

Management's Discussion & Analysis

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August 2, 2017

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 unaudited condensed interim consolidated financial statements and related notes for the quarter ended June 30, 2017 and the MD&A and consolidated financial statements and related notes for the year ended December 31, 2016. The discussion outlines strategies and provides analysis of our financial performance for the second quarter of 2017.

The underlying financial statements in this MD&A, including 2016 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted.

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on August 2, 2017. Disclosure contained in this MD&A is current to August 2, 2017, unless otherwise indicated.

All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

Other Information

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.

Non-standard Measures

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

Non-standard measures included in this MD&A are defined on page 19 "Non-standard Measures."

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 2017 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 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 on pages 22-26 of the 2016 annual report.

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.

Financial Reporting

Throughout this MD&A we make reference to the terms "we", "our" and "management". These terms are used to describe the activities of the REIT through the eyes of management, as provided by Melcor under the asset management and property management agreements.

Our Business: Vision, Goals & Strategy

Melcor REIT has an established and diversified portfolio in western Canada. We own 37 income-producing office, retail and industrial properties representing 2.71 million square feet (sf) in gross leasable area (GLA) at June 30, 2017. These high-quality properties feature stable occupancy and a diversified mix of tenants, some of whom have been in place for over 20 years. We are externally managed, administered and operated by Melcor pursuant to the asset management and property management agreements entered into at our IPO.

As at August 2, 2017, 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.

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 expanding our portfolio of income-producing properties across western Canada to provide stable monthly cash distributions to unitholders. Our growth strategy is simple: acquire and improve. Together with Melcor, we have a proven track record of doing both.

Acquire/Divest:

On April 27, 2017 we sold a 67,610 sf industrial property, LC Industrial, in Lethbridge, Alberta for \$7.76 million (including transaction costs). The property was acquired by the REIT in 2014 from an unrelated third party for \$6.03 million (including transaction costs). Over the past three years we have improved the asset through 7,900 sf of new leasing, cultivation of strong tenant relationships and capital investment. Proceeds from the sale will be used to repay amounts drawn under the revolving credit facility, providing the REIT with additional capacity to recycle capital in future asset acquisitions.

We continue to actively seek strategic property acquisitions that meet our investment criteria. We have not completed any acquisitions in 2017.

Improve:

We continue to improve our existing assets through both property management and asset enhancement programs.

Asset Enhancement:

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

Property Management:

We responded to 99% of calls to our signature customer care line within 30 minutes in Q2-2017, exceeding our target of a 95% on time response rate. We use this metric as an indicator of our success in providing responsive care to our customers.

Q2-2017 Highlights & Key Performance Indicators

Financial Highlights

(\$000s)	Three months ended June 30			Six months ended June 30		
	2017	2016	△%	2017	2016	△%
Non-Standard KPIs						
Net operating income (NOI)	10,570	10,773	(2)%	21,307	21,386	— %
Funds from operations (FFO)	6,835	6,822	— %	13,650	13,519	1 %
Adjusted funds from operations (AFFO) ⁽⁶⁾	5,219	5,158	1 %	10,469	10,142	3 %
Adjusted Cash Flow from Operations (ACFO)	4,417	4,524	(2)%	8,900	8,718	2 %
Rental revenue	16,559	16,807	(1)%	33,559	33,433	— %
Income before fair value adjustments	3,566	3,570	— %	7,146	6,976	2 %
Fair value adjustment on investment properties	(249)	(174)	nm	(16,708)	(1,999)	nm
Distributions to unitholders	1,882	1,883	— %	3,764	3,764	— %
Cash flows from operations	2,701	2,937	(8)%	5,528	5,546	— %
Same-asset NOI	9,991	10,119	(1)%	19,971	20,105	(1)%
Per unit metrics						
Loss - diluted	(\$0.16)	(\$0.37)		(\$1.37)	(\$1.27)	
FFO ⁽⁶⁾	\$0.27	\$0.26		\$0.53	\$0.52	
AFFO ⁽⁶⁾	\$0.20	\$0.20		\$0.41	\$0.39	
Distributions	\$0.17	\$0.17		\$0.34	\$0.34	
Payout ratio ⁽⁶⁾	83%	84%		83%	86%	
				30-June-17	31-Dec-16	△%
Total assets (\$000s)				642,977	663,724	(3)%
Equity (\$000s) ⁽¹⁾				260,600	260,600	— %
Debt (\$000s) ⁽²⁾				344,887	351,947	(2)%
Weighted average interest rate on debt				3.60%	3.63%	(1)%
Debt to GBV ratio ⁽³⁾				55%	55%	—%
Finance costs coverage ratio ⁽⁴⁾				2.99	2.88	4 %
Debt service coverage ratio ⁽⁵⁾				2.61	2.65	(2)%

(1) Calculated as the sum of trust units and Class B LP Units at their book value. Class B LP Units are presented as a financial liability in the condensed interim 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 49% (December 31, 2016 - 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 adjustments on derivative financial instruments.

(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.

(6) We adopted REALpac's new guidance on AFFO in Q2-2017 retroactive to January 1, 2017 and for the comparative periods. See Adjusted Funds from Operations on page 10 for detail.

