Management's Discussion & Analysis

March 5, 2020

The following Management's Discussion and Analysis (MD&A) of Melcor Real Estate Investment Trust's (the REIT) results should be read in conjunction with the consolidated financial statements and related notes for the year ended December 31, 2019. The discussion outlines strategies and provides analysis of our financial performance for the fourth quarter and the full year.

The financial information in this MD&A, including 2018 comparative information, have been prepared in accordance with International Financial Reporting Standards (IFRS) unless otherwise noted. All dollar amounts included in this MD&A are Canadian dollars unless otherwise specified.

The REIT's Board of Trustees, on the recommendation of the Audit Committee, approved the content of this MD&A on March 5, 2020. Disclosure contained in this MD&A is current to March 5, 2020, unless otherwise indicated.

Regulatory Filings

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

Non-standard Measures

We refer to terms and measures which are not specifically defined in the CPA Canada Handbook and do not have any standardized meaning prescribed by IFRS. These measures include funds from operations (FFO), adjusted funds from operations (AFFO), adjusted cash 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 in the Non-standard Measures section.

Caution Regarding Forward-looking Statements

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

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

This MD&A and other materials filed with the Canadian securities regulators contain statements that are forward-looking. These statements represent the REIT's intentions, plans, expectations, and beliefs and are based on our experience and our assessment of historical and future trends, and the application of key assumptions relating to future events and circumstances. Forward-looking statements may involve, but are not limited to, comments with respect to our strategic initiatives for 2020 and beyond, future leasing, acquisition and financing plans and objectives, targets, expectations of the real estate, financing and economic environments, our financial condition or the results of or outlook for our operations.

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

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

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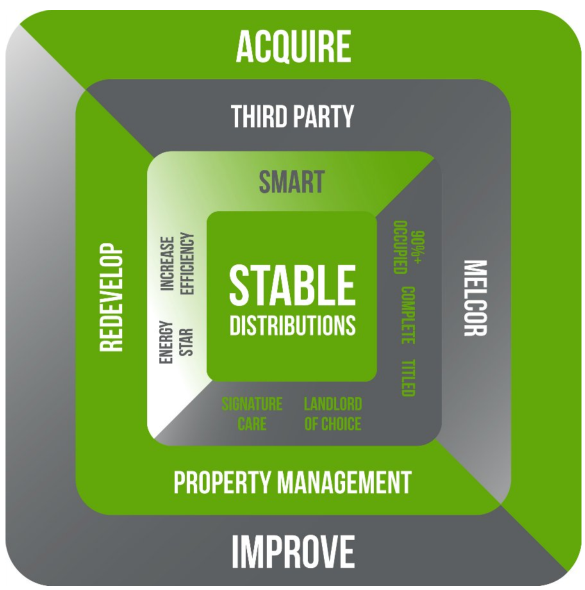
Our Business: Vision, Goals & Strategy

The REIT has an established and diversified portfolio focused on western Canada. We currently own 39 income-producing office, retail and industrial properties representing 3.21 million sf (square feet) in gross leasable area (GLA). These high-quality properties feature stable occupancy and a diversified mix of tenants, some of whom have been in place for over 25 years. The REIT is externally managed, administered and operated by Melcor Developments Ltd. (Melcor) pursuant to the asset management and property management agreements entered into in conjunction with the IPO.

Melcor holds an approximate 55.1% effective interest in the REIT through ownership of all Class B LP units of Melcor REIT Limited Partnership (the partnership) through an affiliate and a corresponding number of special voting units of the REIT. The Class B LP units are economically equivalent to, and are exchangeable for, trust units. Melcor is the ultimate controlling party.

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



Acquire

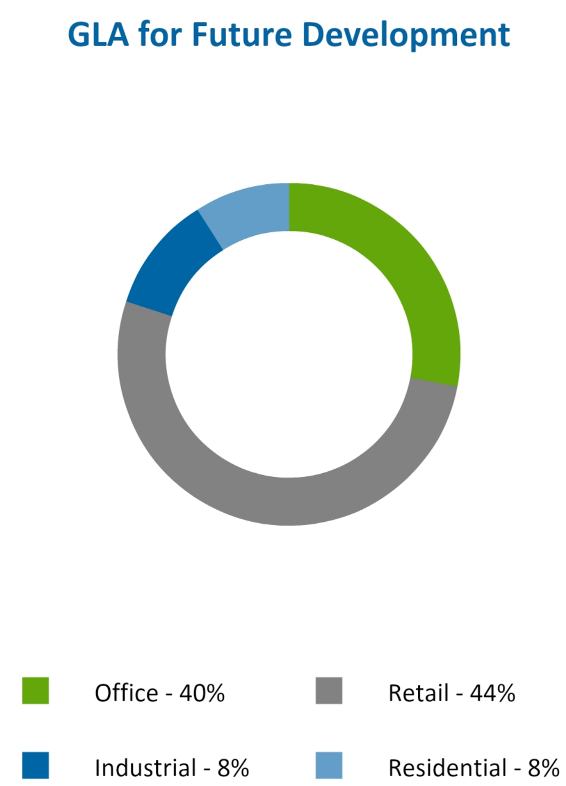
Our acquisition strategy is focused on:

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

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

- ***Acquiring properties via our proprietary pipeline***: As Melcor completes development and leasing of commercial and residential properties, the REIT has a first right to purchase each asset for its portfolio. This organic asset pipeline is unique to the REIT. Based on projects currently being developed or planned to begin in the near-term, we expect this current acquisition pipeline to yield 5.53 million sf of GLA over the next 5-10 years. The REIT also has the opportunity to participate in investment opportunities, joint ventures and mezzanine financing on Melcor projects under the Development and Opportunities Agreement.

Melcor currently has 994,176 sf of owned and managed GLA and an additional 96,797 sf of GLA under development.



Since our IPO in 2013, we have acquired over 1.00 million sf of GLA via our proprietary pipeline. We continue to actively monitor the development pipeline; however, we did not acquire property from Melcor in 2019.

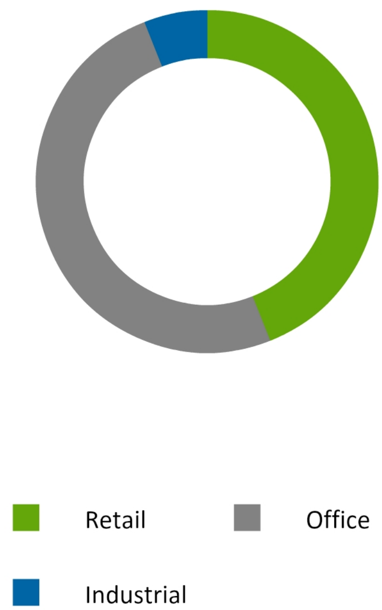
- ***Acquiring accretive income-producing properties***: We actively seek strategic third party property acquisitions that fit our SMART investment criteria: properties that have a good Story, are in the right Market, Accretive to ACFO per unit, at the Right price and in our Target locations. Potential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

  In 2019, we completed two third-party acquisitions:

  - A 56,084 sf single tenant retail building with warehouse space on a 3 acre site in Calgary, Alberta (Staples Centre) for $12.45 million on April 24. This property, strategically located along a central retail node in Northeast Calgary, is leased to a national tenant under a 15 year lease with rent escalations.
  - A 283,235 sf multi-building open retail power centre on a 33.3 acre site in Grande Prairie, Alberta (Melcor Crossing) for $54.80 million on November 12. This strategically located property is occupied by a mix of national, regional and local tenants and has current occupancy of 90.6% (committed occupancy of 98.9%) and a weighted average remaining lease term of 3.3 years (excluding committed deals).

  These acquisitions demonstrate the continued execution of our strategy to grow our portfolio in our own backyard as well as expand to adjacent markets. Melcor Crossing is our first investment in the Grande Prairie market.

GLA by Property Type



At December 31, 2019

Improve

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

- Maximize occupancy
- Maximize tenant retention
- Increase rental income

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

Property Management

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

Efficient property management optimizes operating costs, occupancy and rental rates. Our hands-on, on-site building management team identifies issues early on for prompt resolution, and with continuous logging and monitoring of all maintenance activity, we are able to make informed capital investment decisions to sustain long-term operating margins.

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. We enjoy strong, long-term relationships with our clients, some of whom have been with Melcor for over 25 years.

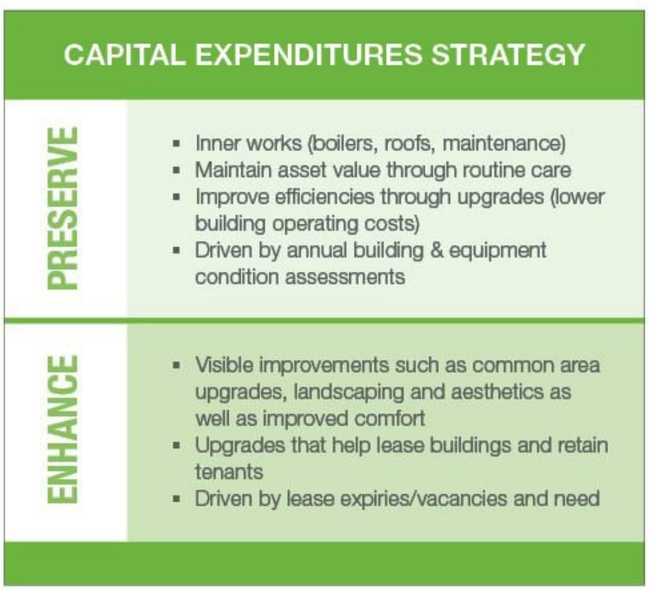
Our Signature Customer Care program manages client service requests via telephone, email or website and notifies the appropriate building team to take action. We are proud of our track record of responding to over 99% of service requests within 30 minutes during business hours. On a survey of all office buildings completed in November 2019, both our property managers and building operations teams achieved a tenant approval rating of 92% (rated Good, Very Good or Excellent) and many positive comments on their responsiveness and friendliness.

This high level of satisfaction contributes to other metrics, such as our retention rate. Our retention rate for 2019 was significantly impacted by one tenant that did not renew their lease at the end of its term, resulting in a below target rate of 59.6%. Excluding this tenant, retention was 73.6%.

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

Asset Enhancement

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



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

In $000s, except as noted

Fountain Tire Place at The Village at Blackmud Creek was awarded the ENERGY STAR Certification in early 2020. This is our first building to achieve this certification, a recognition of the most energy efficient commercial buildings by Natural Resources Canada.

Capital Recycling

We continually review our asset portfolio to identify opportunities to recycle capital. Our capital recycling strategy focuses on pruning non-core assets with a view to mitigate against market and tenancy exposures and maximize return on investment. No opportunities to recycle capital were identified in 2019.

Key Metrics & 2019 Accomplishments

Metric	Target	2019
Debt/gross book value excluding debentures	50-55%	**50%**
Debt/gross book value including debentures	55-60%	**59%**
Tenant retention	75%	**59.6%**
Occupancy	90%+	**88.0%**
Portfolio diversification		
Retail	40%	**43.5%**
Office	40%	**50.0%**
Industrial	20%	**6.5%**
Weighted average base rent (by sf)		
Retail	$18.50+	**$19.99**
Office	$14.00+	**$13.88**
Industrial	$10.00+	**$14.53**
Customer Care On-time Response	95%+	**99%**

Corporate Sustainability

We are committed to corporate sustainability - in environmental practice, social responsibility, governance of our company and as stewards of the areas where we operate. Attaining best practice in all aspects of our business is our constant aspiration.

Environmental Commitment

Our property management practices are designed to improve operating efficiency and reduce cost while at the same time increasing client satisfaction and thus retention rates. Our capital spending strategy focuses on equipment upgrades and maintenance initiatives that will reduce energy consumption in our properties.

Examples of our commitment to environmental best practices include:

- All properties have LED lights
- 80% of our buildings have motion-sensing lights that turn off when no one is present
- We have active recycling programs in all buildings
- We engage specialists to monitor and analyze our energy usage and identify potential improvements. Of 12 properties benchmarked from 2012 - 2019 we realized:
    - reduced electricity consumption of 15.5%
    - decrease in natural gas consumption of 0.3%
    - reduced equivalent greenhouse gases by 30%
- One building achieved ENERGY STAR certification in early 2020, recognizing the top 25% most efficient office buildings in Canada. We are tracking other office buildings in our portfolio for this certification.

Social Responsibility

We demonstrate social responsibility through our relationships with tenants and the communities where we operate. Our commitment to being the landlord of choice is much more than a slogan. It is lived by every team member, as demonstrated by the results of our recent tenant survey. We surveyed 16 office buildings in November 2019 and both our property management and building operations teams achieved a tenant approval rating of 92% based on over 400 responses.

The REIT's asset and property manager, Melcor Developments Ltd. is committed to fostering a diverse, inclusive and safe work environment. Melcor places people at the heart of our strategy and one of three core values is to "empower and care for our exceptional team."

Melcor's human capital strategy emphasizes health and wellness and recently doubled the benefit available for psychological services to support the mental well-being of staff. Food for Thought lunch and learn sessions are offered periodically to encourage learning on a variety of topics, including food waste, the benefits of proper sleep and meditation.

In addition, Melcor's social committee plans multiple events throughout the year to encourage staff interaction outside of the workday. The focus on a positive, empowering work environment creates an engaged and dedicated workforce with 22 employees having served the company for 25+ years.

Melcor's employees also make meaningful contributions to local charities through fundraising activities and by volunteering their time. 2019 marked the company's 50th year of supporting the Capital Region United Way campaign.

Of the management team that oversees, leases and manages the REIT's portfolio, 54% are female and the overall breakdown in the division is 56% male and 44% female.

Being invested in the communities where we do business is an important part of who we are. As we pursue excellence in our business, we also want the communities where we do business to be the best they can be. We give where we live to build strong communities. Our giving and involvement focuses on key pillars of strong communities: education, health, youth, sports, public gathering places such as libraries, and social programs that lend a helping hand to those in need.

This commitment goes beyond financial and volunteer support. We take pride in the way our properties look. Entrances to office buildings have seasonal floral arrangements, beautifying the street. We have public art installations in, on and around a number of our properties.

Our focus on relationships extends to our service providers as well. The majority of our service providers are local and many are small businesses that support our local economies.

Effective Governance

We are committed to effective corporate governance practices as a core component of our operating philosophy. Strong governance practice form the foundation of a sustainable company and long-term value creation for unitholders. The REIT's board of trustees reviews our corporate governance practices annually to better align the REIT with industry best practices.

