Retail REIT

SLATE

**Q4 2016**

**TSX: SRT.U and SRT.UN**

"“We think real assets … will be a base of institutional client portfolios over the next 10 years”

— *Bruce Flatt*

# DEAR FELLOW UNITHOLDERS

We are pleased with our 2016 year end results and excited about the opportunities that lie ahead in 2017. While we tend to err on the side of caution as it relates to reviewing short-term performance, we do think it's important to measure the progress along the way.

The table below helps measure some of the progress we made in 2016.

In reviewing these results, we think 2016 was a year of solid improvement:

- More leasing executed at higher rents which drove an increase in income
- Increase in income drove our ability to increase distributions by 4.0%
- Increase in income also drove our property values higher and as a result, NAV per unit
- Meaningful progress made on our redevelopment activities with an expected increase in progress and investment heading into 2017
- Q4 results which saw a double digit increase in renewal spreads accompanied by solid same property NOI growth

We remain very bullish on the U.S. economy and specifically the markets in which our properties are located and our future investments will be made. Regardless of the distractions in the media as of late, it is hard to look around the globe and find a much more attractive place to invest than America right now, based solely on fundamentals. Please refer to the following link here, as we were able to find someone slightly more qualified than us to articulate this view.

The most valuable asset we have which doesn't show up in the figures below is our people. These results don't happen without them. The hard work they put in and the relationships they've built with our counterparties who trust them and enjoy doing business with them is the backbone of our growth.

| | 2016 | 2015 | Variance |
|---|---|---|---|
| | | Year ended December 31, | |
| NAV per unit | **$ 13.36** | $ 13.17 | ***1.4 %*** |
| FFO per unit [1] | **$ 1.32** | $ 1.32 | ***— %*** |
| | | | |
| Distributions per unit [2] | **$ 0.81** | $ 0.78 | ***3.8 %*** |
| FFO payout ratio [1] | **60.1%** | 57.6 % | ***4.3 %*** |
| AFFO per unit [1] | **$ 1.08** | $ 1.12 | ***(3.6)%*** |
| AFFO to FFO ratio [1] | **81.8%** | 84.8 % | ***(3.5)%*** |
| Total development capital per unit | **$ 0.25** | $ — | ***— %*** |
| | | | |
| Gross Revenue | **$ 97,036** | $ 79,780 | ***21.6 %*** |
| Net Operating Income ("NOI") | **$ 69,465** | $ 56,512 | ***22.9 %*** |
| NOI margin | **71.6%** | 70.8 % | ***1.1 %*** |
| | | | |
| New leases - square feet | **297,636** | 97,214 | ***206.2 %*** |
| New leases - rent per square foot | **$ 9.22** | $ 13.61 | ***(32.3)%*** |
| Weighted average portfolio in-place rent | **$ 10.32** | $ 10.17 | ***1.5 %*** |
| Renewed leases - square feet | **617,807** | 604,092 | ***2.3 %*** |
| Renewal spread - per square foot | **$ 0.75** | $ 0.26 | ***188.5 %*** |
| Occupancy | **93.5%** | 94.7 % | ***(1.3)%*** |
| | | | |
| Debt / GBV | **55.8%** | 57.0 % | ***(2.1)%*** |
| Debt – % fixed | **67.2%** | 26.9 % | ***149.8 %*** |
| Weighted avg. interest rate | **3.1%** | 3.0 % | ***3.3 %*** |
| | | | |
| Number of properties | **69** | 66 | ***4.5 %*** |
| Total GLA | **8,335,625** | 7,581,846 | ***9.9 %*** |

| | | | *Cumulative* |
|---|---|---|---|
| Total return - SRT.U | **16.8%** | 7.1 % | ***23.9 %*** |
| Total return - TSX Capped REIT | **21.9%** | (20.5)% | ***1.4 %*** |
| Total return - MSCI U.S. REIT | **8.6%** | 2.5 % | ***11.1 %*** |

(1) Excludes the impact of the loss on the defeasance of a mortgage. The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.
(2) Monthly distribution as of December 31, 2016 annualized.

Thank you for your continued support. We value your trust in us and look forward to the opportunity to build wealth together in the future. Please let us know if you have any questions or comments.

With appreciation,

Greg Stevenson
Chief Executive Officer
February 22, 2017

Management's Discussion and Analysis

# SLATE RETAIL REIT

December 31, 2016

TSX: SRT.U and SRT.UN

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## FORWARD-LOOKING STATEMENTS

Certain information in this management's discussion and analysis ("MD&A") constitutes "forward-looking statements" within the meaning of applicable securities legislation. These statements reflect management's expectations regarding objectives, plans, goals, strategies, future growth, results of operations, performance and business prospects and opportunities of the REIT including expectations for the current financial year, and include, but are not limited to, statements with respect to management's beliefs, plans, estimates and intentions, and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Statements that contain words such as "could", "should", "would", "can", "anticipate", "expect", "does not expect", "believe", "plan", budget", "schedule", "estimate", "intend", "project", "will", "may", "might", "continue" and similar expressions or statements relating to matters that are not historical facts constitute forward-looking statements.

These forward-looking statements are not guarantees of future events or performance and, by their nature, are based on the REIT's current estimates and assumptions, which are subject to significant risks and uncertainties. The REIT believes that these statements are made based on reasonable assumptions; however, there is no assurance that the events or circumstances reflected in these forward-looking statements will occur or be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements including, but not limited to the risks that are more fully discussed under the "*Risk Factors*" section of the annual information form of the REIT for the year ended December 31, 2016 ("Annual Information Form"). Factors that could cause actual results to differ materially from those contemplated or implied by forward-looking statements include, but are not limited to: risks incidental to ownership and operation of real estate properties including local real estate conditions; financial risks related to obtaining available equity and debt financing at reasonable costs and interest rate fluctuations; operational risks including timely leasing of vacant space and re-leasing of occupied space on expiration of current leases on terms at current or anticipated rental rates; tenant defaults and bankruptcies; uncertainties of acquisition activities including availability of suitable property acquisitions and integration of acquisitions; competition including development of properties in close proximity to the REIT's properties; loss of key management and employees; potential environmental liabilities; catastrophic events, such as earthquakes and hurricanes; governmental, taxation and other regulatory risks and litigation risks.

Forward-looking statements included in this MD&A are made as of February 22, 2017, and accordingly are subject to change after such date. The REIT does not undertake to update any forward-looking statements that are included in this MD&A, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities laws. Certain statements included in this MD&A may be considered "financial outlook" for purposes of applicable securities laws, and such financial outlook may not be appropriate for purposes other than this MD&A. Investors are cautioned against placing undue reliance on forward-looking statements.

## FINANCIAL AND INFORMATIONAL HIGHLIGHTS

(in thousands, except per unit amounts and as otherwise stated)

| | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 |
|---|---|---|---|---|---|
| **Summary of Portfolio Information** | | | | | |
| Number of properties | 69 | 64 | 68 | 66 | 66 |
| Gross leasable area ("GLA") | 8,335,625 | 7,841,401 | 7,941,699 | 7,726,055 | 7,581,846 |
| GLA occupied by grocery-anchors | 3,909,716 | 3,669,595 | 3,776,105 | 3,691,654 | 3,585,268 |
| Occupancy | 93.5% | 93.6% | 95.0% | 94.4% | 94.7% |
| Grocery-anchor occupancy | 99.1% | 99.0% | 99.1% | 99.0% | 99.0% |
| Non-anchor occupancy | 89.2% | 88.7% | 91.2% | 90.2% | 90.7% |
| Grocery-anchor weighted average lease term (years) | 5.8 | 5.7 | 5.9 | 5.9 | 6.2 |
| Portfolio weighted average lease term (years) | 5.1 | 5.1 | 5.2 | 5.1 | 5.2 |
| Square feet ("SF") leased | 258,168 | 117,805 | 255,623 | 283,847 | 150,365 |
| | | | | | |
| **Summary of Financial Information** | | | | | |
| IFRS gross book value ("GBV") (1) | $ 1,114,606 | $ 1,076,668 | $ 1,072,823 | $ 1,033,985 | $1,013,481 |
| Total debt | 621,442 | 585,773 | 586,134 | 588,702 | 577,280 |
| Revenue | 25,044 | 23,699 | 24,088 | 24,205 | 23,104 |
| Net loss | (12,397) | (15,309) | (605) | (760) | (1,057) |
| Net operating income ("NOI") (2) | 17,931 | 17,019 | 17,438 | 17,077 | 16,248 |
| Funds from operations ("FFO") (2) (3) | 8,688 | 11,193 | 11,998 | 10,685 | 10,543 |
| Adjusted funds from operations ("AFFO") (2) (3) | 5,557 | 9,205 | 10,194 | 7,598 | 8,647 |
| Distributions declared | $ 7,179 | $ 6,990 | $ 6,894 | $ 6,201 | $ 6,090 |
| | | | | | |
| **Per Unit Financial Information** | | | | | |
| Class U equivalent units outstanding | 35,456 | 35,440 | 35,425 | 31,858 | 31,829 |
| WA class U equivalent units outstanding ("WA units") | 35,494 | 35,469 | 34,627 | 31,872 | 31,957 |
| FFO per WA units (2) (3) | $ 0.24 | $ 0.32 | $ 0.35 | $ 0.34 | $ 0.33 |
| AFFO per WA units (2) (3) | 0.16 | 0.26 | 0.29 | 0.24 | 0.27 |
| Declared distributions per unit | $ 0.2025 | $ 0.1947 | $ 0.1890 | $ 0.1890 | $ 0.1890 |
| | | | | | |
| **Financial Ratios** | | | | | |
| AFFO payout ratio (2) (3) (4) | 129.2% | 75.9% | 67.6% | 81.6% | 70.4% |
| FFO payout ratio (2) (3) (5) | 82.6% | 62.4% | 57.5% | 58.0% | 57.8% |
| Debt / GBV | 56.1% | 54.7% | 55.0% | 57.4% | 57.5% |
| Weighted average interest rate (6) | 3.10% | 3.00% | 3.00% | 3.05% | 2.97% |
| Interest coverage ratio (7) | 3.35x | 3.31x | 3.57x | 3.27x | 3.19x |

All operational amounts are for the three month period ended and all other amounts are as at the end of the period.

(1) GBV is defined as total assets.

(2) Refer to non-IFRS financial measures on page 5.

(3) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

(4) Distributions declared divided by AFFO.

(5) Distributions declared divided by FFO.

(6) Includes the impact of pay-fixed receive-float swaps.

(7) NOI less other expenses, divided by interest on debt.

## PART I – OVERVIEW

### INTRODUCTION

This MD&A of the financial position and results of operations of Slate Retail REIT (TSX: SRT.U and SRT.UN) and its subsidiaries (collectively, the "REIT") is intended to provide readers with an assessment of performance and summarize the financial position and results of operations of the REIT for the year ended December 31, 2016. The presentation of the REIT's financial results, including the related comparative information, contained in this MD&A are based on the REIT's consolidated financial statements for the year ended December 31, 2016, which have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should be read in conjunction with those financial statements. All amounts are in thousands of United States dollars, unless otherwise noted, which is the functional currency of the REIT and all of its subsidiaries.

The information contained in this MD&A is based on information available to the REIT and is dated as of February 22, 2017, which is also the date the Board of Trustees, upon the recommendation of its Audit Committee, approved the contents of this MD&A.

### PROFILE

The REIT is an unincorporated open-ended real estate mutual fund trust constituted in accordance with the laws of the Province of Ontario pursuant to an amended and restated Declaration of Trust dated as of April 15, 2014, as amended on May 11, 2016. As of December 31, 2016, the REIT owns 69 grocery-anchored retail commercial properties located in the United States of America (the "U.S.") comprising 8.3 million square feet of GLA.

The REIT is externally managed and operated by Slate Asset Management L.P. (the "Manager" or "Slate"). The Manager has an experienced and dedicated team of real estate professionals with a proven track record of success in real estate investment and management. Management's interests are aligned with the unitholders of the REIT through its sponsorship and as a significant unitholder of the REIT. Slate is the largest unitholder in the REIT, with an approximate 6.7% interest, and accordingly, is highly motivated to increase the value to unitholders and provide reliable growing returns to the REIT's unitholders.

Additional information on the REIT, including its Annual Information Form, is available on SEDAR at www.sedar.com and on the REIT's website at www.slateam.com/SRT.

### STRATEGY AND OUTLOOK

Our strategy is to own quality grocery-anchored retail properties located in major markets in the United States that are visited regularly by consumers for their everyday needs. We believe that our diversified portfolio, quality tenant covenants, coupled with a conservative payout ratio, provides a strong basis to continue to grow unitholder distributions and flexibility to capitalize on opportunities to provide value appreciation.

We are focused on the following areas to achieve the REIT's objectives through 2017 and 2018:

- Be disciplined in our acquisition of well-located properties that provide opportunity for future value creation;
- Maintain a conservative AFFO payout ratio to continue to provide steady and reliable distributions to unitholders;
- Proactive property and asset management that results in NOI growth while minimizing property and portfolio vacancy exposure;
- Prudent and disciplined management of capital outlays that will maintain and increase the attractiveness of the REIT's portfolio and achieve increased rents; and
- Continue to increase the REIT's financial strength and flexibility through robust balance sheet management.

Overall, the REIT has established a premier platform of diversified grocery-anchored properties that creates meaningful cash flow for unitholders and the continued opportunity for future growth.

### NON-IFRS FINANCIAL MEASURES

We disclose a number of financial measures in this MD&A that are not measures determined in accordance with IFRS, including NOI, same-property NOI, FFO, FFO payout ratio, AFFO, AFFO payout ratio, adjusted earnings before interest, tax, depreciation and amortization ("Adjusted EBITDA") and the interest coverage ratio, in addition to certain measures on a per unit basis. We utilize these measures for a variety of reasons, including measuring performance, managing the business, capital allocation and the assessment of risk. Descriptions of why these non-IFRS measures are useful to investors and how management uses each measure are included in this MD&A. We believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses in a manner similar to management. These financial measures should not be considered as a substitute for similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS financial measures may differ from the calculations disclosed by other businesses, and as a result, may not be comparable to similar measures presented by others. Reconciliations of these non-IFRS measures to the most directly comparable financial measures calculated and presented in accordance with IFRS are included within this MD&A.

The definition of non-IFRS financial measures are as follows:

- NOI is defined as rental revenue less operating expenses, prior to straight-line rent and IFRIC 21 adjustments. Same-property NOI include those properties owned by the REIT for each of the current period and the relevant comparative period excluding those properties under development.
- FFO is defined as net income (loss) adjusted for certain items including IFRIC 21 property tax adjustments, transaction costs, unit expense, change in fair value of investment properties, change in fair value of interest rate caps, goodwill impairment and deferred income taxes.
- AFFO is defined as FFO adjusted for certain items including straight-line rental revenue, income support payments received by the REIT but not recognized in income, non-cash adjustments related to the REIT's accounting for its TIF notes, amortization of finance and mark-to-market charges in interest, tenant improvements and leasing commissions and landlord work.
- FFO payout ratio and AFFO payout ratio are defined as distributions declared divided by FFO and AFFO, respectively.
- Adjusted EBITDA is defined as NOI less other expenses.
- Interest coverage ratio is defined as adjusted EBITDA divided by cash interest paid.

**RISK AND UNCERTAINTIES**

The REIT's business is subject to a number of risks and uncertainties which are described in its most recently filed Annual Information Form for the year ended December 31, 2016, available on SEDAR at www.sedar.com. Additional risks and uncertainties not presently known to the REIT or that the REIT currently considers immaterial also may impair its business and operations and cause the price of the units to decline. If any of the noted risks actually occur, the REIT's business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the units could decline, and unitholders may lose all or part of their investment.

