

Management's Discussion & Analysis

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May 4, 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 March 31, 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 first 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 May 4, 2017. Disclosure contained in this MD&A is current to May 4, 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) 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 16 "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 38 income-producing office, retail and industrial properties representing 2.78 million square feet (sf) in gross leasable area (GLA) at March 31, 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 May 4, 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 28, 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 98% of calls to our signature customer care line within 30 minutes in Q1-2017, 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.

Q1-2017 Highlights & Key Performance Indicators

Financial Highlights

(\$000s)	Three months ended March 31		
	2017	2016	△%
Non-Standard KPIs			
Net operating income (NOI)	10,737	10,613	1 %
Funds from operations (FFO)	6,815	6,697	2 %
Adjusted funds from operations (AFFO)	5,806	5,477	6 %
Rental revenue	17,000	16,626	2 %
Income before fair value adjustments	3,554	3,406	4 %
Fair value adjustment on investment properties	(16,459)	(1,825)	nm
Distributions to unitholders	1,882	1,881	— %
Cash flows from operations	2,827	2,609	8 %
Same-asset NOI	9,980	9,986	— %
Per unit metrics			
Loss - diluted	(\$1.21)	(\$0.89)	nm
FFO	\$0.26	\$0.26	2 %
AFFO	\$0.23	\$0.21	6 %
Distributions	\$0.17	\$0.17	— %
Payout ratio	73%	80%	(9)%

	31-Mar-17	31-Dec-16	△%
Total assets (\$000s)	647,763	663,724	(2)%
Equity (\$000s) ⁽¹⁾	260,600	260,600	— %
Debt (\$000s) ⁽²⁾	350,573	351,947	— %
Weighted average interest rate on debt	3.63%	3.63%	—%
Debt to GBV ratio ⁽³⁾	55%	55%	—%
Finance costs coverage ratio ⁽⁴⁾	2.96	2.88	3 %
Debt service coverage ratio ⁽⁵⁾	2.68	2.65	1 %

Operational Highlights

	31-Mar-17	31-Dec-16	△%
Number of properties	38	38	— %
Gross leasable area (GLA) (sf)	2,779,431	2,775,782	— %
Occupancy (weighted by GLA)	92.5%	92.4%	—%
Retention (weighted by GLA)	75.3%	71.0%	6 %
Weighted average remaining lease term (years)	4.68	4.85	(4)%
Weighted average base rent (per sf)	\$15.57	\$15.73	(1)%

(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 50% (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.

Q1-2017 Highlights:

Our portfolio performance remained steady throughout Q1-2017. 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 73%, our payout ratio is a strong indicator of our overall health and our ability to sustain distributions at current rates.

Highlights of our performance in the first quarter include:

- Stable property income, with revenue up 2% and NOI growth of 1% over Q1-2016.
- The net loss of \$13.49 million 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.
- Growth of 6% in AFFO as a result of higher NOI and lower cash finance costs over the comparative period.
- Stable occupancy in all asset classes and operating regions, with 92.5% occupancy at March 31, 2017.
- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. Through the first quarter of 2017 we completed 90,265 sf in new and renewed leasing with a quarterly retention rate of 75.3%.
- We achieved an on-time response rate in our signature care program of 98% in Q1-2017. We view this metric as an important indication of our commitment to ongoing client care, which contributes to tenant satisfaction and ultimately retention.
- We paid distributions of \$0.05625 per trust unit in January, February and March for a quarterly payout ratio of 73%.
- As at March 31, 2017 we have \$0.99 million in cash and 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.
- Subsequent to the quarter we completed the sale of LC Industrial, a 67,610 sf industrial building in Lethbridge, Alberta for \$7.76 million (including transaction costs).
- On March 17, 2017 we announced the appointment of Andrew Melton as the REIT's second President & Chief Executive Officer and that Ralph Young will assume the position of Board Chair effective April 15, 2017.

