured subordinated debentures due December 31, 2018. The debentures are convertible at the option of the holder into shares of the Company (now units of Plaza Retail REIT) at \$5.75 per share. On November 13, 2013 the underwriters exercised the over-allotment option, and purchased an additional \$4 million aggregate principal amount of debentures. Part of the proceeds was used to redeem the Series A 7.75% convertible debentures on January 7, 2014.

On January 7, 2014, the Company redeemed all of the Series A convertible debentures for cash.

On February 11, 2014, the Company issued a redemption notice to Series VI convertible debenture holders to redeem all of the Series VI convertible debentures on April 1, 2014.

Mortgages

During 2013 the Company obtained new long-term financing on newly developed properties in the amount of \$5.9 million (at Plazacorp's consolidated share) with a weighted average term of 19 years at a weighted average interest rate of 5.05%. The Company also refinanced \$28.0 million (at Plazacorp's consolidated share) of existing long-term financing with a weighted average term of 9 years at a weighted average interest rate of 4.53% replacing a weighted average interest rate of 5.84%.

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The Company has a variable rate secured construction loan on one of its development projects. The loan bears interest at prime plus 1.25%. During the year, the Company extended the variable rate construction loan for another year to June 2014 and increased the amount available from \$4.0 million to \$7.0 million (of which the Company's share is 50% as it has a 50% ownership interest in the development project securing the loan). At December 31, 2013, \$2.6 million has been drawn on the loan (at the Company's ownership percentage). During the year, the Company also entered into three additional variable rate construction loans for the same development project. The loans are in the amount of \$1.645 million, \$1.25 million and \$900 thousand, respectively, and all bear interest at prime plus 1.25% and have a one year term. The current draws are \$823 thousand, \$625 thousand and \$447 thousand, respectively.

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.

As a conservative interest rate risk management practice, the Company's use of floating-rate debt is generally limited to its operating line (to fund ongoing operations and acquisitions) and its development lines. As a result of obtaining the bridge facility, at December 31, 2013, fixed-rate debt decreased to 85.0% of mortgages and lines of credit secured on investment properties. Once the temporary bridge facility is paid off, fixed-rate debt will increase to more normal levels of between 90 and 100%.

The following is a maturity chart by year:

| (000s, except percentage data) | 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 | \$19,976 | \$22,966 | \$60,263 | \$65,040 | \$22,422 | \$141,495 | \$332,162 |
| Principal repayments | 8,989 | 8,700 | 8,230 | 6,783 | 5,191 | 22,763 | 60,656 |
| Subtotal long-term mortgages | 28,965 | 31,666 | 68,493 | 71,823 | 27,613 | 164,258 | 392,818 |
| Bridge facility | 45,388 | - | - | - | - | - | 45,388 |
| Variable rate construction loans | 4,469 | - | - | - | - | - | 4,469 |
| Development lines of credit | 19,268 | - | - | - | - | - | 19,268 |
| Total | \$98,090 | \$31,666 | \$68,493 | \$71,823 | \$27,613 | \$164,258 | \$461,943 |
| As a percentage | 21.2% | 6.9% | 14.8% | 15.6% | 6.0% | 35.5% | 100.0% |
| Weighted average expiring rate on long-term mortgages | 6.06% | 5.98% | 5.13% | 5.62% | 5.59% | 4.98% | |

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

| (000s, except percentage data) | Balance Outstanding December 31, 2013 | Effective Rates December 31, 2013 | Effective Rates December 31, 2012 |
|---|---|---|---|
| Fixed rate mortgage loans | \$ 392,818 | 5.36% | 5.78% |
| \$21.5 million bank operating facility | \$ - | Prime + 1.00% or BAs + 2.25% | Prime + 1.00% or BAs + 2.50% |
| \$20 million bank development facility | \$ 12,261 | Prime + 1.00% or BAs + 2.75% | Prime + 1.00% or BAs + 2.75% |
| \$15 million bank development facility | \$ 7,007 | Prime + 1.00% or BAs + 2.50% | Prime + 1.00% or BAs + 2.50% |
| \$7.0 million variable rate secured construction loan | \$ 2,574 | Prime + 1.25% | Prime + 1.25% |
| \$1.645 million variable rate secured construction loan | \$ 823 | Prime + 1.25% | - |
| \$1.25 million variable rate secured construction loan | \$ 625 | Prime + 1.25% | - |
| \$0.9 million variable rate secured construction loan | \$ 447 | Prime + 1.25% | - |
| Bridge facility | \$ 45,388 | Prime + 3.625% or BAs + 4.625% | - |

At December 31, 2013 the weighted average effective cost of mortgage debt is 5.36% compared to 5.78% at December 31, 2012. The drop results from continued historically low interest rates at which the Company has been able to renew/place debt as well as the addition of the KEYreit portfolio at a lower weighted average rate (as a result of shorter term loans).

The weighted average term to maturity for the long-term mortgages is 5.7 years, down from December 31, 2012 at 5.8 years. The average remaining repayment (amortization) period on long-term mortgage debt is 22.9 years.

The ratio of debt to gross book value of assets at December 31, 2013 (excluding convertible debentures) is 48.2% compared to 42.5% at December 31, 2012. The Company's general philosophy is to maintain its leverage at no more than approximately 50% excluding convertible debentures and approximately 55% including convertible debentures.

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 February 26, 2014 (000s) | Shares |
|--|----------------|
| Current outstanding shares | 89,827 |
| Series B convertible debentures | 1,547 |
| Series C convertible debentures | 3,215 |
| Series D convertible debentures | 5,913 |
| Series VI convertible debentures | 2,221 |
| Total adjusted shares outstanding | 102,723 |

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 28 long-term land leases (affecting 27 properties) with total annual rent of \$3.4 million. One of the land leases relates to shared parking facilities. The other properties under land lease represent approximately 9% 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 41 years, with some of the leases also containing non-automatic renewal options, extending the average life of the leases to 66 years including these non-automatic renewal options. Of the 28 land leases, 11 of the land leases have options to purchase, generally at fair market value.

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Gross Capital Additions Including Leasing Fees:

| | 3 Months Ended December 31, 2013 (unaudited) | 3 Months Ended December 31, 2012 (unaudited) | 12 Months Ended December 31, 2013 | 12 Months Ended December 31, 2012 |
|--|---|--|--|--|
| (000s) | | | | |
| Leasing fees – existing properties | \$ (12) | \$ 2 | \$ 48 | \$ 39 |
| Leasing fees – redevelopment properties | 12 | 1 | 20 | 35 |
| Leasing fees – new developments | - | 96 | 102 | 355 |
| Total leasing fees | - | 99 | 170 | 429 |
| Capital additions – existing properties | 455 | 193 | 1,629 | 1,327 |
| Capital additions – redevelopment properties | 791 | - | 2,386 | 834 |
| Capital additions – new developments | 5,219 | 8,125 | 31,514 | 23,555 |
| Total capital additions | 6,465 | 8,318 | 35,529 | 25,716 |
| Total gross additions | \$ 6,465 | \$ 8,417 | \$ 35,699 | \$ 26,145 |

COMMITMENTS AND CONTINGENT LIABILITIES

The Company has \$8.6 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 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 December 31, 2013 totals \$7.5 million with remaining terms ranging from 1.3 years to 9 years.

The Company guarantees mortgage debt in excess of its pro-rata position in joint ventures and non-consolidated subsidiaries in the amount of \$13.8 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 December 31, 2013, the Company held interests in 334 properties spread geographically across Canada. Some of the more important risks are outlined below. See Financial Risk Management Note 26 to the December 31, 2013 Annual Consolidated Financial Statements for further details. Also see the Company's Annual Information Form dated February 28, 2013 and the Company's Management Information Circular with respect to the Company's conversion to a REIT dated November 1, 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. 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. As a result of obtaining the bridge facility, at December 31, 2013, fixed-rate debt decreased to 85.0% of mortgages and lines of credit secured on investment properties. Once the temporary bridge facility is paid off, fixed-rate debt will increase to more normal levels of between 90% and 100%. The Company mitigates its exposure

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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 believe it can obtain 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 2014 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 24.1% of current monthly gross rents in place. The top 10 tenants collectively represent approximately 57.4% of total revenues in place. National and regional tenants represent 92.3% 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 \$559 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

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a proactive manner during every aspect of the property life cycle including extensive due diligence in respect of environmental risk before purchase or development.

Status of the REIT

Plaza Retail REIT (successor to the Company) will be required to comply with specific restrictions regarding its activities and the investments held by it in order to maintain its mutual fund trust status. Should Plaza Retail REIT cease to qualify as a mutual fund trust, the consequences could be material and adverse. As well, Plaza Retail REIT will conduct its affairs in order to qualify as a REIT under applicable tax statutes so that it retains its status as a flow-through vehicle for the particular year. Should Plaza Retail REIT not meet the conditions to qualify as a REIT in a particular year, it may be subject to tax similar to a corporation, which may have an adverse impact on it and its unitholders, on the value of the units and on its ability to undertake financings and acquisitions, and its distributable cash may be materially reduced.

PART VI

RELATED PARTY TRANSACTIONS

Notes Payable to Related Parties

The following non-interest bearing notes 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 | December 31, 2013 | 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) | December 31, 2013 | 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 December 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%).

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 \$1.1 million. 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.

Plazacorp Retail Properties Ltd.

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 year ended December 31, 2013 were \$157 thousand (for the year ended December 31, 2012 - \$599 thousand). As of the date of this MD&A, Plaza Group Management Limited is no longer a party to that agreement as a result of the sale of the airplane. Plaza Group Management Limited is a party to an office lease for Plazacorp's former 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 and the Company has not renewed the lease as it has moved its corporate headquarters to one of its own properties.

Plaza Group Management Limited manages 527 Queen Street, Fredericton, NB a property owned indirectly by Michael Zakuta and Earl Brewer. For the year ended December 31, 2013, property management fees of \$20 thousand were earned by Plaza Group Management Limited from this property.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that material information is gathered and reported to senior management to permit timely decisions regarding public disclosure. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company maintains appropriate DC&P and ICFR to ensure that information disclosed externally is complete, reliable and timely.

Prior to July 2, 2013, the Company was listed on the Venture Exchange. Venture issuers are not required to provide representations in their annual and interim filings relating to the establishment and maintenance of DC&P and ICFR, as defined in National Instrument 52-109, *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109"). In particular, the CEO and CFO do not make any representations relating to the establishment and maintenance of (a) 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 (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

The Company ceased to be a venture issuer on July 2, 2013 as a result of the listing of its common shares on the TSX. The Company has developed and implemented the requirements of NI 52-109 compliance of DC&P and ICFR. In particular, the Company's Chief Executive Officer and Chief Financial Officer evaluated, or caused an evaluation under their supervision of, the design and operating effectiveness of the Company's DC&P and ICFR as at December 31, 2013 and have concluded that such DC&P and ICFR were appropriately designed and were operating effectively.

During the three months ended December 31, 2013, there were no changes in the Company's ICFR that occurred that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

CRITICAL ACCOUNTING POLICIES

Critical Accounting Estimates

The preparation of the Company's 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 accounting basis for investments and joint arrangements, the amount of borrowing costs to capitalize to properties under development and the selection of accounting policies.

(i) Investment properties

One significant judgement and key estimate that affects the reported amounts of assets at the date of the consolidated financial statements and the reported amounts of profit or loss during the period, relates to property valuations. Investment properties, which are carried on the consolidated statements of financial position at fair value, are valued either by the Company or by external valuers. 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.

(ii) Accounting for acquisitions

Management must assess whether the acquisition of a property should be accounted for as an asset acquisition or a business combination. This assessment impacts the treatment of transaction costs, the allocation of the cost of the acquisition and whether or not goodwill is recognized.

FUTURE ACCOUNTING POLICY CHANGES

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing the consolidated financial statements. Please see Note 3 to the 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 are the fourth quarter consolidated statements of comprehensive income.