Examples of our commitment to effective corporate governance practices include:

- a board of trustees made up of a majority of independent trustees (4 of 7)
- as the board chair is Melcor's nominee and thus a related party, we appoint a lead director
- arrangements with Melcor require the approval of a majority of our independent trustees, providing independent oversight on all transactions to represent the interests of minority unitholders
- 14% of trustees are female; 25% of independent trustees
- 50% of the REIT's executive team is female
- board renewal - in 2019, we welcomed two new trustees with diverse experience

2019 Highlights & Key Performance Indicators

Financial Highlights			
	Year ended December 31		
($000s)	2019	2018	△%
Non-Standard KPIs			
Net operating income (NOI)	**45,300**	43,983	3 %
Same-asset NOI	**38,792**	38,962	— %
Funds from Operations (FFO)	**25,581**	26,084	(2)%
Adjusted Funds from Operations (AFFO)	**18,485**	19,152	(3)%
Adjusted Cash Flows from Operations (ACFO)[5]	**18,610**	19,123	(3)%
Rental revenue	**71,159**	70,173	1 %
Income before fair value adjustment and taxes	**11,845**	12,930	(8)%
Fair value adjustment on investment properties[1]	**(1,622)**	(11,385)	nm
Cash flow from operations	**9,309**	11,870	(22)%
Distributions to unitholders	**8,882**	8,901	— %
Distributions[2]	**$0.68**	$0.68	
Per Unit Metrics			
Net (loss)/income			
Basic	**($0.04)**	$1.34	
Diluted	**($0.04)**	$0.43	
Weighted average number of units for net income/(loss) ($000s):[3]			
Basic	**13,162**	13,120	— %
Diluted	**13,162**	28,010	(53)%
FFO			
Basic	**$0.91**	$0.93	
Payout ratio	**74%**	72%	
AFFO			
Basic	**$0.65**	$0.68	
Payout ratio	**103%**	99%	
ACFO[5]			
Basic	**$0.66**	$0.68	
Payout ratio	**102%**	99%	
Weighted average number of units for FFO, AFFO & ACFO (000s):[4]			
Basic	**28,226**	28,010	1 %

1. *The abbreviation nm is shorthand for not meaningful and is used through this MD&A where appropriate.*
2. *Distributions for the current and comparative periods have been paid out at a rate of $0.05625 per unit per month.*
3. *For the purposes of calculating per unit net income/(loss) the basic weighted average number of units includes Trust Units and the diluted weighted average number of units includes Class B LP Units and convertible debentures, to the extent that their impact is dilutive.*
4. *For the purposes of calculating per unit FFO, AFFO and ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.*
5. *In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.*

	31-Dec-19	31-Dec-18	△%
Total assets ($000s)	**783,534**	709,603	10 %
Equity ($000s)[(1)]	**289,873**	280,401	3 %
Debt ($000s)[(2)]	**454,013**	390,918	16 %
Weighted average interest rate on debt	**3.78%**	3.77%	— %
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**50%**	48%	5 %
Debt to GBV (maximum threshold - 65%)	**59%**	56%	6 %
Finance costs coverage ratio[(3)]	**2.45**	2.60	(6)%
Debt service coverage ratio[(4)]	**2.26**	2.30	(2)%

1. *Calculated as the sum of trust units and Class B LP Units at their book value. In accordance with IFRS the Class B LP Units are presented as a financial liability in the consolidated financial statements.*
2. *Calculated as the sum of total amount drawn on revolving credit facility, mortgages payable, Class C LP Units, excluding unamortized fair value adjustment on Class C LP Units, liability held for sale (as applicable) and convertible debentures, excluding unamortized discount and transaction costs.*
3. *Calculated as the sum of FFO and finance costs; divided by finance costs, excluding distributions on Class B LP Units and fair value adjustment on derivative instruments. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 24 for further discussion and analysis.*
4. *Calculated as FFO; divided by sum of contractual principal repayments on mortgages payable and distributions of Class C LP Units, excluding amortization of fair value adjustment on Class C LP Units. This metric is not calculated for purposes of covenant compliance on any of our debt facilities. Please refer to page 24 for further discussion and analysis.*

Operational Highlights

	31-Dec-19	31-Dec-18	△%
Number of properties	**39**	37	5 %
Gross leasable area (GLA) (sf)	**3,208,950**	2,868,901	12 %
Occupancy (weighted by GLA)	**88.0%**	89.9%	(2)%
Retention (weighted by GLA)	**59.6%**	77.4%	(23)%
Weighted average remaining lease term (years)	**4.37**	4.67	(6)%
Weighted average base rent (per sf)	**$16.79**	$ 16.51	2 %

2019 Highlights:

We continued to execute our growth and diversification strategies and increased our GLA by 12% through two third-party acquisitions. These acquisitions added 339,319 sf GLA and consisted of Melcor Crossing in Grande Prairie, Alberta and Staples Centre in Calgary, Alberta. These retail acquisitions support our long-term diversification strategy. For the first time, retail makes up 43.5% of our portfolio, above the 40% target set at IPO. In addition, Melcor Crossing is our entry into a new geographic market that we've been watching for a while and we are excited for its potential.

A significant impact on our results in the fourth quarter and for 2019 was the decision of a long-term tenant in downtown Edmonton to move their corporate operations. The Royal Bank of Canada vacated 47,088 sf (approximately 1.5% of our portfolio) on the expiration of their lease September 30, 2019. This vacancy impacted our retention and occupancy rates for December 31, 2019. Excluding this tenant, we retained 73.6% of expiring leases. We are excited about the opportunity to reposition this property to attract new clients representing diverse sectors.

Our portfolio performance remained stable through 2019 and we continue to see positive new leasing momentum. We are beginning to see new stability in spite of market fundamentals that remain challenging. We continue to proactively renew existing tenants and pursue new tenants. New leasing has been steady across the portfolio with 74,116 sf in new deals commencing in 2019 and an additional 85,000 sf in space committed for future occupancy. With a diverse product portfolio, we are able to support tenants through all stages: start-up, growth and mature companies.

The diversity of our portfolio with respect to both tenant profile and asset class enables the REIT to continue navigating through economic cycles.

Highlights of our performance in the year include:

FINANCIAL HIGHLIGHTS

- The 12% growth in portfolio GLA contributed to revenue growth of 1% and NOI growth of 3% over 2018. The major acquisition completed in 2019 closed in November and did not contribute to full-year results.
- Net income in the current and comparative periods is significantly impacted by non-cash fair value adjustments on investment properties and Class B LP Units. Management believes funds from operations (FFO) is a better reflection of our true operating performance. FFO was $25.58 million or $0.91 per unit (basic), down 2% from 2018. FFO was negatively impacted by higher finance costs due to timing related to the acquisition of Melcor Crossing and the redemption of the 2014 Debentures.
- Adjusted cash from operations (ACFO) was $18.61 million or $0.66 per unit (basic), down 3% from 2018. ACFO was also negatively impacted by higher finance costs as well as increased normalized tenant incentive and leasing commissions as market conditions remain challenging. Management has determined that ACFO will be considered one of the primary metrics to analyze our business going forward. ACFO better reflects our cash position and therefore our ability to pay distributions by excluding accretion expense, which is a non-cash item. This change also follows the general real estate industry trend to focus on ACFO.
- As at December 31, 2019 we had $2.28 million in cash and $11.88 million in additional capacity under our revolving credit facility. We conservatively manage our debt, with a debt to GBV within our target range.

OPERATING HIGHLIGHTS

- We continued to execute on our proactive leasing strategy to both retain existing and attract new tenants. We completed lease renewals representing 148,268 sf (including holdovers) for a retention rate of 59.6% at December 31, 2019. Our retention rate was significantly impacted by the departure of a major tenant, Royal Bank of Canada representing 47,088 sf or approximately 1.5% of our portfolio. Excluding this tenant we retained 73.6% of expiring leases. Approximately 22,000 sf of this vacant space is committed for future leasing.
- On April 24, 2019, we acquired Staples Centre, a 56,084 sf retail property with warehouse space in Calgary, AB from a third party for $12.45 million.
- On November 12, 2019, we closed the acquisition of a 283,235 sf retail power centre on a 33.3 acre site located in Grande Prairie, AB from a third party for $54.8 million.
- New leasing has been steady across the portfolio with 74,116 sf in new deals commencing in 2019 and an additional 85,000 sf in committed leasing for future occupancy.
- Same-asset NOI was flat over 2018 and down 4% in the fourth quarter. The decline in our Northern Alberta office assets, due to the RBC vacancy, was partially offset by stability in our retail and office assets in Southern Alberta and British Columbia.
- As part of a planned succession, Andrew Melton stepped down from his position of President and Chief Executive Officer on October 1, 2019 with Darin Rayburn being appointed his successor. We thank Andrew for stepping into the role when needed and look forward to his continued guidance as a member of our Board of Trustees.

CREATING UNITHOLDER VALUE

- On October 29, 2019 we announced the successful issue and sale of the 5.10% unsecured convertible debenture for gross proceeds of $46.00 million, including $6.00 million for the exercise of the over-allotment option in full.
- On November 12, 2019 we acquired a 283,235 sf regional shopping centre in Grande Prairie, Alberta from a third-party for $54.8 million. This acquisition increased our portfolio GLA by 10% and was immediately accretive to AFFO per unit.
- On April 1, 2019 we commenced a normal course issuer bid (NCIB) which allows the REIT to purchase approximately 5% of our issued and outstanding trust units for cancellation. We believe that our units have been trading in a price range which does not reflect the value of the units in relation to our current and future business prospects. Under the

NCIB, we have purchased 53,504 units for $0.41 million at a weighted average cost of $7.59 per unit or 77% of book value.

- We paid monthly distributions of $0.05625 per trust unit during 2019 for a FFO payout ratio of 74% and an ACFO payout ratio of 102%. Our payout ratios were impacted in the fourth quarter by elevated finance costs and lower same-asset NOI. We have maintained our distribution since inception, paying steady distributions to our unitholders for seventy-six months.

Consolidated Revenue & Net Operating Income

	Year ended December 31		
($000s)	**2019**	**2018**	△%
Base rent	**45,384**	43,835	4 %
Recoveries	**26,380**	25,897	2 %
Other	**2,308**	2,348	(2)%
Amortization of tenant incentives	**(3,541)**	(3,097)	14 %
Straight-line rent adjustments	**628**	1,190	(47)%
Rental revenue	**71,159**	70,173	1 %
Operating expenses	**13,320**	13,118	2 %
Utilities and property taxes	**15,452**	14,979	3 %
Direct operating expenses	**28,772**	28,097	2 %
Net rental income	**42,387**	42,076	1 %
NOI	**45,300**	43,983	3 %
Same-asset NOI	**38,792**	38,962	— %
Operating margin	**60%**	60%	— %

Revenue

Rental revenue increased $0.99 million or 1% over 2018 as a result of acquisitions completed over the past two years: Melcor Crossing (Nov-2019), Staples Centre (Apr-2019), LFS Building (Dec-2018) and the Melcor Acquisition (Jan-2018), and partially offset by two retail property sales in 2018. Rental revenue from acquired properties was $9.43 million in 2019 (2018 -$6.99 million). During 2018 we also recognized $0.38 million of rental revenue from sold properties. Higher amortization of tenant incentives due to increasing tenant inducement costs, and lower straight-line rent adjustments resulted in a slight decrease in same-asset revenues over 2018.

We continue to be proactive and strategic in our leasing programs to meet the demands of an evolving market while retaining and attracting new tenants. In 2019 we completed 148,268 sf of lease renewals (including holdovers) and had 74,116 sf in new leases commence for occupancy of 88.0%. Our retention rate was significantly impacted by the departure of a major tenant, RBC, representing 47,088 sf or approximately 1.5% of our portfolio. RBC's lease expired September 30, 2019. Excluding this tenant we retained 73.6% of expiring leases (representing 55 leases) in spite of challenging market conditions in many of our operating regions.

In $000s, except as noted

The table below summarizes leasing activity for 2019:

	Square feet	Weighted average base rent (per sf)	Occupancy %
Opening occupancy	**2,579,470**	**$16.51**	**89.9%**
Expiring leases	(248,654)	$16.65	
Renewals/holdovers	148,268	$16.22	
Other terminations	(44,080)	$12.48	
New leasing	74,116	$15.19	
Lease amendments	2,927	—	
Investment properties acquired	312,740	$17.40	
Closing occupancy	**2,824,787**	**$16.79**	**88.0%**

Weighted average base rent was $16.79, up $0.28 compared to December 31, 2018 due to the acquisition of Melcor Crossing which had a weighted average base rate of $17.81. The increase was partially offset by lower rates on new and renewed leasing completed during the year.

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

	Dec 31, 2019	Dec 31, 2018	△%
Weighted average base rent (per sf)	**$16.79**	$16.51	2 %
Weighted average remaining lease term	**4.37**	4.67	(6)%
GLA	**3,208,950**	2,868,901	12 %
Occupancy	**88.0%**	89.9%	(2)%
Retention	**59.6%**	77.4%	(23)%

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 was up 2% in 2019 while direct operating expenses increased 2% over 2018. Our recovery ratio was down over 2018 as a result of lower occupancy.

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

Amortization of tenant incentives can fluctuate based on the timing of lease rollovers and leasing incentives. Straight-line rent adjustments relate to new leases which have escalating rent rates and/or rent-free periods. The increase in tenant incentives is due to higher deal costs, particularly within our office portfolio. The decrease in straight-line rent adjustments is a result of mid-term lease amendments, fewer tenants on rent-free periods and increasing rents on leases with multiple rent escalations. Straight-line rent adjustments fluctuate due to the timing of signed leases.

Direct operating expenses

Direct operating expenses were up 2% over 2018. On a same-asset basis, property taxes and utilities increased by 1% due to higher utility riders and fees as well as increases in property taxes, primarily on our retail assets. Same-asset operating expenses were stable in 2019. 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 measure most directly comparable to NOI and same-asset NOI is net income.

NOI was up 3% over 2018 due to new properties acquired. On a same-asset basis NOI was flat over 2018. Regionally same-asset NOI was flat, with gains in our retail and industrial portfolio offsetting lower office performance, primarily a result of the departure of RBC in the fourth quarter.

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

	Year ended December 31		
($000s)	2019	2018	△%
Same-asset NOI	38,792	38,962	— %
Acquisitions	6,508	4,740	
Disposals	—	281	
NOI	45,300	43,983	3 %
Amortization of tenant incentives	(3,541)	(3,097)	
Straight-line rent adjustments	628	1,190	
Net rental income	42,387	42,076	1 %

Property Profile

At December 31, 2019 our portfolio includes interests in 39 retail, office and industrial income-producing properties located in Western Canada for a total of 3,208,950 sf of GLA, and a land lease community.