Operational Highlights

	30-June-17	31-Dec-16	△%
Number of properties	37	38	(3)%
Gross leasable area (GLA) (sf)	2,711,847	2,775,782	(2)%
Occupancy (weighted by GLA)	92.7%	92.4%	—%
Retention (weighted by GLA)	78.6%	71.0%	11 %
Weighted average remaining lease term (years)	4.70	4.85	(3)%
Weighted average base rent (per sf)	\$15.69	\$15.73	— %

Q2-2017 Highlights:

Our portfolio performance remained steady through the second quarter and first half of 2017. The stability and diversity of our portfolio with respect to both tenant profile and asset class position the REIT well for managing through economic cycles. We are focused on the real estate fundamentals of asset enhancement and property management while conservatively managing our debt. At 83%, our payout ratio is a strong indicator of our overall health and our ability to sustain distributions at current rates. In Q2-2017, we adopted REALpac's new guidance on AFFO retroactive to January 1, 2017 and for the comparative period, which resulted in a change from our previously reported payout ratios. We believe this is an improved disclosure and does not represent a fundamental change in our underlying results or strategy.

Highlights of our performance in the second quarter include:

- Stable same-asset property income and occupancy in all asset classes and operating regions, with 92.7% occupancy at June 30, 2017. Same-asset NOI was down 1%.
- The net loss of \$15.28 million year to date is a result of the non-cash fair value losses on investment properties recorded in the period due to an increase in capitalization rates. Management believes adjusted funds from operations (AFFO) is a better reflection of our true operating performance.
- AFFO was relatively stable at \$5.22 million in Q2-2017 and \$10.47 million year to date.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. Through the first half of 2017 we completed 162,288 sf in new and renewed leasing (including holdovers) with a retention rate of 78.6% year to date.
- We responded to 99% of services requests within 30 minutes via our signature care program in Q2-2017. We view this metric as an important indication of our commitment to ongoing client care, which contributes to tenant satisfaction and ultimately retention.
- On April 27, 2017 we completed the sale of LC Industrial, a 67,610 sf industrial building in Lethbridge, Alberta for \$7.76 million (including transaction costs). This divestiture represents the REIT's first asset disposal and provides the REIT with additional capacity to recycle capital in future asset acquisitions. Rental revenue related to LC Industrial in the three and six-months ended June 30, 2017 was \$0.05 million and \$0.20 million (2016 - \$0.15 million and \$0.32 million).
- We took advantage of favourable lending conditions and early re-financed \$13.95 million in mortgages at an average interest rate of 3.65% both during and subsequent to the quarter. Early re-financing was a strategy employed to mitigate and re-balance our risk in 2018 when 21% of our mortgages mature.
- We continue to experience negative market pressure on Edmonton downtown office space as approximately 1.8 million sf in new inventory comes online. Edmonton downtown office spaces makes up 12% of the REIT's GLA.
- We paid distributions of \$0.05625 per trust unit in April, May and June for a quarterly payout ratio of 83%.
- As at June 30, 2017 we have \$2.17 million in cash. The REIT also has additional capacity under our revolving credit facility. Our working capital position remains healthy and we continue to collect receivables in a timely manner to ensure near-term liquidity.
- On April 15, 2017 Andrew Melton was appointed as the REIT's second President & Chief Executive Officer and Ralph Young was appointed Board Chair.

Consolidated Revenue & Net Operating Income

(\$000s)	Three months ended June 30			Six months ended June 30		
	2017	2016	△%	2017	2016	△%
Base rent	10,246	10,435	(2)%	20,628	20,956	(2)%
Recoveries	6,261	6,308	(1)%	12,803	12,329	4 %
Other	589	552	7 %	1,219	1,116	9 %
Amortization of tenant incentives	(802)	(785)	2 %	(1,571)	(1,610)	(2)%
Straight-line rent adjustment	265	297	(11)%	480	642	(25)%
Rental revenue	16,559	16,807	(1)%	33,559	33,433	— %
Operating expenses	3,048	3,138	(3)%	6,445	6,363	1 %
Utilities and property taxes	3,478	3,384	3 %	6,898	6,652	4 %
Direct operating expenses	6,526	6,522	— %	13,343	13,015	3 %
Net rental income	10,033	10,285	(2)%	20,216	20,418	(1)%
NOI	10,570	10,773	(2)%	21,307	21,386	— %
Same-asset NOI	9,991	10,119	(1)%	19,971	20,105	(1)%
Operating margin	61%	61%	— %	60%	61%	(2)%

Revenue

The decline in rental revenue in Q2-2017 is primarily the result of the sale of LC industrial contributing to lower base rent combined with slightly lower average occupancy, which was down 0.5% compared to the end of Q2-2016.

This decline was partially offset by the addition of 7,732 sf of new GLA through densification at an existing retail property in May 2016, which added \$0.07 million to second quarter revenue and \$0.15 million year to date compared to \$0.04 million in Q2-2016. Lower operating cost and realty tax recoveries ("recoveries") in Q2-2017 reflect the slight increase in vacancy and lower recovery ratio. In the year to date period, we had higher recovery revenue due to an increase in direct operating expenses.