PROPERTIES OF THE COMPANY

A chart listing the Company's properties at December 31, 2013 can be accessed on the Plazacorp website www.plaza.ca.

APPENDIX A

FOURTH QUARTER 2013 INCOME RESULTS

Consolidated Statements of Comprehensive Income (Loss)

| (000s) (unaudited) | 3 Months Ended December 31, 2013 | 3 Months Ended December 31, 2012 |
|---|---|---|
| Rental revenue | \$ 24,414 | \$ 14,662 |
| Operating expenses | (8,635) | (6,076) |
| Net property operating income | 15,779 | 8,586 |
| Share of profit (loss) of associates | (381) | 4,158 |
| Administrative expenses | (2,722) | (1,447) |
| Investment income | 90 | 49 |
| Other income | 283 | 349 |
| Other expenses | - | 2 |
| Income before finance costs, fair value adjustments, gain (loss) on disposals and income taxes | 13,049 | 11,697 |
| Finance costs | (8,739) | (3,759) |
| Finance costs – debenture issuance costs | (1,634) | - |
| Finance costs – net gain (loss) from fair value adjustments to convertible debentures | 266 | (547) |
| Net loss from fair value adjustments to investment properties | (18,082) | (4,168) |
| Gain on disposal of investment properties | 15 | - |
| Loss on disposal of land | - | (51) |
| Profit (loss) before income tax | (15,125) | 3,172 |
| Income tax recovery (expense) | | |
| - Current | 197 | (1,152) |
| - Deferred | 3,553 | 72 |
| | 3,750 | (1,080) |
| Profit (loss) and total comprehensive income (loss) for the period | \$ (11,375) | \$ 2,092 |
| Profit (loss) and total comprehensive income (loss) for the period | | |
| - Shareholders | \$ (9,204) | \$ 1,058 |
| - Non-controlling interests | (2,171) | 1,034 |
| | \$ (11,375) | \$ 2,092 |

Plazacorp Retail Properties Ltd.

To the Shareholders of Plazacorp Retail Properties Ltd.

The accompanying consolidated financial statements and information contained in the Annual Report have been prepared by, and are the responsibility of, the management of the Company. The financial statements have been prepared within accepted limits of materiality and in accordance with the International Financial Reporting Standards appropriate in the circumstances. Management maintains appropriate systems of internal control. Policies and procedures are designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for preparation of financial statements.

The Board of Directors oversees management's responsibilities for the preparation of the consolidated financial statements and accompanying management's discussion and analysis (MD&A) primarily through the activities of its Audit Committee, which is comprised solely of directors who are unrelated to, and independent of, the Company. The Audit Committee meets regularly with management and the independent auditors to review the consolidated financial statements and MD&A and recommend approval by the Board of Directors. These consolidated financial statements and MD&A have been approved by the Board of Directors for inclusion in this Annual Report.

KPMG LLP, the independent auditors appointed by the shareholders based on the recommendation of the Audit Committee, have been engaged to audit the consolidated financial statements and provide an independent professional opinion thereon. The auditors have full and independent access to the Audit Committee to discuss audit and related matters.



Michael Zakuta
President and CEO
February 26, 2014



Floriana Cipollone
Chief Financial Officer
February 26, 2014



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Plazacorp Retail Properties Ltd.

We have audited the accompanying consolidated financial statements of Plazacorp Retail Properties Ltd., which comprise the consolidated statements of financial position as at December 31, 2013, December 31, 2012, and January 1, 2012, the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2013 and December 31, 2012, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Plazacorp Retail Properties Ltd. as at December 31, 2013, December 31, 2012, and January 1, 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants
February 26, 2014
Halifax, Canada

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Plazacorp Retail Properties Ltd.
Consolidated Statements of Financial Position
(audited)
(in thousands of Canadian dollars)

Restated
(Note 3)
December 31,
2012

Restated
(Note 3)
January 1,
2012

Assets

Non-Current Assets

| | | | |
|-------------------------------------|----------------|----------------|----------------|
| Investment properties (Note 6) | \$ 900,165 | \$ 531,764 | \$ 472,060 |
| Investments (Note 7) | 29,678 | 52,562 | 38,746 |
| Tenant loans | 2,351 | 591 | 1,097 |
| Deferred income tax asset (Note 17) | 1,492 | 951 | 609 |
| | <u>933,686</u> | <u>585,868</u> | <u>512,512</u> |

Current Assets

| | | | |
|--|-------------------|-------------------|-------------------|
| Cash | 25,280 | 2,900 | 3,652 |
| Receivables (Note 8) | 3,271 | 1,128 | 1,004 |
| Prepaid expenses and deposits (Note 9) | 4,449 | 2,938 | 3,311 |
| Current portion of investments | - | - | 15,548 |
| Income taxes receivable (Note 17) | 1,059 | - | - |
| Notes receivable (Note 10) | 8,096 | 263 | 2,518 |
| | <u>42,155</u> | <u>7,229</u> | <u>26,033</u> |
| | <u>\$ 975,841</u> | <u>\$ 593,097</u> | <u>\$ 538,545</u> |

Liabilities and Shareholders' Equity

Non-Current Liabilities

| | | | |
|---|----------------|----------------|----------------|
| Debentures payable (Note 11) | \$ 82,432 | \$ 21,865 | \$ 39,532 |
| Mortgage bonds payable (Note 12) | 2,069 | 2,065 | 2,045 |
| Mortgages payable (Note 13) | 366,497 | 201,192 | 216,748 |
| Deferred income tax liability (Note 17) | 61,866 | 61,385 | 47,867 |
| | <u>512,864</u> | <u>286,507</u> | <u>306,192</u> |

Current Liabilities

| | | | |
|---|----------------|----------------|----------------|
| Bank indebtedness (Note 15) | - | 3,647 | - |
| Current portion of debentures payable (Note 11) | 15,991 | - | - |
| Current portion of mortgage bonds payable (Note 12) | 8,852 | - | 6,000 |
| Current portion of mortgages payable (Note 13) | 52,703 | 44,084 | 19,038 |
| Bridge facility (Note 14) | 44,393 | - | - |
| Accounts payable and accrued liabilities | 12,478 | 5,720 | 7,503 |
| Income taxes payable (Note 17) | - | 1,022 | 141 |
| Notes payable (Note 16) | 919 | 906 | 884 |
| | <u>135,336</u> | <u>55,379</u> | <u>33,566</u> |
| | <u>648,200</u> | <u>341,886</u> | <u>339,758</u> |

| | | | |
|---------------------------|-------------------|-------------------|-------------------|
| Shareholders' equity | 316,202 | 237,570 | 187,509 |
| Non-controlling interests | 11,439 | 13,641 | 11,278 |
| | <u>327,641</u> | <u>251,211</u> | <u>198,787</u> |
| | <u>\$ 975,841</u> | <u>\$ 593,097</u> | <u>\$ 538,545</u> |

Contingencies, commitments, guarantees, indemnities, litigation and provisions – see Note 25.
Subsequent events – see Note 28.



Michael Zakuta, Director



Earl Brewer, Director

The notes on pages 36 to 66 are an integral part of these consolidated financial statements.

Plazacorp Retail Properties Ltd.

Consolidated Statements of Comprehensive Income (Loss)

(audited)

(in thousands of Canadian dollars)

Restated

(Note 3)

2012

2013

| | | |
|---|--------------------|-----------|
| Revenues | \$ 83,091 | \$ 57,314 |
| Operating expenses (Note 18) | (30,604) | (23,504) |
| Net property operating income | 52,487 | 33,810 |
| Share of profit of associates | 1,307 | 12,996 |
| Administrative expenses (Note 18) | (8,408) | (5,934) |
| Transaction-related costs on acquisition of KEYreit (Note 5(c)) | (9,061) | - |
| Investment income | 200 | 210 |
| Other income | 1,595 | 1,744 |
| Other expenses | - | (9) |
| Income before finance costs, fair value adjustments, gain (loss) on disposals and income taxes | 38,120 | 42,817 |
| Finance costs | (27,193) | (15,394) |
| Finance costs – debenture issuance costs | (1,634) | - |
| Finance costs - net gain (loss) from fair value adjustments to convertible debentures | 1,628 | (673) |
| Net gain (loss) from fair value adjustments to investment properties (Note 6) | (23,989) | 34,603 |
| Loss on disposal of investment properties | (6) | - |
| Loss on disposal of land | (84) | (43) |
| Profit (loss) before income tax | (13,158) | 61,310 |
| Income tax recovery (expense) (Note 17) | | |
| - Current | 761 | (1,061) |
| - Deferred | (668) | (13,176) |
| | 93 | (14,237) |
| Profit (loss) and total comprehensive income (loss) for the year | \$ (13,065) | \$ 47,073 |
| Profit (loss) and total comprehensive income (loss) for the year attributable to: | | |
| - Shareholders | \$ (11,591) | \$ 43,598 |
| - Non-controlling interests | (1,474) | 3,475 |
| | \$ (13,065) | \$ 47,073 |

The notes on pages 36 to 66 are an integral part of these consolidated financial statements.

Plazacorp Retail Properties Ltd.
Consolidated Statements of Changes in Equity
(audited)

(in thousands of Canadian dollars)

| | Share Capital (Note 19) | 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 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 (Note 21) | - | (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 |
| Profit (loss) and total comprehensive income (loss) for the year | - | (11,591) | (11,591) | (1,474) | (13,065) |
| Transactions with shareholders, recorded directly in equity: | | | | | |
| - Contributions by shareholders | 42,494 | - | 42,494 | - | 42,494 |
| - Shares issued to purchase KEYreit (Note 5(a)) | 59,747 | - | 59,747 | - | 59,747 |
| - Shares issued to terminate KEYreit's asset and property management agreements (Note 5(c)) | 4,000 | - | 4,000 | - | 4,000 |
| - Dividends to shareholders (Note 21) | - | (16,018) | (16,018) | - | (16,018) |
| - Distributions to non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control | - | - | - | (728) | (728) |
| Balance as at December 31, 2013 | \$ 213,400 | \$ 102,802 | \$ 316,202 | \$ 11,439 | \$ 327,641 |

The notes on pages 36 to 66 are an integral part of these consolidated financial statements.

