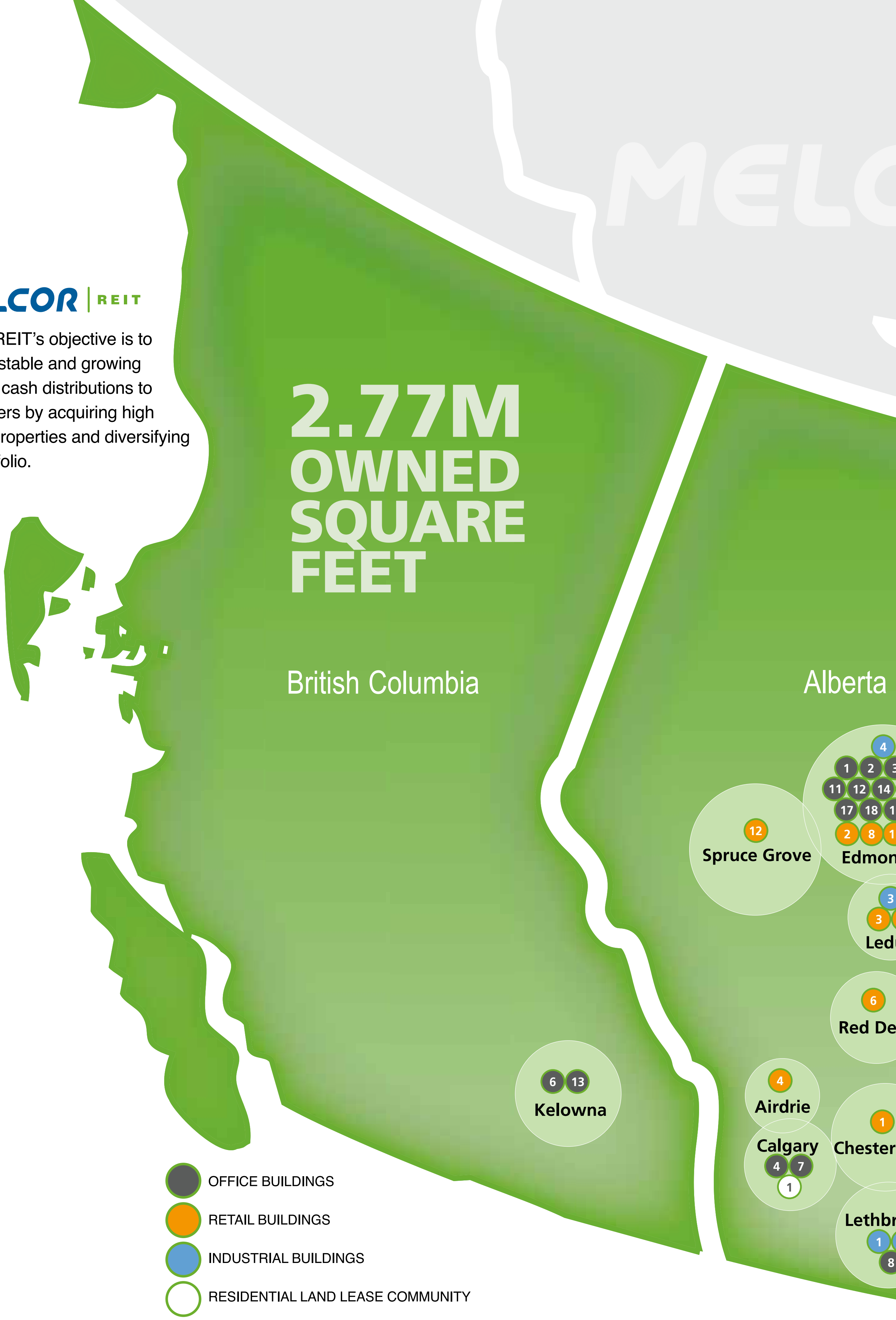
MELCOR | REIT 2015

MELCOR | REIT

Melcor REIT's objective is to provide stable and growing monthly cash distributions to unitholders by acquiring high quality properties and diversifying our portfolio.



	OFFICE BUILDINGS	LOCATION	GLA	OCC %
1	100 Street Place	Edmonton	44,295	68
2	Birks Building	Edmonton	34,599	82
3	Capilano Centre	Edmonton	45,487	99
4	Crowfoot Business Centre	Calgary	67,630	98
5	Executive Terrace	Regina	42,844	88
6	Kelowna Business Centre	Kelowna	72,286	81
7	Kensington Road Building	Calgary	24,044	84
8	Lethbridge Centre	Lethbridge	446,272	94
9	Melton Building	Edmonton	114,612	89
10	Parliament Place	Regina	24,411	86
11	Princeton Place	Edmonton	59,081	74
12	Royal Bank Building	Edmonton	132,377	90
13	Richter Street	Kelowna	28,978	95
14	Select Building	Edmonton	23,432	100
15	Stanley Buildings	Edmonton	34,976	99
16	Sterling Business Centre	Edmonton	67,718	99
17	The Village at Blackmud Creek	Edmonton	57,364	97
18	Trail Business Centre	Edmonton	77,295	89
19	Westcor Building	Edmonton	72,810	93
20	Westgate Business Centre	Edmonton	75,141	95
	TOTAL		**1,545,651**	**91**

	RETAIL BUILDINGS	LOCATION	GLA	OCC %
1	Chestermere Station	Chestermere	74,010	93
2	Coast Home Centre	Edmonton	59,725	83
3	Corinthia Plaza	Leduc	23,179	100
4	Kingsview Market	Airdrie	47,558	100
5	Leduc Common	Leduc	283,305	98
6	Liberty Crossing	Red Deer	63,317	100
7	Market Mall	Regina	42,586	93
8	Miller Crossing	Edmonton	27,336	97
9	Towers Mall	Regina	114,331	97
10	University Park Mall	Regina	41,238	100
11	West Henday Promenade	Edmonton	34,987	96
12	Westgrove Common	Spruce Grove	21,810	99
13	White Oaks Square	Edmonton	158,343	99
	TOTAL		**991,725**	**97**

	INDUSTRIAL BUILDINGS	LOCATION	GLA	OCC %
1	LC Industrial	Lethbridge	67,610	100
2	Lethbridge Industrial	Lethbridge	49,005	100
3	Telford Industrial	Leduc	98,790	100
4	TKE Building	Edmonton	15,968	100
	TOTAL		**231,373**	**100**

	LAND LEASE COMMUNITY	LOCATION	GLA	OCC %
1	Watergrove	Calgary	NA	100

MELCOR | REIT 2015

Melcor REIT is an unincorporated, open-ended real estate investment trust. We own, acquire, manage and lease quality retail, office and industrial income-generating properties. Our portfolio is currently made up of interests in 38 properties representing approximately 2.77 million square feet of gross leasable area located in and around Edmonton, Calgary, Lethbridge, and Red Deer, Alberta; Regina, Saskatchewan; and Kelowna, British Columbia. Backed by Melcor Developments 90+ year history, Melcor REIT was borne out of a proud tradition of real estate excellence in western Canada. Our growth potential is a true competitive advantage, with the right to acquire Melcor's pipeline of newly constructed, high quality retail, industrial and office projects. Melcor has over 7 million sf in current and future projects to be built over the next 5 to 10 years.

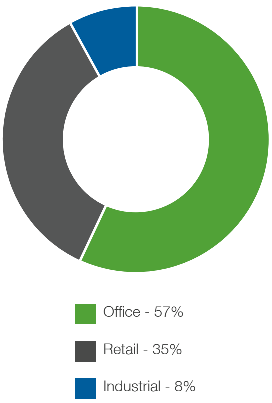
Facts & Data

38 Assets
(38 - 2014)

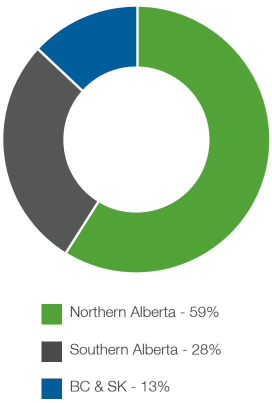
$65.5M Revenue
($44.5M - 2014)

$666.5M Asset Fair Value
($657.8M - 2014)

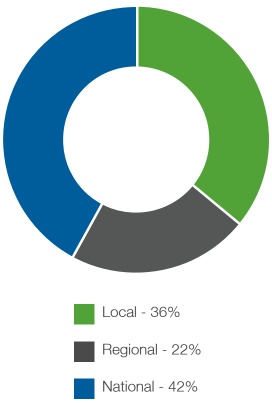
GLA By Property Type



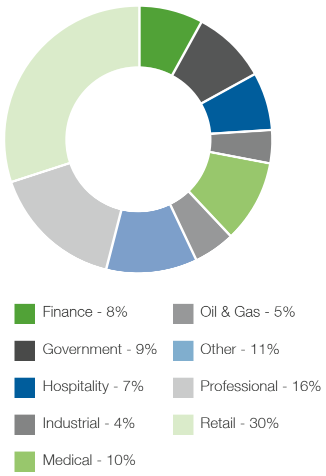
GLA by Region



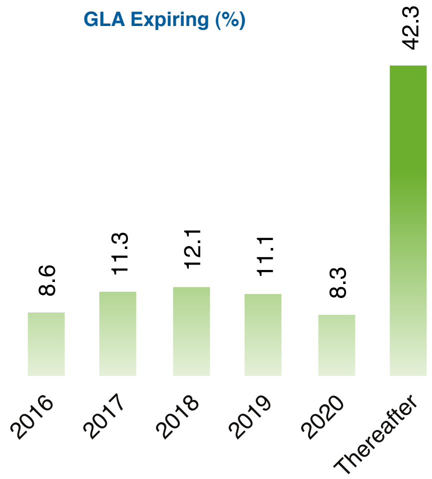
Retail GLA By Tenant Profile



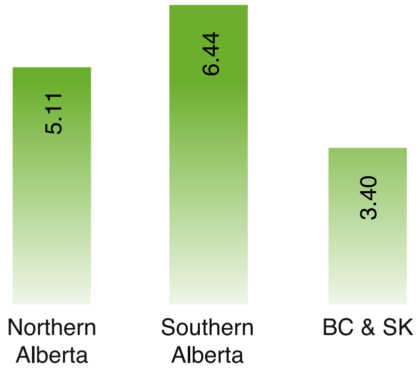
GLA By Tenant Industry



GLA Expiring (%)



Weighted Average Lease Term (years)



MELCOR | REIT

WHAT'S INSIDE

Letter from the Chairman

Dear unitholders,

I am pleased to report to you on behalf of our board of trustees. In 2015, we performed well against a challenging economic backdrop where the sentiment towards Alberta turned bearish.

Our 90+ years of experience in Alberta's cyclical economy served us well in 2015. Our portfolio remains stable and balanced, with increases in both occupancy and average rent over last year. Our growth in cash flow and conservative payout ratio exhibit sustainability in our distributions.

As we navigate these challenging economic times, we are grateful to our board of trustees for their ongoing support, guidance and encouragement. As always, they represent unitholders' interests in the decisions that we make; decisions that included an acquisition of two properties and the implementation of a unit buyback program this year. Your trustees, as a group, also increased their personal unitholdings by 38% throughout 2015.

We are also grateful to our management team for their hard work and dedication to executing our strategy. Your management team has worked hard to protect your investment throughout the year – ensuring proactive leasing strategies were executed and focusing on exceptional customer service.

While we continue to look for third party acquisition opportunities, the one acquisition made in 2015 through our proprietary pipeline demonstrates how advantageous that pipeline is in a market with limited opportunities.

The fundamentals of our business remain strong. We remain uniquely positioned through our relationship with Melcor and the pipeline that creates a systemic growth engine for the REIT. We have a long pedigree of conservative management and a strong balance sheet that puts us in good position against headwinds. We will continue to look for acquisitions as the market softens. It is our belief that opportunities will begin to appear and we are in a position to take advantage of them.

I would like to personally thank our investors for your ongoing trust in our business. Our goal is to reward your confidence with stable and growing cash distributions.

The challenges will continue in 2016. We will continue to perform.

Andrew Melton

Letter from the CEO

Dear unitholders,

It is my privilege to report to you on 2015.

Last year, we committed to continue to execute on our business plan in 2015, and we did so. The strength of our portfolio is in our people and the relationships they build with our clients, our commitment to providing unrivalled customer care, and our history with our assets and within our markets. We know and understand our assets, our clients, and the nuances of the markets where we operate.

2015 highlights:

In 2015, we saw the full impact of the properties we acquired throughout 2014 and their contribution to our results. Our whole portfolio performed well and our new assets brought up our weighted average base rent even while we were executing strategic leasing programs to increase occupancy. A strategic imperative throughout 2014 and 2015 has been increasing occupancy and at December 31, 2015, we had increased occupancy by 1.2% to 93.6% by adjusting to market demand.

We took advantage of opportunities to create additional value in our existing properties through densification. We completed construction on a new CRU in a retail power centre which increased GLA by 7,534 sf (JV%). We are currently constructing a 7,875 sf CRU at a regional shopping centre, and we continue to look for densification opportunities across our portfolio.

We remain dedicated to achieving and maintaining BOMA BESt standards. BOMA BESt is the leading environmental certification program for existing buildings in Canada. We received BOMA BESt certified Green & Responsible on a fourth building in January 2015. We continue to assess our buildings against the BOMA BESt standards and apply for certification once they meet the criteria as a result of our capital expenditures and improvements program.

Our exceptional team*:

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction.

We are proud of our team of property managers, leasing professionals and building operators. Their commitment to customer service and building strong relationships with our tenants are a significant part of our ability to distinguish Melcor REIT in the marketplace.

*Note: Our property management services are provided by Melcor Developments Ltd. The REIT does not have employees.

Signature customer care:

We are committed to being the landlord of choice. To achieve this objective, we have made customer care an essential part of our culture. Our customer focus is part of every team meeting and we are continually looking for ways to show our clients that we care.

Our signature care program is the method we use the collect and distribute client requests and work orders. Through this program, we responded to 98% of calls within 30 minutes in 2015. This exceeds our target of a 95% on-time response rate. We also achieved a 100% on-time response rate in November.

Throughout 2015, we continued to improve our best-in-class customer care program and build strong relationship with our clients. In 2015, we surveyed several office buildings. These surveys provide important feedback on areas that we need to improve as well as a benchmark of our performance. We are proud of what the surveys told us:

- *93.8% of respondents rated our property management team as good, very good or excellent.*
- *94.3% of respondents rated our building operations team as good, very good or excellent.*
- *91.4% of respondents rated their overall satisfaction with their building as good, very good or excellent.*

2016 Outlook:

2016 will have its challenges, but we will keep moving forward, making adjustments as necessary to respond to market demand. We will continue to monitor macroeconomic factors and plan for potential impact to our business. We will continue to look for opportunities to build and strengthen our portfolio via acquisition. We will continue to focus on the details and ensure that we have the right mix of properties and clients. We will continue to focus on providing our customers the best service so that when it comes time to renew, we remain the landlord of choice.

Alberta, our main market, has undergone dramatic changes in economic outlook over the past year as a result of lower oil prices. Despite this, we continue to see good leasing activity and have not seen a slowdown in interest or in our near-term ability to renew and sign new leases.

With new downtown office inventory coming online in the next few years in Edmonton and Calgary, we are continuing to proactively renew leases and seek out new tenants for existing vacancies.

With our strong history, diverse portfolio, focus on property management and customer care, and our pipeline of over 7 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

We are committed to prudent financial stewardship to ensure maximum value to our unitholders.

Darin Rayburn

Andrew Melton
Calgary, Alberta, Canada

RELATED

Principal Occupation:
Executive Vice-Chairman,
Melcor Developments Ltd.

Trustee Since: 2013
Attendance: 100%
Compensation[1]: $nil
Unitholdings: 107,400
Committees: Investment

Brian Hunt
Calgary, Alberta, Canada

INDEPENDENT

Principal Occupation:
President & Director, Taviston Inc.

