Management's Discussion & Analysis

March 1, 2018

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2017. The discussion outlines strategies and provides analysis of our financial performance for the fourth quarter and the full year.

The underlying financial statements in this MD&A, including 2016 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on March 1, 2018. Disclosure contained in this MD&A is current to March 1, 2018, unless otherwise indicated.

Regulatory Filings

Additional information about the REIT, including our annual information form, information circular and quarterly reports, is available on our website at MelcorREIT.ca and on SEDAR at www.sedar.com.

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA Canada Handbook and do not have any standardized meaning prescribed by IFRS. These measures include funds from operations (FFO), adjusted funds from operations (AFFO), adjusted cash flows from operations (ACFO) and net operating income (NOI), which are key measures of performance used by real estate businesses. We believe that these measures are important in evaluating the REIT's operating performance, financial risk, economic performance, and cash flows. These non-standard measures may not be comparable to similar measures presented by other companies and real estate investment trusts and should not be used as a substitute for performance measures prepared in accordance with IFRS.

Non-standard measures included in this MD&A are defined in the Non-standard Measures section.

Caution Regarding Forward-looking Statements

In order to provide our investors with an understanding of our current results and future prospects, our public communications often include written or verbal forward-looking statements.

Forward-looking statements are disclosures regarding possible events, conditions, or results of operations that are based on assumptions about future economic conditions or courses of action and include future-oriented financial information.

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent the REIT's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2018 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook for our operations.

By their nature, forward-looking statements require assumptions and involve risks and uncertainties related to the business and general economic environment, many beyond our control. There is significant risk that the predictions, forecasts, valuations, conclusions or projections we make will not prove to be accurate and that our actual results will be materially different from targets, expectations, estimates or intentions expressed in forward-looking statements. We caution readers of this document not to place undue reliance on forward-looking statements. Assumptions about the performance of the western Canadian economy and how this performance will affect the REIT's business are material factors we consider in determining our forward-looking statements. For additional information regarding material risks and assumptions, please see the discussion under Business Environment and Risks.

Readers should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Except as may be required by law, we do not undertake to update any forward-looking statement, whether written or oral, made by the REIT or on its behalf.

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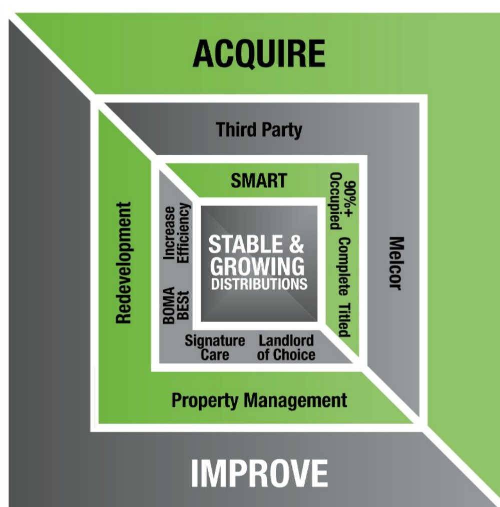
Our Business: Vision, Goals & Strategy

The REIT has an established and diversified portfolio focused on western Canada. We currently own 37 income-producing office, retail and industrial properties representing 2.86 million sf (square feet) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants, some of whom have been in place for over 20 years. The REIT is externally managed, administered and operated by Melcor Developments Ltd. (Melcor) pursuant to the asset management and property management agreements entered into in conjunction with the IPO.

Melcor holds an approximate 53.0% effective interest in the REIT through ownership of all Class B LP units of Melcor REIT Limited Partnership (the partnership) through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

Melcor, a real estate company founded in 1923, has a rich history of growth and performance. Our objective is to continue that tradition by providing stable monthly cash distributions to unitholders. Our growth strategy is simple: acquire and improve. Together with Melcor, we have a proven track record of doing both.



Acquire

Our acquisition growth strategy is focused on:

- Diversifying our property portfolio
- Increasing penetration in existing geographic markets to exploit competitive advantage, and
- Expanding to adjacent geographic markets.

We focus on two channels to support our acquisition growth strategy:

- ***Acquiring properties via our proprietary pipeline***: As Melcor completes development and leasing of commercial properties, the REIT has a first right to purchase each asset for its portfolio. This organic asset pipeline is unique to the REIT. Based on projects currently being developed or planned to begin in the near-term, we expect this current

acquisition pipeline to yield 6.68 million sf of GLA over the next 5-10 years. The REIT also has the opportunity to participate in investment opportunities, joint ventures and mezzanine financing on Melcor projects under the Development and Opportunities Agreement.

In 2017 we announced that the REIT had agreed to acquire 172,629 sf of GLA from Melcor (the Melcor Acquisition). These properties include additional phases at four existing properties and one new property. These recently constructed, high-quality properties were acquired for a purchase price of $80.88 million and represent our fourth acquisition from Melcor since IPO. Melcor currently has an additional 125,300 sf of GLA under development. The acquired properties add 128,301 sf to our retail and 44,328 sf to our industrial portfolios, both of which are targeted for growth in our overall portfolio mix.

GLA For Future Development

- ***Acquiring accretive income-producing properties***: We actively seek strategic third party property acquisitions that fit our SMART investment criteria: properties that have a good Story, are in the right Market, Accretive to AFFO per unit, at the Right price and in our Targeted areas. Target acquisitions include properties with potential to increase value through expansion, redevelopment or improved property management.

  While we continue to actively pursue potential acquisitions, we did not complete any third party acquisitions in 2017. Continued competition for assets which meet our investment criteria highlights the strategic importance of the Melcor pipeline and our first right to these properties.

GLA by Property Type

at March 1, 2018

SMART ACQUISITION STRATEGY

Strategic Market Accretive Right Price Targeted	**Acquisition Targets** ▪ Stable, accretive properties ▪ Penetrate existing geographic markets ▪ Expand into adjacent markets ▪ Properties with redevelopment and repositioning potential **Acquisition & Integration Strengths** ▪ Proven due diligence process ▪ Agility to quickly execute on decisions ▪ Ability to close within 30 days (preferred access to unmarketed opportunities) ▪ Clustering of properties for efficient management & strong market knowledge

Improve

There are two key components to improving our existing assets – property management and asset enhancement. The goals of our property management and asset enhancement programs are to:

- Maximize occupancy
- Maximize tenant retention
- Increase rental income

As a component of our improvement strategy, we also regularly review our portfolio to identify opportunities to recycle capital and pare our portfolio of non-core assets. Value monetized through recycled assets allows the REIT to reduce debt and provides additional capacity to acquire and improve core assets.

Property Management

We are committed to being the Landlord of Choice by providing consistent, high quality service to our clients, thus ensuring that our occupancy rates remain high and that our space is leased at attractive rates.

Efficient property management optimizes operating costs, occupancy and rental rates. Our hands-on, on-site building management identify issues early on for prompt resolution, and with continuous logging and monitoring of all maintenance activity, we can make capital investment decisions at the right time to sustain long-term operating margins.

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 20 years.

Our Signature Customer Care program is the solution centre for client service requests via telephone, email or website. We continue to provide responsive service and are proud of our track record of responding to over 99% of service requests within 30 minutes during business hours.

Our commitment to customer satisfaction shows in our 2017 survey of 2 office buildings. 100% of respondents rated our property management team as good, very good or excellent, and 100% rated our building operations team as good, very good or excellent.

This high level of satisfaction contributes to other metrics, such as our retention rate which was a healthy 80.6% in 2017.

We continue to be proactive with leasing strategies designed to maintain occupancy at or above our target.

Asset Enhancement

We continually improve our assets with value-adding investments that enhance property quality, which leads to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability. We use our intimate knowledge of the buildings we operate to support capital investment decisions, optimize operating efficiency and continuously improve our buildings for enhanced client satisfaction.

CAPITAL EXPENDITURES STRATEGY	
PRESERVE	▪ Inner works (boilers, roofs, maintenance) ▪ Maintain asset value through routine care ▪ Improve efficiencies through upgrades (lower building operating costs) ▪ Driven by annual building & equipment condition assessments
ENHANCE	▪ Visible improvements such as common area upgrades, landscaping and aesthetics as well as improved comfort ▪ Upgrades that help lease buildings and retain tenants ▪ Driven by lease expiries/vacancies and need

Our buildings undergo annual assessments to identify preventative maintenance and capital investment requirements, and we continuously monitor and log all equipment and maintenance activity. Many of our continuous improvement initiatives focus on sustainability and energy reduction strategies to ensure our buildings are green. As we upgrade and replace equipment, we do so with technology that promotes energy efficiency. We also engage specialists to monitor and analyze our energy usage to identify ways it can be improved.

In February 2017, we received BOMA BESt certified Green & Responsible silver status on a sixth building. BOMA BESt is the leading environmental certification program for existing buildings in Canada.

Capital Recycling

We continually review our asset portfolio to identify opportunities to recycle capital. Our capital recycling strategy focuses on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximizing return on investment.

In 2017, we sold a 67,610 sf industrial property in Lethbridge, Alberta for gross proceeds of $8.00 million. The property was acquired by the REIT in 2014 from an unrelated third party. Over the past three years we improved the asset through 7,900 sf of new leasing, cultivation of strong tenant relationships and capital investment. Proceeds from the sale were used to repay amounts drawn under the revolving credit facility.

In January 2018 we sold a 23,179 sf retail property in Leduc, Alberta for gross proceeds of $6.85 million. The property was acquired by the REIT as part of its purchase of the initial properties from Melcor in 2013 and had previously been owned by Melcor since 1974. Proceeds from the sale were used to repay amounts drawn under the revolving credit facility.