Plazacorp Retail Properties Ltd.
Consolidated Statements of Cash Flows
(audited)

Restated
(Not 3)
2012

(in thousands of Canadian dollars)

2013

Cash obtained from (used for):

Operating activities

| | | |
|---|--------------|---------------|
| Profit (loss) and total comprehensive income (loss) for the year | \$ (13,065) | \$ 47,073 |
| Interest expense | 25,570 | 14,646 |
| Items not affecting cash: | | |
| Share of profit of associates | (1,307) | (12,996) |
| Amortization of finance charges included in interest expense | 2,472 | 748 |
| Net change in fair value of investment properties | 23,989 | (34,603) |
| Realized gain in fair value of investment properties | (788) | - |
| Net change in fair value of convertible debentures | (1,628) | 673 |
| Amortization of loan revaluations included in interest expense | (849) | - |
| Shares issued as partial consideration for termination of KEYreit's asset and property management agreements (Note 5(c)) | 4,000 | - |
| Loss on disposal of investment properties | 6 | - |
| Loss on disposal of land | 84 | 43 |
| Current and deferred income taxes (recovery) | (93) | 14,237 |
| Straight-line rent revenue | (749) | (1,001) |
| Interest paid | (25,455) | (15,024) |
| Income taxes paid | (1,321) | (180) |
| Leasing commissions | (170) | (429) |
| Change in non-cash working capital (Note 22) | (4,498) | (2) |
| | <u>6,198</u> | <u>13,185</u> |

Financing activities

| | | |
|---|----------------|----------------|
| Issue (repayment) of notes payable | 13 | 22 |
| Issue of common shares (Note 19) | 38,170 | 582 |
| Dividends paid to shareholders (Note 21) | (16,018) | (13,146) |
| Dividend reinvestment proceeds (Note 19) | 1,707 | 687 |
| Cash received on change in ownership structure of joint arrangement (Note 4) | 553 | - |
| Gross proceeds of bonds and debentures | 47,000 | - |
| Redemption of debentures | (10,263) | (6,000) |
| Finance charges incurred for bonds and debentures | (340) | - |
| Bridge facility proceeds | 98,583 | - |
| Finance charges incurred for bridge facility | (2,653) | - |
| Gross mortgage proceeds | 51,326 | 50,629 |
| Financing charges incurred from mortgage placement | (583) | (198) |
| Mortgages repaid | (42,456) | (37,895) |
| Bridge facility repayments | (53,195) | - |
| Periodic mortgage principal repayments | (6,772) | (3,824) |
| | <u>105,072</u> | <u>(9,143)</u> |

Investing activities

| | | |
|---|-----------------|----------------|
| Acquisitions, developments and redevelopments | (35,529) | (25,723) |
| Proceeds from disposal of property and land (Note 6) | 18,027 | 427 |
| Payments of bonds purchased for mortgage defeasances (Note 7) | - | 15,548 |
| Bonds purchased for mortgage defeasances and other investments (Note 7) | (310) | (258) |
| Acquisition of KEYreit, net of cash acquired (Note 5) | (61,203) | - |
| Equity accounted investments – (contributions to) and distributions from | 5,034 | (561) |
| Contributions paid by subsidiaries to non-controlling interests | (728) | (1,112) |
| Decrease (increase) in deposits for acquisitions and financings | (975) | 479 |
| Increase in notes receivable | (7,833) | 2,255 |
| Repayment of tenant loans | 312 | 523 |
| Funding of tenant loans | (2,038) | (19) |
| | <u>(85,243)</u> | <u>(8,441)</u> |

Net increase (decrease) in cash

| | | |
|--|-------|-------|
| Cash less bank indebtedness, beginning of the year | (747) | 3,652 |
|--|-------|-------|

Cash less bank indebtedness, end of the year

| | |
|------------------|-----------------|
| <u>\$ 25,280</u> | <u>\$ (747)</u> |
|------------------|-----------------|

The notes on pages 36 to 66 are an integral part of these consolidated financial statements.

Plazacorp Retail Properties Ltd.

Notes to the Consolidated Financial Statements

December 31, 2013 (audited)

(tabular amounts in thousands of Canadian dollars, except per share amounts and as otherwise indicated)

1. Reporting Entity

Plazacorp Retail Properties Ltd. (the “Company”) is incorporated and domiciled in Canada. The address of the Company’s registered office is 98 Main Street, Fredericton, New Brunswick.

The Company operates a retail real estate ownership and development business in Canada. 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

These consolidated financial statements have been prepared in accordance with International Accounting Standard (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Board of Directors of the Company on February 26, 2014.

(b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following items in the 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 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 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 accounting basis for investments and joint arrangements, the amount of borrowing costs to capitalize to properties under development and the selection of accounting policies.

(i) Investment property

One significant judgement and key estimate that affects the reported amounts of assets at the date of the consolidated financial statements and the reported amounts of profit or loss during the period, relates to property valuations. Investment properties, which are carried on the consolidated statements of financial position at fair value, are valued either by the Company or by external valuers. 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.

Plazacorp Retail Properties Ltd.

Notes to the Consolidated Financial Statements

December 31, 2013 (audited)

(tabular amounts in thousands of Canadian dollars, except per share amounts and as otherwise indicated)

(ii) Accounting for acquisitions

Management must assess whether the acquisition of a property should be accounted for as an asset acquisition or a business combination. This assessment impacts the treatment of transaction costs, the allocation of the cost of the acquisition and whether or not goodwill is recognized.

3. Summary of Significant Accounting Policies

The Company's accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) General and Consolidation

The 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) Investment Properties

Investment properties consist of all of the Company's consolidated commercial properties, development properties, land held for future development and land parcels that become surplus after assembly and subdivision of parcels used for development. Investment properties include interests held under land leases. The Company has adopted application of IAS 40, "Investment Property", and has chosen the fair value method of valuing its investment properties. Fair value represents the amount at which the properties could be exchanged between knowledgeable, willing parties in an arm's length transaction at the date of valuation.

The fair value of investment properties is based on a combination of external appraisals and internal valuations based on a capitalization matrix provided by independent appraisers. Management undertakes a quarterly review of the fair value of its investment properties to assess the continuing validity of the underlying assumptions, such as cash flows and capitalization rates. Where increases or decreases are warranted, the Company adjusts the fair values of its investment properties. Related fair value gains and losses are recorded in profit in the period in which they arise.

Development properties included in investment properties consist of properties under construction. To the extent fair value is reliably determinable, the carrying value of such development properties is adjusted to fair value. To the extent that fair value is not reliably determinable, the development properties are carried at cost until fair value becomes reliably determinable.

Surplus lands are included in investment properties and are carried at fair value. The fair value of the surplus lands is based on a combination of external appraisals and internal valuations based on recent market transactions.

Investment properties are classified as held for sale if their carrying amount will be recovered primarily through a sale transaction rather than through continuing use. The asset is classified as such, only when management has committed to a plan to sell, when the sale is probable and is expected to qualify for recognition as a completed sale within one year.

(c) Capitalization of Costs

The Company capitalizes investment property acquisition costs incurred at the time of purchase.

For development properties, the Company capitalizes all direct expenditures incurred in connection with their acquisition, development and construction. These expenditures consist of all direct costs and borrowing costs on both specific and general debt. Borrowing costs are offset by any interest earned by the Company on borrowed funds prior to utilization. The

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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.

(d) Revenue

(i) Rental revenue

Rental revenue includes rent earned from tenants under lease arrangements; including, base rent, percentage rents, straight-line rents, property tax and operating cost recoveries and incidental income including lease cancellation payments. The Company retains substantially all of the benefits and risks of ownership of its investment properties and therefore accounts for leases with its tenants as operating leases.

Common area maintenance (CAM) recoveries are the share of property operating costs charged to tenants under the terms of the leases. Recoveries from tenants for common area maintenance, real estate taxes and other recoverable costs are recognized as revenue in the period that services are provided.

(ii) Straight-line rent

Certain leases provide for (i) tenant occupancy during the period for which no rent is due (free rent period) or (ii) minimum rent increases during the term of the lease. Rental revenue is recorded for the fixed term of each lease on a straight-line basis. The straight-line or free rent receivable, as applicable, is recorded as a component of investment properties for the difference between the rental revenue recorded and the contractual amount received. When a property is acquired, the term of existing leases is considered to commence as of the acquisition date for the purposes of the straight-line rent calculations. For lease renewals, the effective date of the lease is used for the purposes of the straight-line rent calculations.

(e) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except when they relate to items that are recognized outside profit or loss, such as in the case of a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: (i) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss; and (ii) differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse at either the capital gains rate or income rate, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities but there is an intention to settle liabilities and assets on a net basis.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(f) Cash

Cash represents cash in bank accounts and short-term deposits with initial maturity dates of less than 90 days. The Company's cash balance does not include any instruments related to asset-backed securities or commercial paper programs.

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(g) Share-based Payments

The Company issues share-based awards, comprised of restricted share units, to certain officers, employees and directors of the Company or its affiliates. Under the restricted share unit plan, the fair value of the units granted is recognized as compensation expense over the vesting period. Fair value is determined with reference to the market price of the Company's common shares.

Since the Company's common shares are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, "Financial Instruments: Presentation", any restricted share units are accounted for as a liability because the participants' rights to receive a puttable instrument is a cash-settled share-based payment under IFRS 2, "Share-based Payments". The restricted share units liability is adjusted to reflect the change in fair value of the units at each reporting period with the changes in fair value recognized as compensation expense.

(h) Investments

Investments in entities where control or significant influence over the financial and operating policies of the entity does not exist are recorded at cost. Amounts received or receivable in accordance with the income distribution formula of the entity, if not capital or financing receipts, are included in income. Investments in entities where significant influence over the financial and operating policies of the entity exist are accounted for using the equity method. Amounts received from these entities are accounted for as a reduction of the investments and the proportionate share of the net income or loss from the investments are recorded in profit or loss for the period and as an increase or decrease to the investment.

Investment properties that are held by equity-accounted entities are measured at fair value, consistent with the Company's policy for its consolidated investment properties. The Company's pro-rata share of any fair value gain or loss is calculated based on "winding-up" the specific entity and distributing the net assets to the partners as dictated by the respective agreements. The Company's pro-rata share of any fair value gain or loss is recorded in profit or loss for the period within share of profit of associates.

(i) Financial Instruments

The Company has or has had the following non-derivative financial assets and financial liabilities: at fair value through profit and loss, held-to-maturity financial assets, loans and receivables, available-for-sale financial assets and other financial liabilities.

Financial assets and liabilities are offset and the net amount is presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The effective interest method is used for financial instruments measured at amortized cost and allocates interest over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the instrument, to the net carrying amount on initial recognition.

Any transaction costs associated with financial instruments measured at fair value through profit and loss are expensed as incurred in the consolidated statement of comprehensive income.

(i) Financial assets at fair value through profit and loss

A financial asset is classified at fair value through profit and loss if it is classified as held for trading or is designated as such upon initial recognition. A financial asset is classified as held for trading if it has been acquired principally for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking. Financial assets are designated at fair value through profit and loss if the Company manages and evaluates such assets on a fair value basis in accordance with the Company's documented risk management or investment strategy. Upon initial recognition, certain transaction costs are recognized in profit and loss as incurred. Financial assets at fair value through profit and loss are measured at fair value, and changes therein are recognized in profit and loss.

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The Company's held for trading assets consist of cash.

- (ii) Financial liabilities at fair value through profit and loss

Convertible debentures issued by the Company are convertible into common shares at the option of the holder and the number of common shares to be issued does not vary with changes in their fair value. As the Company's common shares are redeemable at the option of the holder and are, therefore, considered puttable instruments in accordance with IAS 32, "Financial Instruments: Presentation", the convertible debentures are considered a liability containing liability-classified embedded derivatives.

The Company has elected to record the full outstanding amount of each convertible debenture at fair value determined using either (i) a valuation methodology which considers the volatility of the share price and current credit spreads for non-publicly traded convertible debentures, or (ii) the closing trading price for publicly traded convertible debentures. Changes in fair value are recognized in profit and loss.

- (iii) Held-to-maturity financial assets

If the Company has the positive intent and ability to hold certain financial assets to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in a reclassification of all held-to-maturity investments as available-for-sale, and prevent the Company from classifying investment securities as held-to-maturity for the current and the following two financial years.

Held-to-maturity assets are comprised of Government of Canada bonds and cash substituted for mortgage security under defeasance arrangements.

- (iv) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Such assets are recognized initially at fair value plus any directly attributable transactions costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise receivables, notes receivable and tenant loans.

- (v) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses are recognized in other comprehensive income and presented within equity in the fair value reserve. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company currently has no assets which are designated as available-for-sale.

- (vi) Other financial liabilities

The Company initially recognizes debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities are recognized on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

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Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

The Company's other financial liabilities consist of accounts payable and accrued liabilities, notes payable, mortgage bonds payable, bank indebtedness, bridge facility and mortgages payable.

(vii) Share capital

The Company's common shares are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, "Financial Instruments: Presentation", in which case, the puttable instruments may be presented as equity. The Company's common shares meet the conditions of IAS 32 and are, therefore, classified and accounted for as equity.

(j) *Derivative Financial Instruments*

The Company's derivative financial instruments consist of interest rate swaps (that do not qualify for hedge accounting) that have been entered into in order to manage the impact of floating interest rates on certain long-term debt. The Company's derivatives are recognized initially at fair value. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognized in profit and loss in the reporting period.