Trustee Since: 2013
Attendance: 100%
Compensation: $43,250
Unitholdings: 40,000
Committees: Audit, Special

Larry Pollock
Edmonton, Alberta, Canada

INDEPENDENT

Principal Occupation:
Corporate Director

Trustee Since: 2013
Attendance: 100%
Compensation: $34,750
Unitholdings: 75,800
Committees: Audit, Investment, Special

Corporate Governance

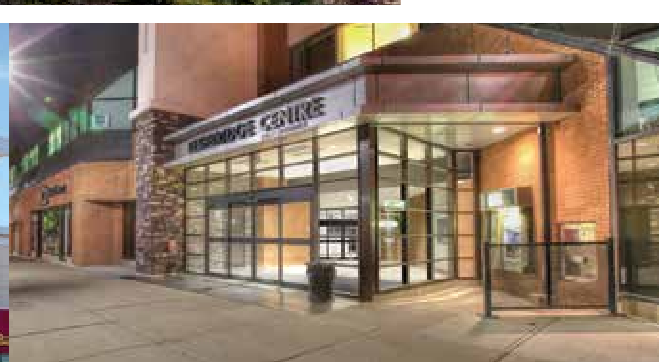
We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practices lay the foundation for a sustainable company and long-term value creation for our unitholders.
As governance practices evolve, we periodically review, evaluate and enhance our governance program. Here are a few highlights of our program:

Independence

The majority of our trustees are independent. Committees are comprised of a majority of independent directors. The audit committee is 100% independent. The independent directors meet in camera (without management and related directors) for a portion of each meeting held. As our executive chairman is related, we have appointed a lead director, Don Lowry, who is independent. Mr. Lowry chairs the in camera sessions and ensures that the board conducts itself in accordance with good governance practices. Each of the arrangements with Melcor (Asset Management, Property Management and Development and Opportunities Agreements) require the agreement of the majority of independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders.

Integrity: the Heart of our Business

The highest standard of ethical conduct has always been at the heart of our operating philosophy. All employees, directors and officers follow our Code of Business Conduct and Ethics, which governs the work environment, regulatory compliance and the protection of our assets and reputation. The Code can be found on our website at www.MelcorREIT.ca. Melcor employees who manage our properties follow the Melcor Code of Business Conduct & Ethics, which is essentially the same.



Ralph Young
Edmonton, Alberta, Canada

RELATED

Principal Occupation:
Chancellor, University of Alberta

Trustee Since: 2013
Attendance: 86%
Compensation[2]: $26,250
Unitholdings: 23,800
Committees: Compensation & Governance

Brian Baker
Edmonton, Alberta, Canada

RELATED

Principal Occupation:
Chief Executive Officer, Melcor Developments Ltd.

Trustee Since: 2013
Attendance: 100%
Compensation[1]: $nil
Unitholdings: 7,000
Committees: Investment

Donald Lowry ICD.D
Edmonton, Alberta, Canada

INDEPENDENT (LEAD TRUSTEE)

Principal Occupation:
Corporate Director

Trustee Since: 2013
Attendance: 92%
Compensation: $39,750
Unitholdings: 51,600
Committees: Audit, Compensation & Governance, Special

Patrick Kirby
Edmonton, Alberta, Canada

INDEPENDENT

Principal Occupation:
Counsel, Felesky Flynn LLP

Trustee Since: 2013
Attendance: 100%
Compensation: $30,250
Unitholdings: 11,600
Committees: Compensation & Governance, Special

Strategic Planning Process

The board ensures that we establish a solid strategy designed to optimize unitholder value. This process includes active consultation with management on the issues, business environment, assumptions, goals and financial budgets that underpin the strategy and ensures that risk levels are appropriate. To keep the board fully informed and engaged in the strategic issues and critical risks of our business, one meeting each year is dedicated to the review and approval of our strategic plan to manage risk, protect unitholder value and build a sustainable business.

Alignment with Unitholder Interests

All trustees and officers took part in the REIT initial public offering and own, on average, 48,800 units. This ensures alignment with unitholder interests and a focus on long-term value creation. Additional information on our governance practices can be found in our 2015 Information Circular.

1 Melcor employees do not receive trustees compensation.
2 As the Melcor nominee to the Melcor REIT Board of Trustees, Melcor pays Mr. Young's Trustee fees.

Table of Contents

March 10, 2016

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, 2015. 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 2014 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 10, 2016. Disclosure contained in this MD&A is current to March 10, 2016, unless otherwise indicated.

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) 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, 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 2016 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 of 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.

Regulatory Filings

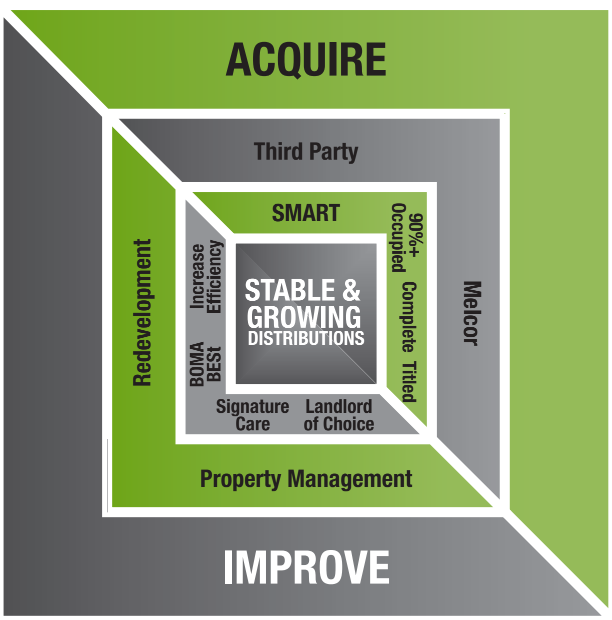
Additional information about the REIT, including our annual information form, management information circular and quarterly reports, is available on our website at melcorREIT.ca and on SEDAR at sedar.com.

Our Business
Vision, Goals & Strategy

The REIT has an established and diversified portfolio focused on western Canada. We owned 38 income-producing office, retail and industrial properties representing 2.77 million sf (square feet) in gross leasable area (GLA) at December 31, 2015. 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.

As of March 10, 2016, Melcor holds an approximate 56.7% effective interest in the REIT through ownership of all Class B LP units of 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 prior to the formation of the REIT. Our objective is to continue that tradition by providing stable and growing 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.

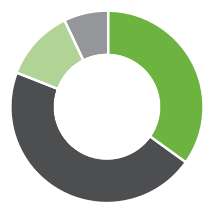
We focus on two channels to support our acquisition growth strategy:

The section titled Our Business: Vision, Goals & Strategy contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 8.

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 over 7 million sf of GLA over the next 5-10 years. Under the Development and Opportunities Agreement entered into in conjunction with the IPO, the REIT also has the opportunity to participate in investment opportunities, joint ventures and mezzanine financing on Melcor projects.

In 2015, we acquired 31,629 sf of additional GLA at two existing properties from Melcor for $15.25 million. Melcor currently has an additional 123,090 sf of GLA under development.

Melcor GLA Under Development by Property Type



Acquiring accretive income-producing properties: We actively seek strategic 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.

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

We continue to actively seek acquisitions that meet these criteria within the markets where we are active; however, we did not complete any acquisitions in 2015.

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

Property Management

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

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 requests and service orders via telephone, email and online. We are focused on providing responsive service and are proud of our track record of responding to over 98% of service requests within 30 minutes during business hours.

Our commitment to customer satisfaction shows in our 2015 survey of 7 office buildings. 93.8% of respondents rated our property management team as good, very good or excellent, and 94.3% 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 73.0% in 2015.

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.

Another element of asset enhancement is seeking and taking advantage of opportunities to create additional value out of existing properties through densification (adding GLA). In 2015, we completed construction on an additional CRU in a retail power centre which increased GLA by 7,534 sf (JV%). We are currently constructing a 7,875 sf CRU at a regional shopping centre, and we continue to look for densification opportunities across our portfolio.

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	▪ 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

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.

We are dedicated to achieving and maintaining BOMA BESt standards. BOMA BESt is the leading environmental certification program for existing buildings in Canada. We received BOMA BESt certified Green & Responsible on a fourth building in January 2015. We continue to assess our buildings against the BOMA BESt standards and will apply for certification on additional properties once they meet the criteria as a result of our capital expenditures and improvements program.

Key Metrics

Metric	Target	2015
Debt/gross book value	50-55%	**50%**
Debt/gross book value including debenture	55-60%	**56%**
Tenant retention	75%	**73.0%**
Occupancy	90%+	**93.6%**
Portfolio diversification		
Retail	40%	**35.0%**
Office	40%	**56.6%**
Industrial	20%	**8.4%**
Weighted average base rent		
Retail	$18.50+	**$18.54**
Office	$14.00+	**$14.41**
Industrial	$8.00+	**$9.27**
Customer Care On-time Response	95%+	**98%**

2015 Highlights & Key Performance Indicators

($000s)	Year ended December 31 2015	2014	△%
Non-Standard KPIs			
Net operating income (NOI)	**41,313**	28,581	45%
Funds from operations (FFO)	**26,345**	17,907	47%
Adjusted funds from operations (AFFO)	**21,728**	15,613	39%
Rental revenue	**65,482**	44,509	47%
Income before fair value adjustments	**13,422**	8,375	60%
Fair value adjustment on investment properties	**(5,418)**	93	nm
Distributions to unitholders	**7,582**	7,128	6%
Cash flows from operations	**10,563**	5,247	101%
Same asset NOI	**24,558**	24,823	(1)%
Per Unit Metrics			
Income - diluted	**$0.71**	$0.75	(5)%
FFO	**$1.02**	$0.87	17%
AFFO	**$0.84**	$0.76	11%
Distributions	**$0.68**	$0.68	—%
Payout ratio	**80%**	89%	(10)%
IFRS Measures			
Total assets ($000s)	**666,458**	657,765	1%
Equity ($000s)(1)	**260,600**	261,853	—%
Debt ($000s)(2)	**353,521**	344,694	3%
Weighted average interest rate on debt	**3.80%**	3.98%	(5%)
Debt to GBV ratio(3)	**56%**	56%	—%
Finance costs coverage ratio(4)	**2.87**	2.94	(2)%
Debt service coverage ratio(5)	**2.76**	2.75	—%
Operational Highlights			
Number of properties	**38**	38	0%
Gross leasable area (GLA) (sf)	**2,768,750**	2,735,467	1%
Occupancy (weighted by GLA)	**93.6%**	92.4%	1%
Retention (weighted by GLA)	**73.0%**	82.7%	(12)%
Weighted average remaining lease term (years)	**5.27**	5.49	(4)%
Weighted average base rent (per sf)	**$15.49**	$15.25	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 and convertible debenture, excluding unamortized discount and transaction costs.
3. Excluding convertible debentures, Debt to GBV ratio is 50% (December 31, 2014 - 50%).
4. 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 liability.
5. 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.

We continued to execute on our growth strategy:

- Completed an acquisition via our proprietary pipeline with Melcor, adding additional phases at two existing properties: 31,629 sf for $15.25 million.
- Densified an existing property by constructing an additional CRU at a retail power centre, which increased GLA by 7,534 sf (JV%).
- The increased GLA from these acquisition and densification activities added to our retail and industrial asset classes to continue our portfolio diversification strategy.

The 2015 acquisition, in conjunction with the acquisitions completed in December 2014 totaling 898,119 sf and other acquisitions throughout 2014 totaling 145,302 sf, had a significant impact on 2015 financial results and contributed to:

- 47% growth in revenue and 45% growth in NOI for income per unit - diluted of $0.71 compared to $0.75 in 2014.
- 47% growth in FFO for FFO per unit of $1.02 compared to $0.87 in 2014.
- 39% growth in AFFO for AFFO per unit of $0.84 compared to $0.76 in 2014.

We continued to execute on our strategy of improving existing assets through exceptional property management and asset enhancement programs designed to maximize occupancy, maximize tenant retention, increase rental income and optimize operating costs. 2015 results include:

- Increased occupancy to 93.6%, up from 92.4% at the end of 2014 through strategic leasing programs.
- Achieved BOMA BESt Level 2 certification at Princeton Place. BOMA BESt is the leading environmental certification program for existing buildings in Canada.
- Achieved a 98% on-time response rate on customer service requests (responding to requests within 30 minutes). Our call volume also increased by 24% over 2014.
- Increased weighted average base rent to $15.49 compared to $15.25 at December 31, 2014. This increase is a result of renewals and new leasing activity in Northern Alberta and improved industrial rent rates.
- Improved asset and portfolio quality through our capital expenditures and improvements program, including lobby upgrades, HVAC upgrades, and roof replacements.

The improvements to occupancy, weighted average base rent and steady same asset NOI illustrate the stability of our portfolio and we continued to take advantage of the low interest rate environment, reducing our weighted average interest rate to 3.80% from 3.98% at December 31, 2014.

Our distributions remained stable at $0.05625 per trust unit per month for a payout ratio of 80% compared to 89% in 2014. 70% of distributions to unitholders were classified as return of capital.

Throughout this MD&A we refer to the 2014/15 Acquisitions, which are comprised of the following:

Property	Acquired	Price ($000)	Property Type	GLA (sf)
LC Industrial	Jan-2014	5,900	Industrial	67,610
Melcor Acquisition	May-2014	13,500		
Kingview Market Phase 3			Retail	11,555
Market Mall			Retail	42,586
Select Building (107 Ave Building)	May-2014	5,550	Office	23,432
White Oaks	Dec-2014	31,380	Retail	158,319
Melcor Acquisition	Dec-2014	138,250		
Lethbridge Centre			Office	446,272
Telford Industrial			Industrial	88,699
Leduc Common Phase 4			Retail	71,240
Village @ Blackmud Creek			Office	48,335
Village @ Blackmud Creek			Retail	9,029
University Park			Retail	41,238
West Henday Promenade			Retail	34,987
Melcor Acquisition	Nov-2015	15,250		
Chestermere Station Phase 6			Retail	21,538
Telford Industrial Lot 4			Industrial	10,091
Total				**1,074,931**

Consolidated Revenue & Net Operating Income

	Year ended December 31		
($000s)	2015	2014	△%
Base rent	**40,563**	28,487	42%
Recoveries	**24,252**	16,740	45%
Other	**2,111**	1,214	74%
Amortization of tenant incentives	**(3,057)**	(2,539)	20%
Straight-line rent adjustments	**1,613**	607	166%
Rental revenue	**65,482**	44,509	47%
Operating expenses	**12,696**	8,801	44%
Utilities and property taxes	**12,917**	9,059	43%
Direct operating expenses	**25,613**	17,860	43%
Net rental income	**39,869**	26,649	50%
NOI	**41,313**	28,581	45%
Same asset NOI	**24,558**	24,823	(1)%
Operating margin	**61%**	60%	2%

Revenue

Rental revenue for the year ended December 31, 2015 increased $20.97 million or 47% over 2014 as a result of portfolio growth following the 2014/15 Acquisitions, which increased our GLA by 64% or 1,074,951 sf compared to December 31, 2013. Of these acquisitions, 898,119 sf was acquired in December 2014 and thus had minimal impact on 2014 results. Rental revenue generated by newly acquired properties was $23.49 million in 2015 (2014 - $2.54 million). Same-asset rental revenue was steady over 2014, with increases in recoveries on higher direct operating expenses and other revenue offsetting higher amortization of tenant incentives on new and renewed deals entered in 2014 and 2015.

Over the past two years, we have adjusted to market demands while increasing occupancy. We achieved occupancy of 93.6% as a result of strategic leasing programs that resulted in the lease up of some chronically vacant space in our suburban office and retail properties. Retention fell below our target of 75% as a result of a large tenant vacating one of our industrial buildings in Lethbridge, AB. The vacated space was re-leased in Q4-2015 and did not impact year-end occupancy. Excluding the impact of this tenant vacating our retention rate was 82%.

Weighted average base rent was $15.49 per sf at December 31, 2015, an increase of 2% compared to 2014. Leasing activity across our Northern Alberta portfolio in both office and retail space in conjunction with upward movement in rates in our industrial asset class contributed to the increase. 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-15	31-Dec-14	△%
Weighted average base rent (per sf)	**$15.49**	$15.25	2%
Weighted average remaining lease term	**5.27**	5.49	(4)%
GLA	**2,768,750**	2,735,467	1%
Occupancy	**93.6%**	92.4%	1%
Retention	**73.0%**	82.7%	(12)%

Recoveries are amounts recovered from tenants for direct operating expenses incurred during the year and include a nominal administrative charge. During the year ended December 31, 2015, recoveries increased by $7.51 million or 45% and correlate with the 43% increase in direct operating expenses, up $7.75 million over 2014. Our recovery ratio (calculated as recoveries divided by direct operating expenses) improved by 1% over 2014 as a result of higher occupancy, partially offset by higher non-recoverable costs in 2015. Recovery revenue from the 2014/15 Acquisitions contributed $7.94 million in 2015 (2014 - $0.64 million).