Key Metrics & 2017 Accomplishments

Metric	Target	2017
Debt/gross book value	50-55%	**47%**
Debt/gross book value including debentures	55-60%	**56%**
Tenant retention	75%	**80.6%**
Occupancy	90%+	**91.8%**
Portfolio diversification		
Retail	40%	**36.1%**
Office	40%	**57.9%**
Industrial	20%	**6.0%**
Weighted average base rent (by sf)		
Retail	$18.50+	**$18.90**
Office	$14.00+	**$14.32**
Industrial	$8.00+	**$10.83**
Customer Care On-time Response	95%+	**99%**

2017 Highlights & Key Performance Indicators

Financial Highlights

	Year ended December 31		
($000s)	2017	2016	△%
Non-Standard KPIs			
Net operating income (NOI)	42,101	42,329	(1)%
Funds from operations (FFO)	26,670	26,668	— %
Adjusted funds from operations (AFFO)[5]	20,194	20,039	1 %
Adjusted cash flows from operations (ACFO)	19,969	19,812	1 %
Rental revenue	66,613	66,042	1 %
Income before fair value adjustments	13,742	13,586	1 %
Fair value adjustment on investment properties[6]	(12,800)	(6,546)	nm
Distributions to unitholders	7,527	7,527	— %
Cash flows from operations	13,605	12,312	11 %
Same-asset NOI	41,398	41,351	— %
Per unit metrics			
Income (loss) - diluted	$0.07	($1.00)	
FFO	$1.04	$1.03	
AFFO[5]	$0.78	$0.78	
Distributions	$0.675	$0.675	
Payout ratio	86%	87%	

	31-Dec-17	31-Dec-16	△%
Total assets ($000s)	676,237	663,724	2 %
Equity ($000s)[1]	260,600	260,600	— %
Debt ($000s)[2]	353,340	351,947	— %
Weighted average interest rate on debt	3.75%	3.63%	3 %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	47%	50%	(6)%
Debt to GBV (maximum threshold - 65%)	56%	55%	2 %
Finance costs coverage ratio[3]	2.93	2.88	2 %
Debt service coverage ratio[4]	2.60	2.65	(2)%

1. *Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.*
2. *Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale and convertible debentures, excluding unamortized discount and transaction costs.*
3. *Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units and fair value adjustment on derivative instruments.*
4. *Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units.*
5. *We adopted REALpac's new guidance on AFFO in 2017 retroactive for the comparative period. See Adjusted Funds from operations on page 13 for details.*
6. *The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.*

Operational Highlights	31-Dec-17	31-Dec-16	△%
Number of properties	**37**	38	(3)%
Gross leasable area (GLA) (sf)	**2,710,862**	2,775,782	(2)%
Occupancy (weighted by GLA)	**91.8%**	92.4%	(1)%
Retention (weighted by GLA)	**80.6%**	71.0%	14 %
Weighted average remaining lease term (years)	**4.66**	4.85	(4)%
Weighted average base rent (per sf)	**$15.88**	$15.73	1 %

2017 Highlights:

Our portfolio performance remained steady throughout 2017. The stability and diversity of our portfolio with respect to both tenant profile and asset class position the REIT well for managing through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt. In 2017, we adopted REALpac's new guidance on AFFO retroactive to January 1, 2016, which resulted in a change from our previously reported payout ratios. We believe this is an improved disclosure and does not represent a fundamental change in our underlying results or strategy.

Highlights of our performance in the year include:

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. In 2017 we completed 340,546 sf in new and renewed leasing (including holdovers), achieving a retention rate of 80.6%.
- Same-asset NOI was steady over 2016, with 91.8% occupancy at December 31, 2017. Retail and office assets in Southern Alberta, British Columbia and Regina generated same-asset income and occupancy growth over 2016; offsetting downward trends within our Northern Alberta portfolio.
- We continue to experience negative market pressure on Edmonton downtown office space as approximately 1.8 million sf in new inventory comes online. Edmonton downtown office spaces makes up 12% of the REIT's GLA.
- Net income in the current and comparative periods were negatively impacted by non-cash fair value losses on investment properties due to an increase in capitalization rates and on Class B LP Units due to appreciation in the REIT's unit price. Management believes adjusted funds from operations (AFFO) is a better reflection of our true operating performance.
- AFFO was stable over 2016 at $20.19 million.
- We took advantage of favourable lending conditions and early re-financed $26.97 million in mortgages at an average interest rate of 3.39% in 2017. Early re-financing was a strategy employed to mitigate and re-balance our risk in 2018, reducing our percentage of mortgage maturing from 21% to 9%. An additional $7.44 million in new financings were completed in the year at an average interest rate of 3.70%.
- We paid monthly distributions of $0.05625 per trust unit during 2017 for an annual payout ratio of 86% (2016 - 87%).
- On December 21, 2017, we issued and sold $23.00 million in 5.25% convertible debentures and $17.30 million in subscription receipts at a price of $8.50 on a bought deal basis. The issuance was fully subscribed with the over-allotment options exercised in full. Proceeds were used to acquire an $80.88 million portfolio of commercial properties from Melcor, which closed January 12, 2018, and upon closing of such transaction all subscription receipts were converted into trust units. The Melcor Acquisition adds 128,301 sf to our retail portfolio in three existing and one new property and 44,328 sf to our industrial portfolio in one existing property. Both retail and industrial are targeted for growth in our overall portfolio mix.

Consolidated Revenue & Net Operating Income

($000s)	Year ended December 31 2017	2016	△%
Base rent	41,019	41,673	(2)%
Recoveries	25,209	24,054	5 %
Other	2,373	2,372	— %
Amortization of tenant incentives	(3,062)	(3,216)	(5)%
Straight-line rent adjustments	1,074	1,159	(7)%
Rental revenue	66,613	66,042	1 %
Operating expenses	12,802	12,822	— %
Utilities and property taxes	13,698	12,948	6 %
Direct operating expenses	26,500	25,770	3 %
Net rental income	40,113	40,272	— %
NOI	42,101	42,329	(1)%
Same asset NOI	41,398	41,351	— %
Operating margin	60%	61%	(2)%

Revenue

Rental revenue increased $0.57 million or 1% over 2016. Higher operating cost and realty tax recoveries ("recoveries") in 2017 are due to an increase in direct operating expenses. The sale of LC Industrial in April 2017 combined with slightly lower same-asset average occupancy resulted in a 2% decrease in base rent.

We continue to be proactive and strategic in our leasing programs to meet the demands of an evolving market while retaining and attracting new tenants. In 2017 we signed 340,546 sf of new and renewed leases (including holdovers) for occupancy of 91.8%. We exceeded our retention rate target, with the renewal of 80.6% of expiring leases (representing 77 leases) in spite of challenging market conditions in many of our operating regions.

The table below summarizes leasing activity for 2017:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	**2,564,822**	**$15.73**	**92.4%**
Expiring leases	(308,365)	$15.72	
Early terminations	(50,160)	$13.06	
Renewals/Holdovers	248,603	$15.56	
New leasing	91,943	$12.11	
Lease amendments	8,341	$—	
Investment property sold	(67,610)	$8.68	
Closing occupancy	**2,487,574**	**$15.88**	**91.8%**

Weighted average base rent was $15.88 per sf at December 31, 2017, an increase of 1% compared to 2016. Excluding LC Industrial, which had a base rate of $8.68 base rates were down $0.04 over 2016. This reduction is primarily due to market conditions and significant new inventory creating downward pressure on downtown Edmonton office rates, partially offset by step-ups on leases with multiple rent escalations. Leasing activity across Alberta and increased industrial rates offset the rate compression in our office portfolio. Increases in weighted average base rents were tempered by the compression of net effective rent due to increases in tenant incentives.

The table below summarizes the REIT's average base rent, GLA, occupancy and retention:

	31-Dec-17	31-Dec-16	△%
Weighted average base rent (per sf)	**$15.88**	$15.73	1 %
Weighted average remaining lease term	**4.66**	4.85	(4)%
GLA	**2,710,862**	2,775,782	(2)%
Occupancy	**91.8%**	92.4%	(1)%
Retention	**80.6%**	71.0%	14 %

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. During 2017, recovery revenue was up 5% and direct operating expenses were up 3% over 2016. Our recovery ratio (calculated as recoveries divided by direct operating expenses) improved over 2016 on account of lower non-recoverable costs and additional income in 2017 related to truing up 2016 year-end estimates.

Other revenue is comprised of parking revenue and other miscellaneous revenue which fluctuates from period to period.

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. Straight-line rent adjustments relate to new leases which have escalating rent rates and/or rent-free periods. The decrease in straight-line rent adjustments is a result of rent-steps on escalating leases kicking in and fewer tenants on rent-free periods. Straight-line rent adjustments fluctuate due to the timing of signed leases.

Direct operating expenses

Direct operating expenses were up 3% over 2016. A 5% increase in property taxes due to higher mill rates while the introduction of the carbon tax in Alberta effective January 1, 2017 contributed to an 8% increase in utilities. In spite of continued pressure on property taxes and utilities, we were able to hold operating expenses at 2016 levels in 2017. As a cornerstone of our property management strategy, we are committed to efficient and cost effective building maintenance to ensure maximum value to our tenants and unitholders.

NOI and Same-Asset NOI

Net operating income (NOI) and same-asset NOI are non-standard metrics used in the real estate industry to measure the performance of investment properties. The IFRS measure most directly comparable to NOI and same-asset NOI is net income.

Slightly lower average occupancy and the sale of LC Industrial contributed to the 1% decline in NOI. On a same-asset basis, NOI was stable over 2016 on account of improved recovery ratio.

The calculation of same-asset NOI is as follows (refer to Non-standard Measures for calculation of NOI and reconciliation to net income):

	Year ended December 31		
($000s)	2017	2016	△%
Same-asset NOI	**41,398**	41,351	— %
Disposition/Held for Sale/Development	**703**	978	
NOI	**42,101**	42,329	(1)%
Amortization of tenant incentives	**(3,062)**	(3,216)	
Straight-line rent adjustments	**1,074**	1,159	
Net rental income	**40,113**	40,272	— %

Property Profile

At December 31, 2017 our portfolio includes interests in 37 retail, office and industrial income-producing properties located in Western Canada for a total of 2,710,862 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties by property type:

Property Type	Number of Properties	GLA (sf)/Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net Rental Income 2017 ($000s)
Retail	13	977,945	36.1%	309,456	17,809
Office	20	1,569,154	57.9%	290,057	19,481
Industrial	3	163,763	6.0%	27,200	1,895
Land Lease Community	1	308 lots	n/a	16,050	928
	37	**2,710,862**	**100.0%**	**642,763**	**40,113**

The following table details key financial and operational metrics for each property type:

	Retail		Office		Industrial		Land Lease Community	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Year ended December 31 ($000s)								
Rental revenue	**26,337**	25,798	**36,500**	35,983	**2,471**	2,960	**1,305**	1,301
Net rental income	**17,809**	17,477	**19,481**	19,423	**1,895**	2,404	**928**	968
Same-asset NOI	**17,637**	17,523	**21,074**	21,130	**1,759**	1,730	**928**	968
As at December 31								
Average base rent (sf)	**$18.90**	$19.04	**$14.32**	$14.43	**$10.83**	$9.61	**n/a**	n/a
Occupancy	**96.0%**	96.3%	**88.3%**	88.9%	**100.0%**	100.0%	**100.0%**	100.0%

Retail - our 13 retail properties include 5 multi-building retail power centres and 8 neighborhood shopping centres. At December 31, 2017 Corinthia Plaza, a 23,179 sf neighborhood shopping centre was classified as held for sale and subsequently sold in January 2018. In May 2016 we built a new CRU at Westgrove Common, increasing GLA by 7,732 sf. Occupancy and average base rents have remained stable across the portfolio. Same-asset revenue and net rental income increased 2%, while NOI was up 1% as a result of improved recovery ratio, primarily the result of true-up of prior year recoveries. In January 2018 we acquired 128,301 sf of newly constructed grade A retail product as part of the Melcor Acquisition. The acquisition adds new phases at three existing properties and one new property, which is part of a multi-phased business park Melcor is developing in Calgary.