(k) *Leasing Costs*

Payments to tenants under lease contracts are characterized as either tenant improvements, which enhance the value of the property, or lease inducements. When the obligation is determined to be a tenant improvement, the Company is considered to have acquired an asset. Accordingly, the tenant improvements are capitalized as part of investment property. When the obligation is determined to be a lease inducement, the amount is recognized as an asset which forms a component of investment property and is deferred and amortized over the term of the lease as a reduction of revenue.

(l) *Finance Costs*

Finance costs comprise interest expense on borrowings, fair value changes in financial assets and liabilities, the fair value adjustment on interest rate swap derivatives and transaction costs associated with the issuance of convertible debentures which are recorded at fair value. Transaction costs associated with financial liabilities presented at amortized cost are presented with the related debt instrument and amortized using the effective interest method over the anticipated life of the related debt.

(m) *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 are now 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.

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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 | 29,656 | - | 9,090 | 38,746 |
| Other | 1,997 | (291) | - | 1,706 |
| | 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 |

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

| 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, gain (loss) on disposals and income taxes | 40,962 | 1,855 | 42,817 |
| Finance costs | (16,075) | 681 | (15,394) |
| Finance costs – net loss 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 |
| Loss 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 year | \$ 47,073 | \$ - | \$ 47,073 |

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

| 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 operating activities | \$ 13,956 | \$ (771) | \$ 13,185 |
| Cash used in financing activities | (6,733) | (2,410) | (9,143) |
| Cash used in investing activities | (11,485) | 3,044 | (8,441) |
| Cash less bank indebtedness, beginning of year | 3,767 | (115) | 3,652 |
| Cash less bank indebtedness, end of year | \$ (495) | \$ (252) | \$ (747) |

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(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 reflect the required disclosures.

(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 Company's financial statements reflect the required disclosures.

(n) *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 ended December 31, 2013, and have not been applied in preparing these consolidated financial statements.

(i) Financial instruments

The IASB has issued a new standard, IFRS 9 (2013), "Financial Instruments", which will ultimately replace IAS 39, "Financial Instruments – Recognition and Measurement" and augments the previously issued IFRS 9 (2010). The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. This standard is anticipated to become effective on January 1, 2017. The Company is currently evaluating the impact of this new standard.

(ii) Offsetting financial assets and liabilities

The IASB has issued amendments to IAS 32, "Offsetting Financial Assets and Liabilities". The amendments clarify an entity's legally enforceable right to offset financial assets and liabilities. The amendments become effective on January 1, 2014. The Company does not expect the amendments to have a material impact on the financial statements.

(iii) Recoverable amount disclosures for non-financial assets

The IASB has issued amendments to IAS 36, "Impairment of Assets". The amendments require recoverable amounts to be disclosed only when an impairment loss has been recognized or reversed. The amendments become effective January 1, 2014. As the amendments impact certain disclosure requirements only, the Company does not expect the amendments to have a material impact on the financial statements.

(iv) Levies

The IASB has issued IFRIC 21, "Levies". The IFRIC addresses accounting for a liability to pay a levy within the scope of IAS 37, "Provisions, contingent liabilities and contingent assets". A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation, other than income taxes within the scope of IAS 12, "Income Taxes", and fines or other penalties imposed for breaches of the legislation. This IFRIC becomes effective for annual periods beginning on or after January 1, 2014, and is to be applied retrospectively. The Company is currently evaluating the impact of this new interpretation on its consolidated financial statements.

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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. Acquisition of KEYreit

(a) The Acquisition

The Company completed the acquisition of 100% of the issued and outstanding units of KEYreit, a real estate investment trust previously listed on the TSX. KEYreit unitholders had the option to tender their units for either \$8.35 per unit in cash, subject to a maximum aggregate cash amount of \$62.1 million, 1.7041 shares of the Company, or any combination thereof, subject to proration. The bid expired on May 16, 2013, at which time 13,288,370 units of KEYreit were tendered (or approximately 88.5% of the then issued and outstanding units of KEYreit) and taken up by the Company. The Company then effected a subsequent acquisition transaction on June 26, 2013 in order to acquire all of the remaining units of KEYreit. All of the issued and outstanding units of KEYreit, being 15.0 million units were purchased by the Company through the payment of \$62.1 million in cash and the issuance of 12.9 million shares of the Company, for total consideration of \$121.9 million. The acquisition has been accounted for as an asset acquisition and not as a business combination, as no key strategic processes of KEYreit were acquired. The share consideration issued in the transaction has been valued in reference to the fair value of the units of KEYreit acquired. The following table summarizes the purchase price and the estimated fair value of the net assets acquired.

| | |
|--|------------|
| Investment properties | \$ 343,868 |
| Cash | 945 |
| Receivables | 1,018 |
| Prepaid expenses and deposits | 2,554 |
| Debentures payable | (52,428) |
| Mortgages payable | (162,897) |
| Accounts payable and accrued liabilities | (11,165) |
| Total consideration paid | \$ 121,895 |

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| | |
|---|-------------------|
| Purchase price satisfied by: | |
| Shares issued to KEYreit unitholders (Note 19) | \$ 59,747 |
| Cash from drawdown of bridge facility (Note 14) | 62,148 |
| | \$ 121,895 |

(b) Transaction-Related Costs of the Company

The Company incurred \$4.9 million in transaction-related costs. These costs were funded through the bridge facility and cash on hand. These costs have been capitalized to investment properties acquired.

(c) Termination of KEYreit's Asset and Property Management Agreements

As part of the agreement to acquire KEYreit, the existing asset and property management agreements between KEYreit and JBM Properties Inc. (a company owned by the former CEO of KEYreit) were terminated upon closing of the first stage of the acquisition for a termination fee of \$8.0 million. The termination fee was paid 50% in cash and 50% in shares (825 thousand shares) of the Company. In addition, \$1.0 million in severance costs were paid by the Company to various KEYreit employees. The cash portion of both the termination payment and severance was funded through the bridge facility. Both payments have been expensed in the statement of comprehensive income.

(d) Transaction-Related Costs of KEYreit

The Company funded (through its bridge facility) \$7.5 million in previously accrued transaction-related costs and bid defense costs of KEYreit.

(e) Convertible Debentures of KEYreit

As a result of the acquisition of KEYreit and the resulting change of control, the Company was required to make a repurchase offer for the KEYreit convertible debentures at a price equal to 101% of their respective principal amounts. The repurchase offer expired on June 28, 2013 and \$10.3 million of debentures tendered to the offer. The Company took up and paid for those tendered debentures on July 8, 2013 through drawing on its bridge facility. The remaining untendered debentures are obligations of the Company as successor to KEYreit and are publicly listed on the TSX.

6. Investment Properties

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| Balance, beginning of year: | \$ 531,764 | \$ 472,060 |
| Additions (deductions): | | |
| Additions to investment properties | 21,778 | 13,584 |
| Additions – acquisitions of investment properties or land | 14,966 | 10,733 |
| Additions – the Village Shopping Centre (see Note 4) | 28,933 | - |
| Additions – KEYreit (see Note 5) | 343,868 | - |
| Disposals | (18,118) | (470) |
| Straight line rent receivable change | 963 | 1,254 |
| Fair value adjustment | (23,989) | 34,603 |
| Balance, end of year: | \$ 900,165 | \$ 531,764 |

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

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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, \$11.9 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 December 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 | 42 | 6.46% | 5.00% - 9.00% | 6.00% - 11.00% |
| Quick Service Restaurant | 173 | 6.80% | 5.75% - 8.50% | 6.00% - 9.00% |
| Mini Box | 21 | 6.61% | 6.00% - 7.25% | 6.50% - 9.00% |
| Anchored Strip – Class A | 17 | 6.95% | 6.00% - 8.25% | 6.00% - 9.00% |
| Anchored Strip – Class B | 21 | 7.10% | 6.25% - 8.50% | 6.50% - 9.50% |
| Unanchored Strip | 33 | 7.93% | 6.25% - 9.00% | 6.50% - 10.00% |
| Enclosed Malls – Community | 5 | 8.07% | 7.50% - 9.50% | 8.00% - 11.00% |
| | 312 | 7.08% | | |

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

Freestanding - defined as freestanding retail space. May include nominal additional gross leasable area (“GLA”) if the additional GLA is 15% or less than the total GLA or gross revenue.

Quick Service Restaurant – defined as freestanding retail space for food. May include nominal additional GLA.

Mini Box – defined as freestanding retail space non restaurant. May include nominal additional GLA

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.

At December 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 \$31.3 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately \$31.2 million.

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As at December 31, 2012 the Company 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.

(a) *Straight-line Rent*

Included in investment properties as at December 31, 2013 is \$11.9 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 December 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 December 31, 2013 is \$44.8 million of properties under development (December 31, 2012 - \$22.2 million), of which \$10.0 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 year ended December 31, 2013 is \$435 thousand (for the year ended December 31, 2012 - \$877 thousand).

(e) *Acquisitions*

During the year ended December 31, 2013, the Company acquired a 202,000 square foot retail strip centre in Saint John, NB for \$10.6 million (approximately 100,000 square feet is vacant and was purchased for re-development); two single-use properties in Rouyn-Noranda and Beauport, QC for \$3.7 million and a 25% interest in a 13,563 square foot property in Montreal, QC for \$627 thousand.

During the year ended December 31, 2012, the Company acquired development lands in Boisbriand, QC, Carbonear, NF, Saint John, NB, Charlottetown, PE, Dartmouth, NS and Moncton, NB for \$10.7 million.

(f) *Disposals*

During the year ended December 31, 2013, the Company disposed of land in Charlottetown, PE for net proceeds of \$2.8 million, Sherbrooke, QC for net proceeds of \$70 thousand and Montreal, QC for net proceeds of \$1.4 million. The Company sold income producing properties for net proceeds of \$13.8 million in Olds and Brooks, AB; Burnaby, Victoria, Squamish and Westbank, BC; Humboldt, SK; La Tuque and Montreal, QC and Aurora, Essex, Toronto and Windsor, ON.

During the year ended December 31, 2012, the Company disposed of land in Riviere-du-Loup and Shawinigan, QC and Petawawa, ON for net proceeds of \$427 thousand.

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7. Investments

Investments consist of the following:

| | Ownership Position | Preferred Return | Residual Return | December 31, 2013 | December 31, 2012 |
|---|---------------------------|--|--------------------|----------------------|----------------------|
| Equity Accounted Investments | | | | | |
| Centennial Plaza Limited Partnership | 10% | 10% | 20% | \$ 8,875 | \$ 8,175 |
| MDO Limited Partnership | 20% | 10% | 30% | - | 4,611 |
| Village Shopping Centre Limited Partnership | 30% | 8% | 50% | - | 20,381 |
| Trois Rivieres Limited Partnership | 15% | 10% | 30% | 2,116 | 2,037 |
| Plazacorp-Shediac Limited Partnership | 10% | 8% | 50% | 1,504 | 1,635 |
| VGH Limited Partnership | 20% | 8% | 27% | 2,000 | 1,000 |
| Plazacorp Ontario1 Limited Partnership | 25% | 4% | 25% | 2,155 | 2,113 |
| Plazacorp Ontario2 Limited Partnership | 50% | - | - | 3,198 | 2,931 |
| Plazacorp Ontario3 Limited Partnership | 50% | - | - | 2,007 | 1,963 |
| Plazacorp Ontario4 Limited Partnership | 50% | - | - | 2,027 | 1,998 |
| RBEG Limited Partnership | 50% | - | - | 1,750 | 1,601 |
| CPRDL Limited Partnership | 50% | - | - | 2,306 | 2,729 |
| Fundy Retail Limited | 25% | - | - | 912 | 870 |
| | | | | 28,850 | 52,044 |
| Cost Accounted Investments | | | | | |
| Northwest Plaza Commercial Trust | 10% | - | - | 260 | 260 |
| | | | | 29,110 | 52,304 |
| Held-to-Maturity Investments | | | | | |
| | Maturity Dates | Effective Interest Rate | | | |
| Mortgage bonds and cash – substituted for mortgage security | Aug 1/17 | 9% | | 568 | 258 |
| Investments – long-term portion | | | | \$ 29,678 | \$ 52,562 |

The share of the profits or other compensation, which the equity-accounted investments noted above are entitled to, is distributed first as a preferred return on invested capital, as outlined above, with the remaining distributed as a residual return as outlined above.