**RECENT DEVELOPMENTS**

The following is a summary of the key financial and operational highlights and recent developments for the REIT for the year ended December 31, 2016:

- The REIT took meaningful steps to mitigate the risk of increasing interest rates during the fourth quarter of 2016. On November 2, 2016, the REIT fixed $300 million of its floating rate debt with an interest rate swap through to April 2021. At December 31, 2016 that swap had a fair value of $7.0 million due to increases in interest rates following the U.S. Presidential election.
- During 2016 the REIT continued to execute on its capital recycling and deployment program. Since the beginning of the second half of the year the REIT has acquired 9 properties for an aggregate purchase price of $94.8 million. These acquisitions fully deployed the $36.6 million raised from the sale of class U units through a rights offering in April 2016 and the $36.3 million of proceeds from the sale of 7 properties during 2016.
- In the fourth quarter of 2016, the REIT completed 258,168 square feet of leasing. Notably, the REIT renewed 36 tenants at an 9.7% spread over expiring rents and in addition, 10 new shop space tenants less than 10,000 square feet at an average rental rate of $16.48 per square foot which is $4.66 per square foot or 38.8% higher than the weighted average in-place rent for comparable space across the portfolio.
- On September 15, 2016, the REIT declared a distribution of $0.0675 per class U unit, or $0.81 on an annualized basis for the month of September. This distribution represents a 4% increase in the monthly distribution to unitholders. The increased distribution is the third consecutive annual distribution increase by the REIT since listing on the TSX in 2014. Management continues to target a 70% AFFO payout ratio.
- On December 15, 2016, the REIT entered into an agreement (the "Defeasance Agreement") providing for the defeasance of $26.7 million of mortgage debt due April 30, 2021 with an annual interest rate of 5.8% (the "Defeasance"). At the inception of such debt, the REIT had pledged to the lender five of its properties as security. Under the terms of the Defeasance Agreement, these five properties were released as collateral for debt and a third party assumed the REIT's obligation of the mortgage debt, as well as the ownership interest in the related securities. The Defeasance allows the REIT to pursue potential dispositions and redevelopment opportunities at these properties.

  As a result, the REIT recognized a loss on the Defeasance of a mortgage due of $2.8 million, which is the difference between the purchase price of U.S. Treasury Securities and the outstanding principal balance of the mortgage due of $4.5 million, net of unamortized mark-to-market premiums of $1.7 million. The determination of FFO was impacted by the $2.8 million charge to income or $0.08 per unit and AFFO was impacted by the aggregate amount of $4.5 million or $0.13 per unit. The defeasance was financed through a draw on the REIT's revolver and cash on hand, which Management expects that over the original term to maturity of the REIT's debt will reduce aggregate interest costs.
- Subsequent to 2016, the REIT completed a public offering and private placement for an aggregate of 5.6 million class U units at a price of $10.89 or C$14.35 per unit for gross proceeds to the REIT of approximately $60.5 million or C$79.8 million. This total includes an over-allotment option that was fully exercised by the REIT's underwriters. The public offering and private placement were completed on January 20, 2017 with the net proceeds from the offering initially being used to reduce leverage, but is expected to be redrawn as needed to fund future acquisitions. On a pro-forma basis following the public offering and private placement the REIT's available liquidity increased to over $150 million and it's loan-to-value ratio was reduced to 50.6%.

- Rental revenue was $25.0 million and $97.0 million for the three and twelve month period ended December 31, 2016, respectively, which represents an increase of $1.9 million and $17.3 million compared to the same periods in the prior year. The increase is primarily due to rental rate growth and acquisitions activity, partially offset by dispositions during the year.
- Net loss of $29.1 million for the year ended December 31, 2016, which represents a $29.5 million decrease from the comparative period. Net loss for the three month period ended December 31, 2016 decreased by $11.3 million from the same period in 2015 to $12.4 million. The decrease is attributed to the increase in fair value of REIT units and exchangeable units of subsidiaries, change in fair value of investment properties and increased distributions, partially offset by the aforementioned increases in rental revenue.
- NOI was $17.9 million for the three month period ended December 31, 2016, compared to $17.0 million in the third quarter of 2016. The increase is primarily due to accretive acquisitions of five investment properties for a total purchase price of $49.8 million ($101 per square foot) at an average capitalization rate of 7.35%. Each asset is anchored with strong covenants.
- FFO on a per unit basis has decreased to $0.24 which is a $0.08 per unit or 25.0% lower from the third quarter.
- AFFO on a per unit basis was $0.16, which represents a $0.10 per unit or 38.5% increase from the third quarter and a $0.11 per unit or 40.7% decrease compared to the same quarter in 2015. As a result, the REIT's AFFO pay-out ratio for the fourth quarter and annual basis for 2016 was 129.2% and 83.8%, respectively.

## PART II – LEASING AND PROPERTY PORTFOLIO

### LEASING

The REIT strives to ensure that the REIT's properties are well tenanted with tenants who have space that allow them to meet their own business objectives. Accordingly, the REIT proactively monitors its tenant base with the objective to renew in advance of tenant maturities, backfill tenant vacancies for instances where a tenant will not renew, or if there is an opportunity to place a stronger or more suitable tenant in our properties, we endeavor to find a suitable solution.

The following table summarizes our leasing activity for the four most recent quarters:

| Square feet | Deal type | | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 |
|---|---|---|---|---|---|---|
| Less than 10,000 | Renewal | Leases signed | 33 | 28 | 25 | 29 |
| | | Total square feet | 75,918 | 67,458 | 56,067 | 67,300 |
| | | Average base rent | $ 17.27 | $ 20.83 | $ 17.79 | $ 15.13 |
| | | Rental spread | 10.1% | 8.4% | 6.9 % | 5.8% |
| Greater than 10,000 | Renewal | Leases signed | 3 | 2 | 4 | 2 |
| | | Total square feet | 55,028 | 33,974 | 147,588 | 114,474 |
| | | Average base rent | $ 8.11 | $ 10.60 | $ 8.13 | $ 8.76 |
| | | Rental spread | 9.2% | 9.6% | 2.4 % | 1.7% |
| **Total renewals (square feet)** | | | **130,946** | **101,432** | **203,655** | **181,774** |
| Less than 10,000 | New lease | Leases signed | 10 | 11 | 16 | 14 |
| | | Total square feet | 21,999 | 16,373 | 21,968 | 41,427 |
| | | Average base rent | $ 16.48 | $ 16.56 | $ 17.47 | $ 15.89 |
| | | Rental spread | 38.8% | 39.2% | 50.3 % | 34.7% |
| Greater than 10,000 | New lease | Leases signed | 1 | — | 1 | 3 |
| | | Total square feet | 105,223 | — | 30,000 | 60,646 |
| | | Average base rent | $ 3.00 | $ — | $ 4.25 | $ 10.32 |
| | | Rental spread | 53.7% | —% | (27.0)% | 34.7% |
| **Total new leases (square feet)** | | | **127,222** | **16,373** | **51,968** | **102,073** |
| **Total leasing activity (square feet)** | | | **258,168** | **117,805** | **255,623** | **283,847** |

During the fourth quarter, management completed 130,946 square feet of renewals. The weighted average rental rate increase on renewals completed for leases less than 10,000 square feet was $1.58 per square foot or 10.1% higher than expiring rent. The weighted average rental rate increase on renewals completed for leases greater than 10,000 square feet was $0.68 per square foot or 9.2% higher than expiring rent. The weighted average base rent on all new leases completed less than 10,000 square feet was $16.48 per square foot which is $4.61 per square foot or 38.8% higher than the weighted average in-place rent for comparable space across the portfolio. These transactions compare favorably to the current weighted average in-place rent for the portfolio of $10.32.

In addition, a new 20-year ground lease with Kroger was executed at Hocking Valley during the quarter. As a result, Kroger will build a new large format store and move onto the former Kmart parcel, increasing their square footage from 56,160 square feet to 105,223 square feet, an increase of 87%. Hocking Valley was purchased in June 2015 with the execution of this lease being an integral part of the business plan so we are pleased with the completion of this milestone. We believe this lease will serve as a template for future deals going forward and ultimately decrease the time to execution. Kroger is estimated to continue to occupy their existing space until December 2017 when their new space is complete. We are actively working with tenants to back-fill their former space in advance of construction completion that would complement the Kroger use and increase the overall lease term and credit quality of the centre.

#### Lease maturities

The REIT generally enters into leases with initial terms to maturity between 5 and 10 years with our grocery-anchor tenants. Accordingly, the average in-place lease remaining term to maturity is shorter than the initial term. The initial terms to maturity for non-anchor space tends to be of a shorter duration between 3 and 5 years. The weighted average remaining term to maturity at December 31, 2016 of the REIT's grocery-anchor and non-grocery-anchor tenants was 5.8 years and 4.4 years, respectively, not including tenants on month-to-month leases. On a portfolio basis the weighted average remaining term to maturity is 5.1 years.

The following table summarizes the composition of the remaining term to maturity of the REIT's leases at December 31, 2016:

| | Weighted average term to maturity | GLA | GLA % |
|---|---|---|---|
| Grocery-anchor | 5.8 | 3,909,716 | 46.9% |
| Non-anchor | 4.4 | 3,808,967 | 45.7% |
| Total occupied | 5.1 | 7,718,683 | 92.6% |
| Month-to-month | | 76,705 | 0.9% |
| Vacant | | 540,237 | 6.5% |
| **Total GLA** | | **8,335,625** | **100.0%** |

The following table summarizes the composition of the remaining term to maturity of the REIT's leases at December 31, 2015:

| | Weighted average term to maturity | GLA | GLA % |
|---|---|---|---|
| Grocery-anchor | 6.2 | 3,585,268 | 47.3% |
| Non-anchor | 4.3 | 3,516,029 | 46.4% |
| Total occupied | 5.2 | 7,101,297 | 93.7% |
| Month-to-month | | 74,314 | 1.0% |
| Vacant | | 406,235 | 5.4% |
| **Total GLA** | | **7,581,846** | **100.0%** |

The following table shows the change in occupancy during the three month period ended December 31, 2016:

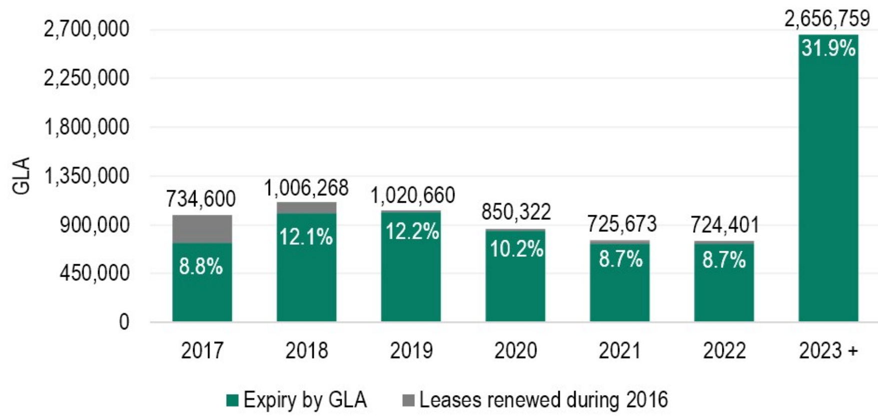
| | Total GLA | Occupied GLA | Occupancy |
|---|---|---|---|
| September 30, 2016 | 7,841,401 | 7,336,350 | 93.6% |
| Acquisitions | 493,152 | 457,739 | 92.8% |
| Leasing changes | — | 1,299 | N/A |
| Other | 1,072 | — | N/A |
| **December 31, 2016** | **8,335,625** | **7,795,388** | **93.5%** |

Occupancy has decreased from 93.6% at September 30, 2016 to 93.5% at December 31, 2016. The 0.1% decrease is primarily lower due to occupancy rates of the REIT's newly acquired properties, including North Hixson Marketplace at an 80% occupancy rate, and both Robson Crossing and Mooresville Town Square at 90% occupancy rates.

The following is a profile of the REIT's leases excluding the impact of tenant extension options:

| | Grocery-anchor | | | Non-anchor | | | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| **GLA expiration** | GLA | Percentage of occupied portfolio | Average in-place rent | GLA | Percentage of occupied portfolio | Average in-place rent | GLA | Percentage of occupied portfolio | Average in-place rent |
| Month-to-month | — | — | $ — | 76,705 | 0.9% | $ 14.02 | 76,705 | 0.9% | $ 14.02 |
| 2017 | 200,932 | 2.4% | 6.29 | 533,668 | 6.4% | 11.25 | 734,600 | 8.8% | 9.89 |
| 2018 | 528,021 | 6.3% | 8.07 | 478,247 | 5.7% | 13.73 | 1,006,268 | 12.1% | 10.76 |
| 2019 | 540,193 | 6.5% | 7.06 | 480,467 | 5.8% | 14.81 | 1,020,660 | 12.2% | 10.71 |
| 2020 | 300,064 | 3.6% | 7.1 | 550,258 | 6.6% | 10.97 | 850,322 | 10.2% | 9.60 |
| 2021 | 215,625 | 2.6% | 6.53 | 510,048 | 6.1% | 12.09 | 725,673 | 8.7% | 10.44 |
| 2022 and later | 2,124,881 | 25.5% | 9.35 | 1,256,279 | 15.1% | 11.72 | 3,381,160 | 40.6% | 10.23 |
| Vacant | 36,075 | 0.4% | N/A | 504,162 | 6.1% | N/A | 540,237 | 6.5% | N/A |
| **Total / weighted average** | **3,945,791** | **47.3%** | **$ 8.37** | **4,389,834** | **52.7%** | **$ 12.27** | **8,335,625** | **100.0%** | **$ 10.32** |

The following is a table of lease expiries at December 31, 2016 and pre-existing future maturities that were leased in advance during 2016.




The REIT endeavors to proactively lease upcoming expiries in advance of maturity to maintain high occupancy levels, ensure a proper mix of tenants at each property and reduce risk in the cash flow certainty related to the property. At December 31, 2016, remaining 2017 expiries totaled 8.8% of total GLA, with 6.4% of that space related to non-anchor tenants. Comparatively, at September 30, 2016 and June 30, 2016, GLA expiration for the remaining 2017 year was 10.1%, respectively 793,149 square feet of GLA of the REIT's portfolio, with 7.6% related to non-anchor tenants, and 10.2%, respectively 809,422 square feet of GLA of the REIT's portfolio, with 7.4% related to non-anchor tenants, respectively.

**Retention rates**

The REIT's asset management team strives to maintain strong relationships with all tenants, especially our grocery-anchored tenants. Since inception in 2011, the REIT has had a 100% retention rate of on grocery-anchored renewals. We believe that this success has been as a result of our strong relationships with tenants, but also as a result of our diligent underwriting which in part considers the relative strength of grocery-anchors in the respective market, recent capital investment by grocers and, where possible, the profitability of the store. We expect a lower retention rate for our non-grocery-anchored tenants as a result of the dynamics and natural turnover of certain businesses over time which gives us opportunity to release space and improve overall credit and tenant mix.

The following are the REIT's retention rates for year ended December 31, 2016 and year ended December 31, 2015 for both grocery-anchor and non-grocery-anchor tenants:

| **Retention rate** [1] | **2016** | **2015** |
|---|---|---|
| Grocery-anchor | 100.0% | 100.0% |
| Non-grocery-anchor | 83.8% | 84.6% |
| **Net total / weighted average** | **91.9%** | **92.6%** |

[1] The grocery-anchor retention rate excludes the impact of A&P, the parent company of Food Basics, at County Line due to bankruptcy. The retention rate for non-grocery-anchor space excludes non-renewals where the REIT has reacquired the space to accommodate an expansion or lease with another tenant through active repositioning of the existing tenant mix.