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

Property Type	Number of Properties	GLA (sf)/Lots	% of Portfolio (GLA)	Fair Value of Investment Properties ($000s)	Net Rental Income 2019 ($000s)
Retail	14	1,396,808	43.5%	424,406	21,766
Office	21	1,604,051	50.0%	292,606	16,607
Industrial	3	208,091	6.5%	43,000	3,001
Land Lease Community	1	308 lots	n/a	16,200	1,013
	39	**3,208,950**	**100.0%**	**776,212**	**42,387**

The following table details key financial and operational metrics for each property type for the years ended December 31:

	Retail		Office		Industrial		Land Lease Community	
	2019	2018	2019	2018	2019	2018	2019	2018
Year ended December 31 ($000s)								
Rental revenue	32,379	30,676	33,590	34,494	3,828	3,669	1,362	1,334
Net rental income	21,766	20,792	16,607	17,463	3,001	2,885	1,013	936
Same-asset NOI	17,093	16,798	18,705	19,375	1,981	1,853	1,013	936
As at December 31								
Weighted average base rent (sf)	$19.99	$20.28	$13.88	$14.02	$14.53	$14.32	n/a	n/a
Occupancy	92.8%	93.2%	82.4%	86.5%	100.0%	100.0%	100.0%	100.0%

Retail - our 14 retail properties include 6 multi-building retail power centres, 1 retail/distribution centre and 7 neighborhood shopping centres. Rental revenue was up 6%, while net rental income was up 5% over 2018. In 2019 we acquired two retail properties: Melcor Crossing, in Grande Prairie, AB and Staples Centre, in Calgary, AB. These third-party acquisitions increased our retail portfolio composition to 43.5% (up from 36.8% in 2018). Revenue from these properties plus others acquired in 2018 contributed $7.65 million in 2019 (2018 - $5.69 million). In the comparative period we recognized $0.38 million in revenue from two retail properties sold during the first half of 2018. Occupancy and weighted average base rents were down from 2018 due to the addition of Melcor Crossing, which has lower in-place occupancy (90.6%) and base rents ($17.81) compared to the portfolio average. Committed occupancy for the property is 98.9%. Same-asset NOI was up 2% due to step-ups on leases with multiple rent escalations and fewer tenants on rent-free periods.

Office - our 21 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. Rental revenue and net rental income were down 3% and 5% respectively over 2018, a direct result of the departure of RBC on October 1, 2019. Same-asset NOI was down 3%. Weighted average base rents trended down due to market pressure on the 162,465 sf of new and renewed leasing commencing in 2019. We have signed lease commitments on 57,000 sf of office. Lower same-asset performance was partially offset by the December 2018 acquisition of the LFS Building in Lethbridge, AB. Rental revenue from this property was $0.44 million (2018 - $0.03 million).

Industrial - our 3 industrial properties include single and multi-tenant buildings. Our assets remained fully occupied through 2019. Same-asset NOI was up 7% over 2018 as a result of step-ups on leases with multiple rent escalations.

Land Lease Community – we have one land lease community in Calgary, AB consisting of 308 pad lots. It was 100% occupied at December 31, 2019 (2018 – 100%). Revenue and NOI were up 2% and 8% respectively over 2018 as a result of higher pad rates and lower direct operating costs.

Regional Analysis

The following table summarizes the composition of our properties at December 31, 2019 by geographic region:

Geographic Region	**Number of Properties**	**GLA (sf)**	**% of Portfolio (GLA)**	**Fair Value of Investment Properties ($000s)**	**Net Rental Income 2019 ($000s)**
Northern Alberta	22	1,955,019	60.9%	466,199	22,881
Southern Alberta	10	887,303	27.7%	242,065	15,526
Saskatchewan & British Columbia	7	366,628	11.4%	67,948	3,980
	39	**3,208,950**	**100.0%**	**776,212**	**42,387**

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

	Northern Alberta		**Southern Alberta**		**Saskatchewan & British Columbia**	
	2019	**2018**	**2019**	**2018**	**2019**	**2018**
Year ended December 31 ($000s)						
Rental revenue	**40,500**	40,715	**23,426**	22,376	**7,233**	7,082
Net rental income	**22,881**	23,543	**15,526**	14,669	**3,980**	3,864
Same-asset NOI	**21,903**	22,012	**12,505**	12,521	**4,384**	4,429
As at December 31						
Weighted average base rent (per sf)	**$17.41**	$16.85	**$16.89**	$17.08	**$13.46**	$13.63
Occupancy	**84.6%**	87.5%	**94.6%**	94.8%	**90.6%**	90.0%

Northern Alberta - our Northern Alberta assets are located throughout the greater Edmonton area, including Leduc, Spruce Grove, Red Deer and Grande Prairie. Rental revenue and net rental income were down over 2018 due to the sale of two retail buildings in 2018, lower occupancy and an increase in tenant incentive amortization due to higher deal costs. The decrease was partially offset by the acquisition of Melcor Crossing in November 2019 and stable same-asset NOI.

Southern Alberta - our Southern Alberta assets are located throughout the greater Calgary area, including Chestermere, Airdrie and Lethbridge. The addition of 56,084 sf of retail GLA (Staples Centre, Calgary) and 33,196 sf of office GLA (LFS Building, Lethbridge) drove the increase in rental revenue and net rental income. Same-asset NOI was flat.

Saskatchewan and British Columbia - our Saskatchewan and British Columbia assets are located in Regina, Saskatchewan and Kelowna, British Columbia. Rental revenue and net rental income were up due to higher straight-line rent adjustments. Same-asset NOI was flat.

General & Administrative Expense

	Year ended December 31		
($000s)	**2019**	**2018**	△%
Asset management fee	**1,788**	1,739	3 %
Professional fees	**372**	428	(13)%
Public company costs	**335**	336	— %
Other	**373**	381	(2)%
	2,868	2,884	(1%)

General & administrative (G&A) expense was stable at $2.87 million (4% of rental revenue) in 2019. Lower professional fees and other expenses offset the increase in asset management fees which are based on the gross book value of the portfolio and thus up due to acquisitions. We are committed to prudent financial stewardship and carefully monitor discretionary G&A expenses to ensure maximum value to our unitholders. We expect G&A to be approximately 5% of rental revenue.

Finance Costs

	Year ended December 31		
($000s)	**2019**	**2018**	△%
Interest on mortgages payable and revolving credit facility	**10,001**	8,961	12 %
Interest on Class C LP Units	**2,516**	2,893	(13)%
Amortization of fair value adjustment on Class C LP Units	**(131)**	(209)	(37)%
Interest on convertible debentures	**3,455**	3,100	11 %
Accretion on convertible debentures	**256**	180	42 %
Fair value adjustment on derivative instruments	**789**	(421)	nm
Amortization of deferred financing fees	**1,499**	1,417	6 %
Finance costs before distributions	**18,385**	**15,921**	**15%**
Distributions on Class B LP Units	**10,195**	10,057	1 %
Finance costs	**28,580**	**25,978**	**10 %**

Finance costs were up $2.60 million or 10% over 2018 due to acquisitions completed over the past two years, increase in overall leverage and fluctuations in fair value adjustment on derivative instruments. Excluding the impact of fair value adjustments, finance costs increased $1.39 million or 5%. The timing of the 2019 Debenture issuance, Melcor Crossing acquisition and subsequent mortgage financing, and the 2014 Debenture redemption resulted in elevated finance costs in 2019.

Higher interest on mortgages payable and revolving credit facility is due to higher amounts drawn under our revolving credit facility in 2019, new mortgage financings on properties acquired over the past two years and an increase in average rates on 2019 mortgage renewals. Lower interest on Class C LP units was due to repayments made in 2018, which reduced the outstanding balance.

As part of the Melcor Crossing acquisition, the REIT issued 1,225,822 Class B LP Units to Melcor for $10.00 million. Distributions on Class B LP Units increased 1% over 2018 as a result of these new units. Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units ($0.675 per unit during the year).

On October 29, 2019 we issued 5.10% extendible convertible unsecured subordinated debentures (the "2019 Debentures") to the public for gross proceeds of $46.00 million, including $6.00 million issued pursuant to the exercise of an over-allotment option. On December 19, 2019 we redeemed the $34.50 million 2014 Debentures, which paid a coupon of 5.50% annually. The $23.00 million 2017 Debentures pay a coupon of 5.25% annually.

As at December 31, 2019, the weighted average interest rate on our revolving credit facility, mortgages payable, Class C LP Units and convertible debentures was 3.78% based on period end balances (December 31, 2018 – 3.77%).

Income Taxes

As at December 31, 2019, 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). The REIT calculates FFO in accordance with REALpac.

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

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

	Year ended December 31		
($000s, except per unit amounts)	**2019**	**2018**	**△%**
Net (loss) income for the year	(488)	17,610	
Add / (deduct)			
Fair value adjustment on investment properties	1,622	11,385	
Fair value adjustment on Class B LP Units	9,922	(15,644)	
Amortization of tenant incentives	3,541	3,097	
Distributions on Class B LP Units	10,195	10,057	
Fair value adjustment on derivative instruments	789	(421)	
Funds From Operations (FFO)	25,581	26,084	(2)%
Deduct			
Straight-line rent adjustments	(628)	(1,190)	
Normalized capital expenditures	(2,349)	(2,424)	
Normalized tenant incentives and leasing commissions	(4,119)	(3,318)	
Adjusted Funds from Operations (AFFO)	18,485	19,152	(3)%
FFO/Unit	$0.91	$0.93	
AFFO/Unit	$0.65	$0.68	
Weighted average number of units (000s):(1)	28,226	28,010	1 %

(1) For the purposes of calculating per unit FFO and AFFO the basic weighted average number of units includes Trust Units and Class B LP Units.

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

	Year ended December 31		
($000s, except per unit amounts)	2019	2018	△%
Funds From Operations (FFO)	**25,581**	26,084	(2)%
Convertible debentures interest	**3,455**	3,100	
Amortization of deferred financing fees	**918**	791	
Accretion on convertible debentures	**256**	180	
Funds From Operations - Diluted (FFO - Diluted)	**30,210**	30,155	— %
FFO - Diluted/Unit	**$0.97**	$0.92	
Diluted weighted average number of units (000s):(1)	**31,132**	32,737	(5)%

(1) The diluted weighted average number of units includes Trust Units, Class B LP Units and convertible debentures.

Capital Expenditures

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

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

The following summarizes our actual expenditures compared to normalized amounts.

For the years ended December 31 ($000s)	2019	2018
Investment in property improvements	**2,517**	2,592
Less non-recoverable	**—**	(318)
Actual capital expenditures	**2,517**	2,274
Normalized capital expenditures	**2,349**	2,424
Variance	**168**	(150)

Tenant Incentives & Direct Leasing Expenditures

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

The following summarizes our actual expenditures compared to normalized amounts.

For the years ended December 31 ($000s)	2019	2018
Actual tenant incentives and direct leasing expenditures	**5,716**	4,981
Normalized tenant incentives and direct leasing expenditures	**4,119**	3,318
Variance	**1,597**	1,663

Normalized tenant incentives and direct leasing expenditures increased 24% over 2018 reflecting higher incentives on deals, particularly in the downtown Edmonton office market.

Adjusted cash flows from operations

REALpac defines Adjusted Cash Flow from Operations (ACFO) as cash flow from operations adjusted for, among other things, changes in operating assets and liabilities, payments of tenant incentives and direct leasing costs, non-cash finance costs, normalized capital expenditures and normalized tenant incentives and direct leasing costs. We calculate ACFO in accordance with the guidelines set out by REALpac. We intend to focus more of our discussion and performance analysis on ACFO going forward.

	Year ended December 31		
($000s)	**2019**	**2018**	**△%**
Cash flows from operations	**9,309**	11,870	(22)%
Distributions on Class B LP Units	**10,195**	10,057	
Actual payment of tenant incentives and direct leasing costs	**4,168**	4,730	
Changes in operating assets and liabilities	**2,905**	(375)	
Amortization of deferred financing fees[1]	**(1,499)**	(1,417)	
Normalized capital expenditures	**(2,349)**	(2,424)	
Normalized tenant incentives and leasing commissions	**(4,119)**	(3,318)	
Adjusted Cash Flows from Operations (ACFO)	**18,610**	19,123	(3)%
ACFO/Unit	**$0.66**	$0.68	
Weighted average number of units (000s):[2]	**28,226**	28,010	1 %

(1) In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.

(2) For the purposes of calculating per unit ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.

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 distributions to unitholders at a rate of $0.05625 per unit monthly or $0.675 per unit on an annualized basis. Distributions to unitholders during the year were $8.88 million (2018 - $8.90 million).

Distributions made during the year ended December 31, 2019 represent a payout ratio of approximately 102% of ACFO (2018 - 99%). On an FFO basis, distributions represent a payout ratio 74% (2018 - 72%). FFO was negatively affected by higher finance costs on account of the timing of the Melcor Crossing acquisition and mortgage financing, and the 2019 Debenture issuance/ 2014 Debenture redemption. The decrease in AFFO was a result of lower FFO as well as an increase in normalized tenant incentive and leasing commissions.

We continue to actively seek investment opportunities to deploy the cash on hand. We also generate sufficient cash flows from operations to sustain our current distribution rate for the foreseeable future.

We use ACFO in evaluating our ability to continue to fund distributions. The most similar IFRS measure is cash flows from operations. Cash flows from operations, which includes Class B LP Unit distributions as a financing charge, exceeded distributions by $0.43 million in 2019 (2018 - $2.97 million) as illustrated below.

	Year ended December 31		
($000s)	**2019**	2018	△%
Cash flows from operations	**9,309**	11,870	(22)%
Distributions on Class B LP Units	**10,195**	10,057	1 %
Cash flows from operations before Class B LP Unit distributions	**19,504**	21,927	(11)%
Distributions to unitholders	**(8,882)**	(8,901)	— %
Distributions on Class B LP Units	**(10,195)**	(10,057)	1 %
Total distributions	**(19,077)**	(18,958)	1 %
Cash flows from operations before Class B LP Unit distributions less total distributions	**427**	2,969	(86)%
Total distributions as a % of cash flows from operations before Class B LP Unit distributions	**98%**	86%	14 %

Investment Properties

As at December 31, 2019 we owned 39 income-producing office, retail and industrial properties representing 3.21 million sf in GLA and a fair value of $776.21 million. The change in the fair value of our portfolio is summarized as follows:

	Fair Value of Portfolio
Balance, December 31, 2018	**704,339**
Additions:	
Acquisitions	68,175
Property improvements	2,517
Direct leasing costs	645
Tenant inducements additions	5,071
Straight-line rent adjustments	628
Amortization of tenant incentives	(3,541)
Fair value adjustment on investment properties	(1,622)
Balance, December 31, 2019	**776,212**

Acquisitions:

- On April 24, 2019 we acquired a 56,084 sf single tenant retail building with warehouse space in Calgary, Alberta (Staples Centre) from a third party for $12.45 million.
- On November 12, 2019 we acquired a 283,235 sf multi-building open retail power centre in Grande Prairie, Alberta (Melcor Crossing) from a third party for $54.80 million.

Additions – during 2019 we invested $2.52 million in asset enhancement and preservation projects. We remain committed to strategic value-adding asset enhancement and preservation projects as an integral component of our strategy to improve our assets and retain and attract tenants. The majority of building improvement expenditures are recoverable from the tenants over 5-25 years. We also spent $5.72 million on tenant inducements and direct leasing costs in connection with 222,384 sf of leasing completed during the year.