Held-to-maturity investments as at December 31, 2013 were made up of mortgage bonds totaling \$568 thousand with a yield of 9%. Held-to-maturity investments as at December 31, 2012 were made up of mortgage bonds totaling \$258 thousand with a yield of 9%. The bonds were pledged as substitute security for mortgages under defeasance agreements.

For the year ended December 31, 2013 the Company received \$6.0 million of distributions (for the year ended December 31, 2012 - \$2.2 million) from its investment in equity accounted investees. For the year ended December 31, 2013 the Company made \$1.0 million in contributions (for the year ended December 31, 2012 - \$2.6 million) to its investment in equity accounted investees.

For equity accounted investees in which the Company has less than a 20% ownership interest, the Company has significant influence over these entities as it has the power to participate in the financial and operating policy decisions of the investees but is not able to exercise control or joint control over those policies.

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Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Company is as follows:

| December 31, 2013 | Assets | Liabilities | Revenues | Expenses | Profit |
|------------------------------|---------------|--------------------|-----------------|-----------------|---------------|
| Equity accounted investments | \$ 211,238 | \$ 94,375 | \$ 18,550 | \$ 9,932 | \$ 8,618 |
| Cost accounted investment | \$ 31,639 | \$ 16,572 | \$ 3,820 | \$ 2,620 | \$ 1,200 |

| December 31, 2012 | Assets | Liabilities | Revenues | Expenses | Profit |
|------------------------------|---------------|--------------------|-----------------|-----------------|---------------|
| Equity accounted investments | \$ 280,006 | \$ 110,666 | \$ 47,910 | \$ 14,063 | \$ 33,847 |
| Cost accounted investment | \$ 27,905 | \$ 13,815 | \$ 6,595 | \$ 2,017 | \$ 4,579 |

8. Receivables

Receivables consist of the following:

| | December 31, 2013 | December 31, 2012 |
|--|------------------------------|----------------------|
| Tenant accounts receivable, net of allowance | \$ 1,167 | \$ 754 |
| Excise tax | 937 | 168 |
| Other receivables | 1,167 | 206 |
| Total receivables | \$ 3,271 | \$ 1,128 |

The Company determines its allowance for doubtful accounts on a tenant-by-tenant basis taking into consideration lease terms, industry conditions, and status of the tenants' accounts, among other factors. Accounts are written off only when all collection efforts have been exhausted. Allowance for doubtful accounts balance as at December 31, 2013 is \$158 thousand (December 31, 2012 - \$76 thousand). This amount is deducted from tenant accounts receivable.

There were no impairment losses recognized during the year ended December 31, 2013 (for the year ended December 31, 2012 – nil).

9. Prepaid Expenses and Deposits

Prepaid expenses and deposits consist of the following:

| | December 31, 2013 | December 31, 2012 |
|--|------------------------------|----------------------|
| Prepaid expenses | \$ 2,304 | \$ 1,567 |
| Deposits for acquisitions and financings | 1,245 | 270 |
| Other deposits, primarily property tax escrows under mortgage agreements | 900 | 1,101 |
| Total prepaid expenses and deposits | \$ 4,449 | \$ 2,938 |

10. Notes Receivable

The notes receivable are owed by co-owners of investment properties as a result of funding requirements on a short-term basis during development of investment properties, and by minority interest shareholders of consolidated entities. The notes are due on demand.

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11. Debentures Payable

Debentures payable consist of the following:

| | Maturity Date | Interest Rate | December 31, 2013 | December 31, 2012 |
|--------------------------------------|---------------------|---------------|-------------------|-------------------|
| Convertible ⁽¹⁾ | | | | |
| Series A | December 31, 2014 | 7.75% | \$ 15,991 | \$ - |
| Series B | December 31, 2016 | 8.00% | 9,681 | - |
| Series C | December 31, 2017 | 7.00% | 17,429 | - |
| Series D | December 31, 2018 | 5.75% | 33,915 | - |
| Series VI | March 31, 2015 | 7.50% | 17,497 | 21,865 |
| Total convertible debentures | | | 94,513 | 21,865 |
| Non-convertible ^{(2) (3)} | Various (see below) | 5.00% | 3,910 | - |
| Total debentures | | | 98,423 | 21,865 |
| Less: debentures – current portion | | | (15,991) | - |
| Total debentures – long-term portion | | | \$ 82,432 | \$ 21,865 |

⁽¹⁾ Recorded at fair value

⁽²⁾ Recorded at amortized cost

⁽³⁾ Net of unamortized finance charges of \$90 thousand

Convertible and non-convertible debentures are subordinate and unsecured.

Convertible debenture terms are as follows:

| | Series A | Series B | Series C | Series D | Series VI |
|---------------------------------|-------------------|-------------------|-------------------|-------------------|----------------|
| Conversion price | see below | see below | see below | \$5.75 | \$3.80 |
| Company's first redemption date | December 31, 2012 | December 31, 2014 | December 31, 2015 | December 31, 2016 | March 31, 2013 |
| Par call date | December 31, 2013 | December 31, 2015 | December 31, 2016 | December 31, 2017 | March 31, 2014 |
| Maturity date | December 31, 2014 | December 31, 2016 | December 31, 2017 | December 31, 2018 | March 31, 2015 |
| Face value outstanding | \$15,991 | \$9,155 | \$16,921 | \$34,000 | \$15,214 |
| Publicly listed | yes | yes | yes | yes | no |

Non convertible debenture maturities are as follows:

| | Tranche A | Tranche B | Tranche C | Total |
|------------------------|-------------------|----------------|-------------|---------|
| Face value outstanding | \$1,600 | \$2,300 | \$100 | \$4,000 |
| Maturity date | February 26, 2018 | April 15, 2018 | May 2, 2018 | |

Series A, B and C convertible debentures were assumed by the Company on the acquisition of KEYreit (see Note 5). The debentures are publicly listed on the TSX. As a result of the change of control of KEYreit, and pursuant to the respective trust indentures as supplemented and amended upon the change of control, each \$1,000 principal amount of the Series A debentures is convertible into \$117.25 in cash and 188 shares of the Company, each \$1,000 principal amount of the Series B debentures is convertible into \$99.76 in cash and 169 shares of the Company and each \$1,000 principal amount of the Series C debentures is convertible into \$112.76 in cash and 190 shares of the Company.

As a result of the acquisition of KEYreit and the resulting change of control, the Company was required to make a repurchase offer for the Series A, B and C convertible debentures at a price equal to 101% of their respective principal amounts (see Note 5). Debentures in the face amount of \$10.3 million tendered to the offer and were repaid.

For the year ended December 31, 2013, holders of \$1.5 million of Series VI convertible debentures (for the year ended December 31, 2012 - \$11.5 million of Series V convertible debentures and \$1.7 million of Series VI convertible debentures) exercised their option to convert to 390 thousand common shares (for the year ended December 31, 2012 – 3.4 million common shares and 459 thousand common shares, respectively).

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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%.

On October 24, 2013, the Company completed a bought deal public offering of \$30 million aggregate principal amount of 5.75% Series D convertible unsecured subordinated debentures due December 31, 2018. The debentures are convertible at the option of the holder into shares of the Company at \$5.75 per share. On November 13, 2013 the underwriters exercised the over-allotment option, and purchased an additional \$4 million aggregate principal amount of debentures.

12. Mortgage Bonds Payable

Mortgage bonds payable are secured by the following properties:

| | | | | | December 31, 2013 | December 31, 2012 |
|--|-------------|--------------|---------------|----------------|----------------------|----------------------|
| | Series V | Series VI | Series VII | Series VIII | Total | Total |
| Fairville Boulevard (ANBL), Saint John, NB, 1 st mortgage | \$ - | \$ 900 | \$ - | \$ - | \$ 900 | \$ 900 |
| Boulevard Hebert Plaza, Edmundston, NB, 1 st mortgage | 1,185 | - | - | - | 1,185 | 1,185 |
| Lansdowne redevelopment lands, Saint John, NB 1 st mortgage | | | 4,000 | - | 4,000 | - |
| Nashwaaksis Plaza, Fredericton, NB 1 st mortgage | | | - | 5,000 | 5,000 | - |
| Gross mortgage bonds payable | 1,185 | 900 | 4,000 | 5,000 | 11,085 | 2,085 |
| Less: unamortized finance charges | | | | | (164) | (20) |
| Less: current portion of mortgage bonds payable | | | | | (8,852) | - |
| Net mortgage bonds payable – long-term portion | | | | | \$ 2,069 | \$ 2,065 |

| | Series V | Series VI | Series VII | Series VIII |
|---------------|--------------|-------------------|-----------------|-----------------|
| Interest Rate | 8.0% | 5.25% | 6.00% | 6.00% |
| Maturity Date | June 4, 2016 | February 24, 2016 | August 15, 2014 | August 30, 2014 |
| Amount | \$1,185 | \$900 | \$4,000 | \$5,000 |

The Company has no right to redeem any of the mortgage bonds prior to their maturity date.

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13. Mortgages Payable

| | Rate Range | Weighted Average | Maturity Dates | December 31, 2013 | December 31, 2012 |
|---|--------------------------------------|---------------------|------------------------|----------------------|----------------------|
| Fixed rate loans: | 3.83% - 7.29% | 5.36% | Up to December 2033 | \$ 392,818 | \$ 234,572 |
| Revaluation of loans upon acquisition of KEYreit, net of amortization of \$849 | | | | 5,185 | - |
| Less: unamortized finance charges | | | | (2,456) | (2,474) |
| Total net fixed rate loans | | | | <u>395,547</u> | <u>232,098</u> |
| Variable rate loans: | | | | | |
| - \$20 million development facility | Prime plus 1.00% or BA plus 2.75% | | July 31, 2014 | 12,261 | 4,912 |
| - \$15 million development facility | Prime plus 1.00% or BA plus 2.50% | | July 31, 2014 | 7,007 | 5,094 |
| - \$7.0 million secured construction loan | Prime plus 1.25% | | June 22, 2014 | 2,574 | 3,259 |
| - \$1.645 million secured construction loan | Prime plus 1.25% | | August 1, 2014 | 823 | - |
| - \$1.25 million secured construction loan | Prime plus 1.25% | | August 1, 2014 | 625 | - |
| - \$0.9 million secured construction loan | Prime plus 1.25% | | August 1, 2014 | 447 | - |
| Less: unamortized finance charges | | | | (84) | (87) |
| Total net variable rate loans | | | | <u>23,653</u> | <u>13,178</u> |
| Net mortgages payable | | | | <u>419,200</u> | <u>245,276</u> |
| Less: mortgages payable – current portion | | | | (52,703) | (44,084) |
| Total mortgages payable – long-term portion | | | | <u>\$ 366,497</u> | <u>\$ 201,192</u> |

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 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 December 31, 2013 there is \$15.7 million available on these development facilities (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 covenants, as well as shareholder equity tests. As of December 31, 2013 the Company is in compliance with all covenants.

The \$7.0 million secured variable rate construction loan was extended for another year and is now due June 2014. The Company also obtained three other secured variable rate construction loans in the amount of \$1.645 million, \$1.25 million and \$900 thousand, respectively. The Company owns 50% of the development for which all four of these loans were obtained and therefore the Company's share of the potential proceeds from the loans are \$5.4 million.

14. Bridge Facility

In May 2013, the Company entered into a one-year secured credit facility with a Canadian chartered bank for up to \$122.5 million, to fund the acquisition of KEYreit and acquisition-related costs, as well as to fund other working capital requirements of the Company (including \$7.5 million in previously accrued transaction-related costs and bid defense costs of KEYreit). Of this amount, \$82.5 million is extendible for 2 additional 6-month periods at the Company's request and with the lender's consent. Prepayment of the facility may be made in whole or in part at any time without penalty. Interest is payable at prime plus 3.25% or BAs plus 4.25%, escalating to prime plus 3.625% or BAs plus 4.625% after 6 months and to prime plus 4.00% or BAs plus 5.00% after 9 months.