During the quarter we signed 162,288 sf of new and renewed leasing (including holdovers) and maintained steady occupancy at 92.7%. In 2017, 128 leases representing 406,876 sf or 14.7% of our portfolio are up for renewal. We have retained 78.6% of expiring leases (representing 144,591 sf) as at June 30, 2017 in spite of challenging market conditions in many of our operating regions. We continue to be proactive with our leasing programs to both retain tenants and attract new tenants.

The table below summarizes the leasing activity for Q2-2017:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	2,564,822	\$15.73	92.4%
Expiring Leases	(144,591)	\$15.54	
Early Terminations	(16,686)	\$15.22	
Renewals/Holdovers	113,582	\$15.58	
New Leasing	48,706	\$11.84	
Lease Amendments	15,489	\$—	
Investment Property Sold	(67,610)	\$8.68	
Closing occupancy	2,513,712	\$15.69	92.7%

Weighted average base rent was \$15.69, down \$0.04 compared to December 31, 2016. This reduction is primarily due to market conditions creating downward pressure on our downtown Edmonton office rates due to significant new inventory in

the market. Competition in this asset class has intensified, resulting in net effective rent erosion and higher tenant incentives. Declining base rates on new and renewed leasing was offset by the sale of LC Industrial, which had a base rate of \$8.68.

The following table summarizes our average base rent, GLA, occupancy and retention:

	30-June-17	31-Dec-16	△%
Weighted average base rent (per sf)	\$15.69	\$15.73	— %
Weighted average remaining lease term	4.70	4.85	(3)%
GLA	2,711,847	2,775,782	(2)%
Occupancy	92.7%	92.4%	— %
Retention	78.6%	71.0%	11 %

Recoveries are amounts recovered from tenants for direct operating expenses incurred and include a nominal administrative charge. We typically expect recovery revenue to correlate with changes in recoverable operating expenses. Q2-2017 recovery revenue was down 1% over 2016 while direct operating expenses remained stable. The decrease reflects the slight increase in vacancy and lower recovery ratio. Year to date recovery revenue increased 4% over 2016 while direct operating expenses were up 3% over the same period. The increase in our year to date recovery ratio was the result of truing up 2016 year-end estimates in Q1-2017, which resulted in additional income in 2017.

Other revenue includes parking and other miscellaneous revenue that is ancillary to our business and fluctuates from period to period.

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

Direct operating expenses

Direct operating expenses remained steady in Q2-2017 and were up 3% year to date. The timing of maintenance projects led to a 3% decrease in second quarter operating expenses. Year to date operating expenses increased 1% due to timing of projects undertaken and higher snow removal costs in Q1-2017. Utilities and property taxes were up 3% in the second quarter and 4% year to date as a result of higher property taxes and the introduction of the carbon tax in Alberta effective January 1, 2017. As a cornerstone of our property management strategy we are committed to efficient and cost effective maintenance of our buildings to ensure maximum value to our tenants and unitholders.

NOI and Same-Asset NOI

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

Slightly lower occupancy combined with the sale of LC Industrial contributed to the 2% decline in NOI. Year to date NOI was stable over 2016 as a result of the higher recovery ratio. On a same-asset basis, NOI was down 1% as a result of lower occupancy.

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

	Three months ended June 30			Six months ended June 30		
(\$000s)	2017	2016	△%	2017	2016	△%
Same-asset NOI	9,991	10,119	(1)%	19,971	20,105	(1)%
Acquisitions/Dispositions	42	166		245	313	
NOI before adjustments	10,033	10,285	(2)%	20,216	20,418	(1)%
Amortization of tenant incentives	802	785		1,571	1,610	
Straight-line rent adjustment	(265)	(297)		(480)	(642)	
NOI	10,570	10,773	(2)%	21,307	21,386	— %

Property Analysis

At June 30, 2017 our portfolio included interests in 37 retail, office and industrial income-producing properties located in western Canada for a total of 2,711,847 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at June 30, 2017 by property type:

Property Type	Number of Properties	GLA (sf)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties (\$000s)	NOI for the six months ended June 30, 2017 (\$000s)
Retail	13	978,320	36.1%	308,826	9,172
Office	20	1,569,764	57.9%	285,641	10,616
Industrial	3	163,763	6.0%	26,200	1,033
Land Lease Community	1	308 lots	n/a	16,050	486
	37	2,711,847	100.0%	636,717	21,307

The following table details key financial and operational metrics for each of our asset classes for the quarter ended June 30, 2017:

	Retail		Office		Industrial		Land Lease Community	
	2017	2016	2017	2016	2017	2016	2017	2016
<u>Three months ended June 30 (\$000s)</u>								
Rental revenue	6,691	6,635	8,990	9,092	553	755	325	325
NOI	4,578	4,658	5,294	5,271	466	599	232	245
Same-asset NOI	4,461	4,572	4,899	4,835	399	468	232	244
<u>Six months ended June 30 (\$000s)</u>								
Rental revenue	13,295	12,934	18,340	18,356	1,272	1,496	652	647
NOI	9,172	8,951	10,616	10,797	1,033	1,150	486	488
Same-asset NOI	8,836	8,791	9,814	9,909	835	917	486	488
<u>As at June 30</u>								
Weighted average base rent (sf)	\$18.85	\$18.87	\$14.15	\$14.34	\$10.31	\$10.20	n/a	n/a
Occupancy	95.0%	96.1%	90.5%	90.4%	100.0%	100.0%	100.0%	100.0%