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

	Dec 31, 2019	Dec 31, 2018
Number of properties	39	37
Total GLA (sf)	3,339,030	2,998,938
GLA (REIT owned %) (sf)	3,208,950	2,868,901
Fair value of portfolio ($000s)	776,212	704,339
Value per square foot	$242	$246
NOI ($000s)	45,300	43,983
Weighted average capitalization rate	6.82%	6.69%
Weighted average terminal cap rate	6.87%	6.75%
Weighted average discount rate	7.76%	7.70%

For the year ended December 31, 2019, Melcor's internal valuation team performed the valuation assessment. In 2019, 32 phases of 53 legal phases with a fair value of $444.70 million were valued by qualified independent external valuation professionals. Valuations performed during the year resulted in fair value losses of $1.62 million. In 2018, 24 phases of 51 legal phases with a fair value of $367.55 million were valued by qualified independent external valuation professionals, resulting in a fair value loss of $11.39 million. Refer to note 26 to the consolidated financial statements for additional information on the calculation of fair value adjustments.

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

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

For the years ended December 31 ($000s)	2019	2018	$△
Northern Alberta	2,431	(12,816)	15,247
Southern Alberta	(1,469)	33	(1,502)
Saskatchewan & British Columbia	(2,584)	1,398	(3,982)
	(1,622)	(11,385)	9,763

Fair value gains in Northern Alberta were due to new leasing on certain Edmonton office properties. Fair value losses in Southern Alberta were due to increased vacancy at one of our Calgary, AB office properties. Fair value losses in Saskatchewan & British Columbia were due to tenant rollover at two of our Regina, SK retail properties and a decline in market rental rates. 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 less than 1% in the fair value of our portfolio.

Fair values are most sensitive to changes in capitalization rates.

	December 31, 2019			December 31, 2018		
	Min	Max	Weighted Average	Min	Max	Weighted Average
Capitalization rate	5.50%	10.50%	6.82%	5.50%	10.50%	6.69%
Terminal capitalization rate	5.75%	9.00%	6.87%	5.75%	9.00%	6.75%
Discount rate	6.50%	9.50%	7.76%	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 $53.11 million (2018 - $48.65 million) while a 50 basis points decrease (-0.5%) would increase it by $61.51 million (2018 - $56.50 million).

Liquidity & Capital Resources

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

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

Cash Flows

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

	Year ended December 31		
($000s)	**2019**	**2018**	$△
Cash from operating activities	**9,309**	11,870	(2,561)
Cash (used in) from investing activities	**(70,692)**	(26,700)	(43,992)
Cash from financing activities	**62,082**	4,222	57,860
Increase (decrease) in cash and cash equivalents	**699**	(10,608)	11,307
Cash and cash equivalents, beginning of year	**1,581**	12,189	(10,608)
Cash and cash equivalents, end of year	**2,280**	1,581	699

Operating activities

Cash from operating activities decreased compared to the prior period as a result of fluctuations in adjustments for working capital and expenditures on tenant incentives and direct leasing costs. Our tenant incentives and direct leasing cost investments were $4.17 million in the year (2018 - $4.73 million) as we completed 222,384 sf of new and renewed leasing, resulting in year-end occupancy of 88.0%. The timing of lease expiries impacts the level of spending on tenant incentives and direct leasing costs and will fluctuate from period to period. Cash flows before adjustments for working capital and payment of tenant incentives and direct leasing costs was up $0.16 million over 2018. The increase is due to asset acquisitions completed over the past two years.

Investing activities

On April 24, 2019 we acquired Staples Centre in Calgary, AB for a purchase price of $12.61 million (including transaction costs), settled in cash available under the revolving credit facility.

On November 12, 2019 we acquired Melcor Crossing in Grande Prairie, AB for a purchase price of $55.57 million (including transaction costs). As part of the transaction, the REIT issued 1,225,822 Class B LP Units to Melcor for $10.00 million in proceeds. The balance of the purchase price was settled through cash raised through the issuance of the 2019 Debentures, with mortgage financing placed subsequently.

In the comparative period, we invested $34.18 million in the Melcor Acquisition and an additional $6.32 million to acquire a third party property, LFS Building. We also received net proceeds of $16.39 million following the disposal of two retail properties in the greater Edmonton area.

We invested $2.52 million in our 2019 capital program (2018 - $2.59 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.

Financing activities

On October 29, 2019, we received net proceeds of $44.28 million from the issuance of the 2019 Debentures. On December 19, 2019 we redeemed the 2014 Debentures in full for $34.50 million.

During 2019 we obtained new financing for Staples Centre and Melcor Crossing as well as re-financed five maturing mortgages for gross proceeds of $76.62 million (net $46.73 million). In February 2019 we also repaid a $6.83 million mortgage which was secured against our Red Deer, AB retail property. During the comparative period we re-financed the mortgages on three properties for gross proceeds of $60.24 million (net $21.81 million); and repaid $4.15 million in Class C LP Units and $2.46 million of mortgage indebtedness on maturity.

In April 2019 we commenced an NCIB to buy back our trust units. In 2019 we repurchased 53,504 units at a cost of $0.41 million.

We continued our monthly distribution of $0.05625 per unit for total annual distributions of $8.88 million to unitholders (2018 - $8.79 million).

In the comparative period, we received $16.11 million from the issuance of 2,035,500 trust units, net of transaction costs. Proceeds were used to fund the Melcor Acquisition.

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 and Class B LP units in connection with investment property purchases.

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

As at December 31, 2019, we had $2.28 million in cash and cash equivalents and $11.88 million in 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 debentures and amounts drawn under our revolving credit facility.

Pursuant to the Declaration of Trust (DOT) Degree of Leverage Ratio, we may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% (65% including any convertible debentures) of Gross Book Value (GBV). Throughout the year, we were in compliance with the Degree of Leverage Ratio and had a ratio of 50% as at December 31, 2019 (59% including the convertible debenture) (2018 - 48% and 56% respectively).

As at December 31, 2019, the REIT's total capitalization was $743.89 million (2018 - $671.32 million), comprised as follows:

($000s)	**Dec 31, 2019**	**Dec 31, 2018**
Revolving credit facility[1]	23,025	—
Mortgages payable[1]	293,265	261,067
Class C LP Units[2]	68,723	72,351
Indebtedness, excluding convertible debentures	**385,013**	**333,418**
Convertible debentures[3]	69,000	57,500
Indebtedness	**454,013**	**390,918**
Class B LP Units[4]	160,207	150,207
Trust units	129,666	130,194
Equity	**289,873**	**280,401**
Total capitalization	**743,886**	**671,319**
Gross Book Value ("GBV")[5]	**766,457**	**699,207**
Debt to GBV, excluding convertible debentures (maximum threshold - 60%)	**50%**	**48%**
Debt to GBV (maximum threshold - 65%)	**59%**	**56%**

1. *Debts are presented excluding unamortized transaction costs and discount on bankers acceptance (as applicable).*
2. *Class C LP Units excluding unamortized fair value adjustment on Class C LP Units.*
3. *Convertible debentures are presented at face value, excluding unamortized transaction costs and amounts allocated to conversion feature.*
4. *Class B LP Units are classified as equity for purposes of this calculation and are included at their book value.*

5. *GBV is calculated as the cost of the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.*

We are 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 1.25, and a minimum adjusted unitholders' equity of $140.00 million. We also have financial covenants on certain mortgages for investment properties. As at December 31, 2019 we were not in default or arrears on any of our obligations or any debt covenants. 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:

		as at December 31					
($000s)	**Total**	**2020**	**2021**	**2022**	**2023**	**2024**	**Thereafter**
Revolving credit facility	23,025	23,025	—	—	—	—	—
Mortgages payable	293,265	23,507	39,130	33,762	42,388	43,225	111,253
Class C LP Units	68,723	27,146	14,675	1,095	14,932	451	10,424
Convertible debentures	69,000	—	—	23,000	—	46,000	—
Total	**454,013**	**73,678**	**53,805**	**57,857**	**57,320**	**89,676**	**121,677**
% of portfolio	100%	16%	12%	13%	13%	20%	26%

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.

On May 27, 2019 we entered into the second amending agreement to our revolving credit facility with two western Canadian financial institutions, reducing the debt service coverage ratio from 1.50 to 1.25.

In 2019 we obtained new mortgage financing of $42.77 million on two recently acquired retail properties at a weighted average rate of 3.42%. In addition, we re-financed four retail mortgages and one industrial mortgage for $33.85 million in gross proceeds (net $3.96 million) at a weighted average interest rate of 3.30%. In February 2019 we repaid the $6.83 million outstanding mortgage which was secured against our Red Deer, AB retail property.

On October 29, 2019, the REIT issued a 5.10% convertible unsecured subordinated debenture (the "2019 Debentures") to the public for gross proceeds of $46.00 million, including $6.00 million issued pursuant to the exercise of an over-allotment option. The 2019 Debentures mature on December 31, 2024 and can be converted into trust units at the holders' options at any point prior to the maturity date at a conversion rate of 112.3596 trust units per one thousand principal amount of convertible debenture (the "Conversion Price"). The 2019 Debentures were issued in connection with the Melcor Crossing acquisition and redemption of the $34.50 million 2014 Debentures.

Over the next 12 months, three mortgages are up for renewal. These mortgages have an outstanding principal balance of $15.19 million and a weighted average interest rate of 3.09% at December 31, 2019. We also have three properties encumbered by Class C LP Units where the underlying mortgages - held by Melcor - are up for renewal in the next 12 months. The Class C LP Units have an outstanding principal balance of $25.30 million and a weighted average interest rate of 3.76% (3.22% including interest rate subsidized) at December 31, 2019. We expect to be able to re-finance remaining debts at market competitive terms.

We continually monitor our upcoming mortgage renewals to identify opportunities and risks. We expect to be able to re-finance these debts at market competitive terms.

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

($000s)	**Total**	**Fixed**	**Variable**	**Weighted average interest rate**	**Weighted average term to maturity**
Revolving credit facility	23,025	—	23,025	4.28%	1.42
Mortgages payable	293,265	276,745	16,520	3.50%	5.48
Class C LP Units	68,723	68,723	—	3.40%	2.58
Convertible debentures	69,000	69,000	—	5.15%	4.34
Total	**454,013**	**414,468**	**39,545**	**3.78%**	**4.66**

The weighted average interest rate on our debts was 3.78% (December 31, 2018 - 3.77%).

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

Debt Service Coverage Ratio and Finance Costs Coverage Ratio – we calculate debt service coverage ratio as FFO for the period divided by principal repayments on mortgages payable and Class C LP Units made during the 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. Our coverage ratios were down in 2019 due to an increase in leverage and higher amortization of deferred financing fees.

For the years ended December 31 ($000s)	**2019**	**2018**
FFO	**25,581**	**26,084**
Principal repayments on Mortgages payable	**7,700**	7,654
Principal repayments on Class C LP Units	**3,628**	3,705
Debt service coverage ratio	**2.26**	**2.30**
FFO plus finance costs	**43,177**	42,426
Finance costs(1)	**17,596**	16,342
Finance costs coverage ratio	**2.45**	**2.60**

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

Equity

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

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

On April 1, 2019 we commenced an NCIB to buy back our trust units. We are entitled to purchase up to 659,339 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. We believe that our units have been trading in a price range which does not reflect the value of the units in relation to our current and future business prospects. The trust units may be repurchased up to a maximum daily limit of 2,908. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement, on March 31, 2020.

In 2019, we purchased 53,504 units at a cost of $0.41 million at a weighted average cost of $7.59 per unit or 77% of book value.

On November 12, 2019 the REIT issued 1,225,822 Class B LP Units at $8.16 per unit or $10.00 million as partial consideration for the Melcor Crossing acquisition.

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

	December 31, 2019		December 31, 2018	
Issued and fully paid units ($000s)	**Units**	**$ Amount**	**Units**	**$ Amount**
Balance, beginning of year	13,187	130,194	11,151	112,892
Issuance of trust units	—	—	2,036	17,302
Repurchase of trust units	(54)	(528)	—	—
Balance, end of year	**13,133**	**129,666**	**13,187**	**130,194**
Dilutive securities				
Class B LP Units[1]	16,125	160,207	14,899	150,207
Convertible debentures	7,169	69,000	4,727	57,500
Diluted balance, end of year	**36,427**	**358,873**	**32,813**	**337,901**

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

Off Balance Sheet Arrangements

As at December 31, 2019, we had no off-balance-sheet arrangements outside of the following commitments and contingencies.

In the normal course of operations we enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. The REIT has entered into lease agreements that may require tenant incentive payments of approximately $1.40 million (2018 - $1.60 million).

The REIT also retains a loan guarantee related to the mortgage transferred as part of the January 31, 2018 property sale. As at December 31, 2018 the loan balance was $3.48 million (2018 - $3.58 million).

Quarterly Results

	2019				2018			
	Q4	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**
Revenue ($000s)	18,273	17,468	17,474	17,944	17,336	17,283	17,537	18,017
Net income (loss) ($000s)[1]	(5,220)	2,310	(56)	2,478	6,737	3,097	(1,768)	9,544
Funds from operations (FFO) ($000s)	6,002	6,570	6,478	6,531	6,382	6,277	6,723	6,702
Adjusted funds from operations (AFFO) ($000s)	4,232	4,860	4,776	4,617	4,792	4,494	4,973	4,893
Adjusted cash flows from operations (ACFO) ($000s)	4,315	4,875	4,790	4,630	4,796	4,484	4,961	4,882
Per unit metrics								
Earnings (loss) per unit (basic)[1]	$ (0.35)	$ 0.18	$ —	$ 0.19	$ 0.51	$ 0.23	$ (0.13)	$ 0.74
FFO (basic)	$ 0.21	$ 0.23	$ 0.23	$ 0.23	$ 0.23	$ 0.22	$ 0.24	$ 0.24
AFFO (basic)	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.17	$ 0.16	$ 0.18	$ 0.18
ACFO (basic)	$ 0.15	$ 0.17	$ 0.17	$ 0.16	$ 0.17	$ 0.16	$ 0.18	$ 0.18
Annualized distribution rate	$0.675	$0.675	$0.675	$0.675	$0.675	$0.675	$0.675	$0.675
FFO Payout Ratio	81%	72%	73%	73%	74%	76%	70%	70%
AFFO Payout Ratio	114%	97%	99%	103%	99%	105%	95%	96%
ACFO Payout Ratio	112%	97%	99%	102%	99%	106%	96%	96%
Period-end closing unit price	$8.12	$7.74	$7.65	$7.58	$7.46	$8.10	$8.22	$8.10
Annualized distribution yield on closing unit price (%)[2]	8.31%	8.72%	8.82%	8.91%	9.05%	8.33%	8.21%	8.33%

(1) Net income (loss) is significantly impacted by the results of non-cash fair value adjustments on assets and liabilities carried at fair value. Management believes that FFO is a better measure of operating performance and that AFFO is a better measure of cash flows.