The Company must maintain certain financial ratios to comply with the facility. These covenants include debt service, interest coverage and distribution ratios, as well as a shareholders' equity test. As of December 31, 2013 the Company is in compliance with all applicable covenants.

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The Company incurred \$2.7 million in financing fees. These costs have been netted against the bridge facility on the balance sheet.

| | Rate at December 31, 2013 | Maturity Date | December 31, 2013 | December 31, 2012 |
|-----------------------------------|--|------------------|----------------------|----------------------|
| \$122.5 million bridge facility | Prime plus 3.625% or BA plus 4.625% | May 17, 2014 | \$ 45,388 | \$ - |
| Less: unamortized finance charges | | | (995) | - |
| Total bridge facility | | | \$ 44,393 | \$ - |

15. Bank Indebtedness

The Company has a \$21.5 million (December 31, 2012 - \$10 million) operating line of credit facility with a Canadian chartered bank at the rate of prime plus 1.00% or BAs plus 2.25%, maturing July 31, 2014. The amount available to be drawn fluctuates depending on the specific assets pledged as security. Based on the assets pledged at December 31, 2013, the available limit was \$20.8 million. At December 31, 2013, \$nil (December 31, 2012 - \$3.6 million) was drawn on the facility and therefore the maximum amount available to be drawn on the facility was \$20.7 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 \$25 million demand debenture secured by a first mortgage over nine properties.

16. Notes Payable

Notes payable consist of the following:

| | Interest Rate | December 31, 2013 | December 31, 2012 |
|---|------------------|----------------------|----------------------|
| Non-interest bearing notes: | | | |
| Entities owned (directly and indirectly), controlled or significantly influenced by Michael Zakuta, President, CEO and Director of the Company ⁽¹⁾ | n/a | \$ 261 | \$ 261 |
| Unrelated parties and non-controlling interests | n/a | 658 | 645 |
| Total notes payable | | \$ 919 | \$ 906 |

⁽¹⁾ The notes are repayable on sale or refinancing of the related asset

17. Income Taxes

As a mutual fund corporation, the Company is entitled to a refund of income taxes paid in respect of realized qualifying capital gains upon payment of sufficient capital gains dividends to residents of Canada to affect a refund.

The Company has nil in refundable capital gains tax in 2013 (for the year ended December 31, 2012 - \$1.1 million) and triggered refunds of \$1.1 million from the payment of capital gains dividends (for the year ended December 31, 2012 - \$108 thousand). At December 31, 2013 the Company has a refundable capital gains balance of \$100 thousand (December 31, 2012 - \$1.2 million).

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The reconciliation of the tax expense deducted in the determination of profit for the year, with the tax expense that would have resulted from the application of the statutory rates applicable to the Company is as follows:

| | 2013 | 2012 |
|--|-------------|-----------|
| Profit (loss) before income tax | \$ (13,158) | \$ 61,310 |
| Combined Canadian federal and provincial income tax rate ⁽¹⁾ | 40.94% | 39.45% |
| Expected income tax provision | (5,387) | 24,186 |
| Permanent difference of minority interest and non consolidated investments | 1,680 | (1,873) |
| Impact of tax rate changes | 2,191 | - |
| Impact of items taxed at capital gains rate | 2,662 | (8,044) |
| Impact of capital gains refund | (1,100) | (108) |
| Other | (139) | 76 |
| Total income tax expense (recovery) included in profit for the year | \$ (93) | \$ 14,237 |
| Effective tax rate | 0.7% | 23.2% |

| | December 31, 2013 | December 31, 2012 |
|---|-------------------|-------------------|
| Current tax | \$ (761) | \$ 1,061 |
| Deferred tax | | |
| Origination and reversal of temporary differences | (1,523) | 13,176 |
| Change in tax rate ⁽¹⁾ | 2,191 | - |
| | 668 | 13,176 |
| Total income tax expense (recovery) included in profit for the year | \$ (93) | \$ 14,237 |

⁽¹⁾ Change is a result of provincial tax rate increase

The income tax effects of temporary differences that gave rise to significant portions of deferred income tax assets and deferred income tax liabilities are presented below:

| | December 31, 2013 | December 31, 2012 |
|---|----------------------|----------------------|
| <u>Deferred income tax assets</u> | | |
| Tax loss carry-forwards of Plazacorp Retail Properties Ltd. | \$ - | \$ 768 |
| Tax loss carry-forwards of subsidiary corporations | 1,492 | 1,175 |
| Tax loss carry-forwards from subsidiary trusts | - | 3,790 |
| Total deferred income tax assets | 1,492 | 5,733 |
| <u>Deferred income tax liabilities</u> | | |
| Income producing properties | 58,264 | 61,745 |
| Investments | 5,375 | 6,318 |
| Deferred financing costs | 64 | 49 |
| Total deferred income tax liabilities | 63,703 | 68,112 |
| Less: minority interests | (1,837) | (1,945) |
| Net deferred income tax liability | \$ 60,374 | \$ 60,434 |

Net deferred income tax liability is as follows:

| | | |
|-----------------------------------|------------|-----------|
| Deferred income tax asset | \$ (1,492) | \$ (951) |
| Deferred income tax liability | 61,866 | 61,385 |
| Net deferred income tax liability | \$ 60,374 | \$ 60,434 |

Included in the net deferred income tax liability at December 31, 2013 in the table above is \$728 thousand in deferred tax assets relating to share issue costs that were charged directly to shareholders' equity.

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The Company and its consolidated subsidiaries have income tax loss carry-forwards expiring as follows:

| Year | Consolidated Subsidiaries | Total |
|--------------|----------------------------------|-----------------|
| 2027 | \$ 219 | \$ 219 |
| 2031 | 700 | 700 |
| 2032 | 1,348 | 1,348 |
| 2033 | 1,600 | 1,600 |
| Total | \$ 3,867 | \$ 3,867 |

The income tax benefit of these losses has been recognized in the financial statements by reducing the deferred income tax liability arising from the difference between the tax and book values of income producing properties and other assets.

18. Short-Term Employee Benefits

Total short-term employee benefits paid by the Company during the year were \$8.3 million, of which \$3.3 million is included in operating expenses, \$4.6 million is included in administrative expenses, and \$0.4 million is included in income producing properties (for the year ended December 31, 2012 - \$7.3 million, of which \$2.9 million in operating expenses, \$4.0 million in administrative expenses and \$0.4 million in income producing properties).

19. 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*

| | December 31, 2013 | | December 31, 2012 | |
|--|--------------------------|-------------------|-------------------|------------|
| | Shares (000s) | Amount | Shares (000s) | Amount |
| Common shares outstanding, beginning of the year | 63,980 | \$ 107,159 | 59,878 | \$ 87,550 |
| Issuance of common shares: | | | | |
| Shares issued through exercise of stock options | - | - | 120 | 582 |
| Shares issued for the acquisition of KEYreit (Note 5(a)) | 12,893 | 59,747 | - | - |
| Shares issued to terminate KEYreit's asset and property management agreements (Note 5(c)) | 825 | 4,000 | - | - |
| Shares issued through bought deal equity raise, net of share issuance costs ⁽¹⁾ | 9,400 | 38,898 | - | - |
| Shares issued through dividend reinvestment plan | 411 | 1,707 | 146 | 687 |
| Shares issued through RSU plan | 29 | - | - | - |
| Shares issued through debt conversions (Note 11) | | | | |
| - face value debentures | 390 | 1,481 | 3,836 | 13,227 |
| - impact of fair value of convertible debentures | - | 408 | - | 5,113 |
| Common shares outstanding, end of the year | 87,928 | \$ 213,400 | 63,980 | \$ 107,159 |

⁽¹⁾ Net of deferred income tax asset of \$728 thousand (See Note 17)

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 year ended December 31, 2013 no shareholder had redeemed shares under the mutual fund corporation provisions (for the year ended December 31, 2012 – nil).

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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 year ended December 31, 2013, shareholders were issued 411 thousand shares at a weighted average price of \$4.16 per share (for the year ended December 31, 2012 – 146 thousand shares at a weighted average price of \$4.72 per share).

On October 24, 2013, the Company completed a bought deal public offering of 9.4 million shares at a price of \$4.25 per share for gross proceeds of \$40.0 million.

20. Restricted Share Unit Plan

The Company has a Restricted Share Unit Plan (“RSU Plan”) to enable the Company to reward directors, senior management and employees for their sustained contributions and to assist in attracting, retaining and motivating directors, senior management and employees of the Company. Restricted Share Units (“RSUs”) may be granted from time to time on a discretionary basis by the Administrator (the Corporate Governance and Compensation Committee of the Board of Directors). Each RSU notionally represents a share in the Company. Each RSU credited to a participant, shall receive a distribution of additional RSUs equal to the amount of dividends paid per share by the Company on its common shares (“Dividend RSUs”). The number of Dividend RSUs to be issued for each dividend payment will be equal to the aggregate amount of such dividend payable to a participant on his or her RSUs divided by the volume weighted average closing price of shares for the five trading days immediately preceding such applicable day. The Dividend RSUs vest immediately and are redeemed by the participant in either cash or shares. The RSUs will vest as follows: one-third of a given award on the first anniversary of the grant date, one-third on the second anniversary of the grant date and the balance on the third anniversary of the grant date. Upon vesting, a participant must redeem the RSUs for cash or shares or a combination of both. Currently, the maximum number of shares that may be issued under the RSU Plan upon the redemption of RSUs and Dividend RSUs is 5,850,046. A total of 179,200 RSUs have been granted under the RSU Plan since inception. For the year ended December 31, 2013 48,597 RSUs vested and 29,000 shares were issued. As at December 31, 2013 there is \$175 thousand recorded in accounts payable representing the liability of the remaining RSUs.

21. Dividends per Share

Dividends are declared quarterly at the discretion of the Board of Directors of the Company.

For the year ended December 31, 2013, the dividends paid were \$16.0 million or \$0.2250 per share (for the year ended December 31, 2012 - \$13.1 million or \$0.2150 per share).

22. Change in Non-Cash Working Capital

| | 2013 | 2012 |
|--|-------------------|----------|
| Receivables | \$ (999) | \$ (377) |
| Prepaid expenses and mortgage deposits | 2,026 | (106) |
| Accounts payable and accrued liabilities | (5,525) | 472 |
| Income taxes payable | - | 9 |
| Total cash from change in non-cash working capital | \$ (4,498) | \$ (2) |

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23. Related Parties

The following are the related party transactions of the Company. All related party transactions have been recorded at the exchange amount.

