



## **MELCOR REAL ESTATE INVESTMENT TRUST**

Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2017

(Unaudited)

## Condensed Interim Consolidated Statements of Financial Position

As at September 30, 2017

(Unaudited)

(\$000s)	September 30, 2017	December 31, 2016
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents	1,872	1,630
Accounts receivable	1,781	1,364
Other assets (note 4)	1,291	1,009
	4,944	4,003
<b>Non-Current Assets</b>		
Investment properties (note 3 and 13)	619,202	641,365
Other assets (note 4)	18,595	18,246
Loan receivable (note 3)	900	—
Derivative financial asset (note 13)	449	110
	639,146	659,721
<b>TOTAL ASSETS</b>	<b>644,090</b>	<b>663,724</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Revolving credit facility	9,382	17,324
Accounts payable	1,227	1,516
Distribution payable	1,449	1,449
Accrued liabilities and other payables (note 5)	6,593	5,820
Class C LP Units (note 7)	10,775	6,074
Mortgages payable (note 6)	16,041	6,821
	45,467	39,004
<b>Non-Current Liabilities</b>		
Accrued liabilities and other payables (note 5)	1,518	1,475
Class B LP Units (note 8 and 13)	129,350	123,650
Class C LP Units (note 7)	64,418	74,494
Mortgages payable (note 6)	206,513	212,045
Convertible debenture	33,153	32,749
Derivative financial liability (note 13)	61	61
<b>TOTAL LIABILITIES</b>	<b>480,480</b>	<b>483,478</b>
<b>UNITHOLDERS' EQUITY</b>	<b>163,610</b>	<b>180,246</b>
<b>TOTAL LIABILITIES AND UNITHOLDERS' EQUITY</b>	<b>644,090</b>	<b>663,724</b>

See accompanying notes to the condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

For the three and nine-months ended September 30

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
(\$000s)	2017	2016	2017	2016
Rental revenue (note 10 and 12)	16,791	16,439	50,350	49,872
Direct operating expenses (note 12)	(6,424)	(6,265)	(19,767)	(19,280)
Net rental income	10,367	10,174	30,583	30,592
General and administrative expenses (note 12)	(625)	(628)	(1,938)	(2,021)
Fair value adjustment on investment properties (note 3 and 13)	79	(947)	(16,629)	(2,946)
Fair value adjustment on Class B LP Units (note 8 and 13)	147	(2,485)	(5,700)	(21,340)
Income before finance costs	9,968	6,114	6,316	4,285
Interest income	20	7	40	24
Finance costs (note 11 and 12)	(5,697)	(5,968)	(17,347)	(18,275)
Net finance costs	(5,677)	(5,961)	(17,307)	(18,251)
Net income (loss) and comprehensive income (loss)	4,291	153	(10,991)	(13,966)
Basic income (loss) per trust unit	\$0.38	\$0.01	(\$0.99)	(\$1.25)
Diluted income (loss) per trust unit	\$0.25	\$0.01	(\$0.99)	(\$1.25)

See accompanying notes to the condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

As at September 30, 2017

(Unaudited)

(\$000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
<b>Balance at December 31, 2016</b>	11,151,297	102,707	40,448	37,091	180,246
Net loss for the period	—	—	—	(10,991)	(10,991)
Distributions to unitholders	—	—	—	(5,645)	(5,645)
<b>Balance at September 30, 2017</b>	11,151,297	102,707	40,448	20,455	163,610

(\$000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
<b>Balance at December 31, 2015</b>	11,151,297	102,707	40,448	55,794	198,949
Net loss for the period	—	—	—	(13,966)	(13,966)
Distributions to unitholders	—	—	—	(5,646)	(5,646)
<b>Balance at September 30, 2016</b>	11,151,297	102,707	40,448	36,182	179,337

See accompanying notes to the condensed interim consolidated financial statements.