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

Fourth Quarter Results

Consolidated Revenue & Net Operating Income

	Three months ended December 31		
($000s)	**2019**	**2018**	**△%**
Base rent	**11,753**	10,920	8 %
Recoveries	**6,652**	6,490	2 %
Other	**585**	576	2 %
Amortization of tenant incentives	**(870)**	(809)	8 %
Straight-line rent adjustment	**153**	159	(4)%
Rental revenue	**18,273**	17,336	5 %
Operating expenses	**3,591**	3,320	8 %
Utilities and property taxes	**3,953**	3,660	8 %
Direct operating expenses	**7,544**	6,980	8 %
Net rental income	**10,729**	10,356	4 %
NOI	**11,446**	11,006	4 %
Same-asset NOI	**9,423**	9,810	(4)%
Operating margin	**59%**	60%	(2)%

Fourth quarter rental revenue increased $0.94 million or 5% over Q4-2018 due to portfolio growth over the past twelve months. Excluding the impact of acquired assets, rental revenue was down 3% due to higher vacancy and lower lease rates in our Northern Alberta office portfolio. Direct operating expenses were up 8% over Q4-2018. Excluding the impact of property acquisitions, direct operating expenses were flat. Same-asset NOI was down 5% over Q3-2019 and down 4% over Q4-2018 due to lower revenue, largely due to the RBC vacancy.

General & Administrative Expense

	Three months ended December 31		
($000s)	**2019**	**2018**	**△%**
Asset management fee	**463**	435	6 %
Professional fees	**73**	129	(43)%
Public company costs	**71**	67	6 %
Other	**100**	97	3 %
	707	728	(3)%

Asset management fees were up 6% over Q4-2018 due to property acquisitions. Professional fees and other expenses fluctuate from period to period due to the timing of costs incurred.

Finance Costs

	Three months ended December 31		
($000s)	**2019**	**2018**	**△%**
Interest on mortgages payable and revolving credit facility	**2,669**	2,300	16 %
Interest on Class C LP Units	**617**	659	(6)%
Amortization of fair value adjustment on Class C LP Units	**(32)**	(41)	(22)%
Interest on convertible debentures	**1,126**	776	45%
Accretion on convertible debentures	**115**	45	156%
Fair value adjustment on derivative instruments	**585**	(366)	(260)%
Amortization of deferred financing fees	**423**	348	22 %
Finance costs before distributions	**5,503**	**3,721**	**48%**
Distributions on Class B LP Units	**2,653**	2,514	6 %
Finance costs	**8,156**	**6,235**	**31 %**

Finance costs for the fourth quarter were up $1.92 million or 31% over Q4-2018 as a result of:

- acquisitions completed in 2019
- increase in overall leverage and
- fluctuations in fair value adjustment on derivative instruments.

Excluding the impact of fair value adjustment on derivative instruments, finance costs increased $0.97 million or 15%. Interest on mortgages payable and revolving credit facility and Class C LP Units were up 12% due to higher mortgage indebtedness and higher usage of the revolving credit facility.

Interest on convertible debentures was up due to the issuance of the 2019 Debentures on October 29, 2019. The 2014 Debentures were redeemed in full on December 18, 2019.

The timing of the 2019 Debenture issuance, Melcor Crossing acquisition and subsequent mortgage financing, and the 2014 Debenture redemption resulted in elevated finance costs in the fourth quarter.

Funds from Operations & Adjusted Funds from Operations

	Three months ended December 31		
($000s, except per unit amounts)	**2019**	**2018**	**△%**
Net (loss)/income for the period	(5,220)	6,737	
Add / (deduct)			
Fair value adjustment on investment properties	1,364	6,224	
Fair value adjustment on Class B LP Units	5,750	(9,536)	
Amortization of tenant incentives	870	809	
Distributions on Class B LP Units	2,653	2,514	
Fair value adjustment on derivative instruments	585	(366)	
Funds From Operations (FFO)	6,002	6,382	(6)%
Deduct			
Straight-line rent adjustments	(153)	(159)	
Normalized capital expenditures	(587)	(606)	
Normalized tenant incentives and leasing commissions	(1,030)	(825)	
Adjusted Funds from Operations (AFFO)	4,232	4,792	(12)%
FFO/Unit	$0.21	$0.23	
AFFO/Unit	$0.15	$0.17	
Weighted average number of units (000s):[1]	28,703	28,086	9 %

(1) For the purposes of calculating per unit FFO and AFFO the basic weighted average number of units includes Trust Units and Class B LP Units.

FFO and AFFO were down 6% and 12% over Q4-2018 due to lower same-asset NOI, higher finance costs and increased normalized tenant incentives and leasing commissions.

Fourth quarter distributions to unitholders were $2.22 million (2018 - $2.23 million).

A reconciliation of cash flows from operations to ACFO is as follows. We intend to focus more of our discussion and performance analysis on ACFO going forward.

	Three months ended December 31		
($000s)	**2019**	**2018**	**△%**
Cash flows from operations	2,467	3,583	(31)%
Distributions on Class B LP Units	2,653	2,514	
Actual payment of tenant incentives and direct leasing costs	(489)	1,171	
Changes in operating assets and liabilities	1,724	(693)	
Amortization of deferred financing fees[1]	(423)	(348)	
Normalized capital expenditures	(587)	(606)	
Normalized tenant incentives and leasing commissions	(1,030)	(825)	
Adjusted Cash Flows from Operations (ACFO)	4,315	4,796	(10)%
ACFO/Unit	$0.15	$0.17	
Weighted average number of units (000s):[2]	28,703	28,086	

(1) In Q4-2019 we amended our definition of amortization of deferred financing fees to exclude accretion on convertible debenture. Amortization of deferred financing fees is an adjusting item in the calculation of ACFO. This change has been applied retroactively.

(2) For the purposes of calculating per unit ACFO the basic weighted average number of units includes Trust Units and Class B LP Units.

Outlook

We own a high quality portfolio of income-producing assets. Alberta, our main market, has undergone dramatic changes throughout the past few years due to lower oil prices and an overall decline in economic activity. In addition, our portfolio continues to face competitive pressure due to the significant new supply of office property in downtown Edmonton. This competitive pressure continues to result in increased costs associated with renewals and securing new leases. While leasing in this environment remains challenging, we continue to execute our strategic leasing program and have seen interest across our portfolio.

Occupancy at year end was 88.0% compared to 89.9% at the end of the 2018. Our tenants include a diversified mix of national, regional and local businesses operating in a variety of industries. This diversified tenant base helps mitigate our exposure to negative trends occurring in any one sector.

With 10.4% of total GLA expiring in 2020, we continue to work towards securing early renewals, particularly on larger tenants. There can be no assurance that this strategy will be successful or that we will continue to meet our retention rate target. Recently acquired properties are ~100% occupied and, as newer construction, have longer lease terms remaining, helping to offset the potential loss of tenants as leases expire over the year.

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

($000s, except as indicated)	**Revolving credit facility**	**Mortgages payable**	**Class C LP Units**	**Total**	**FV of Collateral**	**Leverage (%)**	**Weighted Average Interest Rate**
2020	23,025	14,613	24,081	**61,719**	151,798	41%	3.58%
2021	—	30,513	13,257	**43,770**	105,355	42%	3.05%
2022	—	26,096	—	**26,096**	46,293	56%	3.43%
2023	—	35,394	14,265	**49,659**	95,594	52%	3.90%
2024	—	37,249	—	**37,249**	84,844	44%	3.69%
Thereafter	—	94,454	9,475	**103,929**	256,395	41%	3.51%
Total	23,025	238,319	61,078	**322,422**	740,279		

Over the next 12 months, three mortgages are up for renewal. These mortgages have an outstanding principal balance of $15.19 million and a weighted average interest rate of 3.09% at December 31, 2019. We also have three properties encumbered by Class C LP Units where the underlying mortgages - held by Melcor - are up for renewal in the next 12 months. The Class C LP Units have an outstanding principal balance of $25.30 million and a weighted average interest rate of 3.76% (3.22% including interest rate subsidy) at December 31, 2019. We expect to be able to re-finance remaining debts at market competitive terms.

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

We continue to seek out and complete suitable acquisitions to expand our asset base as conditions allow. We also continue to improve existing assets through asset enhancement programs and efficient and effective property management. Our disciplined approach helps to ensure that our assets remain profitable over the long-term while at the same time achieving our objective of providing stable monthly cash distributions to unitholders. We also remain committed to our signature care program to ensure we are the landlord of choice for our tenants.

With a strong, diversified portfolio, focus on property management and client relationships, and a solid pipeline of over 5.53 million sf of high quality assets being developed over the next 5-10 years, we remain well positioned for the future.

Business Environment & Risks

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

General Risks

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

Real Estate Risk

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

Other real property risks include:

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

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

Concentration of Properties and Tenants

Of our total GLA, 89% is located in Alberta at December 31, 2019. Consequently, the market value of the REIT’s properties, the income generated by the REIT and the REIT’s performance are particularly sensitive to changes in Alberta's real estate markets and general economic conditions. The factors impacting the real estate markets in Alberta and the Alberta economy in general may differ from those affecting other regions of Canada.

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

Competitive Conditions

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

We also compete with other developers, managers and property owners in attracting tenants. Some of our competitors are better capitalized or financially stronger, and would be in a better position to withstand an economic downturn. The existence of competition for tenants could have an adverse effect on our ability to lease space in our properties and on the rents charged or concessions granted, and could materially and adversely affect our cash flows, operating results and financial condition. New office towers in downtown Edmonton are adding 1.8 million sf of competing space from 2016-2019.

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

Fixed Costs

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

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

Financing

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

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

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

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

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

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

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

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

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

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

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

Lease Maturity Risk

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

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

In $000s, except as noted

Year of Maturity	Number of Leases	Renewal GLA (sf)	% of GLA	Average Base Rent Expiring Per Annum
2020	104	332,622	10.4%	$16.54
2021	108	289,436	9.0%	$17.87
2022	76	358,511	11.2%	$14.16
2023	86	622,828	19.4%	$13.87
2024	84	355,679	11.1%	$17.07
Thereafter	191	865,711	27.0%	$19.95
Vacant Space	—	384,163	12.0%	—
	649	**3,208,950**		

The following table illustrates the 2020 maturities by portfolio type and geographic area:

Property Type	Northern Alberta	Southern Alberta	Saskatchewan & British Columbia	Total
Retail	103,678	4,451	24,264	**132,393**
Office	88,773	45,186	33,174	**167,133**
Industrial	10,091	23,005	—	**33,096**
	202,542	**72,642**	**57,438**	**332,622**

Credit Risk

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

The following table illustrates the ten largest tenants for the portfolio, as measured by their percentage contribution to the total contracted future minimum lease payment for 2020 and corresponding areas leased by each tenant.

Rank	Top Ten Tenants (Operating Name)	% of Total Minimum Rent	Lease GLA (sf)	% of Total Owned GLA	Remaining Term (yrs)	No. of Locations in Properties	Credit Rating (S&P/ Moody's/DBRS)
1	Government of Alberta	3.4%	109,002	3.4%	4	5	A+ /Aa2/AA
2	Alberta Health Services	3.4%	88,997	2.8%	6	2	---
3	Staples Canada ULC	3.0%	96,891	3.0%	9	3	---
4	Shoppers Drug Mart	2.7%	44,228	1.4%	7	3	BBB/-/BBB
5	NDT Global	2.4%	44,328	1.4%	6	1	---
6	BasinTek LLC	2.3%	88,699	2.8%	4	1	---
7	Fountain Tire Ltd.	2.0%	30,514	1.0%	9	1	---
8	Canadian Brewhouse	1.7%	24,255	0.8%	7	4	---
9	RONA	1.6%	92,315	2.9%	5	2	BBB+/Baa1/ BBB(high)
10	Royal Bank of Canada	1.4%	18,067	0.6%	2	4	AA-/Aa2/AA(high)

Significant Ownership by Melcor

Melcor holds a 55.1% effective interest in the REIT, where each Class B LP Unit is attached to a Special Voting Unit of the REIT. Melcor also holds all of the Class C LP Units of the Partnership.

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

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

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

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

Dependence on Melcor

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

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

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

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

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

Potential Conflicts of Interest with Melcor

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

Taxation Matters

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

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

Environmental Risk

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

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

Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such substances. Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to such substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell such property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

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

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

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

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

Cyber Security Risk

Cyber security has become an increasingly problematic issue for issuers and businesses in Canada and around the world, including for the REIT and the real estate industry in general. Cyber attacks may focus on financial fraud, obtaining sensitive data for inappropriate use or to disrupt business operations. A cyber incident is any adverse event that threatens the confidentiality, integrity or availability of the organization's information resources, including intentional or unintentional events to gain unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information.

As our reliance on technology has increased, so have our risk of a cyber security breech. The REIT's primary risks that could directly result from the occurrence of a cyber incident include operational interruption, damage to our reputation, damage to our business relationships with tenants, disclosure of confidential information regarding our tenants, employees and third parties with whom we do business, and may result in negative consequences, including remediation costs, loss of revenue, additional regulatory scrutiny and litigation.

To remain resilient to these risks, the REIT has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, and staff training. However, these measures, as well as its increased awareness of a risk of a cyber incident, do not provide assurance that its efforts will be effective or that attempted security breaches or disruptions will not be successful or damaging.

Joint Arrangements

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

Other Financial Information

Joint Arrangements

We record only our share of the assets, liabilities, revenue and expenses of our joint arrangements. In 2019, we had three joint arrangements (2018 - three). Refer to note 21 to the consolidated financial statements for additional information. The following table illustrates selected financial data related to joint arrangements at 100% as well as the net portion relevant to the REIT:

Joint arrangement activity at JV% ($000s)	**Dec 31, 2019**	Dec 31, 2018
Revenue	**5,608**	5,681
Earnings	**3,266**	2,231
Assets	**67,723**	66,891
Liabilities	**33,165**	34,246

Joint arrangement activity at 100% ($000s)	**Dec 31, 2019**	Dec 31, 2018
Revenue	**11,216**	11,362
Earnings	**6,532**	4,462
Assets	**135,446**	133,782
Liabilities	**66,330**	68,492

Related Party Transactions

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

Subsequent Events

Please refer to note 27 to the consolidated financial statements for information pertaining to subsequent events.

Critical Accounting Estimates

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

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

Changes in Accounting Policies

We adopted IFRS 16, Leases effective January 1, 2019. Refer to note 5 to the consolidated financial statements for further discussion on the impact of adoption and overview of our policy.

Internal Control over Financial Reporting and Disclosure Controls

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant and material information is gathered and reported to senior management, including the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), in a timely manner. Under the supervision of the CEO and CFO, we carried out an evaluation of the effectiveness of our disclosure controls and procedures as defined in Canada by National Instrument 52-109 as of December 31, 2019. Based on this evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures related to the REIT and its subsidiaries and joint arrangements were effective.

Internal control over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Management designed these controls based on the criteria set out in Internal Control - Integrated Framework (COSO 2013 Framework) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The CEO and CFO have certified that the internal controls over financial reporting were properly designed and effective for the year ended December 31, 2019.

There has been no change in the REIT's disclosure controls and procedures of internal control over financial reporting during the year ended December 31, 2019, that materially affected, or is reasonably likely to materially affect, the REIT's internal control over financial reporting.

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

Declaration of Trust

The investment guidelines and operating policies of the REIT are outlined in the Amended and Restated Declaration of Trust (DOT) dated May 1, 2013. A copy of the DOT is filed on SEDAR at www.sedar.com and is available on request to all unitholders. At March 5, 2020, 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 use REALpac definitions for FFO, ACFO and AFFO.