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

Amortization of tenant incentives increased over 2014 as a result of lease rollovers during 2014 and 2015 and leasing programs to increase occupancy in 2015. Lower net effective rent reflects market conditions, particularly in our Edmonton office portfolio, however occupancy of Edmonton office space remained steady at 90% and we continue to see leasing activity. Straight-line rent adjustments relate to new leases which have escalating rent rates and/or rent-free periods. The increase in straight-line rent adjustments is a result of the new properties acquired late in 2014. As newer properties, these properties generally have longer lease terms and multiple rent escalations. Straight-line rent adjustments fluctuate due to the timing of signed leases.

Direct operating expenses

Direct operating expenses increased by $7.75 million or 43% over 2014. Excluding the impact of the 2014/15 Acquisitions, direct operating expenses increased by $0.29 million over 2014. On a same-asset basis operating expenses were $0.37 million or 4% higher than 2014 and reflect inflationary growth in the cost of goods and services. Higher non-recoverable costs include cosmetic site improvements and a $0.22 million provision for bad debts expense in 2015 (2014 - $0.06 million). Property taxes and utilities on a same-asset basis were steady over 2014. Increases in appraised values on specific assets led to higher property taxes, which were offset by lower utility costs as a result of mild weather across much of our operating regions and several 'green' initiatives.

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 measurement most directly comparable to NOI and same asset NOI is net income.

The 2014/15 Acquisitions led to a 45% increase in NOI over 2014. On a same-asset basis, NOI declined modestly over 2014 as a result of increased amortization of tenant incentives and higher provision for bad debts.

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)	2015	2014	△%
Same asset NOI	**24,558**	24,823	(1)%
Acquisitions	**15,311**	1,826	
NOI before adjustments	**39,869**	26,649	50%
Amortization of tenant incentives	**3,057**	2,539	
Straight-line rent adjustments	**(1,613)**	(607)	
NOI	**41,313**	28,581	45%

Property Profile

At December 31, 2015 our portfolio includes interests in 38 retail, office and industrial income-producing properties located in Western Canada for a total of 2,768,750 sf of GLA, and a land lease community.

During 2015 we acquired additional phases at two existing properties, increasing our GLA by 31,629 sf (at JV%). In 2014 we acquired nine properties and additional phases at two existing properties, adding 1,043,302 sf to our portfolio. Since our IPO on May 1, 2013 our portfolio GLA has increased 76%, adding depth and diversification to our portfolio.

The following table summarizes the composition of our properties at December 31, 2015 by property type:

	Number of Properties	GLA (sf)/Lots	% of Portfolio (GLA)	Fair Value ($000s)	NOI ($000s)
Retail	13	970,235	35.0%	301,820	17,324
Office	20	1,567,142	56.6%	311,729	21,286
Industrial	4	231,373	8.4%	32,536	1,750
Land Lease Community	1	308 lots	n/a	14,850	953
	38	2,768,750	100.0%	660,935	41,313

The following table details key financial and operational metrics for each of property type for the year ended December 31, 2015:

	Retail		Office		Industrial		Land Lease Community	
	2015	2014	2015	2014	2015	2014	2015	2014
Year ended December 31 ($000s)								
Rental revenue	**25,116**	15,843	**36,590**	26,134	**2,495**	1,274	**1,281**	1,258
NOI	**17,324**	11,656	**21,286**	14,988	**1,750**	994	**953**	943
As at December 31								
Average base rent (sf)	**$18.54**	$18.40	**$14.41**	$14.15	**$9.27**	$8.63	**n/a**	n/a
Occupancy	**96.7%**	96.8%	**91.2%**	89.0%	**100.0%**	97.9%	**100.0%**	100.0%

Retail - our 13 retail properties include 5 multi-building retail power centres and 8 neighborhood shopping centres. Retail GLA increased by 60% or 362,001 sf over 2013, primarily through the 2014/15 Acquisitions. We also densified existing property by constructing a CRU on vacant land in Chestermere Station. Retail rental revenue grew 59% over 2014 as a result of these acquisitions which contributed revenues of $10.42 million (2014 - $1.40 million). On a same-asset basis, rental revenue grew by 2% over 2014 due to higher recoveries on operating costs and higher base rents on new leases in our newer properties, which typically have higher rents. Same-asset NOI was steady over 2014.

Office - our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Office GLA increased by 54% or 548,428 sf over 2013 through the 2014/15 Acquisitions. Rental revenue increased by 40% over 2014 as a result of these acquisitions, which generated $11.07 million of revenues in 2015 (2014 - $0.53 million). New leasing of historically vacant space in our suburban Edmonton office portfolio as well as new leasing in our Lethbridge and Kelowna office assets led to increased occupancy. Average base rent improved as a result of new leasing across the portfolio and upward movement on rent steps and leases that were on rent-free periods at the end of 2014. These increases were partially offset by reduced occupancy and net effective rents on our downtown Edmonton office portfolio. Same-asset NOI increased modestly over 2014 as a result of improved recovery ratio and higher occupancy.

Industrial - our 4 industrial properties include single and multi-tenant buildings. Industrial GLA increased by 256% or 166,400 sf over 2013 through the 2014/15 Acquisitions. Rental revenue increased 96% compared to 2014 as a these acquired properties, which generated $2.00 million in 2015 revenues (2014 - $0.62 million). Same-asset rental revenue and NOI decreased over 2014 as a result of a significant tenancy rollover which resulted in a vacancy lag of several months during the lease-up of the space.

Land Lease Community – we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2015 (December 31, 2014 – 100%). Rental revenue and NOI were steady over 2014.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2015 by geographic region:

	Number of Properties	GLA (sf)/Lots	% of Portfolio (GLA)	Fair Value ($000s)	NOI ($000s)
Northern Alberta	24	1,625,947	58.8%	411,765	25,179
Southern Alberta	7	776,129	28.0%	182,884	11,369
Saskatchewan & British Columbia	7	366,674	13.2%	66,286	4,765
	38	2,768,750	100.0%	660,935	41,313

The following table details key financial and operational metrics for each of our geographic regions for the year ended December 31, 2015:

	Northern AB		Southern AB		SK & BC	
	2015	2014	2015	2014	2015	2014
Year ended December 31 ($000s)						
Rental revenue	40,218	29,220	17,728	9,329	7,536	5,960
NOI	25,179	18,366	11,369	6,788	4,765	3,427
As at December 31						
Average base rent (sf)	$16.59	$16.22	$14.06	$14.00	$13.65	$13.39
Occupancy	93.7%	93.1%	95.4%	91.9%	91.6%	90.5%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area (including Leduc and Spruce Grove) and Red Deer. Rental revenue grew 38% over 2014 as a result of the 2014/15 Acquisitions which contributed revenues of $12.07 million (2014 - $0.67 million). In an effort to maintain occupancy across our portfolio, higher tenant incentives are being offered, particularly in our office class, which has resulted in lower rental revenue and NOI on a same asset basis. Same-asset NOI was also negatively affected by increased non-recoverable costs.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area (including Chestermere and Airdrie) and Lethbridge. Rental revenue increased by 90% over 2014 as a result of the 2014/15 Acquisitions which increased GLA by 493,490 sf and generated $9.47 million of revenues in 2015 (2014 - $1.23 million). Improved occupancy was driven by leasing activity in Lethbridge which leased 36,202 sf in 2015. On a same-asset basis, rental revenue increased over 2014 as a result of higher other revenues and improved recovery ratio which was offset by lease-up time on a significant industrial space. Same-asset NOI was steady over 2014.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue increased 26% compared to 2014 as a result of the acquisition of two retail properties in Saskatchewan during 2014, which generated $1.96 million in 2015 revenues (2014 - $0.64 million). Same-asset rental revenue and NOI improved over 2014 as a result of leasing activity in our Kelowna portfolio.

General & Administrative Expense

($000s)	Year ended December 31 2015	2014	△%
Asset management fee	1,524	1,123	36%
Professional fees	356	441	(19)%
Public company costs	258	216	19%
Other	391	354	10%
	2,529	2,134	19%

General & administrative expenses (G&A) decreased from 5% of rental revenue at the end of 2014 to 4% at the end of 2015. The 2014/15 Acquisitions resulted in an increase in asset management fee which is charged at an annual rate of 0.25% of gross book value. Refer to note 20 of the consolidated financial statements for additional discussion on the management fee structure. Property acquisitions completed in the comparative period resulted in higher professional fees due to capital market activities. G&A will fluctuate as we execute our growth strategy. We are committed to prudent financial stewardship, including careful monitoring of discretionary G&A expenses to ensure maximum value to our unitholders. We expect G&A to be approximately 5% of rental revenue.

Finance Costs

($000s)	Year ended December 31 2015	2014	△%
Interest on mortgages payable and revolving credit facility	8,416	5,264	60%
Interest on Class C LP Units	3,537	3,971	(11)%
Amortization of fair value adjustment on Class C LP Units	(339)	(440)	(23)%
Interest on convertible debenture	1,898	151	nm
Fair value adjustment on derivative liability	(180)	—	(100)%
Non-cash finance costs	596	273	118%
Finance costs before distributions	13,928	9,219	51%
Distributions on Class B LP Units	9,866	6,993	41%
Finance costs	23,794	16,212	47%

Finance costs for the year ended December 31, 2015 were $7.58 million or 47% higher compared to 2014. Financing of properties included in the 2014/15 Acquisitions drove the increase in interest on mortgages payable and revolving credit facility over 2014. Interest on Class C LP Units decreased over the comparative period due to the repayment of the maturing balance on 333,100 Class C LP Units in February 2015 for approximately $3.10 million and the reduction of the interest rate on extension of 2,195,911 Class C LP Units in August 2015. The maturing Class C LP Units were replaced with mortgage financing at the same loan to value. In December 2014, we issued a convertible debenture for gross proceeds of $34.50 million, which pays a semi-annual coupon at a rate of 5.50% annually. Issuance of the convertible debenture resulted in an increase in the REIT's average leverage over the comparative period and decrease in our finance cost coverage ratio.

Distributions made on Class B LP Units increased by $2.87 million or 41% as a result of the issuance of 5,085,080 Class B LP Units and increased ownership interest as part of properties acquired from Melcor in 2014.

Non-cash finance costs increased as a result of unwinding of the discount recognized on issuance of the convertible debenture.

As at December 31, 2015, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debenture was 3.80% based on period end balances (December 31, 2014 – 3.98%).

Income Taxes

As at December 31, 2015, 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

Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-standard measures used in the real estate industry as a measure of operating performance of investment properties. We believe that AFFO is an important measure of economic performance and is indicative of the REIT's ability to pay distributions, while FFO is an important measure of operating performance and the performance of real estate properties.

	Year ended December 31		
($000s, except per unit amounts)	2015	2014	△%
Net income for the year	41,070	18,348	
Add / (deduct)			
Fair value adjustment on investment properties	5,418	(93)	
Fair value adjustment on Class B LP Units	(32,886)	(9,880)	
Amortization of tenant incentives	3,057	2,539	
Distributions on Class B LP Units	9,866	6,993	
Fair value adjustment on derivative liability	(180)	—	
Funds From Operations (FFO)	26,345	17,907	47%
Add / (deduct)			
Straight-line rent adjustments	(1,613)	(607)	
Non-cash finance costs	596	273	
Net impact of amortization of fair value adjustment and interest subsidy(1)	254	547	
Normalized capital expenditures(2)	(1,289)	(835)	
Normalized tenant incentives and leasing commissions(2)	(2,565)	(1,672)	
Adjusted Funds from Operations (AFFO)	21,728	15,613	39%
FFO/Unit	$1.02	$0.87	17%
AFFO/Unit	$0.84	$0.76	11%

1. Adjustment includes the following: amortization of the fair value adjustment recognized on the Class C LP Unit liability; and usage of the interest rate subsidy provided by Melcor as part of the transfer of the Initial Properties.
2. Represents 3% and 6% of annual NOI for capital expenditures and tenant incentives and leasing commissions respectively. Amounts are net of usage of the capital expenditure subsidy provided by Melcor as part of the transfer of Initial Properties.

The convertible debenture can be converted into trust units at the holder's option and is considered a dilutive instrument. The following table calculates diluted FFO and diluted FFO/Unit:

	Year ended December 31		
($000s, except per unit amounts)	2015	2014	△%
Funds From Operations (FFO)	26,345	17,907	47%
Interest on convertible debenture	1,898	151	
Non-cash finance costs on convertible debenture	466	38	
Funds From Operations - Diluted (FFO - Diluted)	28,709	18,096	59%
FFO - Diluted/Unit	$1.00	$0.87	15%

Distributions

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 $7.58 million (2014 - $7.13 million).

Distributions made during the year ended December 31, 2015 represent a payout ratio of approximately 80% of AFFO (2014 - 89%). Improved payout ratio over 2014 is due to accretive acquisitions completed over the past 24 months in conjunction with the time lag between capital raises and the deployment of funds on asset purchases which negatively impacted our 2014 ratio. We generate sufficient cash flows from operations to sustain our current distribution rate for the foreseeable future. We use AFFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flow from operations. Cash flow from operations for 2015 was $10.56 million, exceeding trust unit distributions by $2.98 million (2014 - $5.25 million, exceeded by distributions by $1.88 million due to tenant incentive and direct leasing cost spending which are incurred at the discretion of management).

A reconciliation of cash flow from operations to AFFO is as follows:

	Year ended December 31		
($000s)	2015	2014	△%
Cash flows from operations	10,563	5,247	101%
Distributions on Class B LP Units	9,866	6,993	
Payment of tenant incentives and direct leasing costs	4,637	6,042	
Change in restricted cash	(64)	(2,037)	
Changes in operating assets and liabilities	(13)	888	
Interest subsidy	593	987	
Normalized capital expenditures	(1,289)	(835)	
Normalized tenant incentives and leasing commissions	(2,565)	(1,672)	
Adjusted Funds from Operations (AFFO)	21,728	15,613	39%

Fair Value of Investment Properties

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-15	31-Dec-14
Number of properties	38	38
Total GLA (sf)	2,888,246	2,829,885
GLA (REIT owned %) (sf)	2,768,750	2,735,467
Fair value of portfolio ($000s)	660,935	644,288
Value per square foot	$239	$236
NOI ($000s)	41,313	28,581
Weighted average capitalization rate	6.57%	6.49%
Weighted average terminal cap rate	6.81%	6.77%
Weighted average discount rate	7.71%	7.69%

Investment properties were valued by Melcor's internal valuation team as at December 31, 2015 of which 27 (of 47 legal phases) investment properties with a fair value of $443.75 million were valued by qualified independent external valuation professionals during the year which resulted in fair value losses of $5.42 million recorded as a fair value adjustment on investment properties in the statements of income and comprehensive income. In 2014, investment properties were valued by qualified independent external valuation professionals which resulted in fair value gains of $0.09 million. Refer to note 26 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

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

	Year ended December 31		
($000s)	2015	2014	$ △
Northern Alberta	(8,253)	(3,787)	(4,466)
Southern Alberta	1,833	2,955	(1,122)
Saskatchewan & British Columbia	1,002	925	77
	(5,418)	93	(5,511)

Fair value losses in Northern Alberta were primarily driven by an increase in capitalization rate of between 25 to 75 basis points and decreased stabilized NOI on certain Edmonton area properties. 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. Fair value adjustments represent a change of approximately 1% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	December 31, 2015			December 31, 2014		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	9.00%	6.57%	5.50%	9.00%	6.49%
Terminal capitalization rate	5.75%	9.25%	6.81%	5.75%	9.25%	6.77%
Discount rate	6.50%	10.00%	7.71%	6.50%	10.00%	7.69%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by $46.95 million (2014 - $43.83 million) while a 50 basis points decrease (-0.5%) would increase it by $54.69 million (2014 - $51.15 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)	2015	2014	$△
Cash from operating activities	**10,563**	5,247	5,316
Cash used in investing activities	**(18,113)**	(52,990)	34,877
Cash from financing activities	**838**	48,523	(47,685)
Increase in cash and cash equivalents	**(6,712)**	780	(7,492)
Cash and cash equivalents, beginning of year	**6,712**	5,932	780
Cash and cash equivalents, end of year	**—**	6,712	(6,712)

Operating activities

Cash from operating activities increased $5.32 million or 101% over 2014. The 2014/15 Acquisitions contributed $4.98 million (excluding changes in working capital) compared to 2014. These new properties added $15.31 million in NOI in 2015 (2014 - $1.80 million). This was partially offset by an increase of $7.58 million in finance costs and higher debt over 2014 related to the new properties. Issuance of Class B LP Units in 2014 contributed $2.87 million to the increase in finance costs over 2014.