## Condensed Interim Consolidated Statements of Cash Flows

For the three and nine-months ended September 30

(Unaudited)

	Three months ended September 30		Nine months ended September 30	
(\$000s)	2017	2016	2017	2016
<b>CASH FLOWS FROM (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Net income (loss) for the period	4,291	153	(10,991)	(13,966)
Non cash items:				
Amortization of tenant incentives (note 4 and 10)	710	819	2,281	2,429
Straight-line rent adjustments (note 10)	(520)	(301)	(1,000)	(943)
Fair value adjustment on investment properties (note 3 and 13)	(79)	947	16,629	2,946
Fair value adjustment on Class B LP Units (note 8 and 13)	(147)	2,485	5,700	21,340
Amortization of fair value adjustment on Class C LP Units (note 11)	(56)	(57)	(169)	(171)
Fair value adjustment on derivative instruments (note 11 and 13)	(212)	(27)	(339)	214
Non-cash finance costs (note 11)	274	220	777	611
	4,261	4,239	12,888	12,460
Payment of tenant incentives and direct leasing costs	(559)	(1,074)	(2,202)	(2,439)
Changes in operating assets and liabilities	1,049	523	(407)	(787)
	4,751	3,688	10,279	9,234
<b>INVESTING ACTIVITIES</b>				
Net proceeds from disposal of investment property (note 3)	—	—	4,220	—
Investment in property improvements and development (note 3)	(632)	(952)	(1,654)	(2,910)
Change in restricted cash	—	—	—	1,041
	(632)	(952)	2,566	(1,869)
<b>FINANCING ACTIVITIES</b>				
Change in revolving credit facility	(7,062)	(25)	(8,042)	(2,801)
Proceeds from mortgages payable	27,207	8,000	34,407	29,300
Repayment of mortgages payable	(19,231)	(6,268)	(28,117)	(24,017)
Repayment on Class C LP Units	(3,452)	(843)	(5,206)	(2,513)
Change in restricted cash	—	—	—	1,247
Distributions to unitholders	(1,881)	(1,882)	(5,645)	(5,646)
	(4,419)	(1,018)	(12,603)	(4,430)
<b>DECREASE (INCREASE) IN CASH &amp; CASH EQUIVALENTS DURING THE PERIOD</b>	<b>(300)</b>	<b>1,718</b>	<b>242</b>	<b>2,935</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF THE PERIOD</b>	<b>2,172</b>	<b>1,217</b>	<b>1,630</b>	<b>—</b>
<b>CASH AND CASH EQUIVALENTS, END OF THE PERIOD</b>	<b>1,872</b>	<b>2,935</b>	<b>1,872</b>	<b>2,935</b>

See accompanying notes to the condensed interim consolidated financial statements.

## 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. We began operations on May 1, 2013.

Our principal business is to acquire, own and manage office, retail and industrial properties in select markets across Western Canada. The properties are externally managed, administered and operated by Melcor Developments Ltd. ("Melcor") pursuant to the Property Management Agreement and Asset Management Agreement (note 12).

As at November 1, 2017, 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.

We are governed under the laws of the Province of Alberta. Our registered office 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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements should be read in conjunction with our annual consolidated financial statements for the year ended December 31, 2016, which have been prepared in accordance with IFRS as issued by the IASB. These condensed interim consolidated financial statements were authorized for issue by the Board of Trustees on November 1, 2017.

The condensed interim consolidated financial statements have been prepared using the same significant accounting policies and methods as those used in our annual consolidated financial statements for the year ended December 31, 2016. We have adopted amended standards IAS 7, Statement of cash flows and IAS 12, Income taxes, effective January 1, 2017. Adoption of these amended standards did not require any adjustment to the presentation or disclosure within these condensed interim consolidated financial statements. Beginning January 1, 2018 IFRS 9, Financial Instruments, and IFRS 15, Revenue from contracts with customers will be in effect, we have completed our preliminary assessment of these new standards and do not expect the adoption to have a material impact on our financial statements.