The following are the REIT's incremental change in base rent for the four most recent quarters:

| | | | | | For the three months ended, | |
|---|---|---|---|---|---|---|
| | | | | | | |
| | December 31, 2016 | | September 30, 2016 | | June 30, 2016 | March 31, 2016 |
| Renewals – SF | 130,946 | | 101,432 | | 203,655 | 181,774 |
| Renewals – weighted average expiring rent per SF | $ 12.22 | | $ 16.02 | | $ 10.34 | $ 10.72 |
| Renewals – weighted average rent spread per SF | $ 1.21 | | $ 1.38 | | $ 0.45 | $ 0.40 |
| Vacated – SF [1] | 19,609 | | 31,078 | | 15,882 | 38,132 |
| Vacated – weighted average expiring rent per SF | $ 16.83 | | $ 5.64 | | $ 6.69 | $ 18.03 |
| New –SF | 127,222 | | 16,373 | | 51,968 | 102,073 |
| New – weighted average rent per SF | $ 5.33 | | $ 16.56 | | $ 9.84 | $ 12.58 |
| **Total base rent retained** | **$ 1,270** | | **$ 1,450** | | **$ 2,000** | **$ 1,261** |
| **Total incremental base rent increase** | **$ 837** | | **$ 411** | | **$ 603** | **$ 1,357** |

[1] Adjusted for lease buyouts and vacancies due to redevelopment.

**In-place and market rents**

The REIT's leasing activity during the three month period ended December 31, 2016 is as follows:

| | GLA | Number of units | Weighted average expiring rent | Weighted average new rent |
|---|---|---|---|---|
| Renewed leases | 130,946 | 36 | N/A | $ 13.42 |
| New leases | 127,222 | 11 | N/A | 5.33 |
| **Total / weighted average** | **258,168** | **47** | N/A | **$ 9.43** |
| Less, leases not renewed / vacated during term | (19,609) | (13) | 16.83 | N/A |
| **Net total / weighted average** | **238,559** | **34** | | **$ 9.43** |

The REIT's leasing activity during the year ended December 31, 2016 is as follows:

| | GLA | Number of units | Weighted average expiring rent | Weighted average new rent |
|---|---|---|---|---|
| Renewed leases | 617,807 | 126 | N/A | $ 12.53 |
| New leases | 297,636 | 56 | N/A | 9.22 |
| **Total / weighted average** | **915,443** | **182** | N/A | **$ 11.45** |
| Less, leases not renewed / vacated during term (1) | (104,701) | (58) | 12.41 | N/A |
| **Net total / weighted average** | **810,742** | **124** | | **$ 11.45** |

(1) Excludes the impact of Kmart lease buyouts due to redevelopment at North Augusta and Hocking Valley, totaling 186,408 square footage that relates to tenants vacated during the term. Refer to the section "Development costs" within "Part II - Leasing and Property Portfolio" of this MD&A for more detail.

During the fourth quarter the REIT completed 258,168 square feet of leasing activity, which represents 3.1% of the REIT's portfolio. For the year ended December 31, 2016, the REIT completed 915,443 square feet of leasing activity, which represents 11.0% of the REIT's portfolio. This level of leasing is consistent with our strategy of actively managing our properties to create value through a hands-on approach.

Leases not renewed or vacated during the term for the year ended December 31, 2016 of 104,701 square feet relates to non-anchor tenants.

## ACQUISITIONS

The REIT acquired 10 properties during the year ended December 31, 2016, as summarized below:

| Investment property | Purchase date | MSA | Purchase price | SF | Price per SF | Anchor tenant |
|---|---|---|---|---|---|---|
| Charles Town Plaza | March 30, 2016 | Wash. Baltimore | $ 20,900 | 206,146 | $ 101 | Walmart |
| Abbott's Village | May 19, 2016 | Atlanta | 15,200 | 109,586 | 139 | Publix |
| Flowers Plantation | June 3, 2016 | Raleigh | 6,300 | 53,500 | 118 | Food Lion |
| Sunset Plaza | June 29, 2016 | Johnson City | 9,000 | 143,752 | 63 | Kroger |
| Taylorsville Town Centre | August 8, 2016 | Salt Lake City | 14,450 | 127,231 | 114 | Fresh Market |
| Eastpointe Shopping Centre | October 13, 2016 | Morgantown | 11,600 | 181,016 | 64 | Kroger |
| Mooresville Town Square | November 14, 2016 | Charlotte | 16,700 | 89,824 | 186 | Lowes Foods |
| Robson Crossing | November 21, 2016 | Atlanta | 11,000 | 100,220 | 110 | Publix |
| Armstrong Plaza | November 30, 2016 | Greenville | 5,250 | 57,838 | 91 | BI-LO |
| North Hixson Marketplace | December 14, 2016 | Chattanooga | 5,250 | 64,254 | 82 | Food City |
| **Total / weighted average** | | | **$ 115,650** | **1,133,367** | **$ 102** | |

The aforementioned properties were acquired by the REIT for a total of $115.7 million, totaling 1,133,367 square feet ($102 price per square foot) at an estimated weighted average capitalization rate of 7.4%. Each asset is leased with strong anchor tenants.

The acquisitions undertaken by the REIT fully deployed cash from the REIT's rights offering of $36.6 million, cash from operations in excess of distributions and the $36.3 million of proceeds from the sale of seven assets.

Subsequent to December 31, 2016, the REIT completed the sale of 5.6 million class U units for gross proceeds of approximately $60.5 million on January 20, 2017. Net proceeds from the offering were initially used to reduce leverage, but are expected to be redrawn as needed to fund future acquisitions. On a pro-forma basis, including the impact of the sale of class U units, at December 31, 2016, the REIT has over $150 million of liquidity available to fund its acquisition pipeline. If the REIT acquired an additional $150 million of properties using its available liquidity, its debt-to-equity ratio would increase to approximately 56%.

**DISPOSITIONS**

The REIT disposed of seven properties during the year ended December 31, 2016 as follows:

| | Madison Centre | Ocean Plaza | Food Lion Portfolio [1] | Total |
|---|---|---|---|---|
| Disposition date | March 28, 2016 | June 30, 2016 | July 20, 2016 | |
| Location | Madison, Alabama | North Myrtle Beach, South Carolina | Various | |
| Number of properties | 1 | 1 | 5 | **7** |
| Sale price | $ 9,100 | $ 6,500 | $ 21,920 | **$ 37,520** |
| Working capital | (30) | (41) | (126) | **(197)** |
| Disposition costs | (140) | (224) | (666) | **(1,030)** |
| **Net proceeds** | **$ 8,930** | **$ 6,235** | **$ 21,128** | **$ 36,293** |

[1] Food Lion anchored assets ("Food Lion Portfolio") dispose of include Madison Plaza, Lovingston Plaza and Bowling Green Plaza, each located in Virginia, Gaston Marketplace located in South Carolina and Triangle Food Lion located in North Carolina.

These sales exemplify the REIT's strategy to purchase well located properties that can be enhanced through leasing, extending term and proactive asset management to increase cash flow and as a result value. Capital gains related to the REIT's property dispositions have been deferred for U.S. tax purposes under Section 1031 of the U.S. Internal Revenue Code (a "Section 1031 Deferral"), whereby the proceeds from dispositions are reinvested in acquisitions of the REIT. Any capital gains deferred for U.S. tax purposes using a Section 1031 Deferral are not deferred for Canadian taxation purposes in determining taxable income allocations for holders of REIT units. For the year ended December 31, 2016, the REIT reinvested all proceeds from dispositions to fund the acquisition of Charles Town Plaza, Taylorsville Town Centre, Eastpointe Shopping Centre, Mooresville Town Centre and Robson Crossing.

There are no fees incurred by the REIT to the Manager in relation to the disposition of properties.

## PROPERTY PROFILE

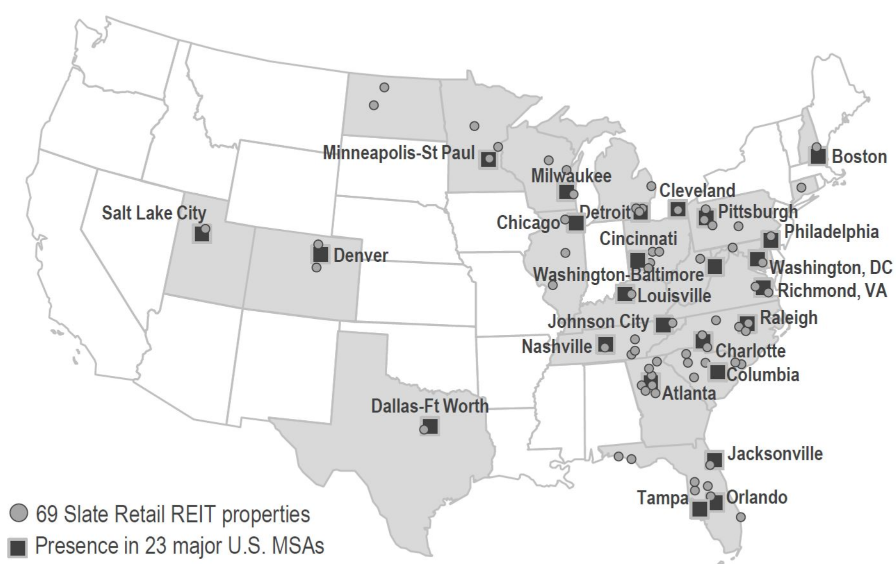
The REIT's property portfolio at December 31, 2016 comprises 69 grocery-anchored retail commercial properties with 8.3 million square feet of GLA located in the U.S. For a listing of all of the REIT's properties refer to "PART VI – PROPERTY TABLES" of this MD&A.

### Geographic overview

The REIT’s portfolio is geographically diversified. As of December 31, 2016, the REIT's 69 properties were located in 21 states with a presence in 23 major MSAs. The REIT has 26 properties, or 37.7% of the total portfolio, located in the U.S. Sunbelt region. Markets within this region benefit from strong underlying demographic trends, above average employment and population growth. This provides the REIT opportunities to progressively drive operational efficiencies and sustainable growth.

The following is a summary of the geographic location and relative dispersion of the REIT's property portfolio:

| State | Number of assets | Total SF | Occupied SF | Percentage of revenue | Occupancy |
|---|---|---|---|---|---|
| Florida | 8 | 804,672 | 742,120 | 10.4% | 92.2% |
| Georgia | 7 | 772,351 | 705,932 | 9.1% | 91.4% |
| North Carolina | 6 | 757,340 | 727,498 | 8.9% | 96.1% |
| Pennsylvania | 5 | 769,626 | 719,377 | 7.5% | 93.5% |
| South Carolina | 6 | 580,761 | 550,348 | 6.4% | 94.8% |
| Michigan | 4 | 501,359 | 478,608 | 6.2% | 95.5% |
| Tennessee | 5 | 559,187 | 531,735 | 5.7% | 95.1% |
| Ohio | 5 | 685,784 | 557,799 | 5.7% | 81.3% |
| Minnesota | 3 | 422,032 | 407,887 | 5.5% | 96.6% |
| North Dakota | 2 | 261,578 | 261,578 | 4.9% | 100.0% |
| Maryland | 1 | 147,803 | 136,105 | 3.9% | 92.1% |
| Wisconsin | 3 | 294,233 | 288,328 | 3.6% | 98.0% |
| West Virginia | 2 | 387,162 | 380,702 | 3.4% | 98.3% |
| Illinois | 3 | 269,847 | 237,194 | 3.3% | 87.9% |
| Colorado | 2 | 203,829 | 190,604 | 2.9% | 93.5% |
| New Hampshire | 1 | 187,001 | 173,681 | 2.9% | 92.9% |
| Connecticut | 1 | 141,443 | 141,443 | 2.6% | 100.0% |
| Virginia | 2 | 203,434 | 190,384 | 2.4% | 93.6% |
| Texas | 1 | 167,961 | 164,361 | 2.0% | 97.9% |
| Utah | 1 | 127,231 | 124,013 | 1.5% | 97.5% |
| Kentucky | 1 | 90,991 | 85,691 | 1.2% | 94.2% |
| **Total** | **69** | **8,335,625** | **7,795,388** | **100%** | **93.5%** |



## Anchor tenants

The REIT endeavors to own properties with anchors who are dominant in their respective regions in terms of operational scale and sales. Accordingly, our anchor tenants typically are either the first or second dominant store in their respective area in terms of market share. The following table identifies the REIT's largest anchor tenants including their annual minimum rent, the number of stores, GLA as a percentage of the total portfolio and the percentage of base rent. The Kroger Co. represents the REIT's largest tenant by base rent with a total of 18 stores and 7.9% of base rents.

The largest 15 tenants account for 48.3% of total GLA and 43.2% of base rent as follows:

| Parent company | Store brands | Grocery | Stores | % GLA | Base rent | % Base rent |
|---|---|---|---|---|---|---|
| The Kroger Co. | Kroger, Pick 'n Save | Y | 18 | 12.1% | $ 6,327 | 7.9% |
| Southeastern Grocers | Winn Dixie, BI-LO | Y | 10 | 5.5% | 4,387 | 5.5% |
| Walmart Inc. | Wal-Mart, Sam's Club | Y | 5 | 8.0% | 3,901 | 4.9% |
| Koninklijke Ahold Delhaize N.V. | Stop & Shop, GIANT, Food Lion, Hannaford | Y | 4 | 2.8% | 3,801 | 4.8% |
| SuperValu Inc. | Cub Foods, Farm Fresh, Save-A-Lot, County Market | Y | 6 | 3.7% | 3,153 | 3.9% |
| Publix Supermarkets, Inc. | Publix | Y | 7 | 3.7% | 2,634 | 3.3% |
| Alex Lee Inc. | Lowes Foods | Y | 4 | 2.1% | 1,935 | 2.4% |
| Coborn's, Inc. | CashWise | Y | 2 | 1.4% | 1,853 | 2.3% |
| Albertsons | Jewel-Osco, Safeway | Y | 3 | 2.0% | 1,164 | 1.5% |
| Dollar Tree Inc. | Dollar Tree, Family Dollar | N | 12 | 1.4% | 1,096 | 1.4% |
| Schnuck Markets, Inc. | Schnucks | Y | 2 | 1.4% | 1,082 | 1.4% |
| Giant Eagle Inc. | Giant Eagle | Y | 2 | 1.4% | 855 | 1.1% |
| Sun Capital Partners, Inc. | ShopKo | N | 1 | 1.0% | 822 | 1.0% |
| K-VA-T Food Stores, Inc. | Food City | Y | 2 | 1.1% | 723 | 0.9% |
| LA Fitness | LA Fitness | N | 1 | 0.7% | 693 | 0.9% |
| **Total** | | | **79** | **48.3%** | **$ 34,426** | **43.2%** |

## Development costs

Development capital spent during the three and twelve month period ended December 31, 2016 is as follows:

| | Three months ended December 31, 2016 | Year ended December 31, 2016 |
|---|---|---|
| Hocking Valley (1) | $ 663 | $ 2,732 |
| North Augusta (1) | 2,535 | 6,197 |
| Other development costs (2) | 24 | 45 |
| | **$ 3,222** | **$ 8,974** |

(1) Includes lease termination fees related to the buyout of existing Kmart leases to facilitate the redevelopment of Hocking Valley and North Augusta which occurred during the second quarter of 2016.
(2) Other development costs relate to new outparcel development as well as other planning and work completed in advance of potential redevelopment projects.

Hocking Valley is a current 179,415 square foot centre located in Lancaster, Ohio, which is anchored by the Kroger Co. in an existing 55,160 square foot store layout. The REIT has undertaken a redevelopment of the property in order to expand the existing Kroger format into a Kroger Marketplace, the premier format for the grocer. Kroger Marketplaces are typically characterized by 120,000 plus square foot formats containing multiple departments in addition to a full-service grocer, including pharmacy, health and beauty care, home furnishings, bed and bath, and toys and apparel. The proposed Kroger Marketplace would feature a dedicated pharmacy with drive-through and grocery pick-up lanes (Click Pick), under a 20-year ground lease. The REIT expects to invest approximately $6.7 million of addition development capital in order to complete the redevelopment by mid-2018.