(a) Bonds and Debentures

The Directors own directly or indirectly the following mortgage bonds and debentures of the Company (stated at face value):

| | December 31, 2013 | December 31, 2012 |
|---|-------------------|-------------------|
| Earl Brewer | \$ 219 | \$ 219 |
| Edouard Babineau | 350 | 350 |
| Michael Zakuta | 670 | 670 |
| Stephen Johnson | 750 | 750 |
| Total related party mortgage bonds and debentures | \$ 1,989 | \$ 1,989 |

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

(b) Other Transactions with Key Management Personnel

- (i) The Company is party to nine ground leases with TC Land LP, an entity controlled by Michael Zakuta and Earl Brewer and pays annual rent of \$1.1 million under these leases. The land leases expire at various times from October 2043 to November 2047, subject to options to renew. All of these leases have options to purchase, of which 1 is at a fixed price and the others are at fair market value.
- (ii) Two directors directly or beneficially, through companies they control, 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%). As at December 31, 2013 there is an outstanding receivable of \$13 thousand (December 31, 2012 - \$12 thousand).
- (iii) 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.
- (iv) Notes payable of \$261 thousand (December 31, 2012 - \$261 thousand) are owed to parties controlled directly or indirectly by Michael Zakuta. The non-interest bearing notes existed at the time of acquisition of properties in September 2000 and are repayable on sale or refinancing of the related assets. See Note 16.
- (v) Plaza Group Management Limited (a wholly-owned subsidiary of the Company) 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 Plaza Group Management Limited and the Company to facilitate more timely access to properties across the Company's portfolio mainly for construction and development. Costs associated with the use of the airplane for the year ended December 31, 2013 were \$157 thousand (for the year ended December 31, 2012 - \$599 thousand). As at December 31, 2013 there is an outstanding receivable of \$74 thousand (December 31, 2012 - \$53 thousand). Subsequent to year end, Plaza Group Management Limited terminated its arrangement under the agreement as a result of the sale of the airplane.
- (vi) Plaza Group Management Limited is a party to an office lease for the Company's former 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 March 31, 2014 and the Company has not renewed the lease as it has moved its corporate headquarters to one of its own properties.
- (vii) Plaza Group Management Limited manages 527 Queen Street, Fredericton, NB, a property owned indirectly by Michael Zakuta and Earl Brewer. For the year ended December 31, 2013, property management fees of \$20 thousand were earned by Plaza Group Management Limited from this property.

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(c) Remuneration of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing, and controlling the activities of the entity, directly or indirectly, including any Director of the entity. The remuneration of Directors and other key management personnel of the Company during the years ended December 31, 2013 and 2012 was as follows:

| | 2013 | 2012 |
|--|---------|----------|
| Total key management personnel compensation – short-term employee benefits | \$2,149 | \$ 1,888 |

During the years ended December 31, 2013 and 2012 there were no amounts paid in post employment benefits, long-term benefits or termination benefits. There have been 50,000 RSUs granted to key management personnel.

(d) Significant Subsidiaries

| | Ownership Interest | |
|---|--------------------|-------------------|
| | December 31, 2013 | December 31, 2012 |
| Plazacorp REIT | 100% | 100% |
| Plazacorp Operating Trust | 100% | 100% |
| Plazacorp Master Limited Partnership | 100% | 100% |
| Lemarchant Property Holdings Inc. | 100% | 100% |
| Plaza Retail Limited Partnership #1 | 100% | 100% |
| Bedford Commons 2 Property Holdings Inc. | 100% | 100% |
| Plaza LPC Commercial Trust | 100% | 100% |
| Commercial Street Plaza Trust | 100% | 100% |
| Plaza Group Management Limited | 100% | 100% |
| Stavanger Torbay Limited Partnership | 90% | 90% |
| Spring Park Plaza Inc. | 85% | 85% |
| Granville Street Properties Limited Partnership | 60% | 60% |
| Wildan Properties Limited Partnership | 60% | 60% |
| Exhibition Plaza Inc. | 55% | 55% |

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24. Interests in Joint Operations

As described in Note 3(a), the consolidated financial statements include the Company's proportionate interest in its activities characterized as joint operations with other parties. The following amounts represent the total proportionate amounts consolidated for these joint operations:

| | December 31, 2013 | December 31, 2012 |
|-----------------------|-------------------|-------------------|
| Assets | \$ 148,224 | \$ 106,279 |
| Current liabilities | 16,015 | 11,106 |
| Long term liabilities | 52,957 | 39,111 |
| Revenues | 17,086 | 19,222 |
| Expenses | 8,710 | 5,832 |

The chart below details the Company's ownership interest of direct and indirect investments and co-ownerships in real estate assets.

| | Ownership Interest | |
|--|--------------------|-------------------|
| | December 31, 2013 | December 31, 2012 |
| Accounting Method – Proportionate Consolidation | | |
| Les Galeries Montmagny and Plaza Tache, QC | 50% | 50% |
| Bureau en Gross, QC | 50% | 50% |
| Magog, QC | 50% | 50% |
| Carrefour des Seigneurs, QC | 25% | 25% |
| Plaza BDP Deux Montagnes, QC | 37.5% | 37.5% |
| Plaza Jean XXIII, QC | 50% | 50% |
| Plaza BBRF, QC | 50% | 50% |
| Plaza Tache, QC | 50% | 50% |
| Plaza TS Magog, QC | 50% | 50% |
| Plaza De L'Ouest, QC | 50% | 50% |
| Plaza HDB, QC | 33% | 33% |
| 4999 Queen Mary Road, QC | 25% | 25% |
| 201 Chain Lake Drive Plaza, NS | 50% | 50% |
| 209 Chain Lake Drive Plaza, NS | 50% | 50% |
| Tacoma Centre, NS | 50% | 50% |
| Tacoma Shoppers, NS | 50% | 50% |
| Robie Street Truro Plaza, NS | 25% | 25% |
| 210 Wyse Road, NS | 50% | 50% |
| Scott Street Plaza, ON | 50% | 50% |
| St. Josephs Boulevard, ON | 50% | 50% |
| Civic Centre Road, ON | 50% | 50% |
| Ontario Street Port Hope, ON | 50% | 50% |
| Dufferin and Wilson, ON | 50% | 50% |
| 615 King Street, ON | 50% | 50% |
| KGH Plaza, NB | 25% | 25% |
| 681 Mountain Road, NB | 25% | 25% |
| 201 Main Street - Sussex, NB | 25% | 25% |
| University Plaza, PE | 43% | 43% |
| The Village Shopping Centre, NL | 44.5% | n/a |

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25. Contingencies, Commitments, Guarantees, Indemnities, Litigation and Provisions

(a) *Contingencies*

The \$20.0 million development line of credit has a letter-of-credit limit of \$1.5 million available. As at December 31, 2013, there were no letters-of-credit issued and outstanding under this line of credit (December 31, 2012 – nil).

The \$15.0 million development line of credit has a letter-of-credit limit of \$500 thousand available. As at December 31, 2013, there were no letters-of-credit issued and outstanding under this line of credit (December 31, 2012 – nil).

The \$10.0 million operating line of credit has \$2 million available for use in the form of letters-of-credit. As at December 31, 2013, \$137 thousand (December 31, 2012 - \$137 thousand) of such letters-of-credit were issued and outstanding.

(b) *Commitments*

The Company's estimated commitments as at December 31, 2013 in respect of certain projects under development and other long-term obligations are as follows:

| | Year 1 2014 | Year 2 2015 | Year 3 2016 | Year 4 2017 | Year 5 2018 | After 5 Years | Face Value Total |
|--------------------------------------|------------------------|------------------------|------------------------|------------------------|------------------------|--------------------------|-----------------------------|
| Mortgages – periodic payments | \$ 8,989 | \$8,700 | \$ 8,230 | \$ 6,783 | \$5,191 | \$ 22,763 | \$ 60,656 |
| Mortgages – due at maturity | 19,976 | 22,966 | 60,263 | 65,040 | 22,422 | 141,495 | 332,162 |
| Bridge facility | 45,388 | - | - | - | - | - | 45,388 |
| Development lines of credit | 19,268 | - | - | - | - | - | 19,268 |
| Construction loans | 4,469 | - | - | - | - | - | 4,469 |
| Mortgage bonds payable | 9,000 | - | 2,085 | - | - | - | 11,085 |
| Debentures ⁽¹⁾ | 15,991 | 15,214 | 9,155 | 16,921 | 38,000 | - | 95,281 |
| Operating land leases ⁽²⁾ | 3,356 | 3,408 | 3,429 | 3,473 | 3,453 | 147,537 | 164,656 |
| Office lease | 50 | - | - | - | - | - | 50 |
| Development activities | 8,633 | - | - | - | - | - | 8,633 |
| Total contractual obligations | \$135,120 | \$50,288 | \$83,162 | \$92,217 | \$69,066 | \$311,795 | \$741,648 |

⁽¹⁾ Stated at face value.

⁽²⁾ Operating land leases expire on dates ranging from 2017 to 2084 (including automatic renewal periods) with non-automatic renewal options ranging from 10 to 66 years.

(c) *Guarantees and Indemnities*

The Company continues to guarantee certain debt assumed by purchasers in connection with past dispositions of properties. These guarantees will remain until the debt is modified, refinanced or extinguished. These commitments are subject to indemnity agreements. At December 31, 2013 a \$7.5 million commitment (December 31, 2012 - \$7.8 million) relating to the mortgages on four assets in which the Company sold a 75% interest in January of 2009 is subject to such guarantees by the Company. These mortgages have a weighted average remaining term of 7.6 years (December 31, 2012 - 4.9 years).

The Company is contingently liable for certain obligations of its co-venturers. The guarantees provided to the mortgagees of two strip plazas in Dartmouth, NS and Shediac, NB and four free-standing properties located in Dartmouth, NS, Granby, QC, Amherstview, ON and Port Perry, ON are subject to cross-guarantees provided by the other co-owners for the full amounts of the loans. As at December 31, 2013 the Company's total exposure on the cross-guarantees is \$13.8 million (December 31, 2012 - \$14.5 million).

(d) *Litigation*

The Company believes that any liability that may arise from current or pending litigation would not have a significant adverse effect on these financial statements.

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(e) Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. The Company has no provisions recorded at December 31, 2013 (December 31, 2012 – nil).

26. Financial Instruments and Risk Management

In the normal course of its business, the Company is exposed to a number of risks that can affect its operating performance. The Company's Board of Directors monitors management compliance with the Company's risk management policies through periodic reviews. These risks and the action taken to manage them are as follows:

(a) Interest Rate Risk

The Company adopts a policy of holding floating rate debt generally only for properties under development and those pledged to support the operating line of credit. All other debt is converted to fixed rate debt, when market conditions are favorable, as soon as practical after an asset attains income producing status.

The Company has classified its fixed rate financial assets and liabilities as held-to-maturity. Therefore a change in interest rates at the reporting date would not affect profit or loss on these. The Company minimizes its exposure to fixed rate interest risk by staggering the 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.

The Company had entered into interest rate swap contracts with a Canadian chartered bank in connection with mortgages obtained in 2010, in order to convert the mortgages from variable rates to fixed rates. As the swaps relate to debt of an equity-accounted investee, the interest rate swap contracts have been recorded at fair value in investments with changes in fair value reflected in share of profit of associates. The fair value of these contracts results in a liability, for the Company's share, of \$189 thousand at December 31, 2013 (December 31, 2012 – \$385 thousand). There is a risk that interest rates will fluctuate during the term of the mortgages. The Company intends to hold the mortgages to maturity and therefore would not realize the fair value fluctuations.

Trade receivables and payables (other than tenant deposits) are interest free and have settlement dates within one year.

An increase of 100 basis points in interest rates at December 31, 2013 if applied to all outstanding floating rate instruments would increase interest expense and decrease pre-tax profit by \$691 thousand (for the year ended December 31, 2012 – \$133 thousand).

(b) Lease Rollover and Occupancy Risk

The Company is exposed to the risk of not being able to replace tenants as leases expire or development space becomes available. The hypothetical impact to net property operating income of a change in occupancy of 1% would be approximately \$559 thousand per annum. The Company's principal management of occupancy risk involves the skewing of tenancies towards national tenants, the signing of longer term leases and significant preleasing of development space. As well, the Company attempts to stagger the lease expiry profile so that the Company is not faced with a disproportionate amount of square footage of leases expiring in any one year. The Company further mitigates this risk by maintaining a diversified portfolio mix both by retail asset type and geographic location and maintaining a well staffed and highly skilled leasing department to deal with all leasing issues.

(c) Credit Risk

Credit risk arises from the possibility that tenants may experience financial difficulty and will be unable to fulfill their lease commitments. The Company mitigates the risk of credit loss by ensuring that its tenant mix is diversified and weighted to national and regional tenants, which now comprise 92.3% of the in-place tenant base (December 31, 2012 – 93.0%). As well, the Company limits loans granted under lease arrangements to high credit-rated national tenants.

The Company minimizes its credit risk on investment bonds by having them consist of Government of Canada bonds.