We invested $4.64 million on tenant incentives and direct leasing costs for new and renewed leases in 2015 (2014 - $6.04 million). This investment supports our strategy of maintaining occupancy over the past two years, when close to 30% of GLA matured. As at December 31, 2015 we have completed 168,670 sf in renewals for a 2015 retention rate of 73.0%. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from year to year. The tenant incentive subsidy reduced cash outflows by $0.06 million in 2015 (2014 - $2.04 million).

Investing activities

In 2015 we acquired additional phases at two existing properties for an investment of $15.33 million (2014 - $49.61 million on nine properties and additional phases of two existing properties).

We continue to invest in targeted and strategic value enhancing capital projects to improve the appeal of our investment properties to prospective and existing tenants. Our capital asset enhancement program invested $2.79 million in strategic value-adding building improvement and asset enhancement projects in 2015 (2014 - $3.38 million). During 2015, we constructed a 7,456 sf (JV%) CRU to densify an existing regional power centre in southern Alberta. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken. The majority of building improvement expenditures are recoverable from the tenants over 5-25 years. Normalized capital expenditures are calculated on a ten year horizon and account for annual fluctuations due to timing of capital programs.

Financing activities

Throughout 2015, five mortgages on four properties (two of which are held with joint arrangement partners) were up for renewal. We renewed and re-financed four mortgages on three properties with a principal balance of $12.69 million for $1.49 million net proceeds. The fifth mortgage, which had a principal balance of $3.94 million was repaid and retired in November 2015 leaving the $7.50 million property unencumbered at December 31, 2015. In November 2015 we obtained mortgage financing on a recently acquired and previously unencumbered property for proceeds of $6.25 million (held with joint arrangement partners). Also during 2015, we repaid the maturing balance on 333,100 Class C LP Units with a carrying value of $3.10 million on one of our commercial properties by issuing a mortgage.

During the comparative period we obtained mortgage financing on four recently acquired and previously unencumbered properties for proceeds of $19.01 million. Partial proceeds were used to repay the remaining amounts drawn under the revolving credit facility. Also in 2014, we refinanced three mortgages on two properties (including one held with joint arrangement partners) with a principal balance of $21.83 million for $7.57 million net proceeds.

In May 2014 we received $21.25 million from the issuance of 2,145,000 trust units, net of transaction costs. The funds were used to fund acquisitions from Melcor and to reduce the amount outstanding under our revolving credit facility.

In December 2014 we received $34.50 million from the issuance of a 5.50% convertible debenture, net of transaction costs. Funds were used to complete property acquisitions.

Cash outflows for property acquisitions, a mortgage repayment and trust unit repurchases under the NCIB increased our indebtedness under our revolving credit facility by $14.30 million (2014 - reduced our indebtedness by $19.00 million as a result of capital market financings and mortgage financings).

In June 2015 we commenced a normal course issuer bid (NCIB) to buy back our trust units. During 2015 we repurchased 123,703 at a cost of $1.00 million.

We continued our monthly distribution of $0.05625 per unit for total annual distributions of $7.58 million to unitholders (2014 - $6.72 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, 2015 we had $2.29 million in cash and cash equivalents and restricted cash and additional available funds under our revolving credit facility. These funds will enable us to capitalize on future acquisition opportunities as well as meet ongoing capital needs.

On May 1, 2015 our revolving credit facility matured with an outstanding balance of $2.00 million. We cancelled the facility and entered into a new revolving credit facility with two Western Canadian financial institutions. Under the terms of the agreement the REIT has an available credit limit based on the carrying values of specific investment properties up to a maximum of $35.00 million for general purposes, including a $5.00 million swingline sub-facility. Depending on the form under which the credit facility is accessed, rates of interest will vary between prime plus 1.15% or bankers acceptance plus 2.25% stamping fee. The facility matures May 1, 2018.

Capital Structure

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

Pursuant to the DOT Degree of Leverage Ratio, the REIT may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% (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 50% as at December 31, 2015 (56% including the convertible debenture).

As at December 31, 2015, the REIT's total capitalization was $614.12 million and is comprised as follows:

($000s)	31-Dec-15
Revolving credit facility[(1)]	19,301
Mortgages payable[(1)]	216,452
Class C LP Units[(2)]	83,268
Indebtedness, excluding convertible debenture	319,021
Convertible debenture[(3)]	34,500
Indebtedness	353,521
Class B LP Units[(4)]	147,708
Trust units	112,892
Equity	260,600
Total capitalization	614,121
Gross Book Value ("GBV")[(5)]	635,237
Debt to GBV, excluding convertible debenture (maximum threshold - 60%)	50%
Debt to GBV (maximum threshold - 65%)	56%

1. Debts are presented excluding unamortized transaction costs, discount on bankers acceptance, and fair value adjustment on mortgage.
2. Class C LP Units excluding unamortized fair value adjustment on Class C LP Units.
3. Convertible debenture is 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 and subsequent asset purchases.

We are subject to financial covenants on our $35.00 million revolving credit facility. The covenants include 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, 2015, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 48%, debt service coverage ratio of 1.67, and an adjusted unitholders' equity of $263.46 million. We also have financial covenants on certain mortgages for investment properties. At December 31, 2015, and throughout the period, we were in compliance with our 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:

($000s)	Revolving credit facility	Mortgages payable	Class C LP Units	Convertible debenture	Total	% of portfolio
Total	**19,301**	**216,452**	**83,268**	**34,500**	**353,521**	**100%**
2016	19,301	34,125	12,301	—	65,727	19%
2017	—	5,661	5,733	—	11,394	3%
2018	—	40,881	14,286	—	55,167	16%
2019	—	70,363	9,271	34,500	114,134	32%
2020	—	7,540	25,861	—	33,401	9%
Thereafter	—	57,882	15,816	—	73,698	21%

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.

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)	Revolving credit facility	Mortgages payable	Class C LP Units	Convertible debenture	Total
Total	**19,301**	**216,452**	**83,268**	**34,500**	**353,521**
Fixed	—	216,452	83,268	34,500	**334,220**
Variable	19,301	—	—	—	**19,301**
Weighted average interest rate	3.24%	3.68%	3.52%	5.50%	**3.80%**
Weighted average term to maturity	2.33	4.82	4.23	4	**4.47**

The weighted average interest rate on our debts decreased to 3.80% (December 31, 2014 - 3.98%) as a result of draws outstanding under our revolving credit facility which bear a lower rate of interest in conjunction with rate reductions on renewed and re-financed mortgages.

During 2015 we obtained mortgage financing of $8.25 million (presented at JV% interest) on two phases of a retail property at a fixed interest rate of 3.46%. Proceeds were used to retire two existing mortgages with a combined carrying value of $6.76 million and a weighted average interest rate of 5.30%. We also placed mortgage financing on a recently acquired and previously unencumbered property for proceeds of $6.25 million (presented at JV% interest) at a fixed interest rate of 3.42%. During the year we also obtained mortgage financing of $3.10 million on one commercial property at a fixed interest rate of 2.48%. Proceeds were used to repay the existing Class C LP Unit liability held by Melcor (333,100 units) with a carrying value of $3.10 million and subsidized interest rate of 4.00%. We also completed two mortgage renewals with existing lenders which had a principal balance of $4.44 million at 4.44%, securing a reduced interest rate of 3.22% upon renewal.

In August 2015 the mortgage that secures Retained Debt relating to one of the Initial Properties was extended from August 1, 2015 to August 1, 2020, and the interest rate of 4.77% (4.00% after the interest rate subsidy paid by Melcor) was reduced to 2.68%.

The financing environment remains competitive and we expect to be able to secure new financing on remaining upcoming mortgage renewals in 2016 at favourable 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.

($000s)	2015	2014
FFO	26,345	17,907
Principal repayments on Mortgages payable	6,139	3,441
Principle repayments on Class C LP Units	3,416	3,059
Debt service coverage ratio	2.76	2.75
FFO plus finance costs	40,453	27,126
Finance costs[1]	14,108	9,219
Finance costs coverage ratio	2.87	2.94

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

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 the 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.

On June 30, 2015 we commenced a normal course issuer bid (NCIB) to buy back our trust units. We are entitled to purchase up to 563,750 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. We believe that our units have been trading in a price range which does not adequately reflect the value of the units in relation to our current and future business prospects. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB expires on June 29, 2016.

During the year, we purchased and canceled 123,703 trust units at a cost of $1.00 million. As at December 31, 2015 440,047 additional trust units may be repurchase by the REIT under the current NCIB.

In May 2014 the REIT completed the issuance of 2,145,000 trust units at a price of $10.65 per unit to a syndicate of underwriters, on a bought deal basis, for gross proceeds of $22.85 million. The issuance was qualified under a short form prospectus dated April 30, 2014. In conjunction with the trust unit issuance, the REIT issued 694,836 Class B LP Units at a price of $10.65 per unit, or $7.40 million, to Melcor as partial consideration for the May 2014 Melcor Acquisition.

In December 2014, we issued a 5.50% extendible convertible unsecured subordinated debenture (the Debentures) to the public for gross proceeds of $34.50 million, including $4.50 million issued pursuant to the exercise of an over-allotment option. The Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 79.0514 trust units per one thousand principal amount of Debentures (the Conversion Price). As part of the debenture placement the REIT issued 4,390,244 Class B LP Units at $10.25 per unit to Melcor as partial consideration for properties acquired from Melcor.

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

Issued and fully paid units *($000s)*	December 31, 2015		December 31, 2014	
	Units	$ Amount	Units	$ Amount
Balance, beginning of year	11,275	114,144	9,130	91,300
Issuance of Units	—	—	2,145	22,844
Repurchase of Units	(124)	(1,252)	—	—
Balance, end of year	11,151	112,892	11,275	114,144
Dilutive securities				
Class B LP Units	14,616	147,708	14,616	147,708
Convertible debenture	2,727	34,500	2,727	34,500
Diluted balance, end of year	28,494	295,100	28,618	296,352

Off Balance Sheet Arrangements

As at December 31, 2015, we had no off-balance-sheet arrangements.

Quarterly Results

2015	Q4	Q3	Q2	Q1
Revenue ($000s)	16,963	15,938	16,323	16,258
Net income ($000s)	16,381	11,287	111	13,291
Income per unit	$1.46	$1.00	$0.01	$1.18
Annualized distribution rate	$0.675	$0.675	$0.675	$0.675
Period-end closing unit price	$7.21	$7.95	$8.73	$8.64
Annualized distribution yield on closing unit price (%)[1]	9.36%	8.49%	7.73%	7.81%

2014	Q4	Q3	Q2	Q1
Revenue ($000s)	11,669	11,074	11,119	10,647
Net income ($000s)	9,481	2,693	5,296	878
Income per unit	$0.88	$0.24	$0.52	$0.10
Annualized distribution rate	$0.675	$0.675	$0.675	$0.675
Period-end closing unit price	$9.46	$9.70	$10.29	$10.55
Annualized distribution yield on closing unit price (%)[1]	7.14%	6.96%	6.56%	6.40%

1. 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)	2015	2014	△%
Base rent	10,325	7,567	36%
Recoveries	6,304	4,426	42%
Other	596	315	89%
Amortization of tenant incentives	(681)	(780)	(13)%
Straight-line rent adjustment	419	141	197%
Rental revenue	16,963	11,669	45%
Operating expenses	3,546	2,359	50%
Utilities and property taxes	3,278	2,469	33%
Direct operating expenses	6,824	4,828	41%
Net rental income	10,139	6,841	48%
NOI	10,401	7,480	39%
Same asset NOI	6,804	6,352	7%
Operating margin	60%	59%	2%

Rental revenue for the fourth quarter was $16.96 million, an increase of $5.29 million over Q4-2014. Portfolio growth was the primary driver, contributing $6.12 million to revenues in Q4-2015 (Q4-2014 - $1.44 million). Recoveries were 42% higher than 2014, correlating with an increase in direct operating expenses. Recoveries are trued up to actual expenses in the fourth quarter each year, which can result in greater variance in the quarter. Other income includes parking, signage and other ancillary revenues which fluctuates from period to period.

General & Administrative Expense

	Three months ended December 31		
($000s)	2015	2014	△%
Asset management fee	385	299	29%
Professional fees	101	125	(19)%
Public company costs	53	71	(25)%
Other	158	157	1%
	697	652	7%

The 2014/15 Acquisitions drove the increase in asset management fee which is charged at an annual rate of 0.25% of gross book value. Professional fees were higher in the comparative 2014 period due to capital market activity.

Finance Costs

	Three months ended December 31		
($000s)	2015	2014	△%
Interest on mortgages payable and revolving credit facility	2,137	1,431	49%
Interest on Class C LP Units	788	980	(20)%
Amortization of fair value adjustment on Class C LP Units	(57)	(110)	(48%)
Interest on convertible debenture	488	151	nm
Fair value adjustment on derivative liability	(180)	—	(100%)
Non-cash finance costs	148	113	31%
Finance costs before distributions	3,324	2,565	30%
Distributions on Class B LP Units	2,467	1,973	25%
Finance costs	5,791	4,538	28%

Finance costs for the fourth quarter were $5.79 million or 28% higher than Q4-2014. Increased interest on mortgages and our revolving credit facility comprised $0.71 million of the increase. This was driven by financing of new property acquisitions, offset by lower interest rates on new and renewed mortgages. On December 3, 2014, we issued a convertible debenture which pays a coupon of 5.50% annually. Distributions on Class B LP Units increased by $0.49 million or 25% as a result of issuance of 4,390,244 Class B LP Units as part of the acquisitions completed in December 2014.

Funds from Operations & Adjusted Funds from Operations

($000s, except per unit amounts)	Three months ended December 31 2015	2014	△%
Net income for the period	16,381	9,481	
Add / (deduct)			
Fair value adjustment on investment properties	(1,904)	(3,196)	
Fair value adjustment on Class B LP Units	(10,816)	(4,616)	
Amortization of tenant incentives	681	780	
Distributions on Class B LP Units	2,467	1,973	
Fair value adjustment on derivative liability	(180)	—	
Funds From Operations (FFO)	6,629	4,422	50%
Add / (deduct)			
Straight-line rent adjustments	(419)	(141)	
Non-cash finance costs	148	113	
Net impact of amortization of fair value adjustment and interest subsidy(1)	45	123	
Normalized capital expenditures(2)	(324)	(223)	
Normalized tenant incentives and leasing commissions(2)	(645)	(448)	
Adjusted Funds from Operations (AFFO)	5,434	3,846	41%
FFO/Unit	0.26	0.20	30%
AFFO/Unit	0.21	0.17	24%

1. Adjustment includes the following: amortization of the fair value adjustment recognized on the Class C LP Unit liability; and usage of the interest rate subsidy provided by Melcor as part of the transfer of the Initial Properties.
2. Represents 3% and 6% of annual NOI for capital expenditures and tenant incentives and leasing commissions respectively, net of the capital expenditure subsidy provided by Melcor.

Funds from operations (FFO) and Adjusted funds from operations (AFFO) for the fourth quarter were 50% and 41% higher than the comparative period. The increase was primarily driven by property acquisitions completed during 2014 and 2015.

Distributions to unitholders for the fourth quarter were $1.88 million (2014 - $1.90 million).

A reconciliation of cash flow from operations to AFFO is as follows:

($000s)	Three months ended December 31 2015	2014	△%
Cash flows from operations	3,842	970	296%
Distributions on Class B LP Units	2,467	1,973	
Payment of tenant incentives and direct leasing costs	849	1,789	
Change in restricted cash	—	(218)	
Changes in operating assets and liabilities	(857)	(230)	
Interest subsidy	102	233	
Normalized capital expenditures	(324)	(223)	
Normalized tenant incentives and leasing commissions	(645)	(448)	
Adjusted Funds from Operations (AFFO)	5,434	3,846	41%

Outlook

We own a high quality portfolio of income-producing assets. Alberta, our main market, has undergone dramatic changes in economic outlook over the past year as a result of lower oil prices. Despite this, we continue to see good leasing activity and have not seen a slow down in interest or in our near-term ability to renew and sign new leases. We will continue to seek out suitable acquisitions to expand our asset base as conditions allow.