Office - our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Our office portfolio is our most geographically diverse asset class, with properties across Alberta, in Regina, SK and Kelowna, BC. Increased competition due to new office buildings constructed in downtown Edmonton contributed to the decrease in average base rent. Comparatively, assets in our secondary markets (Lethbridge, AB; Regina, SK; and Kelowna, SK) realized an increase in revenues and margins, partially offsetting the downward pressure in Edmonton. Across the portfolio we completed 200,349 sf in new and renewed leasing, maintaining occupancy at 88.3%. Higher recoveries on direct operating costs and higher straight-line rent adjustments offset the decline in base rent resulting in a 1% increase in revenue over 2016, while net rental income and NOI were stable.

Industrial - our 3 industrial properties include single and multi-tenant buildings. We divested LC Industrial in Q2-2017 as part of our capital recycling initiative. This sale contributed to the increase in average base rent. All industrial assets were 100% occupied through the end of 2017 (2016 - 100%). On a same-asset basis, rental revenue and NOI were stable. We continue to look for opportunities to expand our industrial portfolio as part of our diversification strategy and added 44,328 sf in January 2018 as part of the Melcor Acquisition.

Land Lease Community – we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2017 (2016 – 100%). Revenue on our land lease community was steady over 2016. NOI declined 4% over 2016 as a result of higher property taxes and utilities.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2017 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net Rental Income 2017 ($000s)
Northern Alberta	24	1,632,291	60.2%	396,405	23,574
Southern Alberta	6	711,782	26.3%	178,700	12,371
Saskatchewan & British Columbia	7	366,789	13.5%	67,658	4,168
	37	**2,710,862**	**100.0%**	**642,763**	**40,113**

The following table details key financial and operational metrics for each of our geographic regions for the year ended December 31, 2017:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Year ended December 31 ($000s)						
Rental revenue	**40,321**	40,423	**18,866**	18,821	**7,426**	6,798
Net rental income	**23,574**	24,069	**12,371**	12,598	**4,168**	3,605
Same-asset NOI	**24,585**	25,206	**12,349**	12,108	**4,464**	4,037
As at December 31						
Average base rent (per sf)	**$16.61**	$16.70	**$15.38**	$14.67	**$13.68**	$13.63
Occupancy	**90.5%**	92.2%	**94.4%**	95.3%	**92.1%**	87.2%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer. Declines in Northern Alberta rental revenue and net rental income are primarily due to increased competition in downtown Edmonton office space creating downward pressure on rents and occupancy offset by higher recoveries on direct operating expenses. With approximately 22% of Northern Alberta leases up for renewal in 2018, we expect continued pressure on both occupancy and average base rents. Our leasing team continues to work proactively to engage existing tenants and attract new tenants.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. The sale of LC Industrial in Q2-2017 resulted in a $0.45 million decrease in rental revenue in 2017 and contributed to higher average base rents. Our 449,682 sf office and retail property in Lethbridge, Alberta drove growth for the region with an increase of 8% in annual revenues and 9% in NOI. Step ups in rent escalations and increasing office occupancy resulted in stable revenue over 2016.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue was up 9% over 2016 as a result of higher occupancy and improved recovery ratio.

General & Administrative Expense

	Year ended December 31		
($000s)	**2017**	**2016**	△%
Asset management fee	**1,583**	1,592	(1)%
Professional fees	**413**	412	— %
Public company costs	**293**	244	20 %
Other	**429**	405	6 %
	2,718	2,653	2%

General & administrative (G&A) expense was $2.72 million (4% of rental revenue) in 2017. Public company costs were up over 2016 due to additional trustee compensation for extra meetings. Other expenses can fluctuate from period to period due to

the timing of costs incurred. We are committed to prudent financial stewardship, including carefully monitoring discretionary G&A expenses to ensure maximum value to our unitholders. We expect G&A to be approximately 5% of rental revenue.

Finance Costs

	Year ended December 31		
($000s)	**2017**	**2016**	△%
Interest on mortgages payable and revolving credit facility	**8,160**	8,564	(5)%
Interest on Class C LP Units	**2,858**	3,080	(7)%
Amortization of fair value adjustment on Class C LP Units	**(225)**	(227)	(1)%
Interest on convertible debentures	**1,931**	1,898	2 %
Interest on subscription receipts	**114**	—	100 %
Fair value adjustment on derivative instruments	**(521)**	(54)	nm
Amortization of deferred financing fees	**1,011**	887	14 %
Finance costs before distributions	**13,328**	**14,148**	**(6%)**
Distributions on Class B LP Units	**9,866**	9,866	— %
Finance costs	**23,194**	**24,014**	**(3)%**

Finance costs were down $0.82 million or 3% compared to 2016. Excluding the swing in fair value adjustments on the derivative instruments, finance costs declined 1%. Interest on mortgages payable and our revolving credit facility decreased primarily as a result of lower average amounts drawn under our credit facility, combined with a decrease in interest rates on certain mortgage re-financings completed during the year. Interest on Class C LP Units was down over the comparative period due to the repayment of the maturing balance on 295,327 Class C LP Units in August 2017 as well as the reduced interest rate on the extension of 997,220 Class C LP Units in August 2016.

On December 21, 2017, the REIT completed the public offering of $23.00 million in convertible debentures (2017 Debentures) and $17.30 million in subscription receipts, which converted to trust units on the closing of the Melcor Acquisition on January 12, 2018. Holders of subscription receipts were entitled to receive cash payments equivalent to distributions declared by the REIT in the period they were outstanding.

The 2017 Debentures pay a coupon of 5.25% annually. The $34.50 million 2014 Debentures pay a coupon of 5.50% annually.

Distributions on Class B LP Units were unchanged over 2016 at $9.87 million. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units which were $0.675 per unit during the year.

Non-cash finance costs increased over 2016 as a result of fully unwinding the discount recognized on a 2014 mortgage assumption which was re-refinanced during Q1-2016. This was partially offset by higher amortization of deferred finance costs on recent re-financings.

We recognized a fair value gain of $0.52 million in 2017 on our derivative instruments. Rising interest rates resulted in an appreciation in the value of our floating for fixed interest rate swap on one of our mortgages; while softening credit spread and increased volatility led to a modest decline in the value of the conversion features on our convertible debentures.

As at December 31, 2017, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debenture was 3.75% based on period end balances (December 31, 2016 – 3.63%).

Income Taxes

As at December 31, 2017, the REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) and as a real estate investment trust eligible for the ‘REIT Exception’ under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

Funds from Operations, Adjusted Funds from Operations & Adjusted Cash Flow From Operations

Funds From Operations (FFO), Adjusted Funds From Operations (AFFO) and Adjusted Cash Flow From Operations (ACFO) are non-standard measures used in the real estate industry to measure the operating and cash flow performance of investment properties.

Funds from operations & adjusted funds from operations

REALpac defines FFO as net income (calculated in accordance with IFRS), adjusted for, among other things, fair value adjustments, amortization of tenant incentives and effects of puttable instruments classified as financial liabilities (distributions on Class B LP Units). The REIT calculates FFO in accordance with REALpac.

In February 2017, REALpac issued a White Paper which defines AFFO as FFO, adjusted for, among other things, straight-line rent adjustments, capital expenditures, tenant incentives and leasing commissions. The REIT adopted REALpac's new guidance on AFFO retroactive to January 1, 2017 during Q2-2017. The REIT's previous definition of AFFO included adjustments for amortization of deferred financing fees and the net impact of amortization of fair value adjustment and interest subsidy, which are no longer included. In addition, the guidance provided on capital expenditures, tenant incentives and leasing commissions allows for use of a reserve; however, is weighted more heavily toward historical results than projected results. Due to the fact that the REIT was newly formed on May 1, 2013, our previous determination of these reserves was based on a percentage of NOI over a 10 year projected horizon. Based on the new guidance we have reassessed our reserves as follows:

- Normalized capital expenditures are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend (historical results are limited to May 1, 2013 onward). Normalized capital expenditures include only costs related to sustaining/maintaining existing space, including space acquired during the historical period.
- Normalized tenant incentives and leasing commissions are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend (historical results are limited to May 1, 2013 onward).

Refer to additional commentary on capital expenditures and tenant incentives and leasing commissions as included below.

The comparative period has been restated to comply with the new definition of AFFO, which resulted in AFFO of $20.04 million or $0.78 per unit (previously $22.28 million or $0.86 per unit) and a payout ratio of 87% (previously 78%).

We believe that FFO is an important measure of operating performance and the performance of real estate properties, while AFFO is an important cash flow measure. AFFO is not a substitute for cash flows from operations as it does not include changes in operating assets and liabilities.

FFO and AFFO are not a substitute for net income established in accordance with IFRS when measuring the REIT's performance. While our methods of calculating FFO and AFFO comply with REALpac recommendations, they may differ from and not be comparable to those used by other entities.

($000s, except per unit amounts)	Year ended December 31 2017	2016	△%
Net income (loss) for the year	732	(11,176)	
Add / (deduct)			
Fair value adjustment on investment properties	12,800	6,546	
Fair value adjustment on Class B LP Units	731	18,270	
Amortization of tenant incentives	3,062	3,216	
Distributions on Class B LP Units	9,866	9,866	
Fair value adjustment on derivative instruments	(521)	(54)	
Funds From Operations (FFO)	26,670	26,668	—%
Deduct			
Straight-line rent adjustments	(1,074)	(1,159)	
Normalized capital expenditures	(2,312)	(2,298)	
Normalized tenant incentives and leasing commissions	(3,090)	(3,172)	
Adjusted Funds from Operations (AFFO)	20,194	20,039	1%
FFO/Unit	$1.04	$1.03	
AFFO/Unit	$0.78	$0.78	

Our convertible debentures can be converted into trust units at the holder's option and are considered dilutive instruments. The following table calculates diluted FFO and diluted FFO/Unit:

($000s, except per unit amounts)	Year ended December 31 2017	2016	△%
Funds From Operations (FFO)	26,670	26,668	—%
Interest on convertible debentures	1,931	1,898	
Amortization of deferred financing fees on convertible debentures	549	503	
Funds From Operations - Diluted (FFO - Diluted)	29,150	29,069	—%
FFO - Diluted/Unit	$1.02	$1.02	

Capital Expenditures

We continually invest in our assets to enhance property quality, which contributes to higher occupancy and rental rates. These upgrades typically focus on increasing operating efficiency, property attractiveness, functionality and desirability. Asset enhancement and preservation investments fluctuate based on the nature and timing of projects undertaken, and are impacted by many factors including, but not limited to, the age and location of the property, and the leasing profile and strategy. The majority of building improvement expenditures are recoverable from tenants over 5-25 years. As actual expenditures can vary from one period to another, the REIT uses a normalized capital expenditure in determining AFFO and sustainable, economic cash flow of investment properties.