Retail – our 13 retail properties include 5 multi-building regional power centres and 8 neighborhood shopping centres. In 2016 we built a new CRU at Westgrove Common to increase our GLA by 7,732 sf. Rental revenue from the newly constructed CRU was \$0.07 million in Q2-2017 and \$0.15 million year to date (2016 - \$0.04 and \$0.04 million respectively). On a same-asset basis, rental revenue was up 2% year to date as a result of higher recovery revenue on increased direct operating expenses. Occupancy declined over Q2-2016 while average base rent remained stable. Same-asset NOI increased 1% over 2016 as a result of improvement in our recovery ratio, primarily the result of true-up of prior year recoveries.

Office – our 20 office properties include low and medium-rise buildings located in strategic urban and suburban centres. Our office portfolio is our most geographically diverse asset class, with properties across Alberta, in Regina, SK and Kelowna, BC. Increased competition in the downtown Edmonton office market contributed to the decrease in average base rent. Higher recoveries on direct operating costs offset the decline in base rent resulting in stable revenue year to date over 2016. NOI declined 2% compared to 2016, a direct result of lower base rent.

Industrial – our 3 industrial properties include single and multi-tenant buildings. In the second quarter we divested LC Industrial. Our assets remained fully occupied through the second quarter of 2017. The increase in average base rent is a due to the sale of LC Industrial with a lower average base rent than the rest of the portfolio. This was partially offset by lease restructuring completed in 2016. On a same-asset basis rental revenue and NOI declined as a result of lower straight-line rent adjustment.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at June 30, 2017 (December 31, 2016 – 100%). Revenue and NOI on our land lease community was steady over Q2-2016.

Regional Analysis

The following table summarizes the composition of our properties at June 30, 2017 by geographic region:

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties (\$000s)	NOI for the six months ended June 30, 2017 (\$000s)
Northern Alberta	24	1,633,276	60.3%	395,191	12,655
Southern Alberta	6	711,782	26.2%	174,358	6,426
Saskatchewan & British Columbia	7	366,789	13.5%	67,168	2,226
	37	2,711,847	100.0%	636,717	21,307

The following table details key financial and operational metrics for each of our geographic regions for the quarter ended June 30, 2017:

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2017	2016	2017	2016	2017	2016
Three months ended June 30 (\$000s)						
Rental revenue	10,038	10,351	4,622	4,821	1,899	1,635
NOI	6,295	6,545	3,125	3,302	1,150	926
Same-asset NOI	5,948	6,140	2,989	3,145	1,054	834
Six months ended June 30 (\$000s)						
Rental revenue	20,246	20,456	9,565	9,555	3,748	3,422
NOI	12,655	12,829	6,426	6,483	2,226	2,074
Same-asset NOI	11,769	12,016	6,142	6,187	2,060	1,902
As at June 30						
Weighted average base rent (per sf)	\$16.41	\$16.61	\$15.14	\$14.56	\$13.55	\$13.50
Occupancy	91.8%	94.2%	96.2%	95.9%	89.8%	83.1%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer. Across the board declines in Northern Alberta are primarily due to increased competition in downtown Edmonton office properties creating downward pressure on rents and occupancy offset by higher recoveries on increased direct operating expenses.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. The sale of LC Industrial in Q2-2017 contributed to the 4% decrease in rental revenue and the increase in average base rent.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue was up 10% over 2016 as a result of higher occupancy and improved recovery ratio.

General & Administrative Expenses

	Three months ended June 30			Six months ended June 30		
(\$000s)	2017	2016	△%	2017	2016	△%
Asset management fee	396	399	(1)%	794	796	— %
Professional fees	69	98	(30)%	151	220	(31)%
Public company costs	83	58	43 %	205	164	25 %
Other	76	97	(22)%	163	213	(23)%
	624	652	(4)%	1,313	1,393	(6)%

General & administrative expenses (G&A) were \$0.62 million or 4% of rental revenue in Q2-2017 and \$1.31 million or 4% of rental revenue year to date. Professional fees were higher in the comparative period due to the one-time change in our valuation process, which resulted in a higher than normal appraisal cost. Other expenses and public company costs can fluctuate from period to period due to the timing of costs incurred. 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

	Three months ended June 30			Six months ended June 30		
(\$000s)	2017	2016	△%	2017	2016	△%
Interest on mortgages payable and revolving credit facility	2,004	2,177	(8)%	4,068	4,351	(7)%
Interest on Class C LP Units	715	765	(7)%	1,437	1,556	(8)%
Amortization of fair value adjustment on Class C LP Units	(56)	(57)	(2)%	(113)	(114)	(1)%
Interest on convertible debenture	475	475	— %	949	949	— %
Fair value adjustment on derivative instruments	(153)	241	(163)%	(127)	241	(153)%
Non-cash finance costs	252	244	3 %	503	391	29 %
Finance costs before distributions	3,237	3,845	(16)%	6,717	7,374	(9)%
Distributions on Class B LP Units	2,467	2,467	— %	4,933	4,933	— %
Finance costs	5,704	6,312	(10)%	11,650	12,307	(5)%

Finance costs were down in both the three month and year to date periods. Excluding the swing in fair value adjustments on derivative instruments in the three and six month periods, finance costs declined 4% over Q2-2016 and 2% year to date. Interest on mortgages payable and the revolving credit facility decreased as a result of interest rate savings on new and renewed mortgages and the regular paydown of principal on our mortgages. Interest on Class C LP Units decreased over the comparative period due to the reduced interest rate on extension of 997,220 Class C LP Units in August 2016. Our \$34.50 million convertible debenture pays a coupon of 5.50% annually.