Consolidated Revenue & Net Operating Income

	Three months ended March 31		
(\$000s)	2017	2016	△%
Base rent	10,382	10,521	(1)%
Recoveries	6,542	6,021	9 %
Other	630	564	12 %
Amortization of tenant incentives	(769)	(825)	(7)%
Straight-line rent adjustment	215	345	(38)%
Rental revenue	17,000	16,626	2 %
Operating expenses	3,397	3,225	5 %
Utilities and property taxes	3,420	3,268	5 %
Direct operating expenses	6,817	6,493	5 %
Net rental income	10,183	10,133	— %
NOI	10,737	10,613	1 %
Same-asset NOI	9,980	9,986	— %
Operating margin	60%	61%	(2)%

Revenue

Q1-2017 rental revenue was up 2% or \$0.37 million as a result of higher operating cost and realty tax recoveries ("recovery") revenue on account of increased direct operating expenses. First quarter base rent and straight-line rent adjustment declined \$0.14 million and \$0.13 million respectively, reflecting downward trends in occupancy and weighted average base rent over Q1-2016. This was partially offset by the development of 7,732 sf of new GLA through densification at an existing retail property in May 2016 which added \$0.08 million to first quarter revenue (2016 - \$nil). On April 27, 2017 we sold a 67,610 sf industrial property, LC Industrial, in Lethbridge, Alberta. Rental revenue recognized in the first quarter from this asset was \$0.15 million (2016 - \$0.16 million). On a same-asset basis, rental revenue was higher over Q1-2016 driven by increased recoveries.

During the quarter we signed 90,265 sf of new and renewed leasing, with occupancy steady at 92.5%. In 2017 we have 128 leases, representing 406,876 sf of GLA or 14.7% of our portfolio up for renewal. As at March 31, 2017 we have retained 75% of the 99,078 sf in expiring leases 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 Q1-2017:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	2,564,822	\$15.73	92.4%
Expiring Leases	(99,078)	\$14.99	
Early Terminations	(8,247)	\$7.60	
Renewals/Holdovers	74,557	\$14.58	
New Leasing	21,143	\$13.48	
Lease Amendments	17,420	\$—	
Other Adjustments	572	\$—	
Closing occupancy	2,571,189	\$15.57	92.5%

Weighted average base rent was \$15.57, down 1% compared to December 31, 2016. This downward trend is primarily due to market conditions across our office portfolio which has seen significant changes as a result of new GLA brought online in the downtown Edmonton and Calgary region. Competition in this asset class has intensified resulting in net effective rent erosion through lower base rent and higher tenant incentives.

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

	31-Mar-17	31-Dec-16	△%
Weighted average base rent (per sf)	\$15.57	\$15.73	(1)%
Weighted average remaining lease term	4.68	4.85	(4)%
GLA	2,779,431	2,775,782	— %
Occupancy	92.5%	92.4%	— %
Retention	75.3%	71.0%	6 %

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. Recovery revenue increased 9% compared to Q1-2016 while direct operating expenses were up 5% over the same period. The increase in our recovery ratio was the result of trueing up 2016 year-end estimates in Q1-2017 which resulted in additional income in 2017 compared to income reductions in 2016.

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

Amortization of tenant incentives decreased over Q1-2016. Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives provided. Straight-line rent adjustments relate to new leases which have escalating rent rates and/or rent-free periods. The decrease in straight-line rent adjustments is a result of 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 increased \$0.32 million or 5% over Q1-2016. Timing of maintenance projects and higher snow removal costs led to a 5% increase in operating costs over Q1-2016. These increases were partially offset by lower non-recoverable costs during the first quarter. Utilities and property taxes were up 5% as a result of higher property taxes and the introduction of a 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.

Higher recovery ratio led to a 1% increase in NOI over Q1-2016. On a same-asset basis, NOI was steady.

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 March 31		
(\$000s)	2017	2016	△%
Same-asset NOI	9,980	9,986	— %
Acquisitions/Dispositions	203	147	
NOI before adjustments	10,183	10,133	— %
Amortization of tenant incentives	769	825	
Straight-line rent adjustment	(215)	(345)	
NOI	10,737	10,613	1 %

Property Analysis

At March 31, 2017 our portfolio included interests in 38 retail, office and industrial income-producing properties located in western Canada for a total of 2,779,431 sf of GLA, and a land lease community.