Normalized expenditures exclude new property development initiatives such as densification and non-recoverable capital as these are discretionary in nature. Normalized capital expenditures are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend (historical results are limited to May 1, 2013 onward).

The following summarizes our actual expenditures compared to normalized amounts.

For the years ended December 31 ($000s)	**2017**	2016
Investment in property improvements and development	**2,315**	3,869
Less development	**—**	(1,641)
Less non-recoverable	**—**	—
Actual capital expenditures	**2,315**	2,228
Normalized capital expenditures	**2,312**	2,298
Variance	**3**	(70)

Tenant Incentives & Direct Leasing Expenditures

We continually invest in tenant incentives and direct leasing costs as part of our leasing strategy. Tenant incentives directly correlate to our ability to achieve higher base rents on lease deals. Expenditures on any particular building are impacted by many factors including, but not limited to, the lease maturity profile and strategy, market conditions and the property's location and asset class. As actual expenditures can vary from one period to another, the REIT uses a normalized capital expenditure in determining AFFO and sustainable, economic cash flow of investment properties. Normalized tenant incentives are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend (historical results are limited to May 1, 2013 onward).

The following summarizes our actual expenditures compared to normalized amounts.

For the years ended December 31 ($000s)	**2017**	**2016**
Actual tenant incentives and direct leasing expenditures	**3,385**	3,410
Normalized tenant incentives and direct leasing expenditures	**3,090**	3,172
Variance	**295**	238

Adjusted cash flows from operations

In February 2017, REALpac issued a White Paper defining ACFO as a new metric. ACFO is an additional measure of sustainable, economic cash flow. The White Paper defines ACFO as cash flows from operations adjusted for, among other things, changes in operating assets and liabilities, payments of tenant incentives and direct leasing costs, amortization of deferred financing fees, normalized capital expenditures and normalized tenant incentives and direct leasing costs. We calculate ACFO substantially in accordance with the guidelines set out by REALpac; however, there is no specific adjustment defined for the effects of puttable instruments classified as financial liabilities such as the distributions on Class B LP Units, which is a departure from REALpac guidance. We consider the current presentation to be more meaningful as we do not consider distributions on Class B LP Units to represent a true borrowing cost as the amounts are payable only to the extent of those declared on trust units, both of which are at the discretion of the REIT's Board of Trustees.

In Q2-2017 the REIT adopted REALpac's guidance on ACFO retroactively to January 1, 2017 and for the comparative periods.

	Year ended December 31		
($000s)	**2017**	**2016**	**△%**
Cash flows from operations	**13,605**	12,312	11%
Distributions on Class B LP Units	**9,866**	9,866	
Actual payment of tenant incentives and direct leasing costs	**3,192**	3,410	
Changes in operating assets and liabilities	**(281)**	581	
Amortization of deferred financing fees	**(1,011)**	(887)	
Normalized capital expenditures	**(2,312)**	(2,298)	
Normalized tenant incentives and leasing commissions	**(3,090)**	(3,172)	
Adjusted Cash Flows from Operations (ACFO)	**19,969**	19,812	1%

In order to continue to qualify for the 'REIT Exception', as provided under the SIFT rules, we must allocate substantially all taxable income. As such, we allocate monthly distributions to unitholders as determined and approved by the Board of

Trustees. We made monthly distributions to unitholders at a rate of $0.05625 per unit, representing $0.675 per unit on an annualized basis. Distributions to unitholders during the year were $7.53 million (2016 - $7.53 million).

Distributions made during the year ended December 31, 2017 represent a payout ratio of approximately 86% of AFFO (2016 - 87%). We generate sufficient cash flows from operations to sustain our current distribution rate for the foreseeable future. We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flows from operations. Cash flows from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions by $6.08 million in 2017 (2016 - $4.79 million) as illustrated below.

	Year ended December 31		
($000s)	**2017**	2016	△%
Cash flows from operations	**13,605**	12,312	11 %
Distributions on Class B LP Units	**9,866**	9,866	— %
Cash flows from operations before Class B LP Unit distributions	**23,471**	22,178	6 %
Distributions on unitholders	**(7,527)**	(7,527)	— %
Distributions on Class B LP Units	**(9,866)**	(9,866)	— %
Total distributions	**(17,393)**	(17,393)	— %
Cash flows from operations before Class B LP Unit distributions less total distributions	**6,078**	4,785	27 %
Total distributions as a % of cash flows from operations before Class B LP Unit distributions	74%	78%	(5)%

Investment Properties

As at December 31, 2017 we owned 37 income-producing office, retail and industrial properties representing 2.71 million sf in GLA and a fair value of $642.76 million. The change in the fair value of our portfolio is summarized as follows:

	Investment Properties	Investment Properties Held for Sale	Fair Value of Portfolio
Balance, December 31, 2016	**659,611**		**659,611**
Additions:			
Property improvements	2,315	—	2,315
Direct leasing costs	800	—	800
Tenant inducements additions	2,585	—	2,585
Dispositions	—	(7,760)	(7,760)
Reclassification of investment properties as held for sale	(14,455)	14,455	—
Straight-line rent adjustments	1,074	—	1,074
Amortization of tenant incentives	(3,062)	—	(3,062)
Fair value adjustment on investment properties	(12,837)	37	(12,800)
Balance, December 31, 2017	**636,031**	**6,732**	**642,763**

Disposition of LC Industrial – on April 28, 2017 we sold a 67,610 sf industrial property, LC Industrial, in Lethbridge, Alberta for $7.76 million (net of transaction costs). The property was 100% leased at the time of sale and anchored by provincial government tenants.

Investment property held for sale – in 2017 we re-classified Corinthia Plaza as held for sale. As at December 31, 2017 the property was 86.9% occupied. In January 2018, the property sold for $6.73 million (net of transaction costs).

Additions – during 2017 we invested $2.32 million in asset enhancement and preservation projects. We remain committed to strategic value-adding asset enhancement and preservation projects as a integral component of our strategy to improve our assets and retain and attract tenants. The majority of building improvement expenditures are recoverable from the tenants over 5-25 years. We also spent $3.39 million on tenant inducements and direct leasing costs in connection with 340,546 sf of leasing completed during the period.

Fair value adjustment – we carry our investment properties at fair value in accordance with IFRS 13, Fair value measurement. The following table summarizes key metrics of our investment properties and components of the fair value calculation:

	31-Dec-17	31-Dec-16
Number of properties	37	38
Total GLA (sf)	2,830,368	2,895,306
GLA (REIT owned %) (sf)	2,710,862	2,775,782
Fair value of portfolio ($000s)	642,763	659,611
Value per square foot	$237	$238
NOI ($000s)	42,101	42,329
Weighted average capitalization rate	6.68%	6.63%
Weighted average terminal cap rate	6.79%	6.83%
Weighted average discount rate	7.75%	7.70%

For the year ended December 31, 2017, Melcor's internal valuation team performed the valuation assessment. In 2017, 27 phases of 46 legal phases with a fair value of $392.70 million were valued by qualified independent external valuation professionals. Valuations performed during the year resulted in fair value losses of $12.80 million. In 2016, 22 phases of 47 legal phases with a fair value of $287.00 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of $6.55 million. Refer to note 27 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

Phases are a result of the property development process when a larger project is developed over an extended period of time and subdivided into legal phases for increased flexibility.

A breakdown of our fair value adjustment on investment properties by geographic region is as follows:

	Year ended December 31		
($000s)	**2017**	**2016**	$△
Northern Alberta	(16,959)	(3,773)	(13,186)
Southern Alberta	4,710	(3,322)	8,032
Saskatchewan & British Columbia	(551)	549	(1,100)
	(12,800)	(6,546)	(6,254)

Fair value losses in Northern Alberta were primarily driven by continued pressure on Edmonton office capitalization rates, which increased 25 to 100 basis points over Q4-2016 on certain properties. The significant drop is the result of recent asset transactions on comparable properties. Capitalization rates on retail assets have remained stable through 2017; however, lower projected market rents resulted in fair value losses on two retail properties in the greater Edmonton area. Fair value gains in Southern Alberta were the result of the sale of LC Industrial in Q2-2017 where the sale price exceeded the carrying value. We also realized fair value gains on certain office and retail assets in the portfolio as a result of higher NOI. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property (refer to discussion above). Fair value adjustments represent a change of approximately 2% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	December 31, 2017			December 31, 2016		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	5.50%	8.75%	6.68%	5.50%	8.75%	6.63%
Terminal capitalization rate	5.75%	9.00%	6.79%	5.75%	9.00%	6.83%
Discount rate	6.50%	9.75%	7.75%	6.50%	9.75%	7.70%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $44.31 million (2016 - $46.37 million) while a 50 basis points decrease (-0.5%) would increase it by $51.48 million (2016 - $53.94 million).

Liquidity & Capital Resources

We employ a range of strategies to fund operations and facilitate growth. Our principal liquidity needs are to:

- Fund recurring expenses;
- Meet debt service requirements;
- Make distribution payments;
- Fund capital projects; and
- Purchase investment properties.

Cash Flows

The following table summarizes cash flows from operating, investing and financing activities:

	Year ended December 31		
($000s)	**2017**	**2016**	$△
Cash from operating activities	**13,605**	12,312	1,293
Cash from (used in) investing activities	**1,905**	(2,828)	4,733
Cash used in financing activities	**(4,951)**	(7,854)	2,903
Increase in cash and cash equivalents	**10,559**	1,630	8,929
Cash and cash equivalents, beginning of year	**1,630**	—	1,630
Cash and cash equivalents, end of year	**12,189**	1,630	10,559

Operating activities

Cash from operating activities increased $1.29 million over 2016 as a result of adjustments for working capital and expenditures on tenant incentives and direct leasing costs. Our tenant incentives and direct leasing cost investments were $3.19 million in the year (2016 - $3.41 million) as we completed 340,546 sf of new and renewed leasing, resulting in year-end occupancy of 91.8%. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from period to period. Cash flows before adjustments for working capital and payment of tenant incentives and direct leasing costs were up $0.21 million over 2016. Lower average indebtedness resulted in a $0.48 million reduction in cash finance costs (finance costs less non-cash adjustments) during the year. Interest savings were partially offset by a decrease in NOI as a result of the sale of LC Industrial.