Distributions on Class B LP Units were unchanged. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units (\$0.17 per unit during the quarter).

Non-cash finance costs increased over 2016 as a result of fully unwinding the discount recognized on a 2014 mortgage assumption which was re-financed in March 2016.

As at June 30, 2017 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debenture was 3.60%.

Income Taxes

As at June 30, 2017, the REIT qualifies as a mutual fund trust within the meaning of the *Income Tax Act* (Canada) and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through (SIFT) rules; accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

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

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

Funds from operations & adjusted funds from operations

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

In February 2017, REALpac issued a White Paper which defines adjusted funds from operations (AFFO) as FFO, adjusted for, among other things, straight-line rent adjustments, capital expenditures, tenant incentives and leasing commissions.

In Q2-2017 the REIT adopted REALpac's new guidance on AFFO retroactively to January 1, 2017. The REIT's previous definition of AFFO included adjustments for non-cash finance costs and net impact of amortization of fair value adjustment and interest subsidy, which are no longer included. In addition, the guidance provided on capital expenditures, tenant incentives and leasing commissions allows for use of a reserve; however, is weighted more heavily toward historical results versus projected results. Due to the fact that the REIT was newly formed on May 1, 2013, our previous determination of these reserves was based on a percentage of NOI over a 10 year projected horizon. Based on the new guidance we have reassessed our reserves as follows:

- Normalized capital expenditures are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend (historical results are limited to May 1, 2013 onward).
- Normalized tenant incentives and leasing commissions are calculated based on a trailing 5 year historical actual spend plus 5 year projected spend (historical results are limited to May 1, 2013 onward).

The comparative period has been restated to comply with the new definition of AFFO, which resulted in AFFO of \$10.14 million or \$0.39 per unit (previously \$11.22 million or \$0.44 per unit) and a payout ratio of 83% (previously 77%).

Refer to additional commentary on capital expenditures and tenant incentives and leasing commissions in the Investment Properties section on page 12.

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.

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

	Three months ended June 30			Six months ended June 30		
<i>(\$000s, except per unit amounts)</i>	2017	2016	△%	2017	2016	△%
Net loss for the period	(1,792)	(4,153)	(57)%	(15,282)	(14,119)	8 %
Add / (deduct)						
Fair value adjustment on investment properties	249	174	43 %	16,708	1,999	736 %
Fair value adjustment on Class B LP Units	5,262	7,308	(28)%	5,847	18,855	(69)%
Amortization of tenant incentives	802	785	2 %	1,571	1,610	(2)%
Distributions on Class B LP Units	2,467	2,467	— %	4,933	4,933	— %
Fair value adjustment on derivative instruments	(153)	241	(163)%	(127)	241	100 %
Funds From Operations (FFO)	6,835	6,822	— %	13,650	13,519	1 %
Deduct						
Straight-line rent adjustments	(265)	(297)	(11)%	(480)	(642)	(25)%
Normalized capital expenditures	(566)	(560)	1 %	(1,156)	(1,149)	1 %
Normalized tenant incentives and leasing commissions	(785)	(807)	(3)%	(1,545)	(1,586)	(3)%
Adjusted Funds from Operations (AFFO)	5,219	5,158	1 %	10,469	10,142	3 %
FFO/Unit	\$0.27	\$0.26	— %	\$0.53	\$0.52	1 %
AFFO/Unit	\$0.20	\$0.20	1 %	\$0.41	\$0.39	3 %

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

	Three months ended June 30			Six months ended June 30		
<i>(\$000s, except per unit amounts)</i>	2017	2016	△%	2017	2016	△%
Funds From Operations (FFO)	6,835	6,822	— %	13,650	13,519	1%
Interest on convertible debenture	475	475		949	949	
Non-cash finance costs on convertible debenture	133	123		266	247	
Funds From Operations - Diluted (FFO - Diluted)	7,443	7,420	— %	14,865	14,715	1%
FFO - Diluted/Unit	\$0.26	\$0.26	— %	\$0.52	\$0.52	1%

Adjusted cash flow from operations

In February 2017, REALpac issued a White Paper which defines a new metric, Adjusted Cash Flow from Operations (ACFO) which is intended to be used as an additional measure of sustainable, economic cash flow of investment properties. The White Paper defines ACFO as cash flow from operations adjusted for, among other things, effects of puttable instruments classified as financial liabilities (distributions on Class B LP Units), payments of tenant incentives and direct leasing costs, non-cash finance costs, normalized capital expenditures and normalized tenant incentives and direct leasing costs.