The following table summarizes the composition of our properties at March 31, 2017 by property type:

Property Type	Number of Properties	GLA (sf)/ Lots	% of Portfolio (GLA)	Fair Value of Investment Properties (\$000s)	NOI for the three months ended March 31, 2017 (\$000s)
Retail	13	978,320	35.2%	308,144	4,594
Office	20	1,569,738	56.5%	285,455	5,322
Industrial	4	231,373	8.3%	33,953	567
Land Lease Community	1	308 lots	n/a	16,050	254
	38	2,779,431	100.0%	643,602	10,737

The following table details key financial and operational metrics for each of our asset classes for the quarter ended March 31, 2017:

	Retail		Office		Industrial		Land Lease Community	
	2017	2016	2017	2016	2017	2016	2017	2016
<u>Three months ended March 31 (\$000s)</u>								
Rental revenue	6,604	6,299	9,350	9,264	719	741	327	322
NOI	4,594	4,293	5,322	5,526	567	551	254	243
<u>As at March 31</u>								
Weighted average base rent (sf)	\$19.21	\$18.92	\$14.01	\$14.40	\$9.83	\$10.02	n/a	n/a
Occupancy	95.2%	96.7%	89.7%	91.2%	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. Retail GLA increased by 7,732 sf over Q1-2016 as we built a new CRU at Westgrove Common in northern Alberta. Rental revenue from the newly constructed CRU was \$0.08 million during the three-months ended March 31, 2017 (2016 - \$nil). On a same-asset basis, rental revenue was up 4% as a result of positive revisions to 2016 year-end recovery estimates. Through the first quarter of 2017 we continued to see stability in the retail market in spite of challenging economic conditions across Alberta. Retail vacancy increased by 1.5% over Q1-2016 and weighted average base rent also increased. Same-asset NOI increased 5% over Q1-2016 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. Over the past twelve months market conditions in downtown Edmonton and Calgary have evolved significantly as a result of new office product brought online in conjunction with reduced market demand due to depressed economic conditions. Increasing competition in these markets has resulted in a decrease in occupancy and weighted average base rent, driving a 4% reduction in base rent over Q1-2016. Higher recoveries on direct operating costs offset the decline in base rent resulting in a net 1% increase in first quarter revenue over 2016. NOI declined 4% compared to Q1-2016, a direct result of lower base rent.

Industrial – our 4 industrial properties include single and multi-tenant buildings. Subsequent to the quarter we divested one of our properties, LC Industrial, a 67,610 sf multi-tenant building in Lethbridge, Alberta. Rental revenue recognized in the first quarter from this asset was \$0.15 million (2016 - \$0.16 million). Our assets remained fully occupied through the first quarter of 2017, while weighted average base rent decreased as a result of lease restructuring completed in 2016. On a same-asset basis rental revenue and NOI were stable.

Land Lease Community – we have one land lease community in Calgary, AB, consisting of 308 pad lots. It was 100% occupied at March 31, 2017 (December 31, 2015 – 100%). Revenue and NOI on our land lease community was steady over Q1-2016.

Regional Analysis

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

Geographic Region	Number of Properties	GLA (sf)	% of Portfolio (GLA)	Fair Value of Investment Properties (\$000s)	NOI for the three months ended March 31, 2017 (\$000s)
Northern Alberta	24	1,633,250	58.8%	394,294	6,360
Southern Alberta	7	779,392	28.0%	182,166	3,301
Saskatchewan & British Columbia	7	366,789	13.2%	67,142	1,076
	38	2,779,431	100.0%	643,602	10,737

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

	Northern Alberta		Southern Alberta		Saskatchewan & British Columbia	
	2017	2016	2017	2016	2017	2016
Three months ended March 31 (\$000s)						
Rental revenue	10,208	10,105	4,943	4,734	1,849	1,787
NOI	6,360	6,284	3,301	3,181	1,076	1,148
As at March 31						
Average base rent (per sf)	\$16.63	\$16.58	\$14.47	\$14.53	\$13.35	\$14.06
Occupancy	90.8%	93.7%	96.9%	95.4%	90.6%	91.6%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc and Spruce Grove, and in Red Deer. Rental revenue increased 1% in the first quarter as a result of 7,732 sf of new GLA brought online in the second quarter of 2016. On a same-asset basis, base rent declined 3% reflecting a 3% decrease in occupancy over Q1-2016. Weighted average base rent remained stable with increases across our retail assets offsetting downward trends in office properties. Our recovery ratio increased over 2016 as a result of true up of prior year recovery estimates. Same-asset rental revenue and NOI remained steady over Q1-2016.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere and Airdrie, and in Lethbridge. Rental revenue increased \$0.21 million over Q1-2016 as a result of higher recovery revenue. Base rent net of straight-line rent adjustments remained unchanged over Q1-2016, reflecting counteracting trends in occupancy (up) and average base rent (down). NOI improved 5% in Q1-2017 as a result of higher recovery ratio and lower non-cash adjustments.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, SK and Kelowna, BC. Rental revenue was up 3% over Q1-2016 as a result of higher recoveries on operating costs. Lower occupancy and average base rent were the result of tenant rollover in our Saskatchewan assets resulting in a 5% decline in base rent over Q1-2016. NOI declined 6% as a result of lower base rent and recovery ratio in Q1-2017.