North Augusta is a Publix anchored centre that the REIT purchased at an existing estimated 8.8% capitalization rate. The property was leased to Kmart, whose lease was strategically terminated, which provided for the redevelopment and releasing of the existing space to five new tenants, anchored by Ross Dress for Less, a strong investment grade covenant, and Burkes Outlet, Petsmart and Rack Room Shoes. The addition of the new junior anchor tenants has spurred interest from other national tenants including Chipotle who will be opening a 2,300 square foot drive-through restaurant at the entrance of the property. The REIT is also undertaking to provide a new modern facade, as well as other improvements throughout the centre that will meaningfully improve the appearance and layout. The redevelopment is expected to require an additional $5.3 million and be completed by mid-2017. The redevelopment, when complete, will significantly increase the weighted average term and result in a 114% increase in base rents for our new tenants relative to what Kmart was paying prior to termination.

*North Augusta Plaza redevelopment rendering*


The REIT continued to make progress at both Hocking Valley and North Augusta in the fourth quarter of 2016. Each of these redevelopments provides the opportunity for the REIT to dramatically change the footprint and appearance of the assets, with strong anchor tenants operating improved formats under long-term leases and growing cash flows.

County Line is a well located, former grocery-anchored center in the Philadelphia MSA. The previous grocer vacated the location due to its parent company's bankruptcy. While Management continues to have discussions with competing grocers, there is also a redevelopment opportunity to re-purpose the vacant anchor box as well as a vacant out-parcel building that together comprise approximately 55% of the GLA. Management is in the early stages of evaluating the redevelopment scenario and are in discussions with a number of potential tenants.

**IFRS FAIR VALUE**

The REIT's property portfolio at December 31, 2016 had an estimated IFRS fair value of $1,072.9 million, using a weighted average capitalization rate of 7.12%. Overall, the average estimated IFRS value per square foot of the REIT's portfolio is $129.

The following table presents a summary of the capitalization rates used to estimate the fair value of the REIT's properties at December 31, 2016 and December 31, 2015:

| **Direct capitalization rates** | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Minimum | **6.00%** | 6.00% |
| Maximum | **9.00%** | 9.00% |
| Weighted average | **7.12%** | 7.12% |

The year ended December 31, 2016 weighted average capitalization rate remained unchanged from the prior year at 7.12%. Management decreased the weighted average capitalization rates during the year at North Augusta Plaza, in South Carolina and Hocking Valley, in Ohio. These decreases were offset primarily from 10 new acquisitions with slightly higher capitalization rates, net of the impact of dispositions and certain other charges. The REIT continues to make progress at both North Augusta and Hocking Valley. At North Augusta, the REIT is re-tenanting the space with Ross Dress for Less, Burke's Outlet, Petsmart, and Rack Room Shoes. The weighted average increase in rental rate will be 114.0% and the lease term will increase to 10.0 years from 2.6 years. At Hocking Valley, the REIT commenced redevelopment and expects to re-lease the shop space at meaningful rent increases as a result of these improvements. Subsequent to completing these transactions we decreased the capitalization rate applied to the property to reflect the reduced risk and enhanced cash flow certainty.

The fair value of properties is measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's investment properties taken in aggregate may differ from the fair value of investment properties measured individually in the REIT's consolidated statements of financial position.

The change in investment properties is as follows:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Beginning of the period | **$ 1,022,445** | $ 942,448 | **$ 978,526** | $ 622,295 |
| Acquisitions | **50,899** | 31,632 | **118,209** | 338,171 |
| Tenant improvements and leasing commissions | **851** | 1,280 | **4,792** | 2,712 |
| Capital costs funded by vendor | **—** | — | **—** | 135 |
| Landlord work and maintenance capital | **440** | 286 | **2,241** | 1,444 |
| Development and expansion capital | **3,222** | 81 | **8,974** | 81 |
| Straight-line rent | **287** | 412 | **1,582** | 1,670 |
| Dispositions | **—** | — | **(37,520)** | (3,825) |
| IFRIC 21 property tax adjustment | **3,055** | 3,035 | **414** | 2,573 |
| Change in fair value | **(8,276)** | (648) | **(4,295)** | 13,270 |
| **End of the period** | **$ 1,072,923** | $ 978,526 | **$ 1,072,923** | $ 978,526 |

The fair value of the REIT's income-producing properties and properties under redevelopment for the year ended December 31, 2016 and 2015, respectively, is as follows:

| | **December 31, 2016** | December 31, 2015 |
|---|---|---|
| Income-producing properties | **$ 1,023,424** | $ 940,050 |
| Properties under redevelopment | **49,499** | 38,476 |
| **Total** | **$ 1,072,923** | $ 978,526 |

During the year ended December 31, 2016, the REIT incurred $7.0 million on tenant improvements, leasing commissions, landlord work and capital expenditures. Such costs are generally expended for purposes of tenanting and extending existing leases, which create value at the REIT's properties and the portfolio as a whole by increasing contractual cash flow through new and extended leases. The REIT will continue to capitalize on opportunities to revitalize, undertake space improvements and generally maintain the high quality of our properties and tenants, such as the programs we have undertaken at North Augusta and Hocking Valley. These expenditures can vary from period to period, at times significantly, depending upon the timing of lease expiries, re-leasing and our capital plan for the period.

**Fair value adjustments on investment properties**

For the three month period ended December 31, 2016 and 2015, the REIT recorded a fair value loss on investment properties of $8.3 million and $0.6 million, respectively. The fair value loss for the periods are mainly attributed to changes in IFRIC 21, *Levies* ("IFRIC 21") property tax adjustments, and change in valuation parameters and cash flows.

The REIT recorded a fair value loss of $4.3 million and a fair value gain of $13.3 million on investment properties for the year ended December 31, 2016 and 2015, respectively. For the December 31, 2016 year end, the fair value loss is primarily due to transaction costs capitalized on acquisitions and straight-line rent. For the December 31, 2015 year end, the fair value gain is mainly attributed to changes in valuation parameters and cash flows.

The fair value change of investment properties is impacted by IFRIC 21 property tax adjustments recorded on the REIT's portfolio. The REIT has determined that the obligating event for property taxes is ownership of the property on January 1st of the fiscal year. As a result, the annual property tax liability and expense has been recognized on the properties owned as at January 1, 2016, with a corresponding increase to the fair value of investment properties that is reversed as the liability is settled through property tax installments.

The change in fair value of investment properties recorded in income excludes the impact of tenanting and leasing costs, landlord work, and development and expansion capital, not all of which are additive to value but are directly capitalized to the property.

The following table presents the impact of certain accounting adjustments on the fair value gain recorded versus management's estimate of future cash flows and valuations assumptions:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Valuation parameters and cash flows | **$ (3,835)** | $ 3,308 | **$ 260** | $ 20,289 |
| Transaction costs capitalized | **(1,099)** | (509) | **(2,559)** | (2,776) |
| IFRIC 21 property tax adjustment | **(3,055)** | (3,035) | **(414)** | (2,573) |
| Adjusted for straight-line rent | **(287)** | (412) | **(1,582)** | (1,670) |
| **Total** | **$ (8,276)** | $ (648) | **$ (4,295)** | $ 13,270 |

**STRATEGIC ACQUISITION LOANS**

Management has identified, in consultation with certain of its existing tenants, non-grocery-anchored retail properties that have the potential for a conversion to grocery-anchored retail malls. These acquisition targets are primarily characterized by under-managed properties, often with under-capitalized owners, where the opportunity exists to re-imagine and modernize the asset. This conversion opportunity involves bringing a current grocery store format and size to the property coupled with improvements and re-tenanting of the shop space.

The REIT has undertaken an arrangement to take advantage of these opportunities in conjunction with a U.S. based entity in which Slate has a significant interest. These loans will provide the REIT with the opportunity to earn an 8% return on the capital committed, establish a pipeline of new format grocery-anchored retail assets, strengthen its relationships with tenants as a strategic partner, and limits the risk to the REIT of an unsuccessful conversion and development of an asset from its current format to a modern format and size grocery-anchored retail mall.

Under this arrangement, the REIT has the option to provide loans, secured by the properties, to an entity in which Slate has a significant interest, whereby Slate will undertake the acquisition and conversion of the assets to grocery-anchored retail malls. In cases where the REIT provides a loan in respect of a conversion property it will earn an 8% return on the amount advanced and will, in turn, have the ability, but not the obligation, to purchase the property upon conversion of the property to a grocery-anchored retail mall. Additionally, prior to Slate purchasing any property, the REIT has the right of first refusal to purchase the property and undertake the conversion itself.

One loan has been made to date. The loan, advanced in October 2015, is in the amount of $7.7 million, bears interest at 8.0% and matures on October 19, 2020. This loan is recorded as a note receivable within the other assets account balance on the REIT's consolidated statements of financial position.

## PART III – RESULTS OF OPERATIONS

### SUMMARY OF SELECTED QUARTERLY INFORMATION

The selected quarterly information highlights performance over the most recently completed eight quarters and is reflective of the timing of acquisitions, leasing and maintenance expenditures. Similarly, debt reflects financing activities related to acquisitions which serve to increase AFFO in the future, as well as ongoing financing activities for the existing portfolio. Accordingly, rental revenue, NOI, NAV, FFO and AFFO are reflective of changes in the underlying income-producing asset base and changing leverage.

| Quarter ended | Q4 2016 | Q3 2016 | Q2 2016 | Q1 2016 | Q4 2015 | Q3 2015 | Q2 2015 | Q1 2015 |
|---|---|---|---|---|---|---|---|---|
| Rental revenue | $ 25,044 | $ 23,699 | $ 24,088 | $ 24,205 | $ 23,104 | $ 22,416 | $ 17,913 | $ 16,347 |
| Property operating expenses (1) | (3,771) | (3,221) | (3,158) | (15,425) | (3,409) | (2,953) | (2,379) | (10,284) |
| Straight-line rent revenue | (287) | (453) | (415) | (427) | (412) | (490) | (363) | (406) |
| IFRIC 21 property tax adjustment (1) | (3,055) | (3,006) | (3,077) | 8,724 | (3,035) | (2,666) | (2,269) | 5,397 |
| NOI | $ 17,931 | $ 17,019 | $ 17,438 | $ 17,077 | $ 16,248 | $ 16,307 | $ 12,902 | $ 11,054 |
| Class U units outstanding | 35,456 | 35,440 | 35,425 | 31,858 | 31,829 | 31,977 | 32,588 | 25,167 |
| WA units | 35,494 | 35,469 | 34,627 | 31,872 | 31,957 | 32,253 | 27,732 | 20,928 |
| Net (loss) income | (12,397) | (15,309) | (605) | (760) | (1,057) | 2,936 | (16,956) | 15,542 |
| Net (loss) income per WA units | $ (0.35) | $ (0.43) | $ (0.02) | $ (0.02) | $ (0.03) | $ 0.09 | $ (0.61) | $ 0.74 |
| NAV | $ 473,804 | $ 470,565 | $ 468,718 | $ 427,324 | $ 419,338 | $ 413,908 | $ 417,912 | $ 337,763 |
| NAV per unit | $ 13.36 | $ 13.28 | $ 13.23 | $ 13.41 | $ 13.17 | $ 12.94 | $ 12.82 | $ 13.42 |
| Distributions | $ 7,179 | $ 6,990 | $ 6,894 | $ 6,201 | $ 6,090 | $ 6,070 | $ 5,227 | $ 4,138 |
| Distributions per unit | $ 0.2025 | $ 0.1973 | $ 0.1947 | $ 0.1947 | $ 0.1890 | $ 0.1890 | $ 0.1890 | $ 0.1890 |
| FFO (2) | $ 8,688 | $ 11,193 | $ 11,998 | $ 10,685 | $ 10,543 | $ 10,793 | $ 8,518 | $ 7,515 |
| FFO per WA units (2) | $ 0.24 | $ 0.32 | $ 0.35 | $ 0.34 | $ 0.33 | $ 0.33 | $ 0.31 | $ 0.36 |
| AFFO (2) | $ 5,557 | $ 9,205 | $ 10,152 | $ 7,598 | $ 8,647 | $ 8,812 | $ 7,712 | $ 6,590 |
| AFFO per WA units (2) | $ 0.16 | $ 0.26 | $ 0.29 | $ 0.24 | $ 0.27 | $ 0.27 | $ 0.28 | $ 0.32 |
| Total assets | $1,114,606 | $1,076,668 | $1,072,823 | $1,033,985 | $1,013,481 | $ 971,721 | $ 919,249 | $ 690,824 |
| Debt | $ 621,442 | $ 585,773 | $ 586,134 | $ 588,702 | $ 577,280 | $ 538,423 | $ 483,504 | $ 339,580 |
| Debt / GBV | 55.8% | 54.4% | 54.6% | 56.9% | 57.0% | 55.4% | 52.6% | 49.2% |
| Number of properties | 69 | 64 | 68 | 66 | 66 | 64 | 59 | 43 |
| % leased | 93.5% | 93.6% | 95.0% | 94.4% | 94.7% | 95.1% | 95.3% | 96.0% |
| GLA | 8,335,625 | 7,841,401 | 7,941,699 | 7,726,055 | 7,581,846 | 7,359,096 | 6,972,001 | 5,085,885 |
| Grocery-anchored GLA | 3,909,716 | 3,669,595 | 3,776,105 | 3,691,654 | 3,585,268 | 3,501,935 | 3,212,061 | 3,082,087 |

(1) In accordance with IFRIC 21, the REIT recognizes the annual property tax liability and expense on its existing properties on January 1st, rather than progressively, i.e. ratably, throughout the year.

(2) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

## REVENUE

Revenue from investment properties includes base rent from tenants, straight-line rental income, property tax and operating cost recoveries and other incidental income.

Rental revenue for the three and twelve month period ended December 31, 2016 was $25.0 million and $97.0 million, respectively, which represents an increase of $1.9 million and $17.3 million since the same periods in the prior year. The increase is primarily due to rental rate growth and the acquisition of 10 investment properties, partially offset by the loss of revenue from seven dispositions since December 31, 2015.

The following table is a summary of revenue for the three most recent financial years of the REIT:

| | **2016** | **2015** | **2014** |
|---|---|---|---|
| Revenue | $ 97,036 | $ 79,780 | $ 41,443 |

## PROPERTY OPERATING EXPENSES

Property operating expenses consist of property taxes, property management fees, and other expenses including common area costs, utilities and insurance. The majority of the REIT's operating expenses are recoverable from tenants in accordance with the terms of their respective lease agreements. Operating expenses fluctuate with changes in occupancy and levels of repairs and maintenance.

Property operating expenses increased by $0.4 million and $6.6 million for the three and twelve month period ended December 31, 2016, respectively, compared to the same periods in 2015. The increase is primarily due to incremental costs associated with 10 properties acquired and the application of IFRIC 21 property tax adjustments, partially offset by seven dispositions since December 31, 2015.

With the adoption of IFRIC 21, the REIT recognizes the annual property tax liability and expense on its existing properties as at January 1 of each year, rather than progressively, i.e. ratably, throughout the year. The recognition of property taxes as a result of IFRIC 21 has no impact on NOI, FFO or AFFO.

## OTHER EXPENSES

Other expenses include fees for asset management, legal, trustee services, tax compliance, reporting, marketing, franchise tax, business tax, and bad debt expenses. Franchise and business taxes are typically billed in the following calendar year.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Asset management and incentive fees | **$ 1,002** | $ 1,172 | **$ (170)** | **$ 4,211** | $ 3,493 | **$ 718** |
| Professional fees and other | **554** | 333 | **221** | **2,315** | 2,426 | **(111)** |
| Franchise and business taxes | **168** | 88 | **80** | **998** | 355 | **643** |
| **Total** | **$ 1,724** | $ 1,593 | **$ 131** | **$ 7,524** | $ 6,274 | **$ 1,250** |
| **% of total assets** | **0.2%** | 0.2% | **—%** | **0.7%** | 0.7% | **— %** |
| **% of total revenue** | **6.9%** | 6.9% | **—%** | **7.8%** | 7.9% | **(0.1)%** |

Other expenses for the three month period ended December 31, 2016 increased by $0.1 million since the comparative quarter. The increase is due to variations in franchise and business taxes, legal fees, trustee fees, bad debt expense and travel costs.