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The Company generally provides financial guarantees only to wholly-owned subsidiaries and joint venture partners only during the development periods, subject to reciprocal indemnities, by utilizing established development lines of credit. Where lenders of first mortgages on joint arrangement properties require financial guarantees from the Company, reciprocal indemnities are obtained from the Company's joint arrangement partners. Guarantees are generally limited to the lower of 75% of the asset cost or 65% of the fair market value. See Note 25(c) for details of guarantees.

The Company limits cash transactions to high quality financial institutions to minimize its credit risk from cash and cash equivalents.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| Carrying Amount | December 31, 2013 | December 31, 2012 |
|--|--------------------------|-------------------|
| Held-to-maturity investments | \$ 568 | \$ 258 |
| Tenant loans, receivables and notes receivable | 13,718 | 1,982 |
| Cash | 25,280 | 2,900 |
| Total | \$ 39,566 | \$ 5,140 |

The Company's most significant customer, a national retailer, accounts for \$318 thousand of tenant loans as at December 31, 2013 (December 31, 2012- \$591 thousand). This retailer represents 24.1% of monthly gross rents in place at December 31, 2013. The top 10 tenants collectively represent approximately 57.3% of monthly gross rents in place.

Deposits refundable to tenants may be withheld by the Company in part or in whole if receivables due from the tenant are not settled or in case of other breaches of contract.

(d) *Liquidity and Debt Market Risk*

Prudent liquidity risk management implies maintaining sufficient cash and an adequate amount of committed credit facilities to run its business and pay obligations as they come due. The Company manages its cash resources and committed credit facilities based on financial forecasts and anticipated cash flows. In terms of debt, there is always the risk that lenders may tighten their lending standards, which could make it challenging for the Company to obtain financing on favourable terms or any terms at all. If this were to occur, it could adversely impact the Company. The Company staggers the maturities of its long-term debt to avoid excessive amounts of debt maturing in any one year. Several mortgages and the development lines contain material adverse change clauses which entitle the lenders to demand partial or full loan repayment when there are material adverse changes in the Company's financial position. The Company has determined that circumstances that could trigger action by a lender under these clauses are unlikely.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

| | Carrying amount | Contractual cash flow | 1-2 years | 2-5 years | More than 5 years |
|--|------------------------|------------------------------|------------------|------------------|--------------------------|
| Accounts payable and accrued liabilities | 12,478 | 12,478 | 12,478 | - | - |
| Debentures payable | 98,423 | 113,213 | 39,737 | 73,476 | - |
| Notes payable | 919 | 919 | 919 | - | - |
| Bridge facility | 44,393 | 46,558 | 46,558 | - | - |
| Mortgage bonds payable | 10,921 | 11,784 | 9,644 | 2,140 | - |
| Mortgages payable | 419,200 | 563,290 | 167,099 | 203,794 | 192,397 |

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(e) *Fair Value*

Generally, trading values for the Company's financial instruments are not available. In determining estimates of the fair values of the financial instruments, the Company must make assumptions regarding current market rates, considering the term of the

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instrument and its risk. Current market rates are generally selected from a range of potentially acceptable rates and accordingly, other effective rates and fair values are possible. The rates used in determining the fair value of fixed rate mortgages are corresponding term Government of Canada Bonds plus credit spreads of 1.95% to 2.65% (December 31, 2012 – 2.15% to 2.70%). The rates used to determine the fair value of mortgage bonds range from 4.90% to 5.00% (December 31, 2012 – 4.90% to 5.00%). The rates used to determine the fair value of non-convertible debentures is 5.00%.

The following chart shows the estimated fair value of the Company's financial instruments.

| | Book Value December 31, 2013 | Fair Value December 31, 2013 | Book Value December 31, 2012 | Fair Value December 31, 2012 |
|--|---|---|------------------------------------|------------------------------------|
| Cash | \$ 25,280 | \$ 25,280 | \$ 2,900 | \$ 2,900 |
| Receivables | 3,271 | 3,271 | 1,128 | 1,128 |
| Notes receivable | 8,096 | 8,096 | 263 | 263 |
| Tenant loans | 2,351 | 2,351 | 591 | 591 |
| Total Financial Assets | \$ 38,998 | \$ 38,998 | \$ 4,882 | \$ 4,882 |
| Bank indebtedness | \$ - | \$ - | \$ 3,647 | \$ 3,647 |
| Accounts payable and accrued liabilities | 12,478 | 12,478 | 5,720 | 5,720 |
| Total net fixed rate mortgage loans | 395,547 | 399,567 | 232,098 | 248,947 |
| Total net variable rate mortgage loans | 23,653 | 23,653 | 13,178 | 13,178 |
| Convertible debentures | 94,513 | 94,513 | 21,865 | 21,865 |
| Non-convertible debentures | 3,910 | 3,910 | - | - |
| Mortgage bonds payable | 10,921 | 11,241 | 2,065 | 2,205 |
| Bridge facility | 44,393 | 44,393 | - | - |
| Notes payable | 919 | 919 | 906 | 906 |
| Total Financial Liabilities | \$ 586,334 | \$ 590,674 | \$ 279,479 | \$ 296,468 |

The fair value of the Company's financial assets and liabilities that represent net working capital, including cash, receivables, notes receivable, bank indebtedness and accounts payable and accrued liabilities approximate their recorded values due to their short-term nature.

The fair value of the Company's bridge facility approximates its recorded value due to its short-term nature.

The fair value of the tenant loans approximate their book value with the interest rates ranging from 5.00% to 9.45% (December 31, 2012 - 7.24% to 9.45%).

The fair value of the Company's exposure from mortgage guarantees and indemnities are nil.

As at December 31, 2013, the fair value of the Company's investment in Government of Canada Bonds of \$568 thousand (December 31, 2012 - \$258 thousand) approximates fair value. The Company had no exposure to financial hedges or embedded derivatives as at December 31, 2013 (December 31, 2012 – nil).

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.

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The following table shows the fair values and fair value hierarchies for financial assets and financial liabilities and other balance sheet items recorded at fair value and disclosed in the notes to financial statements.

| | December 31, 2013 | | | December 31, 2012 | | |
|---|-------------------|------------|------------|-------------------|------------|------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Investment properties | \$ - | \$ - | \$ 900,165 | \$ - | \$ - | \$ 531,764 |
| Cash | - | 25,280 | - | - | 2,900 | - |
| Receivables | - | 3,271 | - | - | 1,128 | - |
| Notes receivable | - | 8,096 | - | - | 263 | - |
| Tenant loans | - | 2,351 | - | - | 591 | - |
| | \$ - | \$ 38,998 | \$ 900,165 | \$ - | \$ 4,882 | \$ 531,764 |
| Bank indebtedness | \$ - | \$ - | \$ - | \$ - | \$ 3,647 | \$ - |
| Accounts payable and accrued liabilities | - | 12,478 | - | - | 5,720 | - |
| Total net fixed rate mortgage loans | - | 399,567 | - | - | 248,947 | - |
| Total net variable rate mortgage loans | - | 23,653 | - | - | 13,178 | - |
| Non-convertible debentures | - | 3,910 | - | - | - | - |
| Mortgage bonds payable | - | 11,241 | - | - | 2,205 | - |
| Notes payable | - | 919 | - | - | 906 | - |
| Bridge facility | - | 44,393 | - | - | - | - |
| Series A, B, C & D convertible debentures | 77,016 | - | - | - | - | - |
| Series VI convertible debentures | - | 17,497 | - | - | 21,865 | - |
| | \$ 77,016 | \$ 513,658 | \$ - | \$ - | \$ 296,468 | \$ - |

The fair value of investment properties is based on a combination of external appraisals and internal valuations based on a capitalization matrix provided by independent appraisers.

The fair value of the Series VI 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.

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.

27. Capital Management

The primary objective of the Company's capital management is to ensure that it maintains adequate capital resources in order to support its business and maximize shareholder value. The Company manages its capital structure with the primary goal of minimizing risk and ensuring the stability of cash flow from properties. Other goals include maintaining debt service and interest coverage ratios in compliance with bank and debenture covenants. The Company has defined its capital to include bank indebtedness, mortgages payable, debentures payable, mortgage bonds payable, notes payable, the bridge facility and shareholders' equity.

Bank operating and development lines require maintenance of at least \$75 million of shareholders' equity; maintenance of debt service ratios in excess of 1.5 times; and interest coverage ratios of 1.6 times, with all debt service and interest coverage ratios calculated exclusive of interest charged on subordinate debt and convertible debentures. In addition, under a development line, the Company must maintain a ratio of mortgages plus bank indebtedness to the book value of its gross assets less fair value adjustments of not more than 70%. The bridge facility requires maintenance of at least \$250 million of shareholders' equity; a payout ratio on funds from operations of no greater than 95%; maintenance of a fixed charge coverage ratio greater than 1.2 times; and maintenance of a ratio of debts including convertible debentures to the book value of its gross assets of not more than 65% and the same ratio excluding convertible debentures of not more than 60%. The Company is in compliance with all debt covenants as at December 31, 2013.

There were no changes to the Company's approach to capital management for the year ended December 31, 2013.

Plazacorp Retail Properties Ltd.

Notes to the Consolidated Financial Statements

December 31, 2013 (audited)

(tabular amounts in thousands of Canadian dollars, except per share amounts and as otherwise indicated)

The calculation of the total capital is summarized as follows:

| | December 31, 2013 | December 31, 2012 |
|--|----------------------|----------------------|
| Total net fixed rate mortgage loans | \$ 395,547 | \$ 232,098 |
| Total net variable rate mortgage loans | 23,653 | 13,178 |
| Mortgage bonds payable | 10,921 | 2,065 |
| Debentures payable | 98,423 | 21,865 |
| Bank indebtedness | - | 3,647 |
| Bridge facility | 44,393 | - |
| Notes payable | 919 | 906 |
| | 573,856 | 273,759 |
| Shareholders' equity | 327,641 | 251,211 |
| Total | \$ 901,497 | \$ 524,970 |

28. Subsequent Events

REIT Conversion

Effective January 1, 2014, the Company completed its plan of arrangement to convert into a real estate investment trust (Plaza Retail REIT). Final approval was granted by the Toronto Stock Exchange and on January 8, 2014 the Company's REIT units began trading under the symbol "PLZ.UN". In conjunction with the conversion, the Company has moved from a quarterly dividend to a monthly distribution. Since Plaza Retail REIT is the continuation of the Company, the consolidated financial statements of Plaza Retail REIT going forward will be the same as those of the Company, except for deferred taxes, which will reflect the change in tax status to a flow-through vehicle, so that only deferred taxes of any corporate subsidiaries will be recorded.

Financing

In January 2014, the Company obtained long term mortgage financing on Plaza De L'Ouest, Sherbrooke, QC in the amount of \$11.1 million with a 10 year term and an interest rate of 4.75%. The Company owns a 50% interest in this property.

Investment Properties

In January 2014, the Company sold a property in Montreal, QC for net proceeds of \$1.3 million.

Subsequent to year end, the Company has unconditional commitments to sell three income producing properties for net proceeds of \$16.9 million in Lloydminster and Okotoks, AB and Liverpool, NS.

On February 18, 2014, the Company acquired an interest in a property in St. Hyacinthe, QC for \$1 million. The Company's ownership interest in this property is 25%.

Convertible Debentures

On January 7, 2014, the Company redeemed all of the Series A convertible debentures for cash. The principal amount plus accrued and unpaid interest thereon was \$16.0 million.

On February 11, 2014, the Company issued a redemption notice to Series VI convertible debenture holders. The Company will redeem all of the Series VI on April 1, 2014.

Distribution and Distribution Reinvestment Plan

Plaza Retail REIT (successor to the Company) paid a cash distribution of \$0.04 per unit for a total of \$3.1 million on February 15, 2014 and 116 thousand units were issued at a purchase price of \$3.94 per unit for a total of \$458 thousand under the distribution reinvestment plan.

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