We will 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 and growing monthly cash distributions to unitholders.

With new downtown office inventory coming online in the next few years in Edmonton and Calgary, we are continuing to proactively renew leases and seek out new tenants for existing vacancies. We also continue to focus on our signature care program to ensure we remain 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 7 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

Occupancy at year end was 93.6% compared to 92.4% at the end of the 2014. 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.

Over the next 12 months, five mortgages on five properties (including one of which is held with a joint arrangement partner) are up for renewal. These mortgages have an outstanding principal balance of $27.72 million (at JV % interest) and a weighted average interest rate of 4.70% as at December 31, 2015. We expect to be able to refinance these mortgages at lower interest rates based on comparable recent refinancings. Subsequent to year-end we obtained mortgage financing on one recently acquired and previously unencumbered property for $2.80 million at a fixed rate of 3.16%.

In addition, we have one property encumbered by Class C LP Units where the underlying mortgage held by Melcor is up for renewal in the next twelve months. At maturity the value of the Class C LP Units will be $9.03 million, representing 997,220 Class C LP Units, with a weighted average interest rate of 4.00%. We expect to be able to obtain new mortgage financing on the property, proceeds of which will be used to redeem the Class C LP Unit liability to Melcor.

The section titled Outlook contains forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-looking Statements on page 8.

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 available space in the properties becomes vacant and cannot be leased on economically favourable lease terms.

Concentration of Properties and Tenants

Of our total GLA, 86.76% is located in Alberta. Consequently, the market value of REIT's properties, the income generated by the REIT and the REIT's performance are particularly sensitive to changes in Alberta's real estate markets and general economic conditions. The factors impacting on the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

Adverse changes in the economic conditions in Alberta may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. 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 competition 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 will add 1,745,000 sf of competing space over the next 2 years.

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

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

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 will be 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 flow 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 flow 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 applicable 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 an exposure to interest rate fluctuations. These fluctuations in interest rates will have an impact on the earnings of the REIT. As a result of increased interest rates, the REIT's financial results and condition or operating results could be materially adversely affected.

The REIT may implement hedging programs in order to offset the risk of revenue losses and to provide more certainty regarding the payment of distributions to unitholders should current variable interest rates increase. However, to the extent that the REIT fails to adequately manage these risks, its financial results, and its ability to pay distributions to unitholders and interest payments 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
2016	95	238,700	8.6%	$14.72
2017	98	313,349	11.3%	$16.27
2018	67	335,936	12.1%	$14.75
2019	66	307,740	11.1%	$14.98
2020	75	230,288	8.3%	$17.73
Thereafter	193	1,169,801	42.3%	$15.68
Vacant Space	—	172,936	6.2%	—
	594	2,768,750		$15.49

The following table illustrates the 2016 maturities by property type and geographic area:

	Northern AB	Southern AB	BC & SK	Total
Retail	55,140	1,323	13,378	69,841
Office	103,121	35,629	30,109	168,859
Industrial	—	—	—	—
	158,261	36,952	43,487	238,700

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 2016 and corresponding areas leased by each tenant.

Rank	Tenant (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	Alberta Health Services	4.2%	146,798	5.3%	7	4	---
2	Government of Alberta	4.0%	109,652	4.0%	5	5	AA+ /Aaa/ AAA
3	Royal Bank of Canada	3.3%	60,515	2.2%	4	5	AA-/Aa3/AA
4	Shoppers Drug Mart	2.6%	44,228	1.6%	11	3	BBB+/-/BBB
5	BasinTek LLC	2.1%	88,699	3.2%	8	1	---
6	Fountain Tire	2.0%	30,514	1.1%	13	1	---
7	TD Bank	1.5%	25,675	0.9%	6	4	AA-/Aa1/AA
8	The Brick Warehouse LP	1.4%	39,481	1.4%	2	3	---
9	Melcor Developments	1.4%	39,014	1.4%	2	3	---
10	Select Engineering Consultants	1.0%	23,432	0.8%	11	1	---

Significant Ownership by Melcor

Melcor holds a 56.7% 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 have been designed to provide Melcor with an interest in the Partnership that entitle Melcor to distributions, in priority to distributions to holders of the Class A LP Units and Class B LP Units in an amount, if paid, that is expected to be sufficient (without any additional amounts) to permit Melcor to satisfy amounts payable under the Retained Debt.

In addition, the DOT grants Melcor the right to nominate certain Trustees of the REIT based on Melcor's direct and indirect ownership interest in the REIT. For so long as Melcor maintains a significant effective interest in the REIT, Melcor will have the ability to exercise certain influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, and may have the ability to prevent certain fundamental transactions. As a result, Melcor 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 operations services relating to the REIT's business. The Asset Management Agreement has a term of 5 years, with automatic 5 year renewals, and may at times in the future not reflect current market terms for duties and responsibilities of Melcor. There is a risk that, because of the term and termination provisions of the Asset Management Agreement, termination of the Asset Management Agreement may be uneconomical for the REIT and accordingly not in the best interest of the REIT.

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

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

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 holder of Units.

Taxation Matters

Although we currently meet the requirements of the REIT Exception, there can be no assurance that the REIT will be able to qualify for the REIT Exception to not to be subject to the tax imposed 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 holders of Units.

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

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 2015, we had three joint arrangements (2014 - three). Refer to note 21 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%		Joint arrangement activity at 100%	
($000s)	31-Dec-15	31-Dec-14	31-Dec-15	31-Dec-14
Revenue	**4,219**	3,867	**8,438**	7,734
Earnings	**2,249**	1,586	**4,498**	3,172
Assets	**60,354**	52,389	**120,708**	104,778
Liabilities	**31,808**	24,612	**63,616**	49,224

Related Party Transactions

Please refer to note 20 to the consolidated financial statements for information pertaining to transactions with related parties.

Subsequent Events

Please refer to note 27 to the consolidated financial statements for 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, 2015. 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, 2015.

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, 2015, 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 10, 2016, 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.

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 liability.

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.

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)	2015	2014	△%	2015	2014	△%
Net income	16,381	9,481		41,070	18,348	
Net finance costs	5,781	4,520		23,738	16,140	
Fair value adjustment on Class B LP Units	(10,816)	(4,616)		(32,886)	(9,880)	
Fair value adjustment on investment properties	(1,904)	(3,196)		5,418	(93)	
General and administrative expenses	697	652		2,529	2,134	
Amortization of tenant incentives	681	780		3,057	2,539	
Straight-line rent adjustment	(419)	(141)		(1,613)	(607)	
NOI	10,401	7,480	39%	41,313	28,581	45%

Same asset NOI: this measure compares the NOI, less amortization on tenant incentives, plus straight-line rent adjustment, on assets that have been owned for the entire current and comparative period.

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 liability, 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) amortization of fair value mark-to-market adjustments on mortgages acquired; (ii) interest rate subsidy amounts received; (iii) non-cash finance costs; (iv) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; (v) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to AFFO as determined by the Board in its discretion.

Debt to Gross Book Value: is 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 and convertible debenture, excluding unamortized discount and transaction costs divided by the total asset value assumed on acquisition of the Initial Properties plus total assets acquired from third parties subsequently.

Management's Responsibility for Financial Reporting

The consolidated financial statements, management's discussion and analysis (MD&A) and all financial information contained in the annual report are the responsibility of management. The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards and, where appropriate, have incorporated estimates based on the best judgment of management.

To discharge its responsibility for financial reporting, management is responsible for implementing and maintaining adequate internal controls to provide reasonable assurance that the Trusts's assets are safeguarded, that transactions are properly authorized and that reliable financial information is relevant, accurate and available on a timely basis.

The consolidated financial statements have been examined by PricewaterhouseCoopers LLP, the Trust's external auditors. The external auditors are responsible for examining the consolidated financial statements and expressing their opinion on the fairness of the financial statements in accordance with International Financial Reporting Standards. The auditor's report outlines the scope of their audit examination and states their opinion.

The Board of Trustees, through the Audit Committee, is responsible for ensuring management fulfils its responsibilities for financial reporting and internal controls. The Audit Committee is comprised of three financially literate and independent directors. This committee meets regularly with management and the external auditors to review significant accounting, financial reporting and internal control matters. PricewaterhouseCoopers LLP have unrestricted access to the Audit Committee with and without the presence of management. The Audit Committee reviews the financial statements, the auditor's report, and MD&A and submits its report to the board of trustees for formal approval. The Audit Committee is also responsible for reviewing and recommending the annual appointment of external auditors and approving the external audit plan. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Trustees for inclusion in the Annual Report based on the review and recommendation of the Audit Committee.

Darin Rayburn
Chief Executive Officer

Jonathan Chia, CA
Chief Financial Officer

Edmonton, Alberta
March 10, 2016

Auditor's Report to Unitholders

We have audited the accompanying consolidated financial statements of Melcor Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2015 and 2014 and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Melcor Real Estate Investment Trust and its subsidiaries as at December 31, 2015 and 2014 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants
Edmonton, Alberta
March 10, 2016

Consolidated Statements of Financial Position

As at December 31 ($000s)	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	—	6,712
Accounts receivable	2,302	2,877
Other assets (note 8)	933	943
	3,235	10,532
Non-Current Assets		
Restricted cash	2,288	2,945
Investment properties (note 7 and 26)	643,421	630,003
Other assets (note 8)	17,514	14,285
	663,223	647,233
TOTAL ASSETS	666,458	657,765
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 9)	19,258	4,958
Accounts payable	1,487	1,297
Distribution payable	1,449	1,456
Accrued liabilities and other payables (note 10 and 20)	6,724	6,295
Class C LP Units (note 12)	12,301	25,825
Mortgages payable (note 11)	34,125	20,957
	75,344	60,788
Non-Current Liabilities		
Accrued liabilities and other payables (note 10)	1,408	1,360
Class B LP Units (note 14 and 26)	105,380	138,266
Class C LP Units (note 12)	71,857	64,923
Mortgages payable (note 11)	181,269	194,002
Convertible debenture (note 13)	32,246	31,780
Derivative financial liability (note 13 and 26)	5	185
TOTAL LIABILITIES	467,509	491,304
UNITHOLDERS' EQUITY	198,949	166,461
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	666,458	657,765

See accompanying notes to the consolidated financial statements.

By order of the REIT's Board of Trustees:

Brian Hunt
Audit Committee Chair

Andrew Melton
Chairman

Consolidated Statements of Income and Comprehensive Income

For the years ended December 31 ($000s)	2015	2014
Rental revenue (note 16 and 20)	65,482	44,509
Direct operating expenses (note 20)	(25,613)	(17,860)
Net rental income	39,869	26,649
General and administrative expenses (note 20)	(2,529)	(2,134)
Fair value adjustment on investment properties (note 7 and 26)	(5,418)	93
Fair value adjustment on Class B LP Units (note 14 and 26)	32,886	9,880
Income before finance costs	64,808	34,488
Interest income	56	72
Finance costs (note 17 and 20)	(23,794)	(16,212)
Net finance costs	(23,738)	(16,140)
Net income and comprehensive income	41,070	18,348

See note 19 for basic and diluted earnings per trust unit.
See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Unitholders' Equity

As at December 31 ($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2013	9,130,000	82,709	36,823	11,086	130,618
Issuance of units (note 15)	2,145,000	21,250	—	—	21,250
Property purchase from Melcor Developments Ltd. (note 6 and 14)	—	—	125	—	125
Property purchase from Melcor Developments Ltd. (note 6 and 14)	—	—	3,248	—	3,248
Net income for the year	—	—	—	18,348	18,348
Distributions to unitholders	—	—	—	(7,128)	(7,128)
Balance at December 31, 2014	11,275,000	103,959	40,196	22,306	166,461
Trust units repurchased (note 15)	**(123,703)**	**(1,252)**	**252**	**—**	**(1,000)**
Net income for the year	**—**	**—**	**—**	**41,070**	**41,070**
Distributions to unitholders	**—**	**—**	**—**	**(7,582)**	**(7,582)**
Balance at December 31, 2015	**11,151,297**	**102,707**	**40,448**	**55,794**	**198,949**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31 ($000s)	2015	2014 (note 28)
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net income for the year	**41,070**	18,348
Non cash items:		
Amortization of tenant incentives (note 8 and 16)	**3,057**	2,539
Straight-line rent adjustments (note 16)	**(1,613)**	(607)
Fair value adjustment on investment properties (note 7 and 26)	**5,418**	(93)
Fair value adjustment on Class B LP Units (note 14 and 26)	**(32,886)**	(9,880)
Amortization of fair value adjustment on Class C LP Units (note 17)	**(339)**	(440)
Fair value adjustment on derivative liability (note 13 and 26)	**(180)**	—
Non-cash finance costs (note 17)	**596**	273
	15,123	10,140
Payment of tenant incentives and direct leasing costs	**(4,637)**	(6,042)
Change in restricted cash	**64**	2,037
Changes in operating assets and liabilities (note 3(o))	**13**	(888)
	10,563	5,247
INVESTING ACTIVITIES		
Additions to investment properties (note 6 and 7)	**(15,327)**	(49,607)
Investment property improvements and development (note 7)	**(2,786)**	(3,383)
	(18,113)	(52,990)
FINANCING ACTIVITIES		
Proceeds from issuing units, net of costs (note 15)	**—**	21,250
Proceeds from issuing convertible debenture, net of costs (note 13)	**—**	31,927
Change in revolving credit facility	**14,301**	(19,000)
Proceeds from mortgages payable	**17,595**	48,405
Repayment of mortgages payable	**(16,818)**	(25,265)
Repayment on Class C LP Units	**(6,251)**	(3,059)
Change in restricted cash	**593**	987
Trust units repurchased (note 15)	**(1,000)**	—
Distributions to unitholders	**(7,582)**	(6,722)
	838	48,523
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE YEAR	**(6,712)**	780
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**6,712**	5,932
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**—**	6,712

See accompanying notes to the consolidated financial statements.

Notes to the Consolidated Financial Statements

($000s except unit and per unit amounts)

1. DESCRIPTION OF THE TRUST

Melcor Real Estate Investment Trust (the "REIT" or "we") is an unincorporated, open-ended real estate investment trust established pursuant to a declaration of trust ("DOT") dated January 25, 2013 and subsequently amended and restated May 1, 2013. The REIT began operations on May 1, 2013.

The principal business of the REIT is to acquire, own and manage office, retail and industrial properties in select markets across Western Canada. The REIT is externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement (see note 20).

As at March 10, 2016, Melcor, through an affiliate, holds an approximate 56.7% effective interest in the REIT through ownership of all Class B LP Units of Melcor REIT Limited Partnership (the "Partnership") and is the ultimate controlling party.

The REIT is governed under the laws of the Province of Alberta. The registered office of the REIT is located at Suite 900, 10310 Jasper Avenue Edmonton, Alberta, Canada. Our trust units are traded on the Toronto Stock Exchange under the symbol "MR.UN".

2. BASIS OF PRESENTATION

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

These consolidated financial statements are presented in Canadian dollars, which is the presentation and functional currency of the REIT; and were authorized for issue by the Board of Trustees on March 10, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

A. BASIS OF MEASUREMENT

These consolidated financial statements have been prepared under the historical cost convention, except for investment properties, Class B LP Units and derivative financial liability which are measured at fair value.

We prepare our consolidated financial statements in conformity with IFRS which requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying our accounting policies. Changes in assumptions may have a significant impact on the consolidated financial statements in the period the assumptions change. We believe that the underlying assumptions are appropriate. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

B. BASIS OF CONSOLIDATION

SUBSIDIARIES

Subsidiaries are entities controlled by the REIT. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. These consolidated financial statements include the accounts of the REIT and its subsidiaries, its controlled partnership Melcor REIT Limited Partnership (the "Partnership"), and its general partner, Melcor REIT GP Inc.