## 3. INVESTMENT PROPERTIES

(\$000s)	Nine months ended September 30, 2017	Year ended December 31, 2016
Balance - beginning of period	641,365	643,421
Additions		
Property improvements	1,654	2,228
Property development activities	—	1,641
Direct leasing costs	572	621
Fair value adjustment on investment property (note 13)	(16,629)	(6,546)
Investment property disposed of during the period	(7,760)	—
Balance - end of period	619,202	641,365

In accordance with our policy 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 13.

On April 27, 2017, we disposed of an industrial property in Lethbridge, Alberta for a sale price of \$7,760 (net of transaction costs). The sale price was settled through mortgage assumption of \$2,640, issuance of a vendor-take-back mortgage of \$900,

and cash of \$4,220. The vendor take-back (VTB) mortgage bears interest at an annual rate of 6.00%, with interest only payments payable monthly over a 36 month term. The VTB can be prepaid in whole or in part without penalty.

The cost of investment properties as at September 30, 2017 totalled \$425,837 (December 31, 2016 - \$429,730).

Presented separately from investment properties is \$13,370 (December 31, 2016 - \$14,021) in tenant incentives and \$5,225 (December 31, 2016 - \$4,225) in straight-line rent adjustments (note 4). The fair value of investment properties has been reduced by these amounts.

#### 4. OTHER ASSETS

(\$000s)	September 30, 2017	December 31, 2016
<b>Current Assets</b>		
Prepaid expense, and other	1,291	1,009
<b>Non-Current Assets</b>		
Straight-line rent adjustments	5,225	4,225
Tenant incentives	13,370	14,021
	<b>18,595</b>	<b>18,246</b>

During the nine-month period, we recorded tenant incentives of \$1,630 (2016 - \$1,958) and recorded \$2,281 (2016 - \$2,429) 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.

#### 5. ACCRUED LIABILITIES AND OTHER PAYABLES

(\$000s)	September 30, 2017	December 31, 2016
<b>Current Liabilities</b>		
Other accrued liabilities and payables	2,898	2,928
Accrued finance costs	981	488
Tenant security deposits and pre-payments	2,714	2,404
	<b>6,593</b>	<b>5,820</b>
<b>Non-Current Liabilities</b>		
Decommissioning obligation	1,518	1,475

#### 6. MORTGAGES PAYABLE

(\$000s)	September 30, 2017	December 31, 2016
Mortgages amortized over 15-25 years at fixed interest rates	205,978	201,926
Mortgage amortized over 25 years at a variable interest rate (via a fixed for floating interest rate swap)	17,734	18,136
Unamortized deferred financing fees	(1,158)	(1,196)
	<b>222,554</b>	<b>218,866</b>
Current portion of mortgages payable	(16,041)	(6,821)
	<b>206,513</b>	<b>212,045</b>
Interest rate ranges	<b>(2.48%-4.91%)</b>	<b>(2.48%-4.91%)</b>

## 7. CLASS C LP UNITS

Class C LP Units are held by Melcor in consideration of debt retained on certain properties sold to the REIT. Distributions are made on the units in order 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 interest expense.

(\$000s)	September 30, 2017	December 31, 2016
Class C LP Units amortized over 4-5 years at fixed interest rates	74,699	79,905
Unamortized fair value adjustment	494	663
	75,193	80,568
Current portion of Class C LP Units	(10,775)	(6,074)
	64,418	74,494
Effective interest rate	3.35%	3.34%

As at September 30, 2017 we had 9,454,411 Class C LP Units issued and outstanding (December 31, 2016 - 9,454,411).

## 8. CLASS B LP UNITS

Class B LP Units are held by Melcor as partial consideration for certain properties sold to the REIT. The Class B LP Units are exchangeable at the option of the holder for one trust unit and, therefore, are considered a puttable instrument and are required to be accounted for as a financial liability. Each unit is accompanied by one special voting unit which entitles the holder to one vote at any meeting of the unitholders. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units and are included in finance costs.