Other expenses for the year ended December 31, 2016 was $7.5 million, which represents a $1.3 million increase from the prior year. This increase in asset management fees and franchise and business taxes are primarily due to the acquisition and operation of 10 investment properties, partially offset by seven dispositions since December 31, 2015.

**INTEREST EXPENSE AND OTHER FINANCING COSTS**

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Interest income on investments | **$ (16)** | $ (2) | **$ (14)** | **$ (58)** | $ (11) | **$ (47)** |
| Interest income on notes receivable | **(154)** | (122) | **(32)** | **(612)** | (122) | **(490)** |
| Interest on debt and finance charges | **4,840** | 4,600 | **240** | **18,368** | 14,615 | **3,753** |
| Interest rate swap, net settlement | **164** | — | **164** | **164** | — | **164** |
| Amortization of finance charges | **331** | 247 | **84** | **1,143** | 889 | **254** |
| Amortization of mark-to-market premium | **(188)** | (188) | **—** | **(848)** | (756) | **(92)** |
| Interest income on TIF notes receivable | **47** | (57) | **104** | **(101)** | (233) | **132** |
| Interest expense on TIF notes payable | **(38)** | 68 | **(106)** | **149** | 245 | **(96)** |
| Amortization of deferred gain on TIF notes receivable | **(12)** | (22) | **10** | **(78)** | (88) | **10** |
| Change in fair value of interest rate caps | **—** | — | **—** | **—** | 2 | **(2)** |
| **Total** | **$ 4,974** | $ 4,524 | **$ 450** | **$ 18,127** | $ 14,541 | **$ 3,586** |

Interest expense and other finance costs consists of interest paid on the various credit facilities, the standby fee paid on the REIT's revolving credit facility, term loan and mortgages, as well as the amortization of mark-to-market adjustments.

Interest expense of $5.0 million for the three month period ended December 31, 2016 increased by $0.5 million compared to the same quarter in the prior year. Increases are due to payments on the REIT's interest rate swap, slightly higher interest rates and higher average borrowings partially offset by the interest income earned in the quarter and amortization of mark-to-market premiums.

Interest on debt was $3.8 million higher for the year ended December 31, 2016 at $18.4 million, compared to the year ended December 31, 2015. The increase is primarily due to revolver drawdowns for the acquisition of certain investment properties since the comparative period, and the replacement of $114.5 million secured credit facility assumed as part of the SUSO 3 transaction with borrowings from the revolver, partially offset by a $33.4 million pay down in the revolver funded by the REIT's rights offering completed on April 19, 2016.

**FAIR VALUE ADJUSTMENTS ON REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES**

REIT units and exchangeable units of subsidiaries are classified as financial liabilities under IFRS and are measured at fair value with any changes in fair value recognized in unit expense in the consolidated statements of comprehensive income. The fair value is re-measured at the end of each reporting period. An unrealized gain represents a decrease in the fair value per unit whereas an unrealized loss represents an increase in the fair value per unit. The fair value per unit on December 31, 2016 was $11.21 (December 31, 2015 – $10.45). Changes in fair value of REIT units and exchangeable units of subsidiaries are non-cash in nature and are required to be recorded in income under IFRS.

For the three month period ended December 31, 2016, the REIT recognized an unrealized fair value loss of $7.4 million and $0.6 million on the REIT units and exchangeable units of subsidiaries respectively, as a result of an increase in the fair value per unit. For the year ended December 31, 2016, the REIT recognized an unrealized fair value loss of $25.7 million and $1.9 million on the REIT units and exchangeable units of subsidiaries respectively, as a result of an increase in fair value per unit.

**IMPAIRMENT OF GOODWILL**

On June 1, 2015, the REIT completed a unitholder approved transaction to acquire the net assets of SUSO 3. The allocation of the consideration exchanged to the net assets acquired in the SUSO 3 transaction gave rise to goodwill of $8.9 million. The goodwill arises primarily from the difference between how deferred tax is calculated for accounting purposes and the value ascribed to it in negotiations. The former is based on the difference between the values of the assets and liabilities concerned for accounting purposes and those applying for taxation. The latter is based on tax payments likely to be made on the sale of the investment properties. In management's opinion, the carrying amount of this goodwill cannot be justified by reference to future cash flows and the ongoing business plan to operate and own the properties in the foreseeable future. As a result, it has been determined that the goodwill has been impaired and an impairment charge has been recognized in the consolidated financial statements.

**NET (LOSS) INCOME**

Net loss for the three month period ended December 31, 2016 decreased by $11.3 million to $12.4 million compared to the same period in 2015. The decrease is due to the change in fair value of investment properties of $7.6 million, increase in fair value of the REIT units and exchangeable units of subsidiaries of $4.4 million, loss on defeasance on a mortgage of $2.8 million, increased distributions of $1.1 million and seven dispositions in the year, partially offset by the NOI contribution of 10 investment properties acquired in the year.

Net loss for the year ended December 31, 2016 was $29.1 million, which represents a $29.5 million decrease from the comparative period. The decrease is attributed to the increase in fair value of REIT units and exchangeable units of subsidiaries of $24.4 million, change in fair value of investment properties of $17.6 million, increased distributions of $5.7 million and seven dispositions in the year, partially offset by the aforementioned acquisitions.

The following table is a summary of net (loss) income for the three most recent financial reporting years of the REIT:

| | | 2016 | | 2015 | | 2014 |
|---|---|---|---|---|---|---|
| Net (loss) income | $ | (29,071) | $ | 465 | $ | 25,555 |

**NOI**

NOI is a non-IFRS measure and is defined by the REIT as property rental revenue, excluding non-cash straight-line rent, less property operating expenses after adjusting for the impact of IFRIC 21 property tax accounting adjustments. Rental revenue excludes revenue recorded as a result of recording rent on a straight-line basis for IFRS which management believes reflects the cash generation activity of the REIT's properties. NOI is an important measure of the income generated from the REIT's properties and is used by the REIT in evaluating the performance of its properties. NOI may not be comparable with similar measures presented by other entities and is not to be construed as an alternative to net income or cash flow from operating activities determined in accordance with IFRS.

The following is a calculation of NOI for the three and twelve month period ended December 31, 2016 compared to the same periods in the prior year:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Rental revenue | **$ 25,044** | $ 23,104 | **$ 1,940** | **$ 97,036** | $ 79,780 | **$ 17,256** |
| Straight-line rent revenue | **(287)** | (412) | **125** | **(1,582)** | (1,670) | **88** |
| Property operating expenses | **(3,771)** | (3,409) | **(362)** | **(25,575)** | (19,025) | **(6,550)** |
| IFRIC 21 property tax adjustment | **(3,055)** | (3,035) | **(20)** | **(414)** | (2,573) | **2,159** |
| **NOI** | **$ 17,931** | $ 16,248 | **$ 1,683** | **$ 69,465** | $ 56,512 | **$ 12,953** |
| **NOI margin** | **71.6%** | 70.3% | **1.3%** | **71.6%** | 70.8% | **0.8%** |

NOI for the three and twelve month period ended December 31, 2016 was $17.9 million and $69.5 million respectively, which represents an increase of $1.7 million and $13.0 million for the same periods in 2015. This increase is primarily due to the acquisition of 10 investment properties, partially offset by seven dispositions since December 31, 2015 and increased same-property performance from rent increases and embedded contractual step-ups.

**SAME-PROPERTY NOI**

Same-property NOI is a non-IFRS measure and is defined by the REIT as rental revenue, excluding non-cash straight-line rent, less property operating cost expenses after adjusting for the impact of IFRIC 21 property tax accounting adjustments for those properties owned by the REIT for the entirety of each of the current period and the relevant comparative period excluding those properties under development. For the three month period ended December 31, 2016, the same-property portfolio is comprised of a portfolio of 49 properties owned and in operation for each of the entire three month periods ended December 31, 2016 and 2015.

Same-property NOI is an important measure of the income generated from the REIT's properties period-over-period, but without consideration of acquisition and disposition activity, and is used by the REIT in evaluating the performance of its properties. The REIT seeks to increase or maintain same-property NOI through high-occupancy, increasing rents on renewal to market rents and by signing leases with embedded rent increases throughout the term of the lease.

The following is a summary of same-property NOI and the related occupancy rates for the three month period ended December 31, 2016 as compared to the same period in the prior year reconciled to total NOI:

| | Number of properties | Three months ended December 31, 2016 | 2015 | Variance | % change |
|---|---|---|---|---|---|
| Same-property NOI | 49 | **$ 15,229** | $ 14,854 | **$ 375** | **2.5 %** |
| NOI attributed to properties under development | 3 | **343** | 707 | **(364)** | **(51.5)%** |
| NOI attributable to acquisitions | 17 | **2,359** | 17 | **2,342** | **13,776.5 %** |
| NOI attributable to dispositions | 7 | **—** | 670 | **(670)** | **(100.0)%** |
| **Total NOI** | | **$ 17,931** | $ 16,248 | **$ 1,683** | |
| **Occupancy** | | | | | |
| Occupancy, same-property | 49 | **95.6%** | 95.7% | **(0.1)%** | |
| Occupancy, properties under development | 3 | **66.0%** | 87.8% | **(21.8)%** | |
| Occupancy, acquisitions | 17 | **94.0%** | 89.9% | **4.1 %** | |
| Occupancy, dispositions | 7 | **96.1%** | 93.4% | **2.7 %** | |
| **Total occupancy** | | **93.5%** | 95.1% | **(1.6)%** | |

Same-property NOI increased by $375 thousand for the three month period ended December 31, 2016 over the comparative period. The increase is due to higher rental rates and recoveries, partially offset by the renewal of the grocery-anchor tenant at Buckeye Plaza at lower rental rates, effective at the end of the 2016 year and Uptown Station vacancy of non-anchor tenants that began in the first quarter of 2016.

Same-property NOI by quarter and percentage change over the relevant comparative period for the respective quarter is as follows:

| | **Number of properties** | **Same-property NOI** | **Same-property % change** |
|---|---|---|---|
| Q1 2016 | 40 | $ 10,409 | (1.0)% |
| Q2 2016 | 41 | 11,101 | (1.0)% |
| Q3 2016 | 49 | 13,791 | 0.7 % |
| Q4 2016 | 49 | $ 15,229 | 2.5 % |

**FFO**

FFO is a non-IFRS measure and real estate industry standard for evaluating operating performance. The REIT calculates FFO in accordance with the definition provided by the Real Property Association of Canada in its White Paper on FFO, as revised in April 2014. FFO is an important measure of the operating performance of real estate investment trusts and is used by the REIT in evaluating the combined performance of its operations and the impact of its capital structure.

The following is a reconciliation of FFO for the three and twelve month period ended December 31, 2016 compared to the same periods in the prior year:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Net (loss) income [1] | **$ (12,397)** | $ (1,057) | **$ (11,340)** | **$ (29,071)** | $ 465 | **$ (29,536)** |
| IFRIC 21 property tax adjustment | **(3,055)** | (3,035) | **(20)** | **(414)** | (2,573) | **2,159** |
| Transaction costs | **—** | (30) | **30** | **1,030** | 1,187 | **(157)** |
| Unit expense | **15,360** | 9,644 | **5,716** | **55,170** | 24,759 | **30,411** |
| Change in fair value of interest rate caps | **—** | — | **—** | **—** | 2 | **(2)** |
| Change in fair value of investment properties | **8,276** | 648 | **7,628** | **4,295** | (13,270) | **17,565** |
| Impairment of goodwill | **—** | — | **—** | **—** | 8,870 | **(8,870)** |
| Deferred income taxes | **504** | 4,373 | **(3,869)** | **11,554** | 17,929 | **(6,375)** |
| **FFO [1]** | **$ 8,688** | $ 10,543 | **$ (1,855)** | **$ 42,564** | $ 37,369 | **$ 5,195** |
| **FFO per WA unit [1]** | **$ 0.24** | $ 0.33 | **$ (0.09)** | **$ 1.24** | $ 1.32 | **$ (0.08)** |
| **WA number of units outstanding** | **35,494** | 31,957 | **3,537** | **34,371** | 28,259 | **6,112** |

[1] The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

FFO decreased by $1.9 million for the three month period ended December 31, 2016 compared to the same quarter in the prior year. The decrease in the fourth quarter is primarily attributable to the loss on the defeasance of a mortgage, resulting in a change to income of $2.8 million or $0.08 per unit, increased financing costs and other expenses, relating to franchise and business tax, partially offset by the aforementioned increases in NOI.

FFO for the year ended December 31, 2016 was $42.6 million which represents a $5.2 million increase from the comparative period. The increase mainly due to the aforementioned increases in NOI, partially offset by the loss on the defeasance of a mortgage, increased financing costs and other expenses, relating to franchise and business tax.

**AFFO**

AFFO is a non-IFRS measure that is widely used by the real estate industry and investors to measure the cash generated from operations, after debt service and certain capital and leasing costs and also after reversing the impact of non-cash interest and revenue amounts. It is also a meaningful measure used to evaluate the cash available for distribution to unitholders.

In calculating AFFO, the REIT makes adjustments to FFO for certain items including straight-line rental revenue, income support payments received by the REIT but not recognized in income, non-cash adjustments related to the REIT's accounting for its TIF notes, amortization of finance and mark-to-market charges in interest, tenant improvements and leasing commissions and landlord work. The method applied by the REIT to calculate AFFO may differ from methods applied by other issuers in the real estate industry and therefore may not be comparable with measures reported by such issuers.

A reconciliation of FFO to AFFO for the three and twelve month period ended December 31, 2016 compared to the same periods in the prior year is as follows:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| FFO [1] | **$ 8,688** | $ 10,543 | **(1,855)** | **$ 42,564** | $ 37,369 | **5,195** |
| Straight-line rental revenue | **(287)** | (412) | **125** | **(1,582)** | (1,670) | **88** |
| Mark-to-market amounts on defeased debt [1] | **(1,696)** | — | **(1,696)** | **(1,696)** | — | **(1,696)** |
| Finance charge and mark-to-market adjustments | **143** | 73 | **70** | **295** | 189 | **106** |
| Income support payments | **—** | 9 | **(9)** | **6** | 29 | **(23)** |
| Tenant improvements and leasing commissions | **(851)** | (1,279) | **428** | **(4,792)** | (2,712) | **(2,080)** |
| Landlord work and maintenance capital | **(440)** | (287) | **(153)** | **(2,241)** | (1,444) | **(797)** |
| **AFFO [1]** | **$ 5,557** | $ 8,647 | **$ (3,090)** | **$ 32,554** | $ 31,761 | **$ 793** |
| **AFFO per WA unit [1]** | **$ 0.16** | $ 0.27 | **$ (0.11)** | **$ 0.95** | $ 1.12 | **$ (0.17)** |
| **WA number of units outstanding** | **35,494** | 31,957 | **3,537** | **34,371** | 28,259 | **6,112** |

[1] The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

AFFO was $32.6 million for the year ended December 31, 2016, which represents a $0.8 million increase from the 2015 year. This increase is due to aforementioned increases in FFO, partially offset by increased landlord work and maintenance capital.

AFFO for the three month period ended December 31, 2016 and 2015 was $5.6 million and $8.6 million, respectively, which amounts to a $3.1 million decrease from the comparative period. The decrease is due to the loss on the defeasance of a mortgage, resulting in a $4.5 million or $0.13 per unit decrease in AFFO, partially offset by the aforementioned increases in FFO and lower tenant improvement and leasing commissions.

Capital improvements may include, but are not limited to, items such as parking lot resurfacing and roof replacements. These items are recorded as part of investment properties. Tenant improvements, leasing commissions, landlord work and maintenance capital expenditures can vary from period to period, at times significantly, depending upon the timing of lease expiries, releasing and our capital plan for the period. Such costs are generally expended for purposes of tenanting and extending existing leases, which create value at the REIT's properties and the portfolio as a whole by increasing contractual cash flow through new and extended leases. The REIT will continue to capitalize on value-add opportunities to revitalize, undertake space improvements and generally maintain the high quality of our properties and tenants. As a result of the natural variability of such costs, the REIT's calculation of AFFO will be volatile when comparing current period results to prior periods.