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

	Three months ended June 30			Six months ended June 30		
(\$000s)	2017	2016	△%	2017	2016	△%
Cash flows from operations	2,701	2,937	(8)%	5,528	5,546	— %
Distributions on Class B LP Units	2,467	2,467		4,933	4,933	
Payment of tenant incentives and direct leasing costs	852	731		1,643	1,365	
Non-cash finance costs	(252)	(244)		(503)	(391)	
Normalized capital expenditures	(566)	(560)		(1,156)	(1,149)	
Normalized tenant incentives and leasing commissions	(785)	(807)		(1,545)	(1,586)	
Adjusted Cash flow from Operations (ACFO)	4,417	4,524	(2)%	8,900	8,718	2 %

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 three and six-month period were \$1.88 million and \$3.76 million (2016 - \$1.88 million and \$3.76 million).

Distributions made during the three and six-months ended June 30, 2017 represent a payout ratio of approximately 83% of AFFO (2016 - 84% and 86%). We generate sufficient cash flows from operations to sustain our current distribution rate for the foreseeable future. We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flows from operations. Cash flows from operations exceeded distributions by \$0.82 million in the quarter and \$1.76 million year to date (2016 - \$1.05 million and \$1.78 million).

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:

	30-June-17	31-Dec-16
Number of properties	37	38
Total GLA (sf)	2,831,353	2,895,306
GLA (REIT owned %) (sf)	2,711,847	2,775,782
Fair value of portfolio (\$000s)	636,717	659,611
Value per square foot	\$235	\$238
NOI (\$000s)	21,307	42,329
Weighted average capitalization rate	6.69%	6.63%
Weighted average discount rate	6.81%	6.83%
Weighted average terminal capitalization rate	7.77%	7.70%

For the quarter ended June 30, 2017, Melcor's internal valuation team performed the valuation assessment. Year to date, 10 phases (of 46 legal phases) with a fair value of \$111.40 million were valued by qualified independent external valuation professionals. Valuations performed during the period resulted in fair value losses of \$16.71 million. In 2016, 22 phases (of 47 legal phases) with a fair value of \$287.00 million were valued by qualified independent external valuation professionals. Valuations performed during 2016 resulted in fair value losses of \$6.55 million.

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

A breakdown of our fair value adjustment on investment properties by geographical region are as follows:

(\$000s)	Six months ended June 30, 2017	Year ended December 31, 2016
Northern Alberta	(17,032)	(3,773)
Southern Alberta	864	(3,322)
Saskatchewan & British Columbia	(540)	549
	(16,708)	(6,546)

Fair value losses in Northern Alberta were primarily driven by continued pressure on Edmonton office capitalization rates, which increased 25 to 100 basis points over Q4-2016 on certain properties. The significant drop is the result of recent asset transactions of comparable properties in the market. Fair value gains in Southern Alberta were the result of the sale of LC Industrial in Q2-2017 where the sale price exceeded the carrying value. The remainder of fair value losses across the portfolio were due to capital and tenant incentive spending that did not result in a significant change in the fair value of the related property (refer to discussion below). Fair value adjustments represent a change of approximately 3% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	June 30, 2017			December 31, 2016		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	8.75%	6.69%	5.50%	8.75%	6.63%
Terminal capitalization rate	5.75%	9.00%	6.81%	5.75%	9.00%	6.83%
Discount rate	6.50%	9.75%	7.77%	6.50%	9.75%	7.70%

A capitalization rate increase of 50 basis points (+0.5%) would decrease the fair value of investment properties by \$44.34 million (December 31, 2016 - \$46.37 million) while a 50 basis points decrease (-0.5%) would increase it by \$51.50 million (December 31, 2016 - \$53.94 million).

Capital Expenditures

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

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

The following summarizes our actual expenditures compared to normalized amounts.

(\$000s)	Six months ended June 30, 2017	Year ended December 31, 2016
Investment in property improvements and development	1,022	3,869
Less development	—	(1,641)
Less non-recoverable	—	—
Actual capital expenditures	1,022	2,228
Normalized capital expenditures	1,156	2,298
Variance	(134)	(70)

Tenant Incentive & Direct Leasing Expenditures

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

The following summarizes our actual expenditures compared to normalized amounts.

<i>(\$000s)</i>	Six months ended June 30, 2017	Year ended December 31, 2016
Actual tenant incentives and direct leasing expenditures	1,643	3,410
Normalized tenant incentives and direct leasing expenditures	1,545	3,172
Variance	98	238

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:

<i>(\$000s)</i>	Three months ended June 30			Six months ended June 30		
	2017	2016	△\$	2017	2016	△\$
Cash from operating activities	2,701	2,937	(236)	5,528	5,546	(18)
Cash from (used in) investing activities	3,411	564	2,847	3,198	(917)	4,115
Cash used in financing activities	(4,928)	(5,175)	247	(8,184)	(3,412)	(4,772)
Increase (decrease) in cash and cash equivalents	1,184	(1,674)	2,858	542	1,217	(675)
Cash and cash equivalents, beginning of the period	988	2,891	(1,903)	1,630	—	1,630
Cash and cash equivalents, end of the period	2,172	1,217	955	2,172	1,217	955

Operating activities

Cash from operating activities decreased compared to the prior periods as a result of the sale of LC Industrial and the slight increase in vacancy. Reduced interest rates and the regular paydown of principal on our mortgages resulted in a \$0.22 million reduction in cash finance costs (finance costs less non-cash adjustments) during the second quarter (year to date down \$0.40 million). Cash flows before adjustments for working capital and payment of tenant incentives and direct leasing costs were up \$0.05 million in the quarter and \$0.41 million year to date. Our tenant incentives and direct leasing cost investments were \$0.85 million in the quarter and \$1.64 million year to date (2016 - \$0.73 million and \$1.37 million) as we completed 162,288 sf of new and renewed leasing, resulting in period end occupancy of 92.7%. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from period to period.