In accordance with our policy, we record Class B LP Units at fair value. We remeasured the Class B LP Units at September 30, 2017 and recognized a fair value loss of \$5,700 during the nine-month period (2016 - fair value loss of \$21,340). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 13.

At September 30, 2017 there were 14,615,878 Class B LP Units issued and outstanding at a fair value of \$8.85 per unit or \$129,350 (December 31, 2016 - 14,615,878 at \$8.46 per unit or \$123,650).

## 9. UNITHOLDERS' EQUITY

At September 30, 2017, our issued and outstanding trust units were 11,151,297 (December 31, 2016 - 11,151,297).

## 10. RENTAL REVENUE

The components of rental revenue are as follows:

(\$000s)	Three months ended September 30		Nine months ended September 30	
	2017	2016	2017	2016
Rental revenue	16,981	16,957	51,631	51,358
Amortization of tenant incentives (note 4)	(710)	(819)	(2,281)	(2,429)
Straight-line adjustments	520	301	1,000	943
	16,791	16,439	50,350	49,872



## 11. FINANCE COSTS

The components of finance costs are as follows:

	Three months ended September 30		Nine months ended September 30	
(\$000s)	2017	2016	2017	2016
Interest on mortgages payable and revolving credit facility	2,041	2,135	6,109	6,486
Interest on Class C LP Units	710	757	2,147	2,313
Amortization of fair value adjustment on Class C LP Units	(56)	(57)	(169)	(171)
Distributions on Class B LP Units (note 12)	2,466	2,466	7,399	7,399
Interest on convertible debenture	474	474	1,423	1,423
Fair value adjustment on derivative instruments (note 13)	(212)	(27)	(339)	214
Non-cash finance costs	274	220	777	611
	5,697	5,968	17,347	18,275

Total finance costs paid during the three and nine-month period were \$5,120 and \$16,416 (2016 - \$5,301 and \$16,972).

## 12. RELATED PARTY TRANSACTIONS

Our condensed interim consolidated financial statements include the following related party transactions with Melcor, and its affiliates, as our controlling unitholder:

### a) Property and Asset Management Agreements

Pursuant to the terms of the Property and Asset Management Agreements, we incurred the following fees during the period:

	Three months ended September 30		Nine months ended September 30	
(\$000s)	2017	2016	2017	2016
<b>Asset Management Agreement</b>				
Base Annual Management Fee	395	399	1,189	1,192
Capital Expenditure Fee	—	—	—	38
<b>Property Management Agreement</b>				
Monthly Fee	475	480	1,426	1,436
Lease Fee	154	183	553	480
	1,024	1,062	3,168	3,146

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. Acquisition Fees, Capital Expenditure Fees and Lease Fees are capitalized to investment properties. As at September 30, 2017 there was \$581 (December 31, 2016 - \$583) payable to Melcor related to these fees.

### b) Distributions on Class B LP Units and Redemptions of Class C LP Units

During the three and nine-month period ended September 30, 2017, \$2,466 and \$7,399 in distributions were recorded on Class B LP Units held by Melcor (2016 - \$2,466 and \$7,399). These distributions were recorded as finance costs (note 11). As at September 30, 2017 there was \$822 payable to Melcor for the September distribution (December 31, 2016 - \$822 for the December distribution).

Also during the three and nine-month period ended September 30, 2017, Melcor, as holder of all Class C LP Units, was paid \$1,587 and \$4,789 to fund principal and interest payments on the retained debt (2016 - \$1,607 and \$4,834). In addition, during the three month period we repaid the maturing balance on 295,327 Class C LP units with a carrying value of \$2,578 (2016 - Nil).