**Landlord work and maintenance capital, and tenant improvements and leasing commissions**

During the fourth quarter capital improvements were completed across the portfolio. The majority of capital improvements were completed concurrent to leasing at our properties with the remainder as minor improvements. The remaining leasing costs were generally related to the high volume of new and renewal activity totaling 47 leases executed and generally well spread out across each deal with no one deal representing a large percentage of the total spend. Leasing costs to secure new tenants are generally higher than the costs to renew in-place tenants. In addition to property reinvestment, the leasing capital was comprised of fees related to tenant improvement allowances and other direct leasing costs, such as broker commissions and legal costs. To date the REIT has funded capital and leasing costs using cash flows from operations.

### Reconciliation of net (loss) income to AFFO

The following is a reconciliation of net (loss) income to AFFO:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Net (loss) income [(1)] | **$ (12,397)** | $ (1,057) | **$ (11,340)** | **$ (29,071)** | $ 465 | **$ (29,536)** |
| IFRIC 21 adjustment | **(3,055)** | (3,035) | **(20)** | **(414)** | (2,573) | **2,159** |
| Acquisition and disposition costs | **—** | (30) | **30** | **1,030** | 1,187 | **(157)** |
| Unit expense | **15,360** | 9,644 | **5,716** | **55,170** | 24,759 | **30,411** |
| Fair value adjustments to interest rate caps | **—** | — | **—** | **—** | 2 | **(2)** |
| Fair value adjustments of investment property | **8,276** | 648 | **7,628** | **4,295** | (13,270) | **17,565** |
| Impairment of goodwill | **—** | — | **—** | **—** | 8,870 | **(8,870)** |
| Deferred taxes | **504** | 4,373 | **(3,869)** | **11,554** | 17,929 | **(6,375)** |
| **FFO [(1)]** | **$ 8,688** | $ 10,543 | **$ (1,855)** | **$ 42,564** | $ 37,369 | **$ 5,195** |
| Straight-line rental revenue | **(287)** | (412) | **125** | **(1,582)** | (1,670) | **88** |
| Debt defeasance costs [(1)] | **(1,696)** | — | **(1,696)** | **(1,696)** | — | **(1,696)** |
| Finance charge and mark-to-market adjustments | **143** | 73 | **70** | **295** | 189 | **106** |
| Income support payments | **—** | 9 | **(9)** | **6** | 29 | **(23)** |
| Tenant improvements and leasing commissions | **(851)** | (1,280) | **429** | **(4,792)** | (2,712) | **(2,080)** |
| Landlord work and maintenance capital | **(440)** | (286) | **(154)** | **(2,241)** | (1,444) | **(797)** |
| **AFFO [(1)]** | **$ 5,557** | $ 8,647 | **$ (3,090)** | **$ 32,554** | $ 31,761 | **$ 793** |

(1) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

### Reconciliation of NOI to AFFO

The following is a reconciliation of NOI to AFFO:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| NOI | **$ 17,931** | $ 16,248 | **$ 1,683** | **$ 69,465** | $ 56,512 | **$ 12,953** |
| Other expenses | **(1,724)** | (1,593) | **(131)** | **(7,524)** | (6,274) | **(1,250)** |
| Cash interest expense | **(4,840)** | (4,600) | **(240)** | **(18,368)** | (14,615) | **(3,753)** |
| Debt defeasance costs [(1)] | **(4,528)** | — | **(4,528)** | **(4,528)** | — | **(4,528)** |
| Interest, net | **9** | 149 | **(140)** | **536** | 265 | **271** |
| Income support payments | **—** | 9 | **(9)** | **6** | 29 | **(23)** |
| Tenant improvements and leasing commissions | **(851)** | (1,280) | **429** | **(4,792)** | (2,712) | **(2,080)** |
| Landlord work and maintenance capital | **(440)** | (286) | **(154)** | **(2,241)** | (1,444) | **(797)** |
| **AFFO** | **$ 5,557** | $ 8,647 | **$ (3,090)** | **$ 32,554** | $ 31,761 | **$ 793** |

(1) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

**Reconciliation of cash flow from operations to AFFO**

The following is a reconciliation of cash flow from operations as included in the REIT's consolidated cash flow statement to AFFO:

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Cash flow from operations | **$ 4,725** | $ 9,223 | **$ (4,498)** | **$ 38,735** | $ 33,129 | **$ 5,606** |
| Changes in non-cash working capital items | **1,950** | 862 | **1,088** | **(884)** | 1,307 | **(2,191)** |
| Transaction costs | **—** | (30) | **30** | **1,030** | 1,187 | **(157)** |
| Interest, net | **173** | 149 | **24** | **700** | 265 | **435** |
| Income support payments | **—** | 9 | **(9)** | **6** | 29 | **(23)** |
| Tenant improvements and leasing commissions | **(851)** | (1,280) | **429** | **(4,792)** | (2,712) | **(2,080)** |
| Landlord work and maintenance capital | **(440)** | (286) | **(154)** | **(2,241)** | (1,444) | **(797)** |
| **AFFO (1)** | **$ 5,557** | $ 8,647 | **$ (3,090)** | **$ 32,554** | $ 31,761 | **$ 793** |

(1) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

## DEBT DEFEASANCE

On December 15, 2016, the REIT entered into the Defeasance Agreement providing for the defeasance of $26.7 million of mortgage debt due April 30, 2021 with an annual interest rate of 5.8%. At the inception of such debt, the REIT had pledged to the lender five of its properties as security. The Defeasance was completed to facilitate possible dispositions and redevelopment opportunities which were restricted under the terms of the existing debt. The Defeasance was financed through a draw on the REIT's revolver and cash on hand, which Management expects that over the original term to maturity of the REIT's debt will reduce aggregate interest costs.

The cash outlay required for the Defeasance in the amount of $31.2 million was required to purchase U.S. Treasury securities, the maturities of which will satisfy the remaining interest and principal repayments of the debt from the effective date of the Defeasance through to the repayment of the mortgage debt maturity date. In consideration for delivering the U.S. Treasury securities to the servicer, the five properties were released as collateral for the debt.

Under the terms of the defeasance agreement, a third party assumed the REIT's obligation under the mortgage debt, as well as the ownership interest in the related securities. As a result, the REIT recognized a loss on the defeasance of a mortgage due of $2.8 million, which includes the difference between the purchase price of the U.S. Treasury securities and principal balance of the mortgage due of $4.5 million, offset by $1.7 million of unamortized mark-to-market premiums.

The defeasance reduces annual interest costs and provides the REIT with the flexibility to potentially dispose of certain properties and undertake redevelopment opportunities that would have been restricted by the lender. Additionally, the REIT received $2.7 million required to be held in escrow that was not otherwise available to the REIT until maturity of the mortgage in 2021.

The defeasance had an impact on net loss, FFO and AFFO for the three months and year ended December 31, 2016 as follows:

| | Three months ended December 31, 2016 | | Year ended December 31, 2016 | |
|---|---|---|---|---|
| *(in thousands of U.S. dollars except, per unit amounts)* | Including impact of defeasance | Excluding impact of defeasance | Including impact of defeasance | Excluding impact of defeasance |
| **Net loss** | **$ (12,397)** | **$ (9,565)** | **$ (29,071)** | **$ (26,239)** |
| IFRIC 21 property tax adjustment | (3,055) | (3,055) | (414) | (414) |
| Transaction costs | — | — | 1,030 | 1,030 |
| Unit expense | 15,360 | 15,360 | 55,170 | 55,170 |
| Change in fair value of investment properties | 8,276 | 8,276 | 4,295 | 4,295 |
| Deferred income taxes | 504 | 504 | 11,554 | 11,554 |
| **FFO** | **8,688** | **11,520** | **42,564** | **45,396** |
| Straight-line rental revenue | (287) | (287) | (1,582) | (1,582) |
| Mark-to-market amounts on defeased debt | (1,696) | — | (1,696) | — |
| Finance charge and mark-to-market adjustments | 143 | 143 | 295 | 295 |
| Income support payments | — | — | 6 | 6 |
| Tenant improvements and leasing commissions | (851) | (851) | (4,792) | (4,792) |
| Landlord work and maintenance capital | (440) | (440) | (2,241) | (2,241) |
| **AFFO** | **$ 5,557** | **$ 10,085** | **$ 32,554** | **$ 37,082** |
| | | | | |
| **FFO per WA units outstanding** | **$ 0.24** | **$ 0.32** | **$ 1.24** | **$ 1.32** |
| **FFO pay-out ratio** | **82.6%** | **62.3%** | **64.1%** | **60.1%** |
| **AFFO per WA units outstanding** | **$ 0.16** | **$ 0.28** | **$ 0.95** | **$ 1.08** |
| **AFFO pay-out ratio** | **129.2%** | **71.2%** | **83.8%** | **73.5%** |

## DISTRIBUTIONS

The REIT's monthly distribution to unitholders is $0.0675 per class U unit or $0.81 per class U unit on an annualized basis. Distributions paid on REIT units and exchangeable units of subsidiaries are recorded as unit expense.

Distributions were $7.2 million and $27.3 million for the three and twelve month period ended December 31, 2016, respectively. The distribution amount has increased by $1.1 million and $5.7 million over the respective comparative periods primarily due to the issuance of REIT units from the June 1, 2015 acquisition of net assets of SUSO 3 ("SUSO 3 transaction"), the April 19, 2016 rights offering and 4% distribution increase in September 2016, partially offset by the repurchase and subsequent cancellation of class U units since the comparative period under the REIT's NCIB.

The following table summarizes the monthly distributions declared to unitholders by year:

| Month | | 2016 | | 2015 | | 2014 |
|---|---|---|---|---|---|---|
| January | $ | 0.06489 | $ | 0.06300 | $ | — |
| February | | 0.06489 | | 0.06300 | | — |
| March | | 0.06489 | | 0.06300 | | — |
| April | | 0.06489 | | 0.06300 | | 0.03000 |
| May | | 0.06489 | | 0.06300 | | 0.06000 |
| June | | 0.06489 | | 0.06300 | | 0.06000 |
| July | | 0.06489 | | 0.06300 | | 0.06000 |
| August | | 0.06489 | | 0.06300 | | 0.06000 |
| September | | 0.06750 | | 0.06300 | | 0.06000 |
| October | | 0.06750 | | 0.06300 | | 0.06000 |
| November | | 0.06750 | | 0.06300 | | 0.06300 |
| December | | 0.06750 | | 0.06489 | | 0.06300 |
| Total | $ | 0.78912 | $ | 0.75789 | $ | 0.51600 |

In April of 2014 the REIT listed its class U units on the TSX. In conjunction with the REIT's listing of its class U units on the TSX the REIT commenced a distribution policy, with a monthly distribution of $0.06 per unit. In November 2014, the REIT increased the distribution rate by 5% to $0.063 and again in November 2015 increased the distribution 3% to $0.06489. Beginning with the September 2016 distribution, the REIT increased the distribution to $0.0675 a month, or $0.81 annually, which represents an increase of 4%.

Class A and I unitholders of REIT units are entitled to a distribution equal to a class U unit distribution multiplied by 1.0078 and 1.0554, respectively. Exchangeable units of subsidiaries unitholders are entitled to a distribution equal to a class U unit distribution.

**FFO payout ratio**

The FFO payout ratio is a non-IFRS measure that provides a representation of the distributions generated by the REIT compared to FFO. Management uses this measure on a total and per unit basis to evaluate the REIT's ability to sustain its distributions. The FFO payout ratio is calculated by dividing aggregate distributions made in respect of REIT units and exchangeable units of subsidiaries by FFO during the period of measurement.

The FFO payout ratio was 82.6% and 64.1% for the three and twelve month period ended December 31, 2016, representing a 24.8% and 6.5% increase respectively, compared to the same periods in the prior year. The increase is the result of the loss on the defeasance of the mortgage, increased distributions and disposal of seven properties since December 31, 2015, partially offset by accretive acquisitions.

On a pro forma basis, using annualized fourth quarter FFO and current distribution rate of $0.0675 per month, the FFO payout ratio would be 84.4%. Adjusting fourth quarter FFO for the loss on defeasance on a mortgage of $2.8 million or $0.08 per unit, the pro forma FFO payout ratio would be 62.3%.

The table below illustrates the REIT's cash flow capacity, based on FFO, in comparison to its cash distributions:

| | Three months ended December 31, | | | | Year ended December 31, | | | |
|---|---|---|---|---|---|---|---|---|
| | | **2016** | | 2015 | | **2016** | | 2015 |
| FFO (1) | **$** | **8,688** | $ | 10,543 | **$** | **42,564** | $ | 37,369 |
| Distributions declared (2) | | **(7,179)** | | (6,090) | | **(27,264)** | | (21,525) |
| Excess of FFO over distributions declared | | **1,509** | | 4,453 | | **15,300** | | 15,844 |
| Cash retained from DRIP | | **175** | | 312 | | **965** | | 1,047 |
| Excess of FFO over cash distributions | **$** | **1,684** | $ | 4,765 | **$** | **16,265** | $ | 16,891 |
| FFO payout ratio (1) | | **82.6%** | | 57.8% | | **64.1%** | | 57.6% |
| FFO payout ratio after DRIP (1) | | **80.6%** | | 54.8% | | **61.8%** | | 54.8% |

(1) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

(2) Distributions declared represent distributions on REIT units and exchangeable units of subsidiaries.

**AFFO payout ratio**

The AFFO payout ratio is a non-IFRS measure that provides a representation of the distributions generated by the REIT compared to AFFO. Management uses this measure on a total and per unit basis to evaluate the REIT's ability to sustain its distributions. The AFFO payout ratio is calculated by dividing aggregate distributions made in respect of REIT units and exchangeable units of subsidiaries by AFFO during the period of measurement.

One of the REIT's key objectives is to maintain a conservative AFFO payout ratio to continue to provide steady and reliable distributions to unitholders. As a result, the REIT is focused on maintaining a policy that provides a high level of certainty that the distribution will be maintained over time.

The AFFO payout ratio was 129.2% and 83.8% for the three and twelve month period ended December 31, 2016, respectively, compared to an AFFO payout ratio of 70.4% and 67.8% for the same periods in the prior year. On a pro forma basis, using annualized fourth quarter AFFO and the current distribution of $0.0675 per month, the AFFO payout ratio would be 126.6%. Adjusting fourth quarter AFFO for the loss on the defeasance of a mortgage, which is the difference between the purchase price of the U.S. Treasury securities and principal balance of the mortgage due, of $4.5 million or $0.13 per unit, the pro forma AFFO payout ratio would be 72.3%. The cost of the defeasance was funded through drawings on the REIT's revolver, and distributions were paid through earnings from operations.

As described above, the REIT's determination of AFFO includes actual tenant improvements, leasing commissions, landlord work and maintenance capital expenditures, which can vary from period to period, at times significantly, depending upon the timing of lease expiries, re-leasing and our capital plan for the period. As a result of the natural variability of such costs, the REIT's calculation of its AFFO payout ratio will be volatile when comparing current period results to prior periods, and accordingly, inherently more volatile than the REIT's FFO payout ratio which does not include such costs. Management continues to target a 70% payout ratio.

The table below illustrates the REIT's cash flow capacity, based on AFFO, in comparison to its cash distributions:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| AFFO [1] | **$ 5,557** | $ 8,647 | **$ 32,554** | $ 31,761 |
| Distributions declared [2] | **(7,179)** | (6,090) | **(27,264)** | (21,525) |
| Excess of AFFO over distributions declared | **(1,622)** | 2,557 | **5,290** | 10,236 |
| Cash retained from DRIP | **175** | 312 | **965** | 1,047 |
| Excess of AFFO over cash distributions | **$ (1,447)** | $ 2,869 | **$ 6,255** | $ 11,283 |
| AFFO payout ratio [1] | **129.2%** | 70.4% | **83.8%** | 67.8% |
| AFFO payout ratio after DRIP [1] | **126.0%** | 66.8% | **80.8%** | 64.5% |

(1) The REIT completed a defeasance of a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded over the outstanding principal balance of the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. FFO was impacted by the $2.8 million charge to income and AFFO was impacted by the aggregate amount of $4.5 million.