JOINT ARRANGEMENTS

These arrangements are undivided interests in the assets, liabilities, revenues and expenses under arrangement and we record our proportionate share in accordance with the agreements as joint operations. These consolidated financial statements include investments in three joint arrangements (2014 – three) with 50% interests. Refer to note 21 for additional details on our joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

C. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of cash and short-term deposits with maturity dates of less than three months from the date they were acquired.

D. RESTRICTED CASH

Restricted cash can only be used for specified purposes. The REIT's restricted cash represents subsidies funded by Melcor as part of the IPO to subsidize finance costs on assumed debt and Class C LP Units, and to fund capital expenditures, environmental expenditures, tenant incentives and lease costs.

E. INVESTMENT PROPERTIES

Investment properties include commercial and industrial properties, and a manufactured home community held for the long term to earn rental income or for capital appreciation, or both. It also includes property under development for future use as investment properties.

Acquired investment properties are measured initially at cost, including transaction costs associated with the acquisition when the acquisition is accounted for as an asset purchase. Costs capitalized to properties under development include direct development and construction costs, borrowing costs, and property taxes.

After initial recognition, investment properties are recorded at fair value, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows.

The REIT's management company, Melcor Developments Ltd. is responsible for determining the fair value of investment properties quarterly. Melcor Developments Ltd. has an internal valuation team consisting of individuals who are knowledgeable and have experience in the fair value techniques applied in valuing investment property. At least once every three years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment properties being valued. The quarterly valuations, including key inputs, are reviewed by the REIT's Chief Executive Officer and Chief Financial Officer and are discussed with the REIT's Audit Committee prior to being finalized.

Changes in fair value are recognized in the consolidated statements of income and comprehensive income in the period in which they arise.

Fair value measurement of an investment property under development is only applied if the fair value is considered to be reliably measurable. In rare circumstances, investment property under development is carried at cost until its fair value becomes reliably measurable. It may sometimes be difficult to determine reliably the fair value of an investment property under development. In order to evaluate whether the fair value of an investment property under development can be determined reliably, management considers the following factors, among others:

- the provisions of the construction contract;
- the stage of completion;
- whether the project or property is standard (typical for the market) or non-standard;
- the level of reliability of cash inflows after completion;
- the development risk specific to the property;
- past experience with similar construction; and
- status of construction permits.

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

Initial direct leasing costs incurred in negotiating and arranging tenant leases are added to the carrying amount of investment properties. All direct leasing costs are external expenditures, including those charged under the Property Management Agreement with Melcor (note 20), and no amounts for internal allocations are capitalized with respect to the negotiation or arranging of tenant leases.

F. OTHER ASSETS

Other assets include prepaid expenses, deposits, straight-line rent adjustments and tenant incentives incurred in respect of new or renewed leases. Tenant incentives are amortized on a straight-line basis over the lease term and are recorded as a reduction of revenue.

G. PROVISION FOR DECOMMISSIONING OBLIGATION

Decommissioning obligations are measured at the present value of the expected cost to settle the obligation. A corresponding decommissioning cost is added to the carrying amount of the associated investment property. Subsequent to the initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows as well as any changes in the discount rate. Actual costs incurred upon settlement of the decommissioning obligation are recorded against the provision.

H. CLASS B LP UNITS

The Class B LP Units are exchangeable into trust units at the option of the holder and, therefore, are considered a puttable instrument in accordance with International Accounting Standard ("IAS") 32, Financial instruments — presentation ("IAS 32"). The Class B LP Units, as puttable instruments, are required to be accounted for as financial liabilities. The Class B LP Units are designated as fair value through profit or loss financial liabilities and are remeasured to fair value at each period end date based on the trading price of the trust units at the period end date with any changes in fair value recognized in the consolidated statements of income and comprehensive income. Distributions declared on Class B LP Units are recorded as finance costs in the consolidated statement of income and comprehensive income.

I. UNIT CAPITAL

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

J. DISTRIBUTIONS

Distributions to unitholders are recognized as a liability in the period in which the distributions are approved by the Board of Trustees and are recorded as a reduction of retained earnings.

K. RECOGNITION OF REVENUE

Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties. Revenue from investment properties includes base rents, recoveries of operating expenses including property taxes, parking revenue and incidental income. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; a straight-line rent receivable, which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight-line basis, as a reduction to rental revenue. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred. Other revenues are recorded as earned.

L. FINANCE COSTS

Finance costs are comprised of interest expense on mortgages, interest and other finance fees on our revolving credit facility, interest on Class C LP Units, amortization of fair value adjustment on Class C LP Units, distributions on Class B LP Units, interest on convertible debenture, fair value adjustment on derivative liability and non-cash financing costs. Borrowing costs are recognized in income using the effective interest rate method.

M. INCOME TAXES

The REIT qualifies as a mutual fund trust within the meaning of the Income Tax Act (Canada) ("Tax Act") and as a real estate investment trust eligible for the 'REIT Exception', as defined in the rules applicable to Specified Investment Flow-Through ("SIFT") trusts and partnerships in the Tax Act. We expect to allocate all taxable income and to continue to qualify for the REIT Exception. Accordingly, no income tax expense or deferred income tax assets or liabilities have been recorded in these consolidated financial statements subsequent to the formation of the REIT.

N. FINANCIAL INSTRUMENTS

At initial recognition, we classify our financial instruments in the following categories depending on the purpose for which the instruments were acquired:

LOANS AND RECEIVABLES

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans to third parties and receivables are initially recognized at fair value plus transaction costs. Subsequently, loans and receivables are measured at amortized cost using the effective interest rate method less a provision for impairment, if necessary. Loans and receivables are comprised of accounts receivable, cash and cash equivalents and restricted cash.

At each reporting date, we assess whether there is objective evidence that a financial asset is impaired, considering delinquencies in payments and financial difficulty of the debtor. The amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the asset is reduced through use of an allowance account. The amount of any losses is recognized in income.

FINANCIAL LIABILITIES

We record our financial liabilities at fair value on initial recognition. Subsequently, "other liabilities" are measured at amortized cost using the effective interest rate method and financial liabilities designated as fair value through profit or loss ("FVTPL") are remeasured at fair value with changes in their fair value recorded through income. Other liabilities include the revolving credit facility, accounts payable, accrued liabilities and other payables, distribution payable, mortgages payable, and Class C LP Units. Class B LP Units are classified as FVTPL.

COMPOUND FINANCIAL INSTRUMENT

Our compound financial instrument is comprised of a convertible debenture that can be converted to trust units at the option of the holder, and the number of units to be issued does not vary with changes in their fair value. We also have the ability to redeem the debenture at a price equal to the principal amount thereof plus accrued and unpaid interest. We also have the ability to convert the debenture into trust units; however, the number of units to be issued at conversion varies with the market price of the units.

On initial recognition, the convertible debenture is separated into two financial liability components: the host instrument and the conversion feature. The conversion feature is required to be presented as a financial liability as the feature permits the holder to convert the debenture into trust units that, except for the available exemption under IAS 32, would normally be presented as a liability due to their redemption feature. Both components are measured based on their respective estimated fair values at the date of issuance. The host instrument financial liability is recognized initially at the fair value of a similar liability that does not have a conversion feature. The conversion feature is recognized at fair value. The fair value of the host instrument is recorded net of any related transaction costs.

Subsequent to initial recognition, the host instrument is measured at amortized cost using the effective interest method. The conversion feature derivative of the convertible debenture is classified as FVTPL and measured at fair value.

FINANCIAL DERIVATIVE

Our financial derivative is comprised of the conversion feature on our convertible debenture. Derivatives are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at their fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged.

Derivative instruments are recorded in the consolidated statement of financial position at their fair value. Changes in fair value of derivative instruments that are not designated as hedges for accounting purposes are recognized in the consolidated statement of income and comprehensive income.

The REIT has not designated any derivatives as hedges for accounting purposes.

O. STATEMENTS OF CASH FLOWS

Operating assets and liabilities is defined as the net change of accounts receivable, prepaid expense, and other, accounts payable, distribution payable and accrued liabilities and other payables. Excluded from operating assets and liabilities are investment property additions and tenant incentive payments that are unpaid and included in accounts payable at year end.

4. SIGNIFICANT JUDGEMENTS AND CRITICAL ACCOUNTING ESTIMATES

Estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors.

SIGNIFICANT JUDGMENTS

In the process of applying our accounting policies, we make various judgments, apart from those involving estimations, that can significantly impact the amounts recognized in the consolidated financial statements. These include:

A. INVESTMENT PROPERTIES

Our accounting policies related to investment properties are described in note 3(e). In applying this policy, judgment is required in determining whether certain costs are additions to the carrying amount of an investment property.

In determining the fair value of our investment property, judgment is required in assessing the 'highest and best use' as required under IFRS 13, Fair value measurement. We have determined that the current use of our investment properties is its 'highest and best use'.

B. CLASSIFICATION OF TENANT INCENTIVES

Payments are often made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with SIC 15, Operating leases – incentives.

C. COMPLIANCE WITH REIT EXEMPTION UNDER ITA

Under current tax legislation, a real estate investment trust is not liable for Canadian income taxes provided that its taxable income is fully allocated to unitholders during the year. In order to continue to be taxed as a mutual fund trust, we need to maintain our REIT status. At inception, we qualify as a REIT under the specified investment flow-through ("SIFT") rules in the Income Tax Act (Canada). The REIT's current and continuing qualification as a REIT depends on our ability to meet the various requirements imposed under the SIFT rules, which relate to matters such as our organizational structure and the nature of our assets and revenues. We apply judgment in determining whether we continue to qualify as a REIT under the SIFT rules. Should we cease to qualify, we would be subject to income tax on our earnings and would reflect current and deferred tax balances on our consolidated financial statements.

CRITICAL ACCOUNTING ESTIMATES

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. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

VALUATION OF INVESTMENT PROPERTIES

The fair value of investment properties is dependent on stabilized net operating income or forecasted future cash flows and property specific capitalization or discount rates. The stabilized net operating income or forecasted future cash flows involve assumptions of future rental income, including estimated market rental rates and vacancy rates, estimated direct operating costs and estimated capital expenditures. Capitalization and discount rates take into account the location, size and quality of the property, as well as market data at the valuation date. Refer to note 7 and 26 for further information about methods and assumptions used in determining fair value.

5. NEW STANDARDS

NEW STANDARDS ADOPTED

We have adopted the following new and revised standards effective January 1, 2015:

IFRS 8, Operating segments was amended to require disclosure of the judgments made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. The standard was further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. Adoption of this amended standard did not require any adjustment in our determination of operating segments (note 22).

IAS 24, Related party transactions was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity').

Adoption of this amended standard did not require any adjustment to the method of accounting for related party transactions nor to the disclosure of related party transactions in note 20.

Other standards, amendments and interpretations that were effective for the year beginning January 1, 2015 are not material to the REIT.

NEW AND AMENDED STANDARDS NOT YET ADOPTED

IAS 1, Presentation of financial statements was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

This amendment is effective for years beginning on or after January 1, 2016.

IAS 34, Interim financial reporting was amended to (i) clarify what is meant by "information disclosed elsewhere in the interim financial report" and (ii) require a cross reference to the location of that information.

This amendment is effective for years beginning on or after January 1, 2016.

IFRS 15, Revenue from Contracts with Customers was issued in May 2014 by the IASB and supersedes IAS 18, 'Revenue', IAS 11, 'Construction Contracts' and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single model to determine how and when an entity should recognize revenue, as well as requiring entities to provide more informative, relevant disclosures in respect of its revenue recognition criteria.

IFRS 15 is to be applied to each prior reporting period presented retrospectively or through the recognition of the cumulative effect to opening retained earnings.

An amendment was issued in September 2015 to defer the effective date of IFRS 15 to the first interim period within years beginning on or after January 1, 2018.

IFRS 9, Financial Instruments was issued in its finalized version in July 2014 to replace IAS 39. The IASB has previously published versions of IFRS 9 that introduced a new classification and measurement model with only two classification categories, ‘amortized cost’ and ‘fair value’ (in 2009 and 2010), and a new hedge accounting model in 2013.

This final version introduces a third measurement category, ‘fair value through other comprehensive income’, for financial assets, as well as an expected loss impairment model that requires more timely recognition of expected credit losses. Additional disclosures on transition from IAS 39 to IFRS 9 will be required under IFRS 7, the application of which is effective on adoption of IFRS 9.

IFRS 9 is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 16, Leases was issued in January 2016 by the IASB to replace IAS 17. IFRS 16 includes several changes in the method of accounting for operating leases, including:

i. All leases will be on the balance sheet of lessees, except those that meet the limited exception criteria;

ii. Rent expense for leases on the balance sheet will be recorded as depreciation and finance expenses;

iii. Timing of expenses will change as the finance lease model results in an accelerated recognition of expenses compared to a straight-line operating lease model.

IFRS 16 is required to be applied for annual periods beginning on or after January 1, 2019

We are currently assessing the impact of adopting these standards on our consolidated financial statements.

6. INVESTMENT PROPERTY ACQUISITIONS

On November 12, 2015, we completed the purchase of a multi-tenant retail property (held within a 50% joint venture) and a single-tenant industrial property from Melcor (the "November 2015 Melcor Acquisition") for a purchase price of $15,250 (an additional $77 in transaction costs were capitalized to the properties). The REIT satisfied the purchase price through the REIT's line of credit and available cash.

In accordance with our policy this acquisition has been accounted for as an asset purchase.

ACQUISITIONS COMPLETED IN THE COMPARATIVE YEAR

On January 10, 2014 we completed the acquisition of an industrial property, LC Industrial, located in Lethbridge, Alberta for $6,027 (including transaction costs).

On May 9, 2014, we completed the purchase of two multi-tenant retail properties from Melcor (the "May 2014 Melcor Acquisition") for a purchase price of $13,500 (an additional $75 in transaction costs were capitalized to the properties). The REIT satisfied approximately $7,400 of the purchase price of the May 2014 Melcor Acquisition by issuing 694,836 Class B LP Units at $10.65 per unit (note 14). The remainder of the purchase price was funded through the REIT's line of credit and available cash. The purchase price approximates fair market value.

On May 26, 2014 we completed the acquisition of an office building, 107 Avenue Building, located in Edmonton, Alberta for $5,669 (including transaction costs). The acquisition was funded through the REIT's line of credit and available cash.

On December 8, 2014, the REIT acquired an office and retail complex, White Oaks, in Edmonton, Alberta for $31,829 (including transaction costs). As part of the purchase the REIT also assumed a mortgage on the property with a carrying value of $15,068. As a financial liability we recorded the assumed mortgage at its fair value on initial recognition. The fair value of the mortgage was calculated using a market interest rate for an equivalent mortgage and resulted in a fair value adjustment of $453 being recorded on the mortgage and the cost of the building. The acquisition was funded through the REIT's line of credit and available cash.

On December 18, 2014, we completed the purchase of six properties located in Western Canada, comprised of retail, office and industrial investment properties (the "Melcor Acquisition Properties") for a purchase price of $138,250 (an additional $169 in transaction costs were capitalized to the properties). As part of the purchase of the Melcor Acquisition Properties, the REIT also assumed mortgages on certain properties totaling $78,444. The REIT satisfied approximately $45,000 of the purchase price of the Melcor Acquisition Properties by issuing 4,390,244 Class B LP Units at $10.25 per unit (note 14). The remainder of the purchase price was funded through the REIT's line of credit and available cash. The purchase price approximates fair market value.

As part of the purchase of the Melcor Acquisition Properties, Melcor undertook, at its expense, to complete certain construction, capital improvements, landlords work, and payment of tenant incentives and commissions related to the properties. In addition, on closing of the Melcor Acquisition Properties, the REIT and Melcor entered Head and Bridge Lease Agreements which provides rental income to the REIT over a period of time on certain vacant spaces (note 20).

In accordance with our policy these acquisitions have been accounted for as asset purchases.

7. INVESTMENT PROPERTIES

($000s)	2015	2014
Balance - beginning of year	**630,003**	429,117
Additions		
Direct acquisition (note 6)	**15,327**	195,972
Property improvements	**2,427**	2,743
Property development activities	**359**	640
Direct leasing costs	**723**	1,057
Fair value adjustment on investment properties (note 26)	**(5,418)**	93
Change in decommissioning obligation	**—**	381
Balance - end of year	**643,421**	630,003

In accordance with our policy, as detailed in note 3(e), we record our investment properties at fair value. Fair value adjustments on investment properties are primarily driven by changes in capitalization rates and stabilized net operating income ("NOI"). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 26.