General & Administrative Expenses

	Three months ended March 31		
(\$000s)	2017	2016	△%
Asset management fee	398	397	— %
Professional fees	82	122	(33)%
Public company costs	122	106	15 %
Other	87	116	(25)%
	689	741	(7)%

General & administrative expenses (G&A) for the three-months ended March 31, 2017 were \$0.69 million (4% of rental revenue). The decrease in professional fees reflects the one-time change in our valuation process in Q1-2016 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 March 31		
(\$000s)	2017	2016	△%
Interest on mortgages payable and revolving credit facility	2,064	2,174	(5)%
Interest on Class C LP Units	722	791	(9)%
Amortization of fair value adjustment on Class C LP Units	(57)	(57)	— %
Interest on convertible debenture	474	474	— %
Fair value adjustment on derivative instruments	26	—	100 %
Non-cash finance costs	251	147	71 %
Finance costs before distributions	3,480	3,529	(1)%
Distributions on Class B LP Units	2,466	2,466	— %
Finance costs	5,946	5,995	(1)%

Finance costs for the three-months ended March 31, 2017 were steady over the prior period at \$5.95 million. Interest on mortgages payable and the revolving credit facility decreased \$0.11 million over Q1-2016 as a result of interest rate savings on new and renewed mortgages. Interest on Class C LP Units decreased over the comparative period due to the reduction of the 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 over Q1-2016 at \$2.47 million. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units which were \$0.17 per unit during the quarter.

Non-cash finance costs increased over Q1-2016 as a result of fully unwinding the discount recognized on a 2014 mortgage assumption which was re-refinanced in March 2016.

As at March 31, 2017 the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debenture was 3.63%.

Income Taxes

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

Funds from Operations & Adjusted Funds from Operations

Funds From Operations (FFO) and Adjusted Funds From Operations (AFFO) are non-standard measures used in the real estate industry to measure the 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.

	Three months ended March 31		
(\$000s, except per unit amounts)	2017	2016	△%
Net loss for the period	(13,490)	(9,966)	35 %
Add / (deduct)			
Fair value adjustment on investment properties	16,459	1,825	802 %
Fair value adjustment on Class B LP Units	585	11,547	(95)%
Amortization of tenant incentives	769	825	(7)%
Distributions on Class B LP Units	2,466	2,466	— %
Fair value adjustment on derivative instruments	26	—	100 %
Funds From Operations (FFO)	6,815	6,697	2 %
Add / (deduct)			
Straight-line rent adjustments	(215)	(345)	(38)%
Non-cash finance costs	251	147	71 %
Net impact of amortization of fair value adjustment and interest subsidy ⁽¹⁾	21	44	(52)%
Normalized capital expenditures ⁽²⁾	(640)	(640)	— %
Normalized tenant incentives and leasing commissions ⁽²⁾	(426)	(426)	— %
Adjusted Funds from Operations (AFFO)	5,806	5,477	6 %
FFO/Unit	\$0.26	\$0.26	2 %
AFFO/Unit	\$0.23	\$0.21	6 %

(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 6% and 4% 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.

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 March 31		
(\$000s, except per unit amounts)	2017	2016	△%
Funds From Operations (FFO)	6,815	6,697	2%
Interest on convertible debenture	474	474	
Non-cash finance costs on convertible debenture	133	114	
Funds From Operations - Diluted (FFO - Diluted)	7,422	7,285	2%
FFO - Diluted/Unit	\$0.26	\$0.26	2%

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

Distributions made during the three-months ended March 31, 2017 represent a payout ratio of approximately 73% of AFFO (2016 - 80%). 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 flows from operations. Cash flows from operations for the quarter were \$2.83 million (2016 - \$2.61 million), exceeding distributions by \$0.95 million (2016 - \$0.73 million).