Investing activities

During 2017, we invested $2.32 million in our capital program (2016 - $2.23 million). Asset enhancement investments fluctuate based on the nature and timing of projects undertaken and whether execution of a project is impacted by weather.

During 2016, we invested $1.64 million to construct a 7,732 sf single-tenant CRU at an existing regional shopping center.

On April 27, 2017, we disposed of LC Industrial in Lethbridge, Alberta for a sale price of $7.76 million (net of transaction costs). The sale was settled through mortgage assumption of $2.64 million, issuance of a vendor-take-back mortgage of $0.90 million, and cash of $4.22 million. Proceeds were used to repay amounts drawn under our revolving credit facility.

During 2016, we recognized $1.04 million in cash inflows on the expiration of our restricted cash covenant with the underwriters, thus allowing us to use the remaining balance for general purposes.

Financing activities

On December 21, 2017, we received net proceeds of $21.54 million from the issuance of the 2017 Debentures. We also received gross proceeds of $17.30 million from the issuance of subscription receipts. These were used to fund the Melcor Acquisition on January 12, 2018. The subscription receipts were held in escrow pending the close of the Melcor Acquisition and are presented as restricted cash as at December 31, 2017.

During 2017, we re-financed the mortgages on three properties with principal balances of $23.08 million for $3.89 million net proceeds. In September 2017, we financed a previously unencumbered commercial property for gross proceeds of $3.74 million. In August 2017, we repaid the maturing balance on 295,327 Class C LP Units with a carrying value of $2.58 million on one of our retail properties by issuing a $3.70 million mortgage. Partial proceeds from mortgage financings in the current period combined with cash proceeds from the sale of LC Industrial were used to repay amounts drawn under our revolving credit facility. During 2016, we re-financed the mortgages on two properties with a principal balance of $19.20 million for $7.30 million net proceeds. We also obtained mortgage financing on a recently acquired and previously unencumbered property for proceeds of $2.80 million. Partial proceeds from mortgage financings were used to repay amounts drawn under the revolving credit facility.

During 2016, we recognized $1.25 million in cash inflows related to the expiration of our restricted cash covenant with the underwriters, thus allowing us to use the remaining balance for general purposes.

We continued our monthly distribution of $0.05625 per unit for total annual distributions of $7.53 million to unitholders (2016 - $7.53 million).

We are able to meet our capital needs through a number of sources, including cash generated from operations, short-term borrowings under our revolving credit facility, mortgage financings, and the issuance of trust units to purchase investment properties.

We believe that internally generated cash flows, supplemented by borrowings through our revolving credit facility and mortgage financings, where required, will be sufficient to cover our normal operating, debt service, distribution and capital expenditure requirements. We regularly review our credit facility limits and manage our capital requirements accordingly.

As at December 31, 2017, we had $12.19 million in cash and cash equivalents and $16.96 million in restricted cash in addition to funds available under our revolving credit facility. On January 12, 2018 we used $34.03 million to complete the Melcor Acquisition.

Capital Structure

We define capital as the total of trust units, Class B LP Units, Class C LP Units, mortgages payable, convertible debentures and amounts drawn under our revolving credit facility.

Pursuant to the Declaration of Trust (DOT) Degree of Leverage Ratio, we may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the year, we were in compliance with the Degree of Leverage Ratio and had a ratio of 47% as at December 31, 2017 (56% including the convertible debenture).

As at December 31, 2017, the REIT's total capitalization was $613.94 million and is comprised as follows:

($000s)	**31-Dec-17**
Revolving credit facility	—
Mortgages payable[1]	218,332
Class C LP Units[2]	73,838
Mortgage payable held for sale	3,670
Indebtedness, excluding convertible debentures	**295,840**
Convertible debentures[3]	57,500
Indebtedness	**353,340**
Class B LP Units[4]	147,708
Trust units	112,892
Equity	**260,600**
Total capitalization	**613,940**
Gross Book Value ("GBV")[5]	**630,832**
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	47%
Debt to GBV (maximum threshold - 65%)	56%

1. *Debts are presented excluding unamortized transaction costs.*
2. *Class C LP Units excluding unamortized fair value adjustment on Class C LP Units. An additional 1,331,202 Class C LP Units, representing $13,312 in Retained Debt were issued in January 2018 as part of the Melcor Acquisition.*
3. *Convertible debentures are presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.*
4. *Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.*
5. *GBV is calculated as the cost of the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.*

We are subject to financial covenants on our $35.00 million revolving credit facility, including:

- a maximum debt to gross book value ratio of 60% (excluding convertible debentures)
- a minimum debt service coverage ratio of 1.50, and
- a minimum adjusted unitholders' equity of $140.00 million.

As at December 31, 2017, and throughout the period, we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At December 31, 2017, and throughout the period, we were in compliance with financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

Indebtedness

Debt Repayment Schedule – the following table summarizes our contractual obligations and illustrates certain liquidity and capital resource requirements:

		as at December 31					
($000s)	**Total**	**2018**	**2019**	**2020**	**2021**	**2022**	**Thereafter**
Revolving credit facility[1]	—	—	—	—	—	—	—
Mortgages payable	218,332	24,348	66,973	9,578	34,693	29,164	53,576
Class C LP Units	73,838	14,637	9,634	26,299	8,088	673	14,507
Convertible debenture	57,500	—	34,500	—	—	23,000	—
Total	**349,670**	**38,985**	**111,107**	**35,877**	**42,781**	**52,837**	**68,083**
% of portfolio	100%	11%	33%	10%	12%	15%	19%

1. *There was $nil drawn on the line of credit at December 31, 2017.*
2. *Mortgage payable held for sale is excluded from the table above and was settled in 2018 through sale.*

We ladder the renewal and maturity dates on our borrowings as part of our capital management strategy. This mitigates the concentration of interest rate and financing risk associated with refinancing in any particular period. In addition, we try to match the maturity of our debt portfolio with the weighted average remaining lease term on our properties.

Our revolving credit facility matures May 1, 2018, with an extension option of up to three years at the discretion of the lenders. We expect to be able to be able to renew the facility.

In September 2017 we obtained new mortgage financing on a previously unencumbered asset for $3.74 million at an interest rate of 3.69%. During 2017 we also re-financed three mortgages scheduled to mature in 2018, securing $26.97 million in gross proceeds ($3.89 million net) at an average interest rate of 3.39% (previously 3.96%). We re-financed these mortgages early to spread re-financing out and reduce our risk of re-financing at less favourable rates and terms. No mortgages were scheduled to mature in 2017, while 21% of our portfolio mortgage balance was set to mature in 2018. We had one scheduled Class C LP Unit maturity in 2017 which was financed in the third quarter for $3.70 million at an interest rate of 3.72%. Proceeds were used to repay the existing Class C LP Units held by Melcor (295,327 units) with a carrying value of $2.58 million and interest rate of 3.13%. We continue to look ahead to 2018 and 2019 maturities to identify opportunities to reduce risks related to re-financing.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debentures bear interest at fixed rates; our revolving credit facility bears interest at variable rates. The following table summarizes the interest rates and terms to maturity:

($000s)	Total	Fixed	Variable	Weighted average interest rate	Weighted average term to maturity
Revolving credit facility	—	—	—	—%	0.33
Mortgages payable	218,332	200,728	17,604	3.40%	3.91
Class C LP Units	73,838	73,838	—	3.39%	2.91
Convertible debentures	57,500	57,500	—	5.40%	3.20
Total	**349,670**	**332,066**	**17,604**	**3.75%**	**3.83**

The weighted average interest rate on our debts increased to 3.75% (December 31, 2016 - 3.63%) as a result of issuance of the 2017 Debentures, which bear interest at an annual rate of 5.25%.

The financing environment remains competitive and we expect to be able to secure new financing on upcoming mortgage and Class C LP Unit renewals at market competitive rates.

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the year. We calculate interest coverage as FFO plus finance costs for the period divided by finance costs expensed during the period, less distributions on Class B LP Units. We consider these measures to be useful in evaluating our ability to service our debts. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

For the years ended December 31 ($000s)	2017	2016
FFO	**26,670**	**26,668**
Principal repayments on Mortgages payable	6,751	6,491
Principle repayments on Class C LP Units	3,489	3,590
Debt service coverage ratio	**2.60**	**2.65**
FFO plus finance costs	40,519	40,870
Finance costs[1]	13,849	14,202
Finance costs coverage ratio	**2.93**	**2.88**

1. *Finance costs excluding finance expense recognized on Class B LP Unit distributions and fair value adjustment on derivative instruments.*

Equity

The REIT is authorized to issue an unlimited number of trust units and an unlimited number of special voting units. Each trust unit represents a holder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of unitholders and to receive any distributions by the REIT. Special voting units have no economic entitlement in the REIT but entitle the holder to one vote per special voting unit. Special voting units may only be issued in connection with securities exchangeable into trust units (including Class B LP Units).

Class B LP Units of the Partnership are economically equivalent to, and exchangeable into, trust units at the option of the holder, and therefore, are considered a dilutive instrument. The Class B LP Units are classified as financial liabilities in accordance with IAS 32, Financial Instruments – presentation, due to their puttable feature.

The following table summarizes the change in units during the year and the fully diluted number of units outstanding:

	December 31, 2017		December 31, 2016	
Issued and fully paid units ($000s)	Units	$ Amount	Units	$ Amount
Balance, end of year	**11,151**	**112,892**	**11,151**	**112,892**
Dilutive securities				
Class B LP Units	14,616	147,708	14,616	147,708
Convertible debentures	4,727	57,500	2,727	34,500
Diluted balance, end of year	**30,494**	**318,100**	**28,494**	**295,100**

On January 12, 2018, the REIT issued 283,447 Class B LP Units at a price of $8.82 as partial consideration for the Melcor Acquisition. Concurrent with the closing of the Melcor Acquisition, the REIT issued 2,035,500 trust units in exchange for each subscription receipt previously issued.

Off Balance Sheet Arrangements

As at December 31, 2017, we had no off-balance-sheet arrangements.