(2) Distributions declared represent distributions on REIT units and exchangeable units of subsidiaries.

**Impact of interest rate changes**

As described above, one of the REIT's key objectives is to maintain a conservative AFFO payout ratio in order to continue to provide steady and reliable distributions to unitholders. We continue to target an industry leading AFFO payout ratio of 70% over time. We expect there will be normal deviations from this rate due to timing and natural volatility in the operations of the business. Management evaluates various factors in determining the appropriate distribution policy including estimates of future NOI, near-term grocery-anchor lease turnover, future capital requirements and interest rate changes. As it relates to potential interest rate changes, management believes that notwithstanding any reasonably expected changes in interest rates, the REIT's AFFO payout ratio should continue to be fully covered.

In order to mitigate interest rate risk the REIT entered into a $300 million pay-fixed receive-float interest rate swap on November 2, 2016. The interest rate swap has a fixed rate of 1.10% and a maturity of April 2021. As a result of the interest rate swap, 67.2% of the REIT's debt is now subject to fixed rates, compared to 26.9% at December 31, 2016.

The following table provides a sensitivity analysis of the REIT's AFFO payout ratio to changes in interest rates, both prior to and after the interest rate swap. For illustrative purposes, the sensitivity analysis has been calculated using annual AFFO and distributions:

| | Prior to interest rate swap | | **After interest rate swap** | |
|---|---|---|---|---|
| Change in interest rates (bps) [1] | AFFO [2] | AFFO payout ratio [2] | **AFFO [2]** | **AFFO payout ratio [2]** |
| (50) | $ 33,184 | 82.2% | **$ 32,806** | **83.1%** |
| (25) | 32,869 | 82.9% | **32,679** | **83.4%** |
| — | 32,554 | 83.8% | **32,552** | **83.8%** |
| 25 | 32,239 | 84.6% | **32,424** | **84.1%** |
| 50 | 31,924 | 85.4% | **32,297** | **84.4%** |
| 100 | 31,294 | 87.1% | **32,042** | **85.1%** |
| 200 | $ 30,034 | 90.8% | **$ 31,532** | **86.5%** |

[1] Based on a twelve month period ended December 31, 2016 AFFO of $32.6 million.

[2] The REIT completed a defeasance on a mortgage during the fourth quarter, at a cost of $4.5 million representing the excess of the U.S. Treasury securities required to be funded to the servicer over the outstanding principal balance on the mortgage. A $2.8 million charge to income was recorded which was determined as the $4.5 million cost, less $1.7 million, representing the unamortized mark-to-market premium associated with the mortgage. The determination of AFFO was impacted by the aggregate amount of $4.5 million.

## DEFERRED INCOME TAX

The REIT's operations and the associated net income occur within partially owned, flow through entities such as partnerships. Any tax liability on taxable income attributable to the Slate Retail exchangeable unitholders is incurred directly by the unitholders as opposed to Slate Retail Investment L.P., the REIT's most senior taxable subsidiary. Accordingly, although the REIT's consolidated net income includes income attributable to Slate Retail exchangeable unitholders, the consolidated tax provision includes only the REIT's proportionate share of the applicable taxes.

For the three and twelve month period ended December 31, 2016, the deferred income tax expense was $0.5 million and $11.6 million, respectively. The REIT's deferred tax expense relates mainly to changes in the differences between the fair value of the REIT's investment properties and the corresponding undepreciated value for income tax purposes.

## RELATED PARTY TRANSACTIONS

Pursuant to the terms of a management agreement dated April 15, 2014, the Manager provides all management services to the REIT. The Manager agreed to provide certain services in connection with the business of the REIT, including: the structuring of the REIT, liaising with legal and tax counsel; identifying properties for acquisition; maintaining ongoing relationships with the lenders in respect of the mortgage loans for the Properties; conducting continuous analysis of market conditions; and advising with respect to the disposition of the Properties. In return for its service, the Manager receives the following fees:

i an asset management fee equal to 0.4% of the total assets of the REIT;

ii an acquisition fee in an amount equal to 0.75% of the gross purchase price of each Property (or interest in a Property), including the price, due diligence costs, closing costs, legal fees, and additional capital costs for all Properties indirectly acquired by the REIT; and

iii an annual incentive fee, calculated in arrears, in an aggregate amount equal to 15% of the REIT's funds from operation per class U unit as derived from the annual financial statements of the REIT in excess of $1.28, subject to ordinary course adjustments for certain transactions affecting the class U units and increasing annually by 50% of the increase in the U.S. consumer price index.

These transactions are in the normal course of operations and are measured at the exchange amount which is the consideration established and agreed to by the parties.

| | Three months ended December 31, | | | Year ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **Variance** | **2016** | 2015 | **Variance** |
| Asset management fees | **$ 1,096** | $ 979 | $ 117 | **$ 4,211** | $ 3,300 | **$ 911** |
| Acquisition fees | **381** | 237 | 144 | **885** | 1,071 | **(186)** |
| Incentive fees | **(94)** | 193 | (287) | **—** | 193 | **(193)** |
| **Total** | **$ 1,383** | $ 1,409 | $ (26) | **$ 5,096** | $ 4,564 | **$ 532** |

Related party transactions incurred and paid to Slate for the three and twelve month period ended December 31, 2016 amounted to $1.4 million and $5.1 million respectively. These transactions are in the normal course of operations and are in accordance with the management agreement and are measured at the exchange amount. The exchange amount is the consideration established under contract and as approved by the REIT's Board of Trustees.

The management agreement provides for an incentive fee to be earned based on an FFO per unit target that grows annually, in part, with inflation, whereby the Manager is entitled to 15% of the excess of FFO above the target. For the year ended December 31, 2016, no incentive fee was recognized as the target threshold was not met.

See also discussion of the REIT's strategic acquisition program in "PART II - LEASING AND PROPERTY PORTFOLIO" of this MD&A.

**MAJOR CASH FLOW COMPONENTS**

The REIT is able to meet all of its obligations as they become due and have sufficient liquidity from the following sources: (i) cash flow from operating activities and (ii) financing availability through the REIT's revolving credit facility and conventional mortgage debt secured by income producing properties.

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| Operating activities | **$ 4,725** | $ 9,223 | **$ 38,735** | $ 33,129 |
| Investing activities | **(37,631)** | (33,877) | **(93,135)** | (138,098) |
| Financing activities | **30,267** | 23,668 | **55,976** | 103,650 |
| **Increase (decrease) in cash** | **$ (2,639)** | $ (986) | **$ 1,576** | $ (1,319) |

Cash flows from operating activities relate to the collection of rent and payment of property operating expenses. Cash flows from operating activities, net of interest expense are able to satisfy the REIT's distribution requirements, and will be used to fund on-going operations and expenditures for leasing capital and property capital.

Cash flows used in investing activities relate to property acquisitions and property dispositions made the by the REIT, and additions to the properties through capital and leasing expenditures.

Cash flows from financing activities relate to the servicing of mortgages, additional drawdowns on the REIT's revolver for the acquisition of investment properties during the year and distributions paid to unitholders.

# PART IV – FINANCIAL CONDITION

## DEBT

The REIT's overall borrowing strategy is to obtain financing with terms to maturity that are appropriate having regard to the lease maturity profiles of the underlying properties and which allows the REIT to (i) stagger debt maturities that reduce its exposure to interest rate fluctuations and re-financing risk in any particular period, (ii) minimize financing costs, and (iii) maintain flexibility with respect to property operations. The success of this strategy is dependent upon debt market parameters existing at the time of borrowing, as well as the particular features and quality of the underlying assets being financed. If this strategy is unsuccessful, mortgage principal repayments would be funded by operating cash flows, additional draws under the REIT's revolver, financing of income-producing properties or by issuances of equity.

Debt held by the REIT as of December 31, 2016 and December 31, 2015 is as follows:

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | **December 31, 2016** | | December 31, 2015 |
| | Maturity | Weighted average debt maturity (years) | Effective rate | | Principal | | Mark-to-market adjustments and costs | | **Carrying amount** | | Carrying amount |
| Revolver [1] | Feb. 26, 2020 | 3.2 [2] | 2.51% | $ | 211,455 | $ | (1,218) | **$** | **210,237** | $ | 198,820 |
| Term loan [1] | Feb. 26, 2021 | 4.2 | 2.52% | | 292,500 | | (2,405) | | **290,095** | | 223,108 |
| Mortgage | Mar. 1, 2021 | 4.2 | 5.75% | | 13,506 | | 1,324 | | **14,830** | | 15,484 |
| Mortgage [3] | Apr. 30, 2021 | — | 5.80% | | — | | — | | **—** | | 29,222 |
| Mortgage | Jan. 1, 2025 | 8.0 | 3.80% | | 50,000 | | (772) | | **49,228** | | 49,131 |
| Mortgage | Jun. 15, 2025 | 8.5 | 4.14% | | 57,950 | | (898) | | **57,052** | | 57,979 |
| Mortgage | Mar. 18, 2016 | — | 5.25% | | — | | — | | **—** | | 3,536 |
| **Total / Weighted average [4]** | | **4.5 [2]** | **2.85%** | **$** | **625,411** | **$** | **(3,969)** | **$** | **621,442** | $ | 577,280 |

[1] The weighted average interest rate has been calculated using the December 31, 2016 U.S. LIBOR rate for purposes of the revolver and term loan.
[2] Excludes a one-year extension option exercisable at the REIT's option. With the one-year extension the weighted average debt maturity is 4.9 years.
[3] Effective December 15, 2016 the REIT defeased this mortgage. See section "Debt Defeasance" section for additional details.
[4] The weighted average interest rate including the impact of pay-fixed receive-float swaps is 3.10%.

The carrying amount of debt was $621.4 million at December 31, 2016, representing an increase of $44.2 million compared to December 31, 2015. On February 26, 2016, the REIT amended and increased its revolver and term loan available amount to an aggregate of $585.0 million. The term to maturity for the revolver and term loan were extended from December 19, 2017 and 2018 to February 26, 2020 and 2021, respectively. The new terms of the facility further enhance the REIT's liquidity, reduce the cost of capital, and allow the REIT to capitalize on acquisition and redevelopment opportunities going forward.

On March 18, 2016, the REIT extinguished a mortgage of $3.4 million, bearing interest of 5.25%, with borrowings from the REIT's revolver.

Drawdowns on the revolver during the year ended December 31, 2016 primarily related to the acquisition of certain properties and defeasance of $26.7 million of mortgage debt completed on December 15, 2016. These increases were partially offset by a $33.4 million revolver principal pay down funded by the REIT's rights offering completed on April 19, 2016.

Subsequent to the year end, the REIT paid down $58.1 million of its revolver funded by the REIT's equity offering completed January 20, 2017.

*Defeasance of a mortgage*

Under the terms of the Defeasance Agreement, a third party assumed the REIT's obligation of the mortgage debt, as well as the ownership interest in the related securities. As a result, the REIT recognized a loss on the defeasance of a mortgage due of $2.8 million, which includes $4.5 million, which is the difference between the purchase price of the U.S. Treasury securities and principal balance of the mortgage due, offset by $1.7 million of unamortized mark-to-market premiums. Funds in the amount of $2.7 million previously held in escrow under the borrowing agreement were released to the REIT.

## DEBT TO GROSS BOOK VALUE

The REIT's Declaration of Trust provides for restrictions as to the maximum aggregate amount of leverage that may be undertaken. Specifically, the Declaration of Trust provides that the REIT is not permitted to exceed financial leverage in excess of 65% of gross book value, as defined by the Declaration of Trust. During the second quarter of 2016, the ratio was amended to 65% from 60%. A calculation of debt to gross book value ratio is as follows:

| | **December 31, 2016** | December 31, 2015 | December 31, 2014 |
|---|---|---|---|
| GBV | **$ 1,114,606** | $ 1,013,481 | $ 648,166 |
| Debt | **621,442** | 577,280 | 365,538 |
| TIF payable | **3,450** | 3,743 | 4,027 |
| **Leverage ratio** | **56.1%** | 57.3% | 57.0% |

The REIT's leverage ratio has decreased by 1.2% for the year ended December 31, 2016 to 56.1% since the prior year, primarily due to the acquisition of properties, funded through the REIT's revolver and recycled proceeds from dispositions completed year to date on a U.S tax deferred basis, and a partial pay down in the revolver of $33.4 million funded by the REIT's rights offering completed on April 19, 2016.

Additional investment and operating guidelines are provided for by the Declaration of Trust. The REIT is in compliance with these guidelines.

The REIT's term loan and revolver are subject to financial and other covenants. The following are the primary financial covenants, with all terms defined by the lending agreement:

| | Threshold | **December 31, 2016** | December 31, 2015 |
|---|---|---|---|
| Maximum leverage ratio: consolidated total indebtedness shall not exceed 65% of gross asset value | < 65% | **61.8%** | 59.8% |
| Minimum fixed charge coverage ratio: adjusted EBITDA to consolidated fixed charges shall not be less than 1.50x [1] | > 1.50x | **3.16x** | 3.29x |

[1] Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortization.

## INTEREST COVERAGE RATIO

In addition to the REIT's level of indebtedness calculated in accordance with the REIT's Declaration of Trust, management also monitors the REIT's interest coverage ratio, which is a non-IFRS measure. The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The interest coverage ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management utilizes this ratio to measure and monitor leverage. Additionally, Adjusted EBITDA is also a non-IFRS measure and is used by the REIT to monitor its interest coverage ratio as well as monitor requirements imposed by the REIT's lenders. Management views Adjusted EBITDA as a proxy for operating cash flow prior to interest costs. Adjusted EBITDA represents earnings before interest, income taxes, distributions, fair value gains (losses) from both financial instruments and investment properties, while also excluding certain items not related to operations such as transaction costs from dispositions, acquisitions, debt termination costs, or other events.

The following is a calculation of Adjusted EBITDA and the REIT's interest coverage ratio for the three and twelve months period ended December 31, 2016 and 2015:

| | Three months ended December 31, | | Year ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| NOI | **$ 17,931** | $ 16,248 | **$ 69,465** | $ 56,512 |
| Other expenses | **(1,724)** | (1,593) | **(7,524)** | (6,274) |
| **Adjusted EBITDA** | **$ 16,207** | $ 14,655 | **$ 61,941** | $ 50,238 |
| Cash interest paid | **(4,840)** | (4,600) | **(18,368)** | **(14,615)** |
| **Interest coverage ratio** | **3.35x** | 3.19x | **3.37x** | 3.44x |

The interest coverage ratio increased to 3.35x for the three month period ended December 31, 2016 compared to 3.19x of the prior quarter. The increase is due to the aforementioned increases to NOI. The interest coverage ratio for the twelve months ended December 31, 2016 decreased to 3.37x from 3.44x in the comparative period. The decrease is due to higher cash interest paid, partially offset by increased earnings from acquisitions.

## LIQUIDITY AND CAPITAL RESOURCES

The principal liquidity needs of the REIT arise from: (i) working capital requirements, (ii) debt servicing and repayment obligations which includes the term loan, revolver or the mortgages, (iii) distributions to unitholders, (iv) planned funding of maintenance capital expenditures and leasing costs, and (v) future investment property acquisition funding requirements.

Cash flows from operating the REIT's property portfolio, available funding under the REIT's revolver, and cash on hand represent the primary sources of liquidity. Cash flows from operations are dependent upon occupancy levels, rental rates, collection of rents, recoveries of operating costs and operating costs. Working capital requirements of the REIT primarily include the payment of operating expenses, leasing costs, maintenance capital and distributions. Working capital needs are generally funded through cash generated from operations, which has historically exceeded such requirements.