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

	Three months ended March 31		
(\$000s)	2017	2016	△%
Cash flows from operations	2,827	2,609	8%
Distributions on Class B LP Units	2,466	2,466	
Payment of tenant incentives and direct leasing costs	791	634	
Changes in operating assets and liabilities	710	733	
Interest subsidy	78	101	
Normalized capital expenditures	(640)	(640)	
Normalized tenant incentives and leasing commissions	(426)	(426)	
Adjusted Funds from Operations (AFFO)	5,806	5,477	6%

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-Mar-17	31-Dec-16
Number of properties	38	38
Total GLA (sf)	2,895,306	2,895,306
GLA (REIT owned %) (sf)	2,779,431	2,775,782
Fair value of portfolio (\$000s)	643,602	659,611
Value per square foot	\$232	\$238
NOI (\$000s)	10,737	42,329
Weighted average capitalization rate	6.71%	6.63%
Weighted average discount rate	6.83%	6.83%
Weighted average terminal capitalization rate	7.79%	7.70%

For the quarter ended March 31, 2017, Melcor's internal valuation team performed the valuation assessment. Of 47 legal phases, 6 phases with a fair value of \$73.40 million were valued by qualified independent external valuation professionals during the period. Valuations performed during the period resulted in fair value losses of \$16.46 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.

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

	Three months ended March 31, 2017	Year ended December 31, 2016
(\$000s)		
Northern Alberta	(17,348)	(3,773)
Southern Alberta	1,148	(3,322)
Saskatchewan & British Columbia	(259)	549
	(16,459)	(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 pending sale of LC Industrial at quarter end 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. Fair value adjustments represent a change of approximately 2% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	March 31, 2017			December 31, 2016		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	8.75%	6.71%	5.50%	8.75%	6.63%
Terminal capitalization rate	5.75%	9.00%	6.83%	5.75%	9.00%	6.83%
Discount rate	6.50%	9.75%	7.79%	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 \$44.62 million (December 31, 2016 - \$46.37 million) while a 50 basis points decrease (-0.5%) would increase it by \$51.81 million (December 31, 2016 - \$53.94 million).

Liquidity & Capital Resources

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

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

Cash Flows

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

(\$000s)	Three months ended March 31		
	2017	2016	△\$
Cash from operating activities	2,827	2,609	218
Cash used in investing activities	(213)	(1,481)	1,268
Cash from (used in) financing activities	(3,256)	1,763	(5,019)
Increase (decrease) in cash and cash equivalents	(642)	2,891	(3,533)
Cash and cash equivalents, beginning of the period	1,630	—	1,630
Cash and cash equivalents, end of the period	988	2,891	(1,903)

Operating activities

Cash from operating activities increased \$0.22 million or 8% over Q1-2016. Stable property income in the first quarter generated an increase of \$0.12 million in NOI. Reducing weighted average interest costs resulted in a \$0.18 million reduction in cash finance costs (finance costs less non-cash adjustments). Cash flows before adjustments for working capital and payment of tenant incentives and direct leasing costs were 9% or \$0.35 million higher in Q1-2017. We invested \$0.79 million (2016 - \$0.63 million) in tenant incentives and direct leasing costs in the first quarter as we completed 90,265 sf of new and renewed leasing, resulting in period occupancy of 92.5%. 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 with \$0.21 million invested in Q1-2017 (2016 - \$0.03 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.

During the comparative period we also substantially completed construction on a 7,732 sf single-tenant CRU to densify an existing regional shopping center in Northern Alberta, investing \$1.45 million in development costs.

Financing activities

We have not completed any property financing in 2017 as our first scheduled maturity is in August 2017. Through the first quarter we increased our draw on our revolving credit facility by \$1.17 million to fund normal operations. During the comparative period we re-financed the mortgage on one property with a principal balance of \$14.61 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 \$0.80 million drawn on the line.

We continued our monthly distribution of \$0.05625 per unit for distributions of \$1.88 million in Q1-2017 (2016 - \$1.88 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 March 31, 2017 we had \$0.99 million in cash and cash equivalents in addition to funds available under our revolving credit facility. Subsequent to quarter-end we completed the sale of an industrial property for cash proceeds of \$4.45 million (excluding working capital adjustments).