Investing activities

We commenced our 2017 capital program in the second quarter with \$0.81 million invested (year to date - \$1.02 million invested) (2016 - \$0.45 million and \$0.48 million). We remain committed to strategic value-adding asset enhancement and

preservation projects as a integral component of our strategy to improve our assets and retain and attract tenants. Asset enhancement investments fluctuate based on the nature and timing of projects undertaken and whether execution of a project is impacted by weather.

During Q2-2016, we substantially completed construction on a 7,732 sf single-tenant CRU to densify an existing regional shopping center at Westgrove Common, investing \$1.45 million in development costs.

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

Financing activities

During Q2-2017 we re-financed the mortgage on one property with a principal balance of \$5.52 million for \$1.68 million net proceeds. We also reduced the draw on our revolving credit facility by \$2.15 million (year to date - \$0.98 million) with the cash proceeds from the sale of LC Industrial offset by draws to fund normal operations. In Q2-2016, we re-financed the mortgages on two properties with a principal balance of \$16.20 million for \$3.89 million net proceeds. We also obtained mortgage financing on a recently acquired and previously unencumbered property for proceeds of \$2.80 million. Proceeds from financing were used to repay \$2.78 million drawn on the line.

We continued our monthly distribution of \$0.05625 per unit for quarterly distributions \$1.88 million; \$3.76 million year to date (2016 - \$1.88 million and \$3.76 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 June 30, 2017 we had \$2.17 million in cash and cash equivalents in addition to funds available under our revolving credit facility.

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, we may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, our total indebtedness would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the period we were in compliance with the Degree of Leverage Ratio and had a ratio of 55% as at June 30, 2017 (49% excluding convertible debentures).

As at June 30, 2017, our total capitalization was \$605.49 million and is comprised of:

(\$000s)	30-June-17
Revolving credit facility ⁽¹⁾	16,500
Mortgages payable ⁽¹⁾	215,736
Class C LP Units ⁽²⁾	78,151
Indebtedness, excluding convertible debenture	310,387
Convertible debenture ⁽³⁾	34,500
Indebtedness	344,887
Class B LP Units ⁽⁴⁾	147,708
Trust units	112,892
Equity	260,600
Total capitalization	605,487
Gross Book Value (GBV)⁽⁵⁾	630,832
Debt to GBV, excluding convertible debenture (maximum threshold - 60%)	49%
Debt to GBV (maximum threshold - 65%)	55%

(1) Debts are presented excluding unamortized transaction costs and discount on bankers acceptance.

(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, subsequent asset purchases and development costs less dispositions.

We are also 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 June 30, 2017, 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 1.69, and an adjusted unitholders' equity of \$301.99 million. We also have financial covenants on certain mortgages for investment properties. At June 30, 2017, and throughout the period, we were in compliance with the financial covenants on our mortgages. We prepare financial forecasts to monitor changes to our debt and capital levels and manage 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:

	<i>as at June 30</i>						
(\$000s)	Total	2017	2018	2019	2020	2021	Thereafter
Revolving credit facility	16,500	16,500	—	—	—	—	—
Mortgages payable	215,736	3,320	41,047	66,337	8,922	33,997	62,113
Class C LP Units	78,151	4,320	14,637	9,634	26,299	8,088	15,173
Convertible debenture	34,500	—	—	34,500	—	—	—
Total	344,887	24,140	55,684	110,471	35,221	42,085	77,286
% of portfolio	100%	7%	16%	32%	10%	12%	23%

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.

During the second quarter we re-financed a mortgage scheduled to mature in April 2018, securing \$7.20 million in gross proceeds (\$1.68 million net) at an interest rate of 3.55% (previously 4.64%). Subsequent to the quarter we also re-financed a mortgage scheduled to mature in December 2018, securing \$6.75 million in gross proceeds (\$2.22 million net) at an interest rate of 3.75% (previously 3.61%). We re-financed these mortgages early to spread re-financing out and reduce our risk of re-financing at less favourable rates and terms. No mortgages were scheduled to mature in 2017, while 21% of our portfolio mortgage balance was set to mature in 2018. We had one scheduled Class C LP Unit maturity in 2017 which was financed subsequent to quarter end for \$3.70 million at an interest rate of 3.72%. Proceeds were used to repay the existing Class C LP Units held by Melcor (295,327 units) with a carrying value of \$2.58 million and interest rate of 3.13%. We continue to look ahead to 2018 and 2019 maturities to identify opportunities and reduce risks related to re-financing.