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

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

Calculations

We use the following calculations in measuring our performance.

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

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

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

	Three months ended December 31			Year ended December 31		
($000s)	2019	2018	△%	2019	2018	△%
Net income/(loss)	(5,220)	**6,737**		(488)	17,610	
Net finance costs	8,128	6,203		28,463	25,841	
Fair value adjustment on Class B LP Units	5,750	(9,536)		9,922	(15,644)	
Fair value adjustment on investment properties	1,364	6,224		1,622	11,385	
General and administrative expenses	707	728		2,868	2,884	
Amortization of tenant incentives	870	809		3,541	3,097	
Straight-line rent adjustment	(153)	(159)		(628)	(1,190)	
NOI	11,446	**11,006**	**4%**	45,300	**43,983**	**3%**

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

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

FFO per unit: FFO per unit is defined as FFO divided by weighted average trust units and weighted average Class B LP Units outstanding. Dilutive FFO includes the effect of the convertible debentures to the extent that their impact is dilutive.

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.

AFFO per unit: AFFO per unit is defined as AFFO divided by weighted average trust units and weighted average Class B LP Units outstanding.

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

ACFO per unit: ACFO per unit is defined as ACFO divided by weighted average trust units and weighted average Class B LP Units outstanding.

FFO, AFFO and ACFO Payout ratio: is calculated as per unit distributions divided by basic per unit FFO, AFFO and ACFO.

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, liability held for sale (as applicable) and convertible debenture, excluding unamortized discount and transaction costs divided by Gross Book Value (GBV). GBV is calculated as the total assets acquired in the Initial Properties, subsequent asset purchases and development costs less dispositions.

Management's Responsibility for Financial Reporting

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

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

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

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

Darin Rayburn
Chief Executive Officer

Naomi Stefura, CA
Chief Financial Officer

Edmonton, Alberta
March 5, 2020

Independent auditor's report

To the Unitholders of Melcor Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Melcor Real Estate Investment Trust and its subsidiaries (together, the REIT) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The REIT's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of (loss) income and comprehensive (loss) income for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence

We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP
Stantec Tower, 10220 103 Avenue NW, Suite 2200, Edmonton, Alberta, Canada T5J 0K4
T: +1 780 441 6700, F: +1 780 441 6776

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, which is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Carlie Persson.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Edmonton, Alberta
March 5, 2020

MELCOR REAL ESTATE INVESTMENT TRUST

Consolidated Financial Statements

December 31, 2019

Consolidated Statements of Financial Position

As at December 31

($000s)	**2019**	**2018**
ASSETS		
Current Assets		
Cash and cash equivalents	**2,280**	1,581
Accounts receivable	**1,666**	1,330
Other assets (note 8)	**2,303**	1,070
Loan receivable	**900**	—
	7,149	3,981
Non-Current Assets		
Investment properties (note 7 and 26)	**753,483**	683,768
Other assets (note 8)	**22,729**	20,571
Loan receivable	**—**	900
Derivative financial asset (note 11 and 26)	**173**	383
	776,385	705,622
TOTAL ASSETS	**783,534**	709,603
LIABILITIES		
Current Liabilities		
Revolving credit facility (note 9)	**22,864**	—
Accounts payable	**1,433**	1,692
Distribution payable	**1,646**	1,580
Accrued liabilities and other payables (note 10 and 20)	**9,670**	7,873
Class C LP Units (note 12)	**27,146**	3,628
Mortgages payable (note 11)	**23,507**	44,177
Convertible debentures (note 13)	**—**	33,873
	86,266	92,823
Non-Current Liabilities		
Accrued liabilities and other payables (note 10)	**1,641**	1,579
Class B LP Units (note 14 and 26)	**130,936**	111,149
Class C LP Units (note 12)	**41,675**	68,952
Mortgages payable (note 11)	**268,113**	215,409
Convertible debentures (note 13)	**63,104**	21,144
Derivative financial liabilities (note 13 and 26)	**3,080**	187
TOTAL LIABILITIES	**594,815**	511,243
UNITHOLDERS' EQUITY	**188,719**	198,360
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY	**783,534**	709,603

See accompanying notes to the consolidated financial statements.

By order of the REIT's Board of Trustees

Carolyn Graham - Audit Committee Chair

Ralph Young - Chair

Consolidated Statements of (Loss) Income and Comprehensive (Loss) Income

For the years ended December 31

($000s)	2019	2018
Rental revenue (note 16 and 20)	71,159	70,173
Direct operating expenses (note 20)	(28,772)	(28,097)
Net rental income	42,387	42,076
General and administrative expenses (note 20)	(2,868)	(2,884)
Fair value adjustment on investment properties (note 7 and 26)	(1,622)	(11,385)
Fair value adjustment on Class B LP Units (note 14 and 26)	(9,922)	15,644
Income before finance costs	27,975	43,451
Interest income	117	137
Finance costs (note 17 and 20)	(28,580)	(25,978)
Net finance costs	(28,463)	(25,841)
Net (loss) income and comprehensive (loss) income	(488)	17,610
Basic (loss) earnings per trust unit (note 19)	($0.04)	$1.34
Diluted (loss) earnings per trust unit (note 19)	($0.04)	$0.43

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Changes in Unitholders’ Equity

As at December 31

($000s except unit amounts)	Number of Trust Units	Trust Units	Contributed Surplus	Retained Earnings	Total Unitholders' Equity
Balance at December 31, 2017	**11,151,297**	**102,707**	**40,448**	**30,296**	**173,451**
Issuance of trust units	2,035,500	16,112	—	—	16,112
Property purchase from Melcor Developments Ltd.	—	—	88	—	88
Net income for the year	—	—	—	17,610	17,610
Distributions to unitholders	—	—	—	(8,901)	(8,901)
Balance at December 31, 2018	**13,186,797**	**118,819**	**40,536**	**39,005**	**198,360**
Trust units repurchased (note 15)	**(53,504)**	**(528)**	**122**	**—**	**(406)**
Issuance of Class B LP units (note 14)	**—**	**—**	**135**	**—**	**135**
Net loss for the year	**—**	**—**	**—**	**(488)**	**(488)**
Distributions to unitholders	**—**	**—**	**—**	**(8,882)**	**(8,882)**
Balance at December 31, 2019	**13,133,293**	**118,291**	**40,793**	**29,635**	**188,719**

See accompanying notes to the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended December 31

($000s)	**2019**	**2018**
CASH FLOWS FROM (USED IN)		
OPERATING ACTIVITIES		
Net (loss) income for the year	**(488)**	17,610
Non cash items:		
Amortization of tenant incentives (note 8 and 16)	**3,541**	3,097
Straight-line rent adjustments (note 16)	**(628)**	(1,190)
Fair value adjustment on investment properties (note 7 and 26)	**1,622**	11,385
Fair value adjustment on Class B LP Units (note 14 and 26)	**9,922**	(15,644)
Amortization of fair value adjustment on Class C LP Units (note 17)	**(131)**	(209)
Accretion on convertible debenture (note 17)	**256**	180
Fair value adjustment on derivative financial instruments (note 17)	**789**	(421)
Amortization of deferred financing fees (note 17)	**1,499**	1,417
	16,382	16,225
Payment of tenant incentives and direct leasing costs	**(4,168)**	(4,730)
Changes in operating assets and liabilities (note 3(n))	**(2,905)**	375
	9,309	11,870
INVESTING ACTIVITIES		
Additions to investment properties	**(68,175)**	(40,497)
Net proceeds from disposal of investment property	**—**	16,389
Investment property improvements (note 7)	**(2,517)**	(2,592)
	(70,692)	(26,700)
FINANCING ACTIVITIES		
Proceeds from issuing trust units (note 15)	**—**	16,112
Proceeds from issuing convertible debenture, net of costs (note 13)	**44,275**	—
Change in revolving credit facility	**23,025**	—
Proceeds from mortgages payable (note 11)	**76,616**	60,240
Repayment of mortgages payable	**(44,418)**	(48,542)
Repayment on Class C LP Units	**(3,628)**	(14,799)
Issuance of Class B LP Units	**10,000**	—
Units repurchased (note 15)	**(406)**	—
Redemption of convertible debenture (note 13)	**(34,500)**	—
Distributions to unitholders	**(8,882)**	(8,789)
	62,082	4,222
INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS DURING THE YEAR	**699**	(10,608)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	**1,581**	12,189
CASH AND CASH EQUIVALENTS, END OF THE YEAR	**2,280**	1,581

See accompanying notes to the consolidated financial statements.

1. DESCRIPTION OF THE TRUST

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

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

As at March 5, 2020, Melcor, through an affiliate, holds an approximate 55.1% effective interest in the REIT through ownership of all Class B LP Units of Melcor REIT Limited Partnership (the "Partnership") and is the ultimate controlling party.

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

2. BASIS OF PRESENTATION

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS").

These consolidated financial statements are presented in Canadian dollars, which is the presentation and functional currency of the REIT; and were authorized for issue by the Board of Trustees on March 5, 2020.

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of measurement

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

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

b) Basis of consolidation

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

Joint arrangements
These arrangements are undivided interests in the assets, liabilities, revenues and expenses under arrangement and we record our proportionate share in accordance with the agreements as joint operations. These consolidated financial statements include investments in three joint arrangements (2018 – three) with 50% interests. Refer to note 21 for additional details on our joint arrangements.

All intercompany transactions and balances are eliminated on consolidation.

c) Cash and cash equivalents

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

d) Investment properties

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

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

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

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

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

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

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

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

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

e) Other assets

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

f) Provision for decommissioning obligation

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

g) Class B LP Units

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

h) Unit capital

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

i) Distributions

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

j) Recognition of revenue

Tenant leases are accounted for as operating leases given that we have retained substantially all of the risks and benefits of the ownership of our investment properties.

Rental revenues include both lease revenue and service revenue components. Lease revenues from investment properties include base rents, recoveries of operating expenses including property taxes, parking revenue, incidental income and sign and storage lease revenue. Revenue recognition under a lease commences when the tenant has a right to use the leased asset. The total amount of contractual rent to be received from the operating leases is recognized on a straight line basis over the term of the lease; a straight line rent receivable which is included in other assets, is recorded for the difference between the rental revenue recognized and the contractual amount received. When incentives are provided to our tenants, the cost of these incentives is recognized over the lease term, on a straight line basis as a reduction to rental revenue.

Service revenues are amounts outlined separately in the lease agreement for distinct services provided including utilities, maintenance and security recoveries from tenants which are recognized on a monthly basis in the period in which the corresponding costs are incurred and performance obligations are completed.

k) Finance costs

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

l) Income taxes

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

m) Financial instruments

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

Financial assets
Financial assets that are held for collection of contractual cash flows represent solely payments of principal and interest

are measured at amortized cost. This includes cash and cash equivalents, accounts receivable and loan receivable. Financial assets are initially recognized at fair value plus transaction costs, adjusted for an expected credit loss. Subsequently, receivables are measured at amortized cost using the effective interest rate method adjusted for expected credit losses. For financial assets, the REIT applies the simplified expected credit loss approach, which requires expected lifetime losses to be recognized from initial recognition.

Financial liabilities

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

Compound financial instrument

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

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

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

Financial derivatives

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

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

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

n) Statements of cash flows

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

4. SIGNIFICANT JUDGMENTS AND CRITICAL ACCOUNTING ESTIMATES

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

Significant judgments

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

a) Investment properties

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

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

b) Classification of tenant incentives

Payments are often made to, or on behalf of, tenants of our commercial properties when new leases are signed. When the payments add future value to the space independent of the lease in place, such costs are capitalized to the investment property. If the costs incurred are specific to the lessee, and do not have stand-alone value, these costs are treated as tenant incentives and amortized on a straight-line basis to revenue over the lease term in accordance with IFRS 16, Leases.

c) Compliance with REIT exemption under ITA

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

Critical accounting estimates

We make estimates and assumptions that affect the carrying amounts of assets and liabilities, disclosure of contingent liabilities and the reported amount of income for the period. Actual results could differ from estimates previously reported. The estimates and assumptions that are critical to the determination of the amounts reported in the consolidated financial statements relate to the following:

a) Valuation of investment properties

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

5. NEW STANDARDS

NEW STANDARDS ADOPTED

We have adopted the following new standard interpretation effective January 1, 2018.

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

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

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

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

Impact of Adoption

The adoption of IFRS 16 did not result in any adjustments upon transition, change in recognition, or timing of recognition of leases in the REIT. Adoption does require additional detail included within our disclosures to the year end financial statements to expand the detail shown for the minimum lease payments under non-cancellable operating leases of investment properties (note 7). This standard was adopted through the modified retrospective approach.

6. ACQUISITIONS AND DISPOSALS

Acquisitions

On November 12, 2019 the REIT purchased a 283,235 sf regional shopping centre in Grande Prairie, Alberta ("Grande Prairie Acquisition") for $55,570 (including transaction costs). The acquisition was satisfied with cash raised through the issuance of 1,225,822 Class B LP Units to Melcor Developments Ltd. for total consideration of $10,000 (note 14) and through the issuance of $46,000 in unsecured convertible debentures "the 2019 Debentures" (note 13).

On April 24, 2019 we purchased a retail investment property in Calgary, Alberta from a third party for a purchase price of $12,605 (including transaction costs).

On December 3, 2018 we purchased an office property for a purchase price of $6,322 (including transaction costs).

On January 12, 2018 the REIT closed on the previously announced acquisition of five commercial properties from Melcor Developments Ltd. ("Melcor Acquisition") for a total purchase price of $80,875.

($000's)	**2018**
Investment properties	**80,875**
Assumed mortgages (note 11)	**(31,037)**
	49,838
Consideration to Melcor	
Class C LP units Issues (note 12)	**13,312**
Class B LP units issues (note 14)	**2,500**
Cash paid to Melcor	**34,026**
	49,838

The purchase price of these acquisitions approximates fair market value and in accordance with our policy, have been accounted for as asset purchases.

Disposals

On April 16, 2018 we sold a retail property for a sales price of $13,319 (net of transaction costs and including tenant incentives of $434 and straight line rent of $80). Concurrent with the sale we repaid the associated Class C LP Unit liability which had a balance of $6,947.

On January 31, 2018, we disposed of a retail property previously classified as held for sale for a sales price of $6,732 (including investment property of $6,642, tenant incentives of $66 and straight line rent of $24). The sale price was settled through mortgage assumption of $3,662, and cash of $3,070.

7. INVESTMENT PROPERTIES

($000s)	2019	2018
Balance - beginning of year	683,768	617,278
Additions		
Direct acquisition	68,175	87,346
Property improvements	2,517	2,592
Direct leasing costs	645	742
Fair value adjustment on investment properties (note 26)	(1,622)	(11,385)
Investment property disposed of during the year	—	(12,805)
Balance - end of year	753,483	683,768

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

Presented separately from investment properties is $15,716 (December 31, 2018 - $14,186) in tenant incentives and $7,013 (December 31, 2018 - $6,385) in straight-line rent adjustments (note 8). The fair value of investment properties has been reduced by these amounts.