The cost of investment properties as at December 31, 2015 totaled $425,240 (December 31, 2014 - $406,404).

Presented separately from investment properties is $14,448 (December 31, 2014 - $12,832) in tenant incentives and $3,066 (December 31, 2014 - $1,453) in straight-line rent adjustments (note 8). The fair value of investment properties has been reduced by these amounts.

Our investment properties are leased to tenants primarily under long term operating leases. Rent is receivable from tenants monthly. Minimum lease payments under non-cancellable operating leases of investment properties are receivable as follows:

($000s)	2015	2014
Within one year	39,755	37,644
Later than one year but not later than 5 years	119,344	118,072
Later than 5 years	85,536	92,157
	244,635	247,873

8. OTHER ASSETS

($000s)	2015	2014
Current Assets		
Prepaid expense, and other	933	943
Non-Current Assets		
Straight-line rent adjustments	3,066	1,453
Tenant incentives	14,448	12,832
	17,514	14,285

During the year we recorded tenant incentives of $4,673 (December 31, 2014 - $4,985) and $3,057 (December 31, 2014 - $2,539) of amortization expense respectively. In accordance with SIC 15, Operating leases - incentives, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

9. REVOLVING CREDIT FACILITY

On May 1, 2015 we entered into a revolving term facility credit agreement with two Western Canadian financial institutions (the "new facility"). Under the terms of the agreement the REIT has an available credit limit based upon the carrying values of specific investment properties up to a maximum of $35,000 for general purposes, including a $5,000 swingline sub-facility. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. The new facility matures on May 1, 2018, with an extension option of up to three years at the discretion of the lenders. Depending on the form under which the new facility is accessed, rates of interest will vary between prime plus 1.15% or bankers' acceptance plus 2.25% stamping fee. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the new facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. Concurrent with commencement of the new facility we cancelled our previous credit facility with two major Canadian chartered banks. All comparative information reflects the balances outstanding under our previous credit facility.

As at December 31, 2015, the carrying value of pledged properties was $56,900 (December 31, 2014 - $80,500). We initially capitalized $252 in transaction costs associated with the facility, of which $232 was unamortized at December 31, 2015 and is presented net of the outstanding balance (December 31, 2014 - $39).

As at December 31, 2015 we had $19,301 (December 31, 2014 - $5,000) drawn from the facility; and posted letters of credit of $nil (December 31, 2014 - $nil). The weighted average effective interest rate on borrowings, based on period end balances, is 3.24% (December 31, 2014 - 3.52%).

The following table summarizes the components of the balance:

($000s)	2015	2014
Amount drawn on facility	19,301	5,000
Unamortized transaction fees	(232)	(39)
Unamortized discount on bankers acceptance	(13)	(3)
Restricted cash	202	—
	19,258	4,958

10. ACCRUED LIABILITIES AND OTHER PAYABLES

	2015	2014
Current Liabilities		
Accrued liabilities and other payables	6,724	6,245
Decommissioning obligation	—	50
	6,724	6,295
Non-Current Liabilities		
Decommissioning obligation	1,408	1,360

The REIT's decommissioning obligation relates to one of our commercial properties. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2014 - $2,064). At December 31, 2015, a discount rate of 4.00% (December 31, 2014 - 4.00%) and an inflation rate of 2.00% (December 31, 2014 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation amounts are subject to change.

11. MORTGAGES PAYABLE

($000s)	2015	2014
Mortgages amortized over 15-25 years at fixed interest rates	216,452	215,675
Unamortized fair value adjustment	109	432
Unamortized deferred financing fees	(1,167)	(1,148)
	215,394	214,959
Current portion of mortgages payable	(34,125)	(20,957)
	181,269	194,002
Interest rate ranges	(2.48%-5.59%)	(3.01%-5.70%)

Specific investment properties with a carrying value of $425,735 (December 31, 2014 - $403,330) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above mortgages. The weighted average effective interest rate for the above mortgages, based on period end balances, is 3.68% (December 31, 2014 – 3.80%).

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

($000s)	Principal Installment Repayments	Balance Maturing	Total
2016	6,410	27,715	34,125
2017	5,661	—	5,661
2018	5,862	35,019	40,881
2019	4,535	65,828	70,363
2020	2,222	5,318	7,540
Thereafter	9,541	48,341	57,882
	34,231	182,221	216,452

12. CLASS C LP UNITS

On closing of the IPO, Melcor retained the debt on certain Initial Properties (the "Retained Debt"), with an outstanding principal balance of $94,544 at April 30, 2013. The Class C LP Units were initially recognized at their fair value of $96,506. The fair value of the Class C LP Units was determined based upon future payments at market interest rates. In consideration of the Retained Debt, Melcor received 9,454,411 Class C LP Units of Melcor REIT Limited Partnership (the "Partnership"), a subsidiary of the REIT, on which priority distributions are made to permit Melcor to satisfy required principal and interest payments. The Class C LP Units are classified as debt and a portion of the distributions are recognized as finance costs.

As at December 31, 2015 the carrying value of the Class C LP Units, included in the consolidated statement of financial position, were as follows:

($000s)	2015	2014
Class C LP Units amortized over 2-6 years at fixed interest rates	**83,268**	89,519
Unamortized fair value adjustment	**890**	1,229
	84,158	90,748
Current portion of Class C LP Units	**(12,301)**	(25,825)
	71,857	64,923
Effective interest rate	**3.52%**	3.84%

During the year Melcor extended the mortgage that secures retained debt relating to one of the initial properties from August 1, 2015 to August 1, 2020, and the interest rate of such mortgage of 4.77% (4.00% after the interest rate subsidy paid by Melcor) was reduced to 2.68%. Concurrent with the extension of the mortgage the REIT extended the maturity of 2,195,911 Class C LP Units with a current balance of $19,939 from August 1, 2015 to August 1, 2020 at the reduced interest rate of 2.68%.

Specific investment properties with a carrying value of $167,800 (December 31, 2014 - $166,300) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above Class C LP Units, along with a guarantee by the Partnership.

The minimum contractual principal payments due within each of the next five years and thereafter are as follows:

($000s)	Principal Installment Repayments	Balance Maturing	Total
2016	3,271	9,030	12,301
2017	3,155	2,578	5,733
2018	2,865	11,421	14,286
2019	2,695	6,576	9,271
2020	1,998	23,863	25,861
Thereafter	1,551	14,265	15,816
	15,535	67,733	83,268

During the year $3,198 (2014 - $3,531) was recognized in finance costs (note 17) and $3,485 (2014 - $3,499) was recognized as a reduction in the Class C LP Units liability related to these distributions. In addition, during the year we repaid the maturing balance on 333,100 Class C LP units with a carrying value of $3,105.

As at December 31, 2015 we had 9,454,411 Class C LP Units issued and outstanding (December 31, 2014 - 9,454,411).

13. CONVERTIBLE DEBENTURE

On December 3, 2014, we issued a 5.50% extendible convertible unsecured subordinated debenture (the "convertible debenture") to the public for gross proceeds of $34,500, including $4,500 issued pursuant to the exercise of an over-allotment option. The convertible debenture bear interest at an annual rate of 5.50% payable semi-annually in arrears on June 30 and December 31 each year, commencing June 30, 2015. Upon completion of the Melcor Acquisition Properties (note 6), the maturity date of the convertible debenture was extended to December 31, 2019. The convertible debenture can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 79.0514 trust units per one thousand principal amount of convertible debenture (the "Conversion Price"). On and from December 31, 2017, and prior to December 31, 2018, the convertible debenture may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2018, and prior to the maturity date, the convertible debenture may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the convertible debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the convertible debenture being repaid by 95% of the Current Market Price on the date of redemption or maturity.

As a compound financial instrument, the fair value of the host instrument component was calculated using a market interest rate for an equivalent non-convertible, non-extendible bond. The conversion feature component is recognized at its fair value and presented as a liability.

A reconciliation of the convertible debenture is as follows:

($000s)	Host Instrument	Conversion Feature	Total
Convertible debenture issued	34,315	185	34,500
Transaction costs	(2,573)	—	(2,573)
	31,742	185	31,927
Amortization of discount and transaction costs	38	—	38
Fair value adjustment on conversion feature	—	—	—
Balance at December 31, 2014	31,780	185	31,965
Amortization of discount and transaction costs	466	—	466
Fair value adjustment on conversion feature (note 26)	—	(180)	(180)
Balance at December 31, 2015	32,246	5	32,251

During the year ended December 31, 2014, we recognized $1,898 of interest expense which is included in finance costs (note 17) (2014 - $151).

At December 31, 2015 we remeasured the conversion feature to fair value resulting in a fair value adjustment of $180 (2014 - $nil). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 26.

14. CLASS B LP UNITS

Melcor, through an affiliate, holds an approximate 56.7% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. The Class B LP Units are exchangeable at the option of the holder for one trust unit of the REIT and accompanied by one special voting unit (note 15(b)). Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units.

On May 9, 2014 the REIT issued 694,836 Class B LP Units at $10.65 per unit to Melcor as partial consideration for the May 2014 Melcor Acquisition (note 6). As at the adjustment date the fair value of the units issued was $10.47 per unit, or $7,275; the $125 difference between book value and fair value was recorded to contributed surplus.

On December 18, 2014 the REIT issued 4,390,244 Class B LP Units at $10.25 per unit to Melcor as partial consideration for the Melcor Acquisition Properties (note 6). As at the adjustment date the fair value of the units issued was $9.51 per unit, or $41,752; the $3,248 difference between book value and fair value was recorded to contributed surplus.

The following table summarizes the change in Class B LP Units for the year.

($000s except unit amounts)	2015		2014	
Balance, beginning of year	**14,615,878**	**138,266**	9,530,798	99,120
Issuance of Units - May 2014 Melcor Acquisition	—	—	694,836	7,275
Issuance of Units - Melcor Acquisition	—	—	4,390,244	41,752
Fair value adjustment on Class B LP Units	—	**(32,886)**	—	(9,880)
Balance, end of year	**14,615,878**	**105,380**	14,615,878	138,266

Distributions on Class B LP Units for the year were $9,866 (2014 - $6,993), and are included in finance costs (note 17).

In accordance with our policy, as detailed in note 3(h), we record Class B LP Units at fair value. We remeasured the Class B LP Units at December 31, 2015 and recognized a fair value gain of $32,886 during the year (2014 - fair value gain of $9,880). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 26.

At December 31, 2015 there were 14,615,878 Class B LP Units issued and outstanding at a fair value of $7.21 per unit or $105,380 (December 31, 2014 - 14,615,878 Class B LP Units issued and outstanding at a fair value of $9.46 per unit or $138,266).

15. UNITHOLDERS' EQUITY

A. TRUST UNITS

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 the Unitholders and to participate pro rata in any distributions by the REIT.

Unitholders are entitled to demand, at any time, the REIT to redeem all or part of the trust units at a "Redemption Price" as defined in the REIT's DOT. Upon receipt of notice to redeem trust units, the Unitholder surrenders all rights to and under the units tendered for redemption.

B. SPECIAL VOTING UNITS

Pursuant to the DOT, special voting units have no economic entitlement in the REIT or in the distributions or assets of the REIT but entitle the holder to one vote per special voting unit at any meeting of the Unitholders. Special voting units may only be issued in connection with or in relation to securities exchangeable into Units, including Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of such securities. Special voting units will not be transferable separately from the exchangeable securities to which they are attached and will be automatically transferred upon the transfer of such exchangeable securities.

C. UNITS OUTSTANDING

On June 30, 2015 we commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase up to 563,750 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchased up to a maximum daily limit of 3,824. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on June 29, 2016.

In connection with commencement of the NCIB, the REIT also entered into an automatic purchase plan agreement with a broker to allow for the purchase of trust units under the NCIB at times when the REIT ordinarily would not be active in the market due to regulatory restrictions or self-imposed trading blackout periods.

During the year, there were 123,703 trust units purchased for cancellation by the REIT pursuant to the NCIB at a cost of $1,000. Trust units were reduced by $1,252 and contributed surplus increased by $252. As at December 31, 2015 440,047 additional trust units may be repurchase by the REIT under the current NCIB.

On May 7, 2014 the REIT issued 1,900,000 trust units to the public at $10.65 per unit for gross proceeds of $20,235. On May 16, 2014 an additional 245,000 trust units were issued to the public at $10.65 per unit pursuant to the underwriters over-allotment option for gross proceeds of $2,609. Issued and outstanding trust units at December 31, 2015 are 11,151,297 (December 31, 2014 - 11,275,000).

The following table summarizes the change in trust units for the year.

($000s except unit amounts)	2015		2014	
Balance, beginning of year	**11,275,000**	**103,959**	9,130,000	82,709
Issuance of Units - net of $1,594 in costs	**—**	**—**	2,145,000	21,250
Trust units repurchased	**(123,703)**	**(1,252)**	—	—
Balance, end of year	**11,151,297**	**102,707**	11,275,000	103,959

16. RENTAL REVENUE

The components of rental revenue are as follows:

For the years ended December 31 ($000s)	2015	2014
Rental revenue	**66,926**	46,441
Amortization of tenant incentives (note 8)	**(3,057)**	(2,539)
Straight-line adjustments	**1,613**	607
	65,482	44,509

17. FINANCE COSTS

The components of finance costs are as follows:

For the years ended December 31 ($000s)	2015	2014
Interest on mortgages payable and revolving credit facility	**8,416**	5,264
Interest on Class C LP Units	**3,537**	3,971
Amortization of fair value adjustments on Class C LP Units	**(339)**	(440)
Distributions on Class B LP Units	**9,866**	6,993
Interest on convertible debenture	**1,898**	151
Fair value adjustment on derivative liability (note 13 and 26)	**(180)**	—
Non-cash finance costs	**596**	273
	23,794	16,212

Total finance costs paid during the year were $23,424 (2014 - $15,174).

18. INCOME TAXES

As at December 31, 2015 the REIT qualifies as a mutual fund trust within the meaning of the Tax Act and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through ("SIFT"); 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.

Reconciliation of income tax expense based on the statutory rate to the recovery recorded using the effective tax rate is as follows:

For the years ended December 31 ($000s)	2015	2014
Net income	**41,070**	18,348
Statutory rate	**26%**	25%
	10,678	4,587
Non-deductible expenses	**7**	5
Non-taxable portion of capital gains and fair value adjustments	**678**	(12)
Allocation of taxable income to unitholders (note 3(m))	**(11,363)**	(4,580)
	—	—

19. INCOME PER UNIT

Basic and diluted earnings per trust unit for the year ended December 31, 2015 is calculated as follows:

($000s except unit amounts)	2015	2014
Net income - basic	**41,070**	18,348
Impact of Class B LP Unit fair value adjustment and distributions	**(23,020)**	(2,887)
Impact of convertible debenture interest and amortization	**2,170**	189
Net income - diluted	**20,220**	15,650
Basic weighted average trust units outstanding	**11,237,384**	10,522,616
Impact of conversion of Class B LP Units	**14,615,878**	10,136,427
Impact of conversion of convertible debenture	**2,727,273**	209,215
Diluted weighted average trust units outstanding	**28,580,535**	20,868,258
Basic earnings per trust unit	**$3.65**	$1.74
Diluted earnings per trust unit	**$0.71**	$0.75

20. RELATED PARTY TRANSACTIONS

The consolidated financial statements of the REIT include the following related party transactions with Melcor, and its affiliates, as the ultimate controlling party of the REIT:

A. PROPERTY AND ASSET MANAGEMENT AGREEMENTS

The REIT is externally managed, administered and operated by Melcor pursuant to the terms and conditions as set forth under the Property Management Agreement and Asset Management Agreement.

Asset Management Agreement – we pay a quarterly management fee which is comprised of the following: (a) a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value; (b) a capital expenditures fee equal to 5% of all hard construction costs incurred on capital projects in excess of $0.10 million; (c) an acquisition fee equal to 0.50% - 1.00% of the purchase price; (d) a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

Property Management Agreement – we pay a monthly fee which is comprised of the following: (a) a base fee of 1/12 of 3% of gross property revenue; (b) a leasing fee equal to 5% of aggregate base rent for new leases for the first 5 years and 2.5% thereafter, and 2.5% of aggregate base rent for lease renewals and expansions for the first 5 years.