Quarterly Results

	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue ($000s)	**16,263**	16,791	16,559	17,000	16,170	16,439	16,807	16,626
Net income (loss) ($000s)	**11,723**	4,291	(1,792)	(13,490)	2,790	153	(4,153)	(9,966)
Funds from operations (FFO) ($000s)	**5,991**	7,029	6,835	6,815	6,306	6,843	6,822	6,697
Adjusted funds from operations (AFFO) ($000s)[2]	**4,567**	5,158	5,219	5,250	4,723	5,174	5,158	4,984
Per unit metrics								
Income (loss) - diluted[1]	**$ 0.35**	$ 0.25	$ (0.16)	$ (1.21)	$ 0.10	$ 0.01	$ (0.37)	$ (0.89)
FFO	**$ 0.23**	$ 0.27	$ 0.27	$ 0.26	$ 0.24	$ 0.27	$ 0.26	$ 0.26
AFFO[2]	**$ 0.18**	$ 0.20	$ 0.20	$ 0.21	$ 0.18	$ 0.20	$ 0.20	$ 0.19
Annualized distribution rate	**$0.675**	$0.675	$0.675	$0.675	$0.675	$0.675	$0.675	$0.675
Payout ratio	**95%**	84%	83%	83%	92%	84%	84%	87%
Period-end closing unit price	**$8.51**	$8.85	$8.86	$8.50	$8.46	$8.67	$8.50	$8.00
Annualized distribution yield on closing unit price (%)[3]	**7.93%**	7.63%	7.62%	7.94%	7.98%	7.79%	7.94%	8.44%

1. *Net income (loss) is significantly impacted by the results of non-cash fair value adjustments on assets and liabilities carried at fair value. Management believes that FFO is a better measure of operating performance and that AFFO is a better measure of cash flows.*
2. *We adopted REALpac's new guidance on AFFO in 2017 retroactive for the comparative period. See Adjusted Funds from operations on page 13 for details.*
3. *Annualized distribution yield is calculated as the annualized distribution rate divided by the period-end closing unit price.*

Fourth Quarter Results

Consolidated Revenue & Net Operating Income

	Three months ended December 31		
($000s)	2017	2016	△%
Base rent	10,178	10,403	(2)%
Recoveries	6,232	5,766	8 %
Other	560	572	(2)%
Amortization of tenant incentives	(781)	(787)	(1)%
Straight-line rent adjustment	74	216	(66)%
Rental revenue	16,263	16,170	1 %
Operating expenses	3,334	3,415	(2)%
Utilities and property taxes	3,399	3,075	11 %
Direct operating expenses	6,733	6,490	4 %
Net rental income	9,530	9,680	(2)%
NOI	10,237	10,251	— %
Same asset NOI	10,134	10,033	1 %
Operating margin	59%	60%	(2)%

Fourth quarter rental revenue increased 1% to $16.26 million over Q4-2016 due to higher recoveries on direct operating expenses. Fourth quarter base rent was down due to the sale of LC Industrial in Q2-2017 and a decline in portfolio occupancy, which also resulted in a 2% decrease in operating margins in the quarter. Operating expenses were down 2% over Q4-2016 as a result of lower non-recoverable costs offset by higher utilities and property taxes. Same-asset NOI was stable in the fourth quarter.

General & Administrative Expense

	Three months ended December 31		
($000s)	2017	2016	△%
Asset management fee	394	398	(1)%
Professional fees	137	89	54 %
Public company costs	69	39	77 %
Other	180	106	70 %
	780	632	23%

Public company costs were up due to additional trustee compensation for extra meetings. Other expenses can fluctuate from period to period due to the timing of costs incurred.

Finance Costs

	Three months ended December 31		
($000s)	2017	2016	△%
Interest on mortgages payable and revolving credit facility	2,051	2,078	(1)%
Interest on Class C LP Units	711	767	(7)%
Amortization of fair value adjustment on Class C LP Units	(56)	(56)	—%
Interest on convertible debentures	508	475	7%
Interest on subscription receipts	114	—	100%
Fair value adjustment on derivative instruments	(182)	(268)	(32)%
Amortization of deferred financing fees	234	276	(15)%
Finance costs before distributions	3,380	**3,272**	**3%**
Distributions on Class B LP Units	2,467	2,467	— %
Finance costs	5,847	**5,739**	**2 %**

Finance costs for the fourth quarter were $5.85 million or 2% higher than Q4-2016. Excluding the swing in fair value adjustments on the derivative instruments, finance costs were steady over 2016. Interest on mortgages, our revolving credit facility and Class C LP Units were down 3% due to lower average amounts drawn under our credit facility, combined with interest rate reductions on certain re-financings completed during the year. Securities issued in connection with the Melcor Acquisition resulted in an increase in interest on convertible debentures as well as interest on subscription receipts.

Funds from Operations & Adjusted Funds from Operations

	Three months ended December 31		
($000s, except per unit amounts)	2017	2016	△%
Net income for the period	11,723	2,790	
Add / (deduct)			
Fair value adjustment on investment properties	(3,829)	3,600	
Fair value adjustment on Class B LP Units	(4,969)	(3,070)	
Amortization of tenant incentives	781	787	
Distributions on Class B LP Units	2,467	2,467	
Fair value adjustment on derivative instruments	(182)	(268)	
Funds From Operations (FFO)	5,991	6,306	(5)%
Deduct			
Straight-line rent adjustments	(74)	(216)	
Normalized capital expenditures	(578)	(574)	
Normalized tenant incentives and leasing commissions	(772)	(793)	
Adjusted Funds from Operations (AFFO)[1]	4,567	4,723	(3)%
FFO/Unit	0.23	0.24	
AFFO/Unit[1]	0.18	0.18	

1. *We adopted REALpac's new guidance on AFFO in 2017 retroactive for the comparative period. See Adjusted Funds from operations on page 13 for details.*

FFO and AFFO were 5% and 3% lower in Q4-2017 than the comparative period as a result of the sale of LC Industrial in Q2-2017 combined with the drag in finance costs related to the Melcor Acquisition.

Fourth quarter distributions to unitholders were $1.88 million (2016 - $1.88 million).

A reconciliation of cash flows from operations to ACFO is as follows:

	Three months ended December 31		
($000s)	**2017**	**2016**	**△%**
Cash flows from operations	**3,326**	3,078	8 %
Distributions on Class B LP Units	**2,467**	2,467	
Actual payment of tenant incentives and direct leasing costs	**990**	971	
Changes in operating assets and liabilities	**(688)**	(206)	
Amortization of deferred financing fees	**(234)**	(276)	
Normalized capital expenditures	**(578)**	(574)	
Normalized tenant incentives and leasing commissions	**(772)**	(793)	
Adjusted Cash Flows from Operations (ACFO)	**4,511**	4,667	(3)%

Outlook

We own a high quality portfolio of income-producing assets. Alberta, our main market, has undergone dramatic changes throughout the past few years, primarily related to lower oil prices and competitive pressure in the downtown office market in Edmonton with significant new supply coming online from 2016 - 2018. This competitive pressure is resulting in increased costs associated with renewals and securing new leases. While leasing in this environment remains challenging, we continue to execute our strategic leasing program and have seen interest across our portfolio.

Occupancy at year end was 91.8% compared to 92.4% at the end of the 2016. Our tenants include a diversified mix of national, regional and local businesses operating in a variety of industries. This diversified tenant base helps mitigate our exposure to negative trends occurring in any one sector.

With 16.1% of total GLA expiring in 2018, we continue to work towards securing early renewals, particularly on larger tenants. There can be no assurance that this strategy will be successful or that we will continue to meet our retention rate target. Recently acquired properties are 100% occupied and, as newer construction, have longer lease terms remaining, helping to offset the potential loss of tenants as leases expire over the year.

The following table summarizes maturing mortgage balances, Class C LP Units, and the revolving credit facility and their respective weighted average interest rates relative to the fair value of encumbered assets:

($000s, except as indicated)	**Revolving credit facility**	**Mortgages payable**	**Class C LP Units**	**Total**	**FV of Collateral**	**Leverage (%)**	**Weighted Average Interest Rate**
2018	—	17,375	11,421	**28,796**	128,844	22%	3.43%
2019	—	60,653	6,576	**67,229**	153,695	44%	3.29%
2020	—	5,318	23,863	**29,181**	69,400	42%	3.26%
2021	—	30,513	7,181	**37,694**	86,500	44%	2.96%
2022	—	26,096	—	**26,096**	43,422	60%	3.73%
Thereafter	—	48,294	14,265	**62,559**	139,811	45%	3.38%
Total	—	188,249	63,306	**251,555**	621,672		

Over the next 12 months, four mortgages are up for renewal. These mortgages had an outstanding principal balance of $18.24 million and a weighted average interest rate of 3.33% at December 31, 2017. In addition, we have two properties encumbered by Class C LP Units where the underlying mortgages - held by Melcor - are up for renewal in the next 12 months. These Class C LP Units have an outstanding principal balance of $11.62 million and a weighted average interest rate of 4.37% (3.58% including interest rate subsidy). We expect to be able to re-finance these debts at market competitive terms.

We continually monitor our upcoming mortgage renewals to identify opportunities and risks.

Our revolving credit facility matures May 1, 2018, with an extension option of up to three years at the discretion of the lenders. We expect to be able to be able to renew the facility.

We continue to seek out and complete suitable acquisitions to expand our asset base as conditions allow. We also continue to improve existing assets through asset enhancement programs and efficient and effective property management. Our disciplined approach helps to ensure that our assets remain profitable over the long-term while at the same time achieving

our objective of providing stable monthly cash distributions to unitholders. We also remain committed to our signature care program to ensure we are the landlord of choice for our tenants.

With a strong, diversified portfolio, focus on property management and client relationships, and a solid pipeline of over 6.68 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

Business Environment & Risks

We are exposed to various risks and uncertainties, many of which are beyond our control. The following risk factors could materially impact our financial condition, results of operations, cash flows and the value of our trust units. We take steps to mitigate these risks; however, there is no assurance that the steps taken will avoid future loss.

General Risks

We are subject to market conditions in the geographic areas where we own and manage properties. Where strong market conditions prevail, we are able to achieve higher occupancy rates. Market conditions are influenced by outside factors such as general inflation and interest rate fluctuations; population growth and migration; financing and economic environments; job creation and employment patterns; consumer confidence; government policies, regulations and taxation; and availability of credit and financing.

Real Estate Risk

Real estate investments are subject to varying levels of risk. These risks include changes to general economic conditions, government and environmental regulations, local supply/demand, and competition from other real estate companies. Real estate assets are relatively illiquid in down markets. As a result, the REIT may not be able to rebalance its portfolio in response to changing economic or investment conditions.