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

($000s)	2019	2018
Within one year	46,424	41,858
Later than one year but not later than 2 years	42,927	38,505
Later than 2 years but not later than 3 years	37,641	34,568
Later than 3 years but not later than 4 years	30,944	30,452
Later than 4 years but not later than 5 years	23,430	24,518
Later than 5 years	63,924	62,994
	245,290	232,895

8. OTHER ASSETS

($000s)	2019	2018
Current Assets		
Prepaid expense, and other	2,303	1,070
Non-Current Assets		
Straight-line rent adjustments	7,013	6,385
Tenant incentives	15,716	14,186
	22,729	20,571

During the year we recorded tenant incentives of $5,071 (December 31, 2018 - $4,239) and $3,541 (December 31, 2018 - $3,097) of amortization expense respectively.

In accordance with SIC 15, Operating leases - incentives, amortization of tenant incentives is recorded on a straight-line basis over the term of the lease against rental revenue.

9. REVOLVING CREDIT FACILITY

On May 27, 2019 we entered into a second amending agreement to our revolving credit facility with two western Canadian financial institutions, reducing the debt service coverage ratio from 1.50 to 1.25. Under the terms of the credit facility the REIT maintains an available credit limit based upon the carrying value of specific investment properties to a maximum of $35,000 for general corporate purposes and acquisitions, including a $5,000 swingline sub-facility. An additional $10,000 is available by way of an accordion feature, subject to lender approval. Depending on the form under which the new facility is accessed, rates of interest will vary between prime plus 1.25% or bankers' acceptance plus 2.25% stamping fee. The agreement also provides the REIT with $5,000 in available letters of credit which bear interest at 2.25%. Interest payments are due and payable based upon the form of the facility drawn upon, and principal is due and payable upon maturity. The agreement also bears a standby fee of 0.45% for the unused portion of the new facility. The lenders hold demand debentures, a first priority general security and a general assignment of leases and rents over specific investment properties as security for the new facility. The facility matures June 1, 2021.

As at December 31, 2019, the carrying value of pledged properties was $67,502 (December 31, 2018 - $54,547).

As at December 31, 2019 we had $22,864 (December 31, 2018 - $nil) drawn from the facility (net of unamortized transaction fees and unamortized discount on bankers acceptance); and posted letters of credit of $150 (December 31, 2018 - $150).

($000s)	2019	2018
Amount drawn on facility	23,025	—
Unamortized transaction fees	(63)	—
Unamortized discount on bankers acceptance	(98)	—
	22,864	—

10. ACCRUED LIABILITIES AND OTHER PAYABLES

($000s)	2019	2018
Current Liabilities		
Tenant security deposits and pre-payments	3,213	3,090
Accrued finance costs	739	591
Other accrued liabilities and payables	5,718	4,192
	9,670	7,873
Non-Current Liabilities		
Decommissioning obligation	1,641	1,579

The REIT's decommissioning obligation relates to one of our commercial properties. The total decommissioning obligation is estimated based on the future obligation and timing of these expenditures to be incurred. We estimate the net present value of the obligation based on an undiscounted total future provision of $2,014 (December 31, 2018 - $2,014). At December 31, 2019, a discount rate of 4.00% (December 31, 2018 - 4.00%) and an inflation rate of 2.00% (December 31, 2018 - 2.00%) were used to calculate the net present value of the obligation. Due to uncertainty surrounding the nature and timing of this obligation amounts are subject to change.

11. MORTGAGES PAYABLE

($000s)	**2019**	**2018**
Mortgages amortized over 15-25 years at fixed interest rates	**276,745**	244,007
Mortgage amortized over 25 years at a fixed interest rate (via a floating for fixed interest rate swap)	**16,520**	17,060
Unamortized deferred financing fees	**(1,645)**	(1,481)
	291,620	259,586
Current portion of mortgages payable	**(23,507)**	(44,177)
	268,113	215,409
Interest rate ranges	**(2.58%-4.91%)**	(2.58%-4.91%)

Specific investment properties with a carrying value of $537,289 (December 31, 2018 - $477,997) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above mortgages. The weighted average effective interest rate for the above mortgages, based on period end balances, is 3.50% (December 31, 2018 – 3.51%).

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

($000s)	**Principal Installment Repayments**	**Balance Maturing**	**Total**
2020	8,894	14,613	**23,507**
2021	8,617	30,513	**39,130**
2022	7,666	26,096	**33,762**
2023	6,994	35,394	**42,388**
2024	5,976	37,249	**43,225**
Thereafter	16,799	94,454	**111,253**
	54,946	238,319	**293,265**

We have a floating for fixed interest rate swap which fixes the interest rate on our variable rate mortgage at 2.97% for the term of the mortgage. As at December 31, 2019 the fair value of the interest rate swap contract is $173 (2018 - $383). This financial instrument has not been designated as a hedge for accounting purposes. Supplemental information on fair value measurement, including valuation technique and key inputs, is included in note 26.

The change in mortgages payable during the year is summarized as follows:

($000s)	**2019**	**2018**
Balance at January 1,	**259,586**	217,240
Principal repayments:		
Scheduled amortization on mortgages	**(7,700)**	(7,654)
Mortgage repayments	**(36,718)**	(40,888)
New mortgages	**76,616**	60,240
Mortgages assumed (note 6)	**—**	31,037
Deferred financing fees capitalized	**(626)**	(850)
Amortization of deferred financing fees	**462**	461
Balance at December 31,	**291,620**	259,586

12. CLASS C LP UNITS

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

As at December 31, 2019 the carrying value of the Class C LP Units, included in the consolidated statement of financial position, were as follows:

($000s)	**2019**	**2018**
Class C LP Units amortized over 15-25 years at fixed interest rates	**68,723**	72,351
Unamortized fair value adjustment	**98**	229
	68,821	72,580
Current portion of Class C LP Units	**(27,146)**	(3,628)
	41,675	68,952
Effective interest rate	**3.40%**	3.40%

The change in Class C LP units during the year is summarized as follows:

($000s)	**2019**	**2018**
Balance at January 1,	**72,580**	74,276
Principal repayments:		
Scheduled amortization on Class C LP Units	**(3,628)**	(3,705)
Class C LP Units repayments	**—**	(11,094)
Class C LP Units issued (note 6)	**—**	13,312
Amortization of fair value adjustment on Class C LP Units (note 17)	**(131)**	(209)
Balance at December 31,	**68,821**	72,580

As at December 31, 2019 we had 10,785,613 Class C LP Units issued and outstanding (December 31, 2018 - 10,785,613).

In 2018 Melcor retired the mortgage that secured retained debt relating to a property sold by the REIT to a third party. Concurrent with the retirement of the mortgage we repaid the outstanding Class C LP Unit liability, representing a balance of $6,947 or 812,477 of Class C LP Units. The units were to mature September 1, 2019. During 2018 Melcor also extended the mortgage that secures retained debt relating to two of the initial properties from April 1, 2018 to April 1, 2021 at an interest rate of 3.58% (previously 3.33%). Concurrent with the extended mortgage we extended the maturity of 894,692 Class C Units with a balance of $7,211 from April 1, 2018 to April 1, 2021 at an interest rate of 3.58%.

Also in 2018 the REIT issued 1,331,202 Class C LP Units as partial consideration for the Melcor Acquisitions, and repaid the maturing balance of 493,354 Class C LP units with a carrying value of $4,147.

Specific investment properties with a carrying value of $135,479 (December 31, 2018 - $137,101) and assignment of applicable rents and insurance proceeds have been pledged as collateral for the above Class C LP Units, along with a guarantee by the Partnership.

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

($000s)	Principal Installment Repayments	Balance Maturing	Total
2020	3,065	24,081	**27,146**
2021	1,418	13,257	**14,675**
2022	1,095	—	**1,095**
2023	667	14,265	**14,932**
2024	451	—	**451**
Thereafter	949	9,475	**10,424**
	7,645	61,078	**68,723**

During the year $2,385 (2018 - $2,684) was recognized in finance costs (note 17).

13. CONVERTIBLE DEBENTURES

a) 2014 Debentures

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

These debentures were redeemed on December 19, 2019.

b) 2017 Debentures

On December 21, 2017, the REIT issued a 5.25% extendible convertible unsecured subordinated debentures (the "2017 Debentures") to the public for gross proceeds of $23,000, including $3,000 issued pursuant to the exercise of an over-allotment option. Transaction costs related to the issuance were $1,457 for net proceeds of $21,543. The 2017 Debentures bear interest at an annual rate of 5.25% payable semi-annually in arrears on June 30 and December 31 in each year commencing June 30, 2018. Upon completion of the Melcor Acquisition (note 6), the maturity date of the 2017 Debentures were extended to December 31, 2022. The 2017 Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 86.9565 trust units per one thousand principal amount of convertible debentures (the "Conversion Price"). On and from December 31, 2020, and prior to December 31, 2021, the 2017 Debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2021, and prior to the maturity date, the 2017 Debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the convertible debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the 2017 Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity.

c) 2019 Debentures

On October 29, 2019, the REIT issued a 5.10% extendible convertible unsecured subordinated debentures (the "2019 Debentures") to the public for gross proceeds of $46,000, including $6,000 issued pursuant to the exercise of an over-allotment option. Underwriter costs related to the issuance were $1,725 for net proceeds of $44,275. Additional transaction costs on the issuance were $548. The 2019 Debentures bear interest at an annual rate of 5.10% payable semi-annually in arrears on June 30 and December 31 in each year commencing December 31, 2019. The 2019 Debentures can be converted into trust units at the holders' option at any point prior to the maturity date at a conversion rate of 112.3596 trust units per one thousand principal amount of convertible debentures (the "Conversion Price"). On and from December 31, 2022, and prior to December 31, 2023, the 2019 Debentures may be redeemed by the REIT, in whole at any time, or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the volume weighted-average trading price of the trust units for a specified period (the "Current Market Price") preceding the date on which notice of redemption is given is not less than 125% of the Conversion Price. On and from December 31, 2023, and prior to the maturity date, the 2019 Debentures may be redeemed by the REIT, in whole at any time or in part from time to time, at a price equal to the principal amount thereof plus accrued and unpaid interest. Subject to regulatory approval and other conditions, the REIT may, at its option, elect to satisfy its obligation to pay the principal amount of the convertible debenture on redemption or at maturity, in whole or in part, by delivering that number of freely tradeable trust units obtained by dividing the principal amount of the 2019 Debentures being repaid by 95% of the Current Market Price on the date of redemption or maturity.

The principal amount outstanding and the carrying value for the REIT's convertible debentures are as follows:

($000s)				**December 31, 2019**		December 31, 2018
Convertible Debentures	**Date Issued**	**Maturity Date**	**Interest Rate**	**Outstanding Principal**	**Carrying Value**	Carrying Value
2014 Debentures	Dec 3, 2014	Dec 31, 2019	5.50%	**—**	**—**	33,873
2017 Debentures	Dec 21, 2017	Dec 31, 2022	5.25%	**23,000**	**21,561**	21,144
2019 Debentures	Oct 29, 2019	Dec 31, 2024	5.10%	**46,000**	**41,543**	—
				69,000	**63,104**	55,017

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

A reconciliation of the convertible debentures are as follows:

($000s)	**Host Instruments**	**Conversion Features**	**Total**
Balance at December 31, 2017	54,046	729	54,775
Fair value adjustment on conversion features (note 26)	—	(542)	(542)
Amortization of discount and transaction costs	791	—	791
Accretion on convertible debentures	180	—	180
Balance at December 31, 2018	55,017	187	55,204
Convertible debenture issued	**43,686**	**2,314**	**46,000**
Transaction costs	**(2,273)**	**—**	**(2,273)**
Fair value adjustment on conversion features (note 26)	**—**	**579**	**579**
Amortization of discount and transaction costs	**918**	**—**	**918**
Accretion on convertible debenture	**256**	**—**	**256**
2014 Debenture redeemed	**(34,500)**	**—**	**(34,500)**
Balance at December 31, 2019	**63,104**	**3,080**	**66,184**

During the year $3,455 of interest expense was recognized in finance costs (note 17) (2018 - $3,100).

At December 31, 2019 we remeasured the conversion feature to fair value resulting in a fair value loss of $579 (2018 - gain of $542). Supplemental information on fair value measurement, including valuation techniques and key inputs, is included in note 26.

14. CLASS B LP UNITS

Melcor, through an affiliate, holds an approximate 55.1% effective interest in the REIT through ownership of all Class B LP Units of the Partnership and is the ultimate controlling party. The Class B LP Units are exchangeable at the option of the holder for one trust unit of the REIT and accompanied by one special voting unit (note 15(b)). Distributions on Class B LP Units are recorded and paid to holders equal to those declared on trust units.

Distributions on Class B LP Units for the year were $10,195 (2018 - $10,057), and are included in finance costs (note 17).

In accordance with our policy, as detailed in note 3(g), we record Class B LP Units at fair value. We remeasured the Class B LP Units at December 31, 2019 and recognized a fair value loss of $9,922 during the year (2018 - fair value gain of $15,644). Supplemental information on fair value measurement, including valuation technique and the key input, is included in note 26.

On November 11, 2019 the REIT issued 1,225,822 Class B LP Units at $8.16 or $10,000 as partial consideration for the Grande Prairie Acquisition (note 6). As at the adjustment date the fair value of the units issued was $8.05 per unit, or $9,865; the $135 difference between book value and fair value was recorded to contributed surplus.

On January 12, 2018 the REIT issued 283,447 Class B LP Units at $8.82 or $2,500 as partial consideration for the Melcor Acquisition. As at the adjustment date the fair value of the units issued was $8.51 per unit, or $2,412; the $88 difference between book value and fair value was recorded to contributed surplus.

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

		2019		2018
($000s except unit amounts)	Units	$ Amount	Units	$ Amount
Balance - beginning of year	**14,899,325**	**111,149**	14,615,878	124,381
Issuance of Class B LP Units	**1,225,822**	**9,865**	283,447	2,412
Fair value adjustment on Class B LP Units (note 26)	**—**	**9,922**	—	(15,644)
Balance - end of year	**16,125,147**	**130,936**	14,899,325	111,149

At December 31, 2019 there were 16,125,147 Class B LP Units issued and outstanding at a fair value of $8.12 per unit or $130,936 (December 31, 2018 - 14,899,325 Class B LP Units issued and outstanding at a fair value of $7.46 per unit or $111,149).

15. UNITHOLDERS’ EQUITY

a) Trust Units

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

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

b) Special Voting Units

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

c) Units Outstanding

On April 1, 2019 we commenced a normal course issuer bid ("NCIB") which allows the REIT to purchase up to 659,339 trust units for cancellation, representing approximately 5% of the REIT's issued and outstanding trust units. The trust units may be repurchase up to a maximum daily limit of 2,908. The price which the REIT will pay for trust units repurchased under the plan will be the market price at the time of acquisition. The NCIB ends one year from commencement on March 31, 2020.