Pursuant to the terms of the agreements the REIT incurred the following fees during the year:

For the year ended December 31 ($000s)	2015	2014
Asset Management Agreement		
Base Annual Management Fee	**1,524**	1,123
Capital Expenditure Fee	—	—
Acquisition Fee	—	428
Financing Fee	—	—
Property Management Agreement		
Monthly Fee	**1,876**	1,333
Lease Fee	**690**	1,057
	4,090	3,941

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. In accordance with our policy (3(e)), Acquisition Fees and Lease Fees are capitalized to investment properties. As at December 31, 2015 there was $297 payable to Melcor related to these fees (December 31, 2014 - $271) which is included in accrued liabilities and other payables.

B. DISTRIBUTIONS ON CLASS B LP UNITS AND REDEMPTIONS OF CLASS C LP UNITS

During the year $9,866 in distributions were recorded on Class B LP Units held by Melcor (2014 - $6,993). These distributions were recorded as finance costs (note 17). As at December 31, 2015 there was $822 payable to Melcor for the December distribution (December 31, 2014 - $822) which is included in distribution payable.

Also during the year, Melcor, as holder of all Class C LP Units, was paid $3,485 to fund principal and interest payments on the Retained Debt (2014 - $7,030). These redemptions were recorded as a reduction of the Class C LP Unit liability and as finance costs (note 17). In addition, during the year we repaid the maturing balance on 333,100 Class C LP units with a carrying value of $3,105.

C. RENTAL REVENUE

During the year the REIT collected $921 in rental revenue from Melcor and an affiliate for use of office space (2014 - $698). In addition, pursuant to the Head and Bridge Lease Agreements entered into upon closing of the Melcor Acquisition Properties (note 6), the REIT collected $452 in rental revenue from Melcor as compensation for certain vacant spaces at the properties acquired (2014 - $45).

D. KEY MANAGEMENT REMUNERATION

The REIT does not directly or indirectly pay any compensation to named executive officers of the REIT. The REIT has no employees and is externally managed, administered and operated by Melcor pursuant to the Asset Management Agreement and Property Management Agreement.

E. PURCHASE OF INVESTMENT PROPERTIES

On November 12, 2015, the REIT purchased two properties from Melcor pursuant to the Development and Opportunities Agreement with Melcor. The purchase price of $15,250 was satisfied with the REIT's line of credit and available cash (note 6).

On May 9, 2014, the REIT purchased two properties from Melcor pursuant to the Development and Opportunities Agreement with Melcor. The purchase price of $13,500 was satisfied by issuing 694,836 Class B LP Units at $10.65 per unit, approximating $7,400 of the purchase price, and available cash (note 6).

On December 18, 2014, the REIT purchased six properties from Melcor pursuant to the Development and Opportunities Agreement with Melcor for a purchase price of $138,250. As part of the purchase, the REIT also assumed mortgages on certain properties totaling $78,444. The REIT satisfied approximately $45,000 of the purchase price by issuing 4,390,244 Class B LP Units at $10.25 per unit. The remainder of the purchase price was funded through the REIT's line of credit and available cash (note 6).

All related party transactions occurred in the normal course of operations, at market rates and under normal commercial terms.

21. JOINT ARRANGEMENTS

The table below discloses our rights to and share of the assets, liabilities, revenues, and earnings of three joint arrangements (2014 – three) that are recorded in these consolidated financial statements:

	Interest
Capilano Investments Joint Venture	50%
Westmere Properties Joint Venture	50%
Watergrove Developments Joint Venture	50%

($000's)	Assets	Liabilities	Revenue	Earnings
For the year ended and as at December 31				
2015	**60,354**	**31,808**	**4,219**	**2,249**
2014	52,389	24,612	3,867	1,586

22. SEGMENTED INFORMATION

All the properties included in these consolidated financial statements are located in Western Canada, and are viewed by the Chief Operating Decision Maker (determined to be the Chief Executive Officer) as one operating segment in the context of these consolidated financial statements.

23. COMMITMENTS AND CONTINGENCIES

The REIT is contingently liable under guarantees that are issued in the normal course of business and with respect to litigation and claims that arise from time to time. In the opinion of management, any liability that may arise from such contingencies would not have a material adverse effect on the consolidated financial statements of the REIT.

In the normal course of operations we enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. The REIT has entered into lease agreements that may require tenant incentive payments of approximately $939.

24. MANAGEMENT OF CAPITAL RESOURCES

We define capital as unitholders' equity, Class B LP Units, Class C LP Units, mortgages payables, convertible debenture and our revolving credit facility. Our objective when managing capital is to ensure sufficient funds are available to make unitholder distributions, support the growth of our assets, and finance capital requirements. Specifically, we plan to utilize a combination of short, medium and long-term debt financing that aligns with the characteristics of each property.

Pursuant to the DOT, the REIT may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% of Gross Book Value ("GBV") ("Degree of Leverage Ratio") (65% including any convertible debenture). At December 31, 2015, and throughout the period, we were in compliance with the Degree of Leverage Ratio and had a ratio of 56% (50% excluding convertible debenture) as at December 31, 2015.

We are also subject to financial covenants on our $35,000 revolving credit facility. The covenants include 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 $140,000. As at December 31, 2015, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 48%, debt service coverage ratio of 1.67, and an adjusted unitholders' equity of $263,461. We also have financial covenants on certain mortgages for investment properties. At December 31, 2015, and throughout the period, we were in compliance with our 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.

25. FINANCIAL RISK MANAGEMENT

We are exposed to the following risks as a result of holding financial instruments:

A. CREDIT RISK

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Our financial assets that are exposed to credit risk consist of cash and cash equivalents, restricted cash and accounts receivable. Our maximum exposure to credit risk is the carrying amount of these instruments.

We invest our cash and cash equivalents and restricted cash in bank accounts with major Canadian chartered banks. Accounts receivable balances include amounts due from tenants and various smaller amounts due from vendors.

We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant. Management has reviewed outstanding receivable balances at December 31, 2015 and has provided for $156 of outstanding receivables related to accounts where collectability is doubtful (2014 - $61). We expect full payment of remaining balances outstanding, and accordingly, no additional allowance for doubtful accounts has been recorded.

B. LIQUIDITY RISK

Liquidity risk is the risk that we will not be able to meet our financial obligations as they fall due. We manage liquidity risk to ensure that we have sufficient liquid financial resources to finance operations, meet long-term mortgage repayments, Class C LP Unit redemptions, convertible debenture payments and make monthly distributions on Class B LP Units and trust units. We monitor rolling forecasts of our liquidity, which includes cash, on the basis of expected cash flows. In addition, we monitor balance sheet liquidity ratios against capital requirements and maintain on-going debt financing plans. We believe that we have access to sufficient capital through internally generated cash flows, external sources and undrawn committed borrowing facilities to meet current spending forecasts.

Refer to notes 11, 12 and 13 for the maturity analysis of mortgages payable, Class C LP Units and Convertible Debenture. Amounts drawn under the revolving credit facility are due upon the maturity of the facility, on or before May 1, 2018. Accounts payable are expected to be repaid in the next twelve months. Distributions declared on trust units and Class B LP Units are paid one month following the date of declaration.

C. MARKET RISK

We are subject to interest rate cash flow risk as our revolving credit facility bears interest at rates that vary in accordance with borrowing rates in Canada. For each 1% change in the rate of interest on our revolving credit facility, the change in annual finance costs is approximately $193 (December 31, 2014 - $50) based upon applicable period end debt balances. We are also subject to interest rate risk on refinancing of our fixed rate debts in the year of maturity. We are not subject to other significant market risks pertaining to our financial instruments.

26. FAIR VALUE MEASUREMENT

Fair value is the price that market participants would be willing to pay for an asset or liability in an orderly transaction under current market conditions at the measurement date.

The fair value of the REIT's financial instruments were determined as follows:

- the carrying amounts of cash and cash equivalents, restricted cash, accounts receivables, revolving credit facility, accounts payable and distribution payable approximate their fair values based on the short term maturities of these financial instruments.
- fair values of mortgages payable, Class C LP Units and convertible debenture are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 2).
- fair value of derivative financial liability, the conversion feature on our convertible debenture, is estimated based upon unobservable inputs, including volatility and credit spread (Level 3).
- fair value of Class B LP Units are estimated based on the closing trading price of the REIT's trust units (Level 1).

In addition, the REIT carries its investment properties at fair value, as detailed in note 3(e), which is determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows (Level 3).

The following tables summarize the REIT's assets and liabilities carried at fair value and its financial assets and liabilities where carrying value may not approximate fair value.

	December 31, 2015			
($000s)	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
Non-financial assets				
Investment properties	643,421	—	643,421	643,421
Financial liabilities				
Mortgages payable	—	216,452	216,452	215,150
Class B LP Units	105,380	—	105,380	105,380
Class C LP Units	—	84,158	84,158	84,158
Convertible debenture	—	32,246	32,246	32,246
Derivative financial liability	5	—	5	5

($000s)	Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value
	December 31, 2014			
Non-financial assets				
Investment properties	630,003	—	630,003	630,003
Financial liabilities				
Mortgages payable	—	215,675	215,675	219,492
Class B LP Units	138,266	—	138,266	138,266
Class C LP Units	—	90,748	90,748	90,748
Convertible debenture	—	31,780	31,780	31,780
Derivative financial liability	185	—	185	185

The table below analyzes assets and liabilities carried at fair value in the consolidated statement of financial position, by the levels in the fair value hierarchy. The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

- Level 1: quote prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

There were no transfers between the levels of the fair value hierarchy during the year.

($000s)	Level 1	Level 2	Level 3	Total
Non-financial assets				
Investment properties	—	—	643,421	643,421
Financial liabilities				
Derivative financial liability	—	—	5	5
Class B LP Units	105,380	—	—	105,380

INVESTMENT PROPERTIES

Investment properties are remeasured to fair value on a recurring basis, determined based on the accepted valuation methods of direct income capitalization or discounted future cash flows. The application of these valuation methods results in these measurements being classified as Level 3 in the fair value hierarchy.

Under the discounted future cash flows method, fair values are determined by discounting the forecasted future cash flows over ten years plus a terminal value determined by applying a terminal capitalization rate to forecasted year eleven cash flows.

Under the direct income capitalization method, fair values are determined by dividing the stabilized net operating income of the property by a property specific capitalization rate.

The significant unobservable inputs in the Level 3 valuations are as follows:

- Capitalization rate - based on actual location, size and quality of the property and taking into consideration available market data as at the valuation date;
- Stabilized net operating income - revenue less direct operating expenses adjusted for items such as average lease up costs, vacancies, non-recoverable capital expenditures, management fees, straight-line rents and other non-recurring items;
- Discount rate - reflecting current market assessments of the uncertainty in the amount and timing of cash flows;
- Terminal capitalization rate - taking into account assumptions regarding vacancy rates and market rents; and
- Cash flows - based on the physical location, type and quality of the property and supported by the terms of existing leases, other contracts or external evidence such as current market rents for similar properties.

An increase in the cash flows or stabilized net operating income results in an increase in fair value of investment property whereas an increase in the capitalization rate, discount rate or terminal capitalization rate decreases the fair value of the investment property.

In determining the fair value of our investment properties judgment is required in assessing the 'highest and best use' as required under IFRS 13, Fair value measurement. We have determined that the current uses of our investment properties are their 'highest and best use'.

The REIT's management company, Melcor, lead by Melcor's executive management team, is responsible for determining fair value measurements on a quarterly basis, including verifying all major inputs included in the valuation and reviewing the results. Melcor's management, along with Melcor REIT Limited Partnership's Audit Committee, discuss the valuation process and key inputs on a quarterly basis. At least once every three years, the valuations are performed by qualified external valuators who hold recognized and relevant professional qualifications and have recent experience in the location and category of the investment property being valued.

Investment properties were valued by Melcor Development Ltd.'s internal valuation team as at December 31, 2015 of which 27 investment properties (of 47 legal phases valued) with a fair value of $443,750 were valued by qualified independent external valuation professionals during the year, which resulted in fair value losses of $5,418 recorded as fair value adjustment on investment properties in the consolidated statements of income and comprehensive income (2014 - investment properties were valued by qualified independent external valuation professionals which resulted in fair value fair gains of $93).

Weighted average stabilized net operating income for investment properties is $1,504 (2014 - $1,414). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	Min	Max	Weighted Average
		December 31, 2015	
Capitalization rate	**5.50%**	**9.00%**	**6.57%**
Terminal capitalization rate	**5.75%**	**9.25%**	**6.81%**
Discount rate	**6.50%**	**10.00%**	**7.71%**

	Min	Max	Weighted Average
		December 31, 2014	
Capitalization rate	5.50%	9.00%	6.49%
Terminal capitalization rate	5.75%	9.25%	6.77%
Discount rate	6.50%	10.00%	7.69%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $46,953 (2014 - $43,828). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $54,685 (2014 - $51,148).

($000s except unit and per unit amounts)

DERIVATIVE FINANCIAL LIABILITY
Our derivative financial liability is comprised of the conversion feature on our convertible debenture.

Revaluation of the derivative financial liability using updated market data at December 31, 2015, resulted in a fair value gain of $180 being recognized in income. The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debenture are as follows:

- Volatility - expected volatility as at December 31, 2015 was derived from the historical prices of the REIT's trust units. As the REIT was formed on May 1, 2013, price history is limited and we have used the entire historical data up until December 31, 2015. Volatility was 15.86% (2014 - 15.17%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at December 31, 2015. The credit spread used was 4.60% (2014 - 3.76%).

CLASS B LP UNITS
Class B LP Units are remeasured to fair value on a recurring basis and categorized as Level 1 in the fair value hierarchy. The units are fair valued based on the trading price of the trust units at the period end date. At December 31, 2015 the fair value of the Class B LP Units was $105,380, resulting in a fair value gain of $32,886 in income for the year (2014 - fair value gain of $9,880).

27. SUBSEQUENT EVENTS

DISTRIBUTION DECLARED
On January 15, 2016 we declared a distribution of $0.05625 per unit for the months of January, February and March 2016. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2016	January 29, 2016	February 16, 2016	$0.05625 per unit
February 2016	February 29, 2016	March 15, 2016	$0.05625 per unit
March 2016	March 31, 2016	April 15, 2016	$0.05625 per unit

28. COMPARATIVE FIGURES

The 2014 comparative balances of payment of tenant incentives and direct leasing costs of $6,042 and change in restricted cash of $2,037 have been reclassified from investing activities to operating activities in the consolidated statement of cash flows to reflect better presentation of the underlying nature of the cash flows.

CORPORATE & UNITHOLDER INFORMATION

Annual General Meeting

Please join us at our annual general meeting. A continental breakfast will be served prior to the meeting.

We look forward to seeing you there.

Wednesday, April 27 | 8:30 AM MDT
YMCA Welcome Village
YMCA Gymnasium
9538 - 103A Avenue
Edmonton, AB T5H 0J3

Trustees

Officers

Darin Rayburn, Chief Executive Officer

Jonathan Chia, Chief Financial Officer

Distributions

$0.05625 per month
70% of distributions to unitholders were classified as return of capital.

Contact

For unitholder services including distribution information, contact:
CST Trust Company
Unitholder Services
P.O. Box 700 Station B
Montreal, QC H3B 3K3

By Phone: 1-800-387-0825
By Fax: 1-866-781-3111
By Email: inquiries@canstockta.com
Online: canstockta.com

Key Dates

Annual Meeting: April 27, 2016
Earnings Dates:
Q1 – May 5, 2016
Q2 – August 4, 2016
Q3 – November 3, 2016
Q4 – March 9, 2017

Investor Relations

For Investor Relations including all other unitholders inquiries and requests, contact:

Nicole Forsythe
P | 1-855-673-6937
ir@melcor.ca

Customer Service

For Customer Service including tenant services, contact:

P | 1-866-MELCOR1
care.melcor.ca
service@care.melcor.ca

Auditors

PricewaterhouseCoopers LLP

Legal Counsel

Bryan & Company LLP

Exchange Listing

Toronto Stock Exchange:
REIT Units: MR.UN
5.5% Convertible Debenture: MR.DB

MELCOR | REIT

Suite 900, 10310 Jasper Avenue
Edmonton, AB T5J 1Y8

780-423-6931
1-855-673-6931

info@MelcorREIT.ca
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