Other real property risks include:

- The value of the property and any improvements made to it;
- Rollover of leases and the ability to rent unleased suites;
- Financial stability of tenants and their ability to pay rent and fulfill their lease obligations; and
- Geographic concentration.

Cash available for distribution will be adversely affected if a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of space in our properties becomes vacant and cannot be leased on economically favourable lease terms.

Concentration of Properties and Tenants

Of our total GLA, 87.18% is located in Alberta at March 1, 2018. Consequently, the market value of REIT’s properties, the income generated by the REIT and the REIT’s performance are particularly sensitive to changes in Alberta's real estate markets and general economic conditions. The factors impacting the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

Adverse changes in economic conditions in Alberta may have a material adverse effect on the REIT’s business, cash flows, financial condition and results of operations and on our ability to make distributions to unitholders. The Alberta economy is sensitive to the price of oil and gas. To mitigate against this risk, the REIT endeavors to achieve a diverse mix of tenants representing a variety of industries, as well as a mix of regional, local and national tenants.

Competitive Conditions

The real estate market is highly competitive, with a large number of well-financed companies operating in the same markets as the REIT. We may compete for real property acquisitions with individuals, corporations, institutions and other entities, which may increase the purchase price and reduce the yield of an acquired property. The REIT's rights under the Development and Opportunities Agreement entered into with Melcor helps to mitigate competitive risk.

We also compete with other developers, managers and property owners in attracting tenants. Some of our competitors are better capitalized or financially stronger, and would be in a better position to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition. New office towers in downtown Edmonton are adding 1.8 million sf of competing space from 2016-2018.

The REIT focuses on providing exceptional customer care and building solid relationships with our clients to increase the likelihood that they will renew leases.

Fixed Costs

The failure to lease vacant space on a timely basis or at all would likely have an adverse effect on the REIT's financial condition and results of operation and decrease the amount of cash available for distributions. Certain significant expenditures, including property taxes, ground rent, maintenance costs, mortgage payments (including those associated with the Retained Debt), insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a property is producing any income. If the REIT is unable to meet mortgage payments on any property (including those associated with the Retained Debt), losses could be sustained as a result of the mortgagee's exercise of its rights of foreclosure or sale or the landlord's exercise of remedies. Costs may also be incurred in making improvements or repairs to properties required by new tenant.

The timing and amount of capital expenditures by the REIT will indirectly affect the amount of cash available for distribution to unitholders. Distributions may be reduced, or even eliminated, at times when the REIT deems it necessary to make significant capital or other expenditures.

Financing

We require access to capital to maintain our properties and fund our growth strategy. There is no assurance that capital will be available when needed or on favourable terms. Our access to third-party financing is subject to a number of factors, including general market conditions; the market's perception of our growth potential; our current and expected future earnings; our cash flows and cash distributions, and cash interest payments; and the market price of our units.

We use debt and other forms of leverage in the ordinary course of business to execute on our strategy.

We are subject to general risks associated with debt financing. The following risks may adversely affect our financial condition and results of operations:

- Cash flows may be insufficient to meet required payments of principal and interest;
- Payments of principal and interest on borrowings may leave us with insufficient cash resources to pay operating expenses;
- We may not be able to refinance indebtedness on our assets at maturity due to company and market factors;
- The fair market value of our assets;
- Liquidity in the debt markets;
- A high level of debt will reduce the amount of funds available for the payment of distributions to unitholders and interest payments on our debentures
- Financial, competitive, business and other factors, including factors beyond our control;
- Refinancing terms that are not as favourable as the original terms of the related financing.

We attempt to mitigate these risks through the use of long-term debt and diversifying terms and maturity dates.

The terms of various credit agreements and other financing documents require that we comply with a number of financial and other covenants, such as maintaining debt service coverage and leverage ratios, and minimum insurance coverage. These covenants may limit our flexibility in our operations, and breaches of these covenants could result in defaults under the instruments governing the indebtedness, even if we had satisfied our payment obligations.

If we are unable to refinance assets/indebtedness on acceptable terms, or at all, we may need to use available liquidity, which would reduce our ability to pursue new investment opportunities. Alternately we may be required to dispose of one or more of our assets on disadvantageous terms. In addition, unfavourable interest rates or other factors at the time of refinancing could increase interest expense.

A large proportion of our capital is invested in physical, long-lived assets, which can be difficult to liquidate, especially if local market conditions are poor. This circumstance could limit our ability to diversify our portfolio of assets promptly in response to changing economic or investment conditions.

The liabilities of the REIT have fixed and floating interest rate components resulting in exposure to interest rate fluctuations. These fluctuations in interest rates may impact the earnings of the REIT. The REIT's financial and operating results could be materially adversely affected by higher interest rates.

The REIT may implement hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders should current variable interest rates increase. However, to the extent that the REIT fails to adequately manage these risks, its financial results, and its ability to pay distributions to unitholders and interest payments on debt and future financings may be adversely affected. Increases in interest rates generally cause a decrease in demand for properties. Higher interest rates and more stringent borrowing requirements, whether mandated by law or required by banks, could have a material adverse effect on the REIT's ability to sell any of its properties.

We may enter into financing commitments in the normal course of business and, as a result, may be required to fund these, particularly through joint arrangements. If we are unable to fulfill any of these commitments, damages could be pursued against the REIT.

Lease Maturity Risk

We are subject to lease maturity risk as there is no assurance that we will be able to renew or replace expiring leases at similar terms. We manage our lease maturity risk by pro-actively engaging tenants whose leases are expiring for early identification of potential vacancy risk. In addition, where possible we ladder maturity dates to minimize exposure in any particular period and to maintain a diversified portfolio.

The following table illustrates the number of leases maturing over the next five years and beyond.

Year of Maturity	Number of Leases	Renewal GLA (sf)	% of GLA	Average Base Rent Expiring Per Annum
2018	91	437,397	16.1%	$13.64
2019	74	249,558	9.2%	$16.88
2020	74	245,839	9.1%	$17.95
2021	88	216,042	8.0%	$18.88
2022	68	255,395	9.4%	$14.53
Thereafter	164	1,083,345	40.0%	$14.41
Vacant Space	—	223,286	8.2%	—
	559	**2,710,862**		

The following table illustrates the 2018 maturities by portfolio type and geographic area:

Property Type	Northern Alberta	Southern Alberta	Saskatchewan & British Columbia	Total
Retail	142,887	1,643	58,477	**203,007**
Office	186,375	25,208	22,807	**234,390**
Industrial	—	—	—	—
	329,262	**26,851**	**81,284**	**437,397**

Credit Risk

We are subject to credit risk as our tenants may not be able to fulfill their financial obligations on current balances and contracted future rents. We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

The following table illustrates the ten largest tenants for the portfolio, as measured by their percentage contribution to the total contracted future minimum lease payment for 2018 and corresponding areas leased by each tenant.

Rank	Top Ten Tenants (Operating Name)	% of Total Minimum Rent	Lease GLA (sf)	% of Total Owned GLA	Remaining Term (yrs)	No. of Locations in Properties	Credit Rating (S&P/ Moody's/DBRS)
1	Government of Alberta	4.4%	109,652	4.0%	4	5	A+ /Aa1/AA
2	Royal Bank of Canada	3.7%	60,515	2.2%	2	5	AA-/A1/AA
3	Shoppers Drug Mart	2.9%	44,228	1.6%	9	3	BBB/-/BBB
4	Alberta Health Services	3.5%	88,997	3.3%	8	2	---
5	BasinTek LLC	2.5%	88,699	3.3%	6	1	---
6	Fountain Tire Ltd.	2.1%	30,514	1.1%	11	1	---
7	TD Bank	1.6%	25,675	0.9%	4	4	AA-/Aa1/AA
8	The Brick Warehouse LP	1.5%	39,481	1.5%	5	3	---
9	Melcor Developments Ltd.	1.3%	35,820	1.3%	4	3	---
10	Select Engineering Consultants Ltd.	1.1%	23,432	0.9%	9	1	---

Significant Ownership by Melcor

Melcor holds a 56.7% (53.0% as of March 1, 2018) effective interest in the REIT, where each Class B LP Unit is attached to a Special Voting Unit of the REIT. Melcor also holds all of the Class C LP Units of the Partnership.

The Class C LP Units entitle Melcor to priority distributions over holders of Class A LP and Class B LP Units in an amount that is expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt.

In addition, the DOT grants Melcor the right to nominate Trustees to the REIT board. For so long as Melcor maintains a significant effective interest in the REIT, Melcor will have the ability to exercise certain influence with respect to the affairs of the REIT and may significantly affect the outcome of unitholder votes, and may have the ability to prevent certain fundamental transactions. As a result, Melcor has the ability to influence many matters affecting the REIT.

Accordingly, the units may be less liquid and trade at a relative discount compared to such units in circumstances where Melcor did not have the ability to influence or determine matters affecting the REIT. Additionally, Melcor’s significant effective interest in the REIT may discourage transactions involving a change of control of the REIT, including transactions in which an investor, as a holder of the units, might otherwise receive a premium for its units over the then-current market price.

Pursuant to the Exchange Agreement, each Class B LP Unit is exchangeable at the option of the holder for one unit of the REIT (subject to customary anti-dilution adjustments). If Melcor exchanges some or all of its Class B LP Units for units and subsequently sells such units in the public market, the market price of the units may decrease. Moreover, the perception in the public market that these sales will occur could also produce such an effect.

Dependence on Melcor

The REIT is dependent on Melcor for management, administrative and operating services relating to the REIT’s business. The Asset Management Agreement has a term of 5 years, with automatic 5 year renewals, and may at times in the future not reflect current market terms for duties and responsibilities of Melcor. There is a risk that, because of the term and termination provisions of the Asset Management Agreement, termination of the Asset Management Agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT.

Should Melcor terminate the Asset Management Agreement or the Property Management Agreement, the REIT may be required to engage the services of an external asset manager and/or property manager. The REIT may be unable to engage an asset manager and/or property manager on acceptable terms, in which case the REIT’s operations and cash available for distribution may be materially adversely affected. Alternatively, it may be able to engage an asset manager and/or property manager on acceptable terms or it may elect to internalize its external management structure, but the process undertaken to engage such managers or to internalize management could be costly and time-consuming and may divert the attention of management and key personnel away from the REIT’s business operations, which could materially adversely affect its financial condition.

Additionally, the Development and Opportunities Agreement provides that, subject to certain exceptions, the REIT will not engage a party other than Melcor or its affiliates to perform any of the services to be performed by Melcor pursuant to the Asset Management Agreement.