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

During the year the REIT purchased a total of 53,504 units for cancellation pursuant to the NCIB at a cost of $406, for the year ended December 31, 2019. Trust units were reduced by $528 and contributed surplus increased by $122.

On January 12, 2018 the REIT issued 2,035,500 trust units in exchange for subscription receipts previously issued and outstanding as of December 31, 2017 at a price of $8.50 per subscription receipt for gross proceeds of $17,302 (transaction costs of $1,190 were incurred for net proceeds of $16,112).

Issued and outstanding trust units at December 31, 2019 are 13,133,293 (December 31, 2018 - 13,186,797).

	2019	2018
($000s except unit amounts)	Units	Units
Balance, beginning of year	13,186,797	11,151,297
Issuance of trust units	—	2,035,500
Repurchase of trust units	(53,504)	—
Balance, end of year	**13,133,293**	**13,186,797**

16. RENTAL REVENUE

The components of rental revenue are as follows:

For the years ended December 31 ($000s)	2019	2018
Lease revenue	47,738	46,149
Variable lease revenue	13,444	13,139
Service revenue	12,890	12,792
Amortization of tenant incentives (note 8)	(3,541)	(3,097)
Straight-line adjustments	628	1,190
	71,159	70,173

17. FINANCE COSTS

The components of finance costs are as follows:

For the years ended December 31 ($000s)	2019	2018
Interest on mortgages payable and revolving credit facility	10,001	8,961
Interest on Class C LP Units	2,516	2,893
Amortization of fair value adjustments on Class C LP Units	(131)	(209)
Distributions on Class B LP Units	10,195	10,057
Interest on convertible debentures	3,455	3,100
Accretion on convertible debentures	256	180
Fair value adjustment on derivative financial instruments	789	(421)
Amortization of deferred financing fees	1,499	1,417
	28,580	25,978

Total finance costs paid during the year were $26,019 (2018 - $24,883).

18. INCOME TAXES

As at December 31, 2019 the REIT qualifies as a mutual fund trust within the meaning of the Tax Act and as a real estate investment trust eligible for the 'REIT Exception' under the Specified Investment Flow-Through ("SIFT"); accordingly, no current or deferred income tax expense has been recognized on income earned or capital gains recognized subsequent to the formation of the REIT.

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

For the years ended December 31 ($000s)	2019	2018
Net (loss) income	(488)	17,610
Statutory rate	27%	27%
	(132)	4,755
Non-deductible expenses	1	—
Non-taxable portion of capital gains and fair value adjustments	210	2,716
Allocation of taxable loss to unitholders (note 3(l))	(79)	(7,471)
	—	—

19. INCOME PER UNIT

Basic and diluted (loss) earnings per trust unit for the year are calculated as follows:

($000s except unit amounts)	2019	2018
Net (loss) income - basic	(488)	17,610
Impact of Class B LP unit fair value adjustment and distributions	—	(5,587)
Impact of convertible debentures interest, fair value adjustment, amortization and accretion	—	—
Net (loss) income - diluted	(488)	12,023
Basic weighted average trust units outstanding	13,162,242	13,119,876
Impact of conversion of Class B LP Units	—	14,890,006
Impact of conversion of convertible debentures	—	—
Diluted weighted average trust units outstanding	13,162,242	28,009,882
Basic (loss) earnings per trust unit	($0.04)	$1.34
Diluted (loss) earnings per trust unit*	($0.04)	$0.43

*Diluted (loss) earnings per trust unit do not include the impact of Class B LP Units and convertible debentures when they are anti-dilutive.

20. RELATED PARTY TRANSACTIONS

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

a) Property and Asset Management Agreements

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

Asset Management Agreement – we pay a quarterly management fee which is comprised of the following: (a) a base annual management fee calculated and payable on a quarterly basis, equal to 0.25% of the REIT's gross book value; (b) a capital expenditures fee equal to 5% of all hard construction costs incurred on capital projects in excess of $0.10 million;

(c) an acquisition fee equal to 0.50% - 1.00% of the purchase price; (d) a financing fee equal to 0.25% of the debt and equity of all financing transactions completed for the REIT to a maximum of actual expenses incurred by Melcor.

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

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

For the year ended December 31 ($000s)	**2019**	**2018**
Asset Management Agreement		
Base Annual Management Fee	**1,788**	1,739
Acquisition Fee	**673**	63
Property Management Agreement		
Monthly Fee	**2,058**	1,998
Lease Fee	**584**	728
	5,103	4,528

The Base Annual Management Fee is included in general and administrative expenses. Monthly Fees are included in direct operating expenses. In accordance with our policy (3(d)), Acquisition Fees and Lease Fees are capitalized to investment properties. As at December 31, 2019 there was $744 payable to Melcor related to these fees (December 31, 2018 - $583) which is included in accrued liabilities and other payables.

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

During the year $10,195 in distributions were recorded on Class B LP Units held by Melcor (2018 - $10,057). These distributions were recorded as finance costs (note 17). As at December 31, 2019 there was $907 payable to Melcor for the December distribution (December 31, 2018 - $838) which is included in distribution payable.

Also during the year, Melcor, as holder of all Class C LP Units, was paid $6,144 to fund principal and interest payments on the Retained Debt (2018 - $6,606). These redemptions were recorded as a reduction of the Class C LP Unit liability and as finance costs (note 17).

c) Rental Revenue

During the year the REIT collected $880 in rental revenue from Melcor and an affiliate for use of office space (2018 - $984). In addition, pursuant to the Head and Bridge Lease Agreements, the REIT collected $89 in rental revenue from Melcor as compensation for certain vacant spaces at the properties acquired (2018 - $138).

d) Key Management Remuneration

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

e) Purchase of Investment Properties

On January 12, 2018 the REIT purchased five commercial properties from Melcor (note 6). The total purchase price of $80,875, and transaction costs of $149, were settled through issuance of 283,447 Class B LP Units at price of $8.82 representing $2,500; assumption of $31,037 in mortgages payable; issuance of 1,331,167 Class C LP Units, representing $13,312 in Retained Debt by Melcor; and cash of $34,175.

f) Issuance of Class B LP units

On November 12, 2019 as part of the Grande Prairie Acquisition (note 6), the REIT issued 1,225,822 Class B LP Units to Melcor Developments Ltd. for total consideration of $10,000 (note 14).

21. JOINT ARRANGEMENTS

The table below discloses our rights to and share of the assets, liabilities, revenues, and earnings of three joint arrangements (2018 – three) that are recorded in these consolidated financial statements:

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

($000's)	Assets	Liabilities	Revenue	Earnings
For the year ended and as at December 31				
2019	**67,723**	**33,165**	**5,608**	**3,266**
2018	66,891	34,246	5,681	2,231

22. SEGMENTED INFORMATION

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

23. COMMITMENTS AND CONTINGENCIES

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

In the normal course of operations we enter into lease agreements with tenants which specify tenant incentive payments upon completion of the related tenant improvements. The REIT has entered into lease agreements that may require tenant incentive payments of approximately $1,400 (2018 - $1,599).

The REIT retains a loan guarantee related to the mortgage transferred as part of a prior year property sale. As at December 31, 2019 the loan balance was $3,480 (2018 - $3,578).

24. MANAGEMENT OF CAPITAL RESOURCES

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

Pursuant to the DOT, the REIT may not incur or assume any indebtedness if, after incurring or assuming such indebtedness, the total indebtedness of the REIT would be more than 60% of Gross Book Value ("GBV") ("Degree of Leverage Ratio") (65% including any convertible debenture). At December 31, 2019, and throughout the period, we were in compliance with the Degree of Leverage Ratio.

We are also subject to financial covenants on our $35,000 revolving credit facility. The covenants include a maximum debt to gross book value ratio of 60% (excluding convertible debentures), a minimum debt service coverage ratio of 1.25, and a minimum adjusted unitholders' equity of $140,000. As at December 31, 2019, and throughout the period, we were in compliance with our financial covenants. We also have financial covenants on certain mortgages for investment properties. At December 31, 2019, and throughout the period, we were in compliance with our financial covenants on our mortgages. We prepare financial forecasts to monitor the changes in our debt and capital levels and our ability to meet our financial covenants.

25. FINANCIAL RISK MANAGEMENT

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

a) Credit Risk

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

We invest our cash and cash equivalents in bank accounts with major Canadian chartered banks. Accounts receivable balances include amounts due from tenants and various smaller amounts due from vendors. We manage our credit risk through careful selection of tenants and look to obtain national tenants or tenants in businesses with a long standing history, or perform financial background checks including business plan review for smaller tenants. We manage our concentration risk by renting to an expansive tenant base, with no dependency on rents from any one specific tenant.

For our accounts receivable and loan receivable, we apply the simplified credit loss approach, which requires us to recognize lifetime expected credit losses for all accounts receivables and loan receivable balances by applying an expected loss rate based on historical credit losses adjusted for current and forward looking information which may affect the ability of the customers to settle receivables. Accounts receivables and loan receivable have been grouped based on shared credit risk characteristics.

Amounts receivable and related loss allowance are summarized as follows:

($000s)	**2019**	**2018**
Accounts receivable	**1,828**	1,413
Loss allowance	**(162)**	(83)
Accounts receivable, net	**1,666**	1,330
Loan receivable	**900**	900
Total amounts receivable, net	**2,566**	2,230

Accounts receivables and loan receivables are written off when there is no reasonable expectation of recovery. Indicators that there are no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan, and failure to make contractual payments for a period of greater than 120 days past due.

b) Liquidity Risk

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

To mitigate the risk associated with the refinancing of maturing debt, we stagger the maturity dates of our mortgage portfolio over a number of years.

Refer to notes 11, 12 and 13 for the maturity analysis of mortgages payable, Class C LP Units and convertible debentures. Amounts drawn under the revolving credit facility are due upon the maturity of the facility, on or before June 1, 2021. We expect to be able to renew our facility on maturity. Accounts payable are expected to be repaid in the next twelve months. Distributions declared on trust units and Class B LP Units are paid one month following the date of declaration.

c) Market Risk

We are subject to interest rate cash flow risk as our revolving credit facility bears interest at rates that vary in accordance with borrowing rates in Canada. For each 1% change in the rate of interest on our revolving credit facility, the change in annual finance costs is approximately $229 (December 31, 2018 - $nil) based upon applicable period end debt balances. We are also subject to interest rate risk on refinancing of our fixed rate debts in the year of maturity. We are not subject to other significant market risks pertaining to our financial instruments.

26. FAIR VALUE MEASUREMENT

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

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

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

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

The fair value hierarchy categorizes fair value measurement into three levels based upon the inputs to valuation technique, which are defined as follows:

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

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

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

		December 31, 2019				December 31, 2018	
($000s)	Fair Value Hierarchy	**Fair Value**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**	Total Carrying Value	Total Fair Value
Non-financial assets							
Investment properties	Level 3	753,483	—	753,483	753,483	683,768	683,768
Financial liabilities							
Mortgages payable	Level 3	—	291,620	291,620	296,828	259,586	258,858
Class B LP Units	Level 2	130,936	—	130,936	130,936	111,149	111,149
Class C LP Units	Level 3	—	68,821	68,821	68,821	72,580	72,580
Convertible debentures	Level 2	—	63,104	63,104	67,990	55,017	56,738
Derivative financial instruments							
Interest rate swap	Level 3	173	—	173	173	383	383
Conversion features on convertible debentures	Level 3	3,080	—	3,080	3,080	187	187

Investment properties

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

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

(In $000s except unit and per unit amounts)

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

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

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

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

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

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

Investment properties were valued by Melcor's internal valuation team as at December 31, 2019 of which 32 investment properties (of 53 legal phases valued) with a fair value of $444,700 were valued by qualified independent external valuation professionals during the year. Valuations performed during the year resulted in fair value losses of $1,622. During the year ended December 31, 2018 Melcor's internal valuation team valued investment properties of which 24 invest properties (of 51 legal phases valued) with a fair value of $367,550 were valued by qualified independent external valuation professionals during the year. Valuations performed during the year ended December 31, 2018 resulted in fair value losses of $11,385.

Weighted average stabilized net operating income for investment properties is $1,719 (2018 - $1,500) per property. Other significant valuation metrics and unobservable inputs are set out in the following table. Fair values are most sensitive to changes in capitalization rates.

	December 31, 2019			December 31, 2018		
	Min	**Max**	**Weighted Average**	Min	Max	Weighted Average
Capitalization rate	**5.50%**	**10.50%**	**6.82%**	5.50%	10.50%	6.69%
Terminal capitalization rate	**5.75%**	**9.00%**	**6.87%**	5.75%	9.00%	6.75%
Discount rate	**6.50%**	**9.50%**	**7.76%**	6.50%	9.75%	7.70%

An increase in the capitalization rates by 50 basis points would decrease the carrying amount of investment properties by $53,109 (2018 - $48,645). A decrease in the capitalization rates by 50 basis points would increase the carrying amount of investment properties by $61,511 (2018 - $56,502).

Non-derivative financial liabilities

The fair value of mortgages payable and Class C LP Units have been calculated by discounting the expected cash flows of each loan using a discount rate specific to each individual loan. The discount rate is determined using the bond yield for similar instruments of similar maturity adjusted for each individual project's specific credit risk. In determining the adjustment for credit risk, we consider current market conditions and other indicators of credit worthiness.

(In $000s except unit and per unit amounts)

Derivative financial instruments

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

The fair value of the interest rate swap is calculated as the net present value of the future cash flows expected to arise on the variable and fixed portion, determined using applicable yield curves at the measurement date. As at December 31, 2019 the fair value of the interest rate swap contract is $173 (2018 - $383).

The significant unobservable inputs used in the fair value measurement of the conversion feature on the convertible debentures are as follows:

- Volatility - expected volatility as at December 31, 2019 was derived from the historical prices of the REIT's trust units. Volatility was 19.68% (2018 - 17.80%).
- Credit spread - the credit spread of the convertible debenture was imputed from the traded price of the convertible debenture as at December 31, 2019. The credit spread used was 4.01% (2018 - 3.92%).

As at December 31, 2019 the fair value of the conversion features on our convertible debentures was $3,080 (2018 - $187).

Valuations performed during the year resulted in fair value losses of $789 (2018 - gains of $421).

Class B LP Units

Class B LP Units are remeasured to fair value on a recurring basis and categorized as Level 2 in the fair value hierarchy. The units are fair valued based on the trading price of the trust units at the period end date. At December 31, 2019 the fair value of the Class B LP Units was $130,936, resulting in a fair value loss of $9,922 in income for the year (2018 - fair value gain of $15,644).

27. SUBSEQUENT EVENTS

Distribution declared

On January 15, 2020 we declared a distribution of $0.05625 per unit for the months of January, February and March 2020. The distributions will be payable as follows:

Month	Record Date	Distribution Date	Distribution Amount
January 2020	January 31, 2020	February 15, 2020	$0.05625 per unit
February 2020	February 28, 2020	March 15, 2020	$0.05625 per unit
March 2020	March 29, 2020	April 15, 2020	$0.05625 per unit