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 March 31, 2017 (50% excluding convertible debentures).

As at March 31, 2017, our total capitalization was \$611.17 million and is comprised of:

(\$000s)	31-Mar-17
Revolving credit facility ⁽¹⁾	18,651
Mortgages payable ⁽¹⁾	218,389
Class C LP Units ⁽²⁾	79,033
Indebtedness, excluding convertible debenture	316,073
Convertible debenture ⁽³⁾	34,500
Indebtedness	350,573
Class B LP Units ⁽⁴⁾	147,708
Trust units	112,892
Equity	260,600
Total capitalization	611,173
Gross Book Value (GBV)⁽⁵⁾	636,903
Debt to GBV, excluding convertible debenture (maximum threshold - 60%)	50%
Debt to GBV (maximum threshold - 65%)	55%

(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, subsequent asset purchases and development costs.

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 March 31, 2017, and throughout the period, we were in compliance with our financial covenants with a debt to total capital ratio of 49%, debt service coverage ratio of 1.68, and an adjusted unitholders' equity of \$294.09 million. We also have financial covenants on certain mortgages for investment properties. At March 31, 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 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 March 31</i>						
(\$000s)	Total	2017	2018	2019	2020	2021	Thereafter
Revolving credit facility	18,651	18,651	—	—	—	—	—
Mortgages payable	218,389	5,148	46,399	68,577	8,723	33,791	55,751
Class C LP Units	79,033	5,202	14,637	9,634	26,299	8,088	15,173
Convertible debenture	34,500	—	—	34,500	—	—	—
Total	350,573	29,001	61,036	112,711	35,022	41,879	70,924
% of portfolio	100%	8%	17%	32%	10%	12%	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. We have one neighbourhood retail strip in Leduc encumbered by Class C LP Units where the underlying mortgage - held by Melcor - is up for renewal in 2017. We continue to look ahead to 2018 and 2019 maturities to identify opportunities and 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 a 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	18,651	—	18,651	3.44%	1.08
Mortgages payable	218,389	200,360	18,029	3.45%	4.05
Class C LP Units	79,033	79,033	—	3.34%	3.55
Convertible debenture	34,500	34,500	—	5.50%	2.75
Total	350,573	313,893	36,680	3.63%	3.65

The weighted average interest rate on our debts remained unchanged at 3.63% (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 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 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>	Three months ended Mar 31, 2017	Year ended December 31, 2016
FFO	6,815	26,668
Principal repayments on Mortgages payable	1,673	6,491
Principle repayments on Class C LP Units	872	3,590
Debt service coverage ratio	2.68	2.65
FFO plus finance costs	10,295	40,870
Finance costs ⁽¹⁾	3,480	14,202
Finance costs coverage ratio	2.96	2.88

(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.

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

	March 31, 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		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
(\$000s except per unit amount)								
Revenue (\$000s)	17,000	16,170	16,439	16,807	16,626	16,963	15,938	16,323
Net income (loss) (\$000s)	(13,490)	2,790	153	(4,153)	(9,966)	16,381	11,287	111
Basic earnings (loss) per unit	(\$1.21)	\$0.25	\$0.01	(\$0.37)	(\$0.89)	\$1.46	\$1.00	\$0.01
Annualized distribution rate	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675	\$0.675
Period-end closing unit price	\$8.50	\$8.46	\$8.67	\$8.50	\$8.00	\$7.21	\$7.95	\$8.73
Annualized distribution yield on closing unit price (%) ⁽¹⁾	7.94%	7.98%	7.79%	7.94%	8.44%	9.36%	8.49%	7.73%

(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 March 31, 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 March 31, 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 May 4, 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 March 31		
(\$000s)	2017	2016	△%
Net loss for the period	(13,490)	(9,966)	35 %
Net finance costs	5,940	5,986	(1)%
Fair value adjustment on Class B LP Units	585	11,547	(95)%
Fair value adjustment on investment properties	16,459	1,825	802 %
General and administrative expenses	689	741	(7)%
Amortization of tenant incentives	769	825	(7)%
Straight-line rent adjustment	(215)	(345)	(38)%
NOI	10,737	10,613	1 %

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) 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.

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

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

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

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