While the Trustees have oversight responsibility with respect to the services provided by Melcor pursuant to the Asset Management Agreement and the Property Management Agreement, the services provided by Melcor under such agreements will not be performed by employees of the REIT or the Partnership, but by Melcor directly, and through entities to which it may subcontract its duties. Further, the foregoing arrangements are subject to limited termination rights in favour of the REIT. As a result, Melcor directly, and indirectly through entities to which it may subcontract, has the ability to influence many matters affecting the REIT and the performance of its properties now and in the foreseeable future.

While the Melcor name and trade-mark and related marks and designs will be licensed to the REIT by Melcor under a non-exclusive, royalty-free trademark license agreement, such license will not be on a perpetual basis and may be terminated by Melcor at any time on 30 days' notice following the date of termination of the Asset Management Agreement. Termination of the license would require the REIT to rebrand its business, which could be costly and time-consuming and may divert attention of management and key personnel from the REIT's business operations, which could materially adversely affect its financial condition.

Potential Conflicts of Interest with Melcor

Melcor's continuing businesses may lead to conflicts of interest between Melcor and the REIT. The REIT may not be able to resolve any such conflicts, and, even if it does, the resolution may be less favourable to the REIT than if it were dealing with a party that was not a holder of a significant interest in the REIT. The agreements that the REIT entered into with Melcor on Closing may be amended upon agreement between the parties, subject to applicable law and approval of the independent Trustees. As a result of Melcor's significant holdings in the REIT, the REIT may not have the leverage to negotiate any required amendments to these agreements on terms as favourable to the REIT as those the REIT could secure with a party that was not a significant unitholder.

Taxation Matters

Although we currently meet the requirements of the REIT Exception, there can be no assurance that the REIT will continue to qualify for the REIT Exception to remain tax exempt by the SIFT Rules in future years.

The SIFT Rules may have an adverse impact on the REIT and the unitholders, on the value of the units and on the ability of the REIT to undertake financings and acquisitions and if the SIFT Rules were to apply, the distributable cash of the REIT may be materially reduced. The effect of the SIFT Rules on the market for the units is uncertain.

If certain tax proposals released on September 16, 2004 are enacted as proposed (the "September 16th Tax Proposals"), the REIT would cease to qualify as a "mutual fund trust" for purposes of the Tax Act if, at any time after 2004, the fair market value of all units held by non-residents, partnerships that are not Canadian partnerships or any combination of the foregoing is more than 50% of the fair market value of all issued and outstanding units unless not more than 10% (based on fair market value) of the REIT's property is at any time "taxable Canadian property" within the meaning of the Tax Act and certain other types of specified property. Restrictions on the ownership of units are intended to limit the number of units held by non-residents, such that non-residents, partnerships that are not Canadian partnerships or any combination of the foregoing may not own units representing more than 50% of the fair market value of all units. The September 16th Tax Proposals were not included in budget implementation and technical amendment bills including Bill C-52 of the First Session of the Thirty-Ninth Parliament, which received Royal Assent on June 22, 2007, Bill C-45 and Bill C-48 of the First Session of the Forty-first Parliament, 60-61 Elizabeth II, 2011-2012.

Environmental Risk

The REIT is subject to various requirements (including federal, provincial and municipal laws) relating to the protection of the environment.

Under these requirements, the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under its properties.

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such

substances may materially adversely affect the REIT's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain, or be entitled to rely on, a Phase I environmental site assessment prior to acquiring a property. Where a Phase I environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental investigations. Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws or other requirements in the future. Compliance with more stringent environmental laws or requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to unitholders.

Subject to the obligations of Melcor described above, the REIT will bear the risk of assessment, remediation or removal of such contamination, hazardous substances or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against the REIT. The remediation of any contamination and the related additional measures the REIT would have to undertake could have a materially adverse effect and could involve considerable additional costs that the REIT may have to bear. The REIT will also be exposed to the risk that recourse against the polluter or the previous owners or occupants of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of contamination, hazardous materials or other residual pollution can materially adversely affect the value of a property and our ability to lease or sell such a property.

The REIT employs a rigorous due diligence process, including obtaining a Phase I environmental site assessment, prior to acquiring property to mitigate its exposure to these potential issues.

Joint Arrangements

Some of our properties are jointly owned. These joint arrangements may involve risks that would not otherwise be present if the third parties were not involved, including the possibility that the partners have different economic or business interests or goals. Also, within these arrangements, the REIT may not have sole control of major decisions relating to these assets, such as: decisions relating to the sale of the assets and businesses; timing and amount of distributions of cash from such entities to the REIT and its joint arrangement partners; and capital expenditures.

Other Financial Information

Joint Arrangements

We record only our share of the assets, liabilities, revenue and expenses of our joint arrangements. In 2017, we had three joint arrangements (2016 - three). Refer to note 22 to the consolidated financial statements for additional information. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to the REIT:

Joint arrangement activity at JV% ($000s)	31-Dec-17	31-Dec-16
Revenue	**5,119**	5,182
Earnings	**2,596**	3,559
Assets	**62,001**	61,417
Liabilities	**32,192**	30,802

Joint arrangement activity at 100% ($000s)	31-Dec-17	31-Dec-16
Revenue	10,238	10,364
Earnings	5,192	7,118
Assets	124,002	122,834
Liabilities	64,384	61,604

Related Party Transactions

Please refer to note 21 to the consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Acquisition

On January 12, 2018, the REIT closed the purchase of five newly-constructed commercial properties from Melcor for a total purchase price of $80.88 million. The purchase included cash, the assumption of mortgages and the issuance of Class B LP Units and Class C LP Units to Melcor. Upon closing the Melcor Acquisition, the REIT also issued 2,035,500 trust units in exchange for each subscription receipt previously issued and outstanding and the maturity date of the 2017 Debentures was extended to December 31, 2022. Melcor's interest in the REIT is now approximately 53.0%.

The Melcor Acquisition adds 128,301 sf to our retail portfolio in three existing and one new property and 44,328 sf to our industrial portfolio in one existing property. Both retail and industrial are targeted for growth in our overall portfolio mix. All properties acquired are in Alberta, with 86,470 sf in the Edmonton area and 86,159 sf in the Calgary area.

All acquired properties were 100% leased and, as newer construction, have longer lease terms remaining.

Disposition

We continually review our asset portfolio to identify opportunities to recycle capital. Our capital recycling strategy focuses on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximizing return on investment.

In January 2018 we sold Corinthia Plaza, a 23,179 sf retail property in Leduc, Alberta for gross proceeds of $6.85 million. The REIT acquired Corinthia Plaza from Melcor in 2013 with the initial properties. Proceeds from the sale were used to repay amounts drawn under the revolving credit facility.

Please refer to note 28 to the consolidated financial statements for additional information pertaining to subsequent events.

Critical Accounting Estimates

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

Our significant accounting policies and accounting estimates are contained in the consolidated financial statements. Please refer to note 3 to the consolidated financial statements for a description of our accounting policies and note 4 for a discussion of accounting estimates and judgments.

Changes in Accounting Policies

Refer to note 5 to the consolidated financial statements for information pertaining to accounting pronouncements that will be effective in future years.

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2017. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to the REIT and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework (COSO 2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2017.

There has been no change in the REIT's disclosure controls and procedures of internal control over financial reporting during the year ended December 31, 2017, that materially affected, or is reasonably likely to materially affect, the REIT's internal control over financial reporting.

Notwithstanding the foregoing, no assurance can be made that the REIT's controls over disclosure and financial reporting and related procedures will detect or prevent all failures of people to disclose material information otherwise required to be set forth in the REIT's reports.

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated Declaration of Trust (DOT) dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At March 1, 2018, the REIT was in compliance with all investment guidelines and operating policies stipulated in the DOT.

Non-Standard Measures

Throughout this MD&A, we refer to terms that are not specifically defined in the CPA Canada Handbook or in IFRS. These non-standard measures may not be comparable to similar measures presented by other companies.

We believe that these non-standard measures are useful in assisting investors in understanding components of our financial results.

The non-standard terms that we refer to in this MD&A are defined below.

Calculations

We use the following calculations in measuring our performance.

Net effective rent: is calculated as total base rent receivable over the term of the lease less any tenant incentives and direct leasing costs paid divided by the square footage of the space, as calculated on an annualized basis.

Operating margin: is calculated as net rental income divided by rental revenue.

Net operating income (NOI): NOI is defined as rental revenue, adjusted for amortization of tenant improvements and straight-line rent adjustments, less direct operating expenses as presented in the statement of income and comprehensive income. A reconciliation of NOI to the most comparable IFRS measure, net income, is as follows:

	Three months ended December 31			Year ended December 31		
($000s)	2017	2016	△%	2017	2016	△%
Net income (loss)	11,723	2,790		732	(11,176)	
Net finance costs	5,825	5,728		23,132	23,979	
Fair value adjustment on Class B LP Units	(4,969)	(3,070)		731	18,270	
Fair value adjustment on investment properties	(3,829)	3,600		12,800	6,546	
General and administrative expenses	780	632		2,718	2,653	
Amortization of tenant incentives	781	787		3,062	3,216	
Straight-line rent adjustment	(74)	(216)		(1,074)	(1,159)	
NOI	10,237	**10,251**	— %	42,101	**42,329**	(1)%

Same-asset NOI: this measure compares the NOI on assets that have been owned for the entire current and comparative period and are classified for continuing use.

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

Adjusted funds from operations (AFFO): AFFO is defined as FFO subject to certain adjustments, including: (i) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; (ii) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to AFFO as determined by the Board in its discretion.

Adjusted cash flows from operations (ACFO): ACFO is defined as cash flows from operations subject to certain adjustments, including: (i) fair value adjustments and other effects of redeemable units classified as liabilities; (ii) payments of tenant incentives and direct leasing costs; (iii) changes in operating assets and liabilities which are not indicative of sustainable cash available for distribution; (iv) amortization of deferred financing fees; and (v) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to ACFO as determined by the Board in its discretion.

Payout ratio: is calculated as per unit distributions divided by per unit AFFO.

Finance costs coverage ratio: is calculated as FFO plus finance costs for the period divided by finance costs expensed during the period excluding distributions on Class B LP Units and fair value adjustment on derivative instrument.

Debt service coverage ratio: is calculated as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period.

Debt to Gross Book Value: is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable (including mortgage held for sale), Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units and convertible debenture, excluding unamortized discount and transaction costs divided by Gross Book Value (GBV). GBV is calculated as the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.

Cash finance costs: is calculated as finance costs less amortization of deferred financing fees, fair value adjustment on derivative instruments and amortization of fair value adjustment on Class C LP Units.