**c) Rental Revenue**

For the three and nine-month period ended September 30, 2017 we collected \$242 and \$723 in rental revenue from Melcor and an affiliate for use of office space (2016 - \$244 and \$720). In addition, pursuant to certain Head and Bridge Lease Agreements, we collected \$90 and \$273 in rental revenue from Melcor as compensation for certain vacant spaces at properties acquired from Melcor in 2014 (2016 - \$107 and \$190). These amounts are included in rental revenue.

**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.

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

### 13. 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, accounts receivables, loan receivable, 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 derivative financial asset - interest rate swap are estimated by discounting the future cash flows associated with the debt at market interest rates (Level 3).
- 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 and the fair value of convertible debenture is estimated based on the closing trading price of the REIT's debenture (Level 1).

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

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 period.

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

		September 30, 2017				December 31, 2016	
(\$000s)		Fair Value	Amortized Cost	Total Carrying Value	Total Fair Value	Total Carrying Value	Total Fair Value
<b>Non-financial assets</b>							
Investment properties	Level 3	619,202	—	619,202	619,202	641,365	641,365
<b>Financial liabilities</b>							
Mortgages payable	Level 3	—	223,712	223,712	216,101	220,062	222,116
Class B LP Units	Level 1	129,350	—	129,350	129,350	123,650	123,650
Class C LP Units	Level 3	—	75,193	75,193	75,193	80,568	80,568
Convertible debenture	Level 1	—	34,315	34,315	34,949	34,315	35,017
<b>Derivative financial instruments</b>							
Interest rate swap	Level 3	449	—	449	449	110	110
Conversion feature on convertible debenture	Level 3	61	—	61	61	61	61

### 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 two years, the valuations are performed by qualified external valuers 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's internal valuation team as at September 30, 2017 of which 18 investment properties (of 46 legal phases) with a fair value of \$216,700 were valued by qualified independent external valuation professionals during the period. Valuations performed during the nine-month period resulted in fair value losses of \$16,629. During the year ended December 31, 2016 Melcor's internal valuation team valued investment properties of which 22 investment properties (of 47 legal phases valued) with a fair value of \$287,000 were valued by qualified independent external valuation professionals during the year. Valuations performed during the year ended December 31, 2016 resulted in fair value losses of \$6,546.

Weighted average stabilized net operating income for investment properties is \$1,488 (December 31, 2016 - \$1,503). Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	September 30, 2017			December 31, 2016		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	8.75%	6.68%	5.50%	8.75%	6.63%
Terminal capitalization rate	5.75%	9.00%	6.80%	5.75%	9.00%	6.83%
Discount rate	6.50%	9.75%	7.77%	6.50%	9.75%	7.70%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by \$44,474 (December 31, 2016 - \$46,366). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by \$51,671 (December 31, 2016 - \$53,936).

#### Derivative financial instruments

Our derivative financial instruments are comprised of a floating for fixed interest rate swap on one of our mortgages (level 3) and the conversion feature on our convertible debenture (level 3).

The fair value of the interest rate swap is calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at September 30, 2017 the fair value of the interest rate swap contract is \$449.

The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debenture as at September 30, 2017 are as follows:

- Volatility - expected volatility as at September 30, 2017 was derived from the historical prices of our trust units. As the REIT was formed on May 1, 2013, price history is limited and we use the entire historical data up until September 30, 2017. Volatility was 16.73% (December 31, 2016 - 16.73%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at September 30, 2017. The credit spread used was 3.71% (December 31, 2016 - 3.71%).

#### 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 September 30, 2017 the fair value of the Class B LP Units was \$129,350, resulting in a fair value loss of \$5,700 for the nine-month period (December 31, 2016 - fair value loss of \$18,270).

## 14. SUBSEQUENT EVENTS

On October 13, 2017 we declared a distribution of \$0.05625 per unit for the months of October, November and December 2017. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
October 2017	October 31, 2017	November 15, 2017	\$0.05625 per unit
November 2017	November 30, 2017	December 15, 2017	\$0.05625 per unit
December 2017	December 29, 2017	January 15, 2018	\$0.05625 per unit