Debt Analysis – our mortgages payable, Class C LP Units and convertible debenture bear interest at fixed rates (including one variable rate mortgage fixed via an floating for fixed interest rate swap contract); our revolving credit facility bears interest at variable rates. The following table summarizes the interest rates and terms to maturity:

<i>(\$000s)</i>	Total	Fixed	Variable	Weighted average interest rate	Weighted average term to maturity
Revolving credit facility	16,500	—	16,500	3.30%	0.84
Mortgages payable	215,736	197,872	17,864	3.42%	3.95
Class C LP Units	78,151	78,151	—	3.34%	3.30
Convertible debenture	34,500	34,500	—	5.50%	2.50
Total	344,887	310,523	34,364	3.60%	3.51

The weighted average interest rate on our debts was 3.60% (December 31, 2016 - 3.63%).

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

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the period. 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 debt. These metrics are not calculated for purposes of covenant compliance on any of our debt facilities.

<i>(\$000s)</i>	Six months ended June 30, 2017	Year ended December 31, 2016
FFO	13,650	26,668
Principal repayments on Mortgages payable	3,367	6,491
Principle repayments on Class C LP Units	1,867	3,590
Debt service coverage ratio	2.61	2.65
FFO plus finance costs	20,494	40,870
Finance costs ⁽¹⁾	6,844	14,202
Finance costs coverage ratio	2.99	2.88

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

Equity

The REIT is authorized to issue an unlimited number of trust units and an unlimited number of special voting units. Each trust unit represents a holder's proportionate undivided beneficial ownership interest in the REIT and will confer the right to one vote at any meeting of 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.

The following table summarizes the trust units issued and the fully diluted number of units outstanding as at June 30, 2017 and December 31, 2016:

	June 30, 2017		December 31, 2016	
	Units	\$ Amount	Units	\$ Amount
Issued and fully paid units (\$000s)				
Balance, beginning of period	11,151,297	112,892	11,151,297	112,892
Balance, end of period	11,151,297	112,892	11,151,297	112,892
<i>Dilutive securities</i>				
Class B LP Units ⁽¹⁾	14,615,878	147,708	14,615,878	147,708
Convertible debenture	2,727,273	34,500	2,727,273	34,500
Diluted balance, end of period	28,494,448	295,100	28,494,448	295,100

(1) A corresponding number of special voting units are held by Melcor through an affiliate.

Quarterly Results

	2017		2016				2015	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
(\$000s except per unit amount)								
Revenue (\$000s)	16,559	17,000	16,170	16,439	16,807	16,626	16,963	15,938
Net income (loss) (\$000s)	(1,792)	(13,490)	2,790	153	(4,153)	(9,966)	16,381	11,287
Basic earnings (loss) per unit	\$ (0.16)	(\$1.21)	\$0.25	\$0.01	(\$0.37)	(\$0.89)	\$1.46	\$1.00
Annualized distribution rate	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675
Period-end closing unit price	\$8.86	\$8.50	\$8.46	\$8.67	\$8.50	\$8.00	\$7.21	\$7.95
Annualized distribution yield on closing unit price (%) ⁽¹⁾	7.62%	7.94%	7.98%	7.79%	7.94%	8.44%	9.36%	8.49%

(1) Annualized distribution yield is calculated as the annualized distribution rate divided by the period-end closing unit price.

Off Balance Sheet Arrangements, Contractual Obligations, Business Environment & Risks, Related Party Transactions, Critical Accounting Estimates, Changes in Accounting Policies

There were no material changes to the above titled sections at June 30, 2017 in comparison to the December 31, 2016 annual MD&A.

Internal Control over Financial Reporting and Disclosure Controls

The Chief Executive Officer and the Chief Financial Officer have evaluated whether there were material changes to internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting. No such changes were identified.

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 August 2, 2017, 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 these non-standard measures will assist investors in understanding components of our financial results.

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

	Three months ended June 30			Six months ended June 30		
(\$000s)	2017	2016	△%	2017	2016	△%
Net loss for the period	(1,792)	(4,153)	(57)%	(15,282)	(14,119)	8 %
Net finance costs	5,690	6,304	(10)%	11,630	12,290	(5)%
Fair value adjustment on Class B LP Units	5,262	7,308	(28)%	5,847	18,855	(69)%
Fair value adjustment on investment properties	249	174	43 %	16,708	1,999	736 %
General and administrative expenses	624	652	(4)%	1,313	1,393	(6)%
Amortization of tenant incentives	802	785	2 %	1,571	1,610	(2)%
Straight-line rent adjustment	(265)	(297)	(11)%	(480)	(642)	(25)%
NOI	10,570	10,773	(2)%	21,307	21,386	— %

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, excluding assets classified as held for sale.

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

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

Adjusted cash flow from operations (ACFO): ACFO is defined as cash flow from operations subject to certain adjustments, including: (i) fair value adjustments and other effects of redeemable units classified as liabilities; (ii) payments of tenant incentives and direct leasing costs; (iii) non-cash finance costs; and (iv) deducting a reserve for normalized maintenance capital expenditures, tenant inducements and leasing costs, as determined by us. Other adjustments may be made to ACFO as determined by the Board in its discretion.

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

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

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

Debt to Gross Book Value: is calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, 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.

Cash finance costs: is calculated as finance costs less non-cash finance costs, fair value adjustment on derivative instruments and amortization of fair value adjustment on Class C LP Units.