The REIT's revolver and term loan are subject to financial and other covenants. The following are the primary financial covenants, with all terms defined by the lending agreement:

**Contractual commitments**

The REIT has the following contractual commitments:

| | Total contractual cash flow | In one year or less | In more than one year but not more than three years | In more than three years but not more than five years | In more than five years |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ 11,379 | $ 11,379 | $ — | $ — | $ — |
| Revolver [1] | 211,455 | — | — | 211,455 | — |
| Revolver interest payable [1] | 21,522 | 6,040 | 13,863 | 1,619 | — |
| Term loan [1] | 292,500 | — | — | 292,500 | — |
| Term loan interest payable [1] | 39,858 | 8,355 | 19,177 | 12,326 | — |
| Mortgages | 121,456 | 1,423 | 4,823 | 16,955 | 98,255 |
| Mortgage interest payable | 36,192 | 5,047 | 9,832 | 8,889 | 12,424 |
| Interest rate swap, net cash outflows | 510 | 510 | — | — | — |
| TIF notes payable | 3,450 | 487 | 3,038 | — | — |
| TIF notes interest payable | 345 | 144 | 201 | — | — |
| REIT units | 369,311 | 400 | 400 | 400 | 368,111 |
| Exchangeable units of subsidiaries | 28,162 | — | — | — | 28,162 |
| Committed property acquisitions | 32,575 | 32,575 | — | — | — |
| **Total contractual commitments** | **$ 1,168,790** | **$ 66,360** | **$ 51,334** | **$ 544,144** | **$ 506,952** |

[1] Revolver and term loan interest payable is calculated on $211.5 million and $292.5 million (balance outstanding) using an estimated "all in" interest rate of 2.86% under the "less than one year" column. The average interest rate is based on the 30-day LIBOR forward curve plus the specified margin for the LIBOR rate option under the revolver and term loan results in an estimated future "all-in" interest rate of 3.30%. The total revolver and term loan interest payable is calculated until maturity of the initial term.

## REIT UNITS AND EXCHANGEABLE UNITS OF SUBSIDIARIES

The REIT has class A units, class I units and class U units issued and outstanding. Since the REIT units are redeemable and the different classes of units do not have identical features, the REIT is required under IFRS to classify the units as financial liabilities. The exchangeable units of subsidiaries are redeemable for class U units at the option of the holder and are also required to be classified as financial liabilities under IFRS. The REIT units and the exchangeable units of subsidiaries are measured at fair value at each reporting period with any changes in fair value recognized in net and comprehensive income.

REIT units and exchangeable units of subsidiaries outstanding for the year ended December 31, 2016 and their respective class U equivalent amounts if converted are as follows:

| | REIT units | | | Exchangeable units of subsidiaries | | | |
|---|---|---|---|---|---|---|---|
| **Class / type** | **U** | **A** | **I** | **SR1 (1)** | **SR2 (1)** | **GAR B** | **Total class U units equivalent** |
| Balance, December 31, 2015 | 28,511 | 391 | 358 | 220 | 1,779 | 547 | **31,829** |
| Issued under the DRIP | 93 | — | — | — | — | — | **93** |
| Issued under rights offering | 3,539 | — | — | — | — | — | **3,539** |
| Redeemed | — | — | — | — | (5) | — | **(5)** |
| Exchanges | 124 | (57) | (36) | — | (27) | (2) | **—** |
| Balance, December 31, 2016 | 32,267 | 334 | 322 | 220 | 1,747 | 545 | **35,456** |
| Conversion ratio to class U units | 1.0000 | 1.0078 | 1.0554 | 1.0000 | 1.0000 | 1.0000 | |
| **Class U units equivalent** | **32,267** | **338** | **340** | **220** | **1,747** | **545** | **35,456** |

(1) "SR1" and "SR2" means Slate Retail One exchangeable units and Slate Retail Two exchangeable units respectively.

The REIT made available a Distribution Reinvestment Plan ("DRIP") that allows holders of class A units, class I units and class U units to elect to receive their distributions in the form of class U units. For the year ended December 31, 2016, 93,158 class U units were issued for $1.0 million under the DRIP.

**Rights offering**

On March 2, 2016, the REIT distributed rights to subscribe for class U units to eligible holders of REIT units and exchangeable units of subsidiaries. Every nine rights held entitled an eligible holder of rights to subscribe for one class U unit at a subscription price of $10.21 or C$13.71. The REIT issued a total of 31,852,607 rights. On April 19, 2016, 3,539,175 class U units were issued for gross proceeds of approximately $36.6 million upon exercise of the rights by holders. The offering was 46% oversubscribed. As a result of the issuance, Slate increased its ownership on a diluted basis from 6.2% to 6.7%.

**Equity offering**

On January 20, 2017, the REIT completed a public offering and private placement to the Manager of 5.6 million class U units at a price of $10.89 or C$14.35 per unit for gross proceeds to the REIT of approximately $60.5 million or C$79.8 million. This total includes an over-allotment option that was fully exercised by the REIT's underwriters. The costs related to the offering totaled $2.0 million and will be deducted against the cost of units issued. As a result of the issuance, Slate's ownership marginally decreased from 6.7% to 6.6%.

**Normal course issuer bid**

The REIT renewed its existing NCIB effective May 26, 2016. The NCIB will remain in effect until the earlier of May 25, 2017 or the date in which the REIT has purchased 2.9 million class U units or approximately 10% of the public float of class U units at the time of entering the bid through the facilities of the TSX. The Board of Trustees believe that the purchase by the REIT of a portion of its outstanding class U units at attractive prices where opportunities present themselves will increase unitholder value and that such purchases constitute a desirable use of the REIT's available resources.

For the year ended December 31, 2016, no class U units have been purchased under the NCIB.

**FUNDS HELD IN ESCROW**

Funds held in escrow represents funds held by the mortgage lender in respect of future leasing costs and tenant improvements to be paid, as well as funds held by qualified intermediaries in respect of dispositions being held to fund future acquisitions to facilitate U.S. tax deferrals on asset sales.

As a result of the aforementioned defeasance, $2.7 million previously held in escrow under the borrowing agreement of the mortgage debt due April 30, 2021 was released to the REIT.

### ACCOUNTS RECEIVABLE

The accounts receivable balance is comprised of the following:

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Rent receivable | **$** | **1,713** | $ | 2,529 |
| Allowance | | **(212)** | | (206) |
| Accrued recovery income | | **4,208** | | 4,249 |
| Other receivables | | **1,168** | | 772 |
| **Total** | **$** | **6,877** | $ | 7,344 |

Accrued recovery income represents amounts that have not been billed to tenants for operating expenses, mainly real estate taxes, and are generally billed and paid in the following year. Management expects that this amount will be received in full shortly after the bills are issued. Other receivables represent non-operating amounts.

The $0.8 million decrease in rent receivable from December 31, 2015 is due to subsequent collections and timing of billings. The rent receivable balance includes 2015 year end operating expense recovery reconciliations, previously accrued as at December 31, 2015, billed out during the year ended December 31, 2016.

The aging analysis of rents receivable past due but not impaired, net of allowance for doubtful accounts, is as follows:

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Current to 30 days | **$** | **770** | $ | 1,198 |
| 31 to 60 days | | **102** | | 209 |
| 61 to 90 days | | **85** | | 209 |
| Greater than 90 days | | **544** | | 707 |
| **Total** | **$** | **1,501** | $ | 2,323 |

Rent receivable consists of base rent and operating expense recoveries. Management has provided for $0.2 million as an allowance for doubtful accounts and anticipates that the unprovided balance is collectible.

### ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities are comprised of the following:

| | | December 31, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Trade payables and accrued liabilities | **$** | **7,540** | $ | 5,371 |
| Prepaid rent | | **2,557** | | 2,571 |
| Tenant improvements payable | | **138** | | 130 |
| Other payables | | **1,144** | | 1,227 |
| **Total** | **$** | **11,379** | $ | 9,299 |

Included in trade payables and accrued liabilities are operating expenses, property taxes, and capital and leasing expenses. Other payables include trustee fees, accrued interest payable and other non-operating items.

### SUBSEQUENT EVENTS

i. On January 11, 2017, the REIT completed the acquisition of Norwin Town Square, a 146,982 grocery-anchored shopping centre located in North Huntingdon, Pennsylvania. Norwin Town Square was acquired for $18.9 million ($129 per square foot), before transaction costs. This property is 100% occupied and is anchored by Shop n' Save. The property was purchased using funds drawn from the REIT's revolver.

ii. On January 16, 2017 and February 15, 2017, the REIT declared monthly distributions of $0.0675 per class U unit. Holders of class A units, class I units and units of subsidiaries of the REIT were also entitled to receive a distribution at the respective conversion rate attributable to the units.

iii. On January 20, 2017, the REIT completed a public offering and private placement to the Managers of 5.6 million class U units at a price of $10.89 or C$14.35 per unit for gross proceeds to the REIT of approximately $60.5 million or C$79.8 million. This total includes an over-allotment option that was fully exercised by the REIT's underwriters. The costs related to the offering totaled $2.0 million and will be deducted against the cost of units issued. The net proceeds from the public offering and private placement were initially used to repay borrowings from the REIT's revolver.

iv. On February 21, 2017, the REIT completed the acquisition of 11 Galleria, a 105,608 grocery-anchored shopping centre located in Greenville, North Carolina. 11 Galleria was acquired for $13.7 million ($130 per square foot), before transaction costs. This property is 78% occupied and is anchored by The Fresh Market. The property was purchased using funds drawn from the REIT's revolver.

# PART V – ACCOUNTING AND CONTROL

## USE OF ESTIMATES

The preparation of the REIT financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Management's estimates are based on historical experience and other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates under different assumptions.

## CRITICAL ACCOUNTING ESTIMATES

The REIT has identified the estimate of the fair value of its properties as a critical accounting estimate due to the significance of the estimate to the REIT's financial position and impact of changes on fair value to net income. Estimating the fair value of real property is characterized by uncertainty, both in terms of differences between different methods of valuation but also in the selection of assumptions to reflect the property being valued, certain of which are subjective. There is no assurance that management's, or a third-party's, estimate of fair value would be realized on sale due to the specific and unique aspects of real property, including their location, liquidity, tenants and the local demand and supply of competing properties for tenants.

The REIT determines the fair value of investment properties based upon the overall income capitalization rate method or the discounted cash flow method, direct comparison approach or through a combination of methods. All methods are generally accepted appraisal methodologies. If a third party appraisal is not obtained for a property, management uses one or a combination of the overall income capitalization rate method and the discounted cash flow method. In certain circumstances the direct comparison approach is used by comparing properties to similar properties that have sold, but adjusting for differences in the nature, location and other relevant considerations of the properties. The valuation methodology used, or combination of methodologies used, is based on the applicability and reliability of the relative approaches in the context of the subject property.

The fair values of investment properties are measured individually without consideration to their aggregate value on a portfolio basis. No consideration is given to diversification benefits related to single property tenant risk and geography, the value of assembling a portfolio or to the utilization of a common management platform, amongst other benefits. As a result, the fair value of the REIT's investment properties taken in aggregate may differ from the fair value of investment properties measured individually in the REIT's consolidated statements of financial position.

The following is a summary of the methodologies undertaken by management to estimate the fair value of the REIT's properties:

*Overall income capitalization approach*

The overall income capitalization approach evaluates a property's potential to generate cash flows and converts those cash flows into a present value. Generally, the REIT estimates a stabilized NOI and applies a capitalization rate to that income to estimate fair value. Stabilized NOI is determined as the property's potential gross income that could be generated at full capacity, less a vacancy and collection allowance. The capitalization rate used is derived from analysis of comparable sales data and the relative relationship of other properties' NOI over their sale price and industry surveys. In many cases, industry surveys are available that provide indicative ranges of capitalization rates for recently sold properties or views on value, however, certain adjustments are required to adjust for the specific nature, location and quality of properties.

*Direct comparison approach*

This approach involves comparing properties similar to the property for which fair value is being estimated and making adjustments to reconcile differences in size, location, nature and the quality of the property.

A summary of the significant assumptions used in the REIT's estimate of fair value as at December 31, 2016 is included on page 14 of this MD&A. Changes in these assumptions would have a significant impact on the REIT's estimate of fair value, which can be impacted by changes in demand for properties similar to those owned by the REIT, expectations of market rents, the covenant quality of tenants and the general economic environment.

The REIT determines the fair value of investment properties based upon the overall income capitalization rate method. At December 31, 2016, all valuations were completed by management of the REIT using the overall income capitalization method. Historically, estimates of fair value have in certain instances included valuations completed for transaction or lending purposes, in which case a discounted cash flow approach was also used.

**NEW ACCOUNTING POLICIES**

IAS 1*, Presentation of Financial Statements* ("IAS 1")

IAS 1 was amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and disclosure of accounting policies. The amendment to IAS 1 are effective for annual periods beginning on or after January 1, 2016.

The amendments include the following guidance:

i. the entity shall not aggregate or disaggregate information applicable to each of the primary financial statements, the notes and each specific disclosures required by IFRSs in a manner that obscures useful information;

ii. specific line items in the primary financial statements can be disaggregated;

iii. the entity has flexibility in the order of the notes to the financial statements; and

iv. an entity's share of other comprehensive income from equity accounted associates and joint ventures will be presented in aggregate, classified between amounts that will and will not be reclassified to profit and loss.

These amendments did not have a material impact on the REIT's consolidated financial statements.

**FUTURE ACCOUNTING POLICIES**

The IASB has issued the following new standards that will be relevant to the REIT in preparing its consolidated financial statements in future periods:

IAS 7, *Disclosure Initiative* ("IAS 7")

Amendments to IAS 7 require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments apply prospectively for annual periods beginning on or after January 1, 2017. The REIT will adopt the amendments to IAS 7 in its financial statements for the annual period beginning on January 1, 2017. Early application is permitted. The extent of the impact of adoption of the amendments has not yet been determined.

IFRS 2, *Share-based payments* ("IFRS 2")

The amendments to IFRS 2 provide clarification on how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for: the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments apply for annual periods beginning on or after January 1, 2018. As a practical simplification, the amendments can be applied prospectively. Retrospective, or early, application is permitted if information is available without the use of hindsight. The extent of the impact of adoption of the amendments has not yet been determined.

*IFRS 9, Financial Instruments* ("IFRS 9")

IFRS 9, which replaces IAS 39 *Financial Instruments: Recognition and Measurement*, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity’s future cash flows. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. This new standard is effective for annual periods beginning on or after January 1, 2018. The REIT is assessing the impact of this new standard on its consolidated financial statements.

*IFRS 15, Revenue from Contracts with Customers* ("IFRS 15")

IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. The new standard includes a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted. The REIT is currently assessing the impact of the new standard on its consolidated financial statements.

*IFRS 16, Leases* ("IFRS 16")

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, *Leases*, while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease. The new standard is effective for annual periods beginning on or after

January 1, 2019, which is when the REIT intends to adopt IFRS 16 in its financial statements. The extent of the impact of adoption of the standard has not yet been determined.

For each of the above changes in accounting policy the REIT expects to adopt such changes at the time of their required adoption. The REIT continues to assess the impact of the changes in accounting policy on its consolidated financial statements, however, there is currently no identified impact on the REIT's business.

**CONTROL AND PROCEDURES**

The REIT's management, under the supervision of its Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), is responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109").

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the REIT in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the REIT's management, including its CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The REIT has applied the *Internal Control – Integrated Framework (2013)* published by the Committee of Sponsoring Organizations of the Treadway Commission for the design of its ICFR for the year ended December 31, 2016.

As required by NI 52-109, the REIT's CEO and CFO have evaluated the effectiveness of the REIT's DC&P and ICFR. Based on such evaluations, we have concluded that the design and operation of the REIT's DC&P and ICFR, as applicable, are adequately designed and effective, as at December 31, 2016.

No changes were made in the REIT's design of ICFR during the year ended December 31, 2016, that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## PART VI – PROPERTY TABLES

As of December 31, 2016, the REIT owns a portfolio of 69 grocery-anchored retail properties. The portfolio consists of 8,335,625 square feet of GLA with a current occupancy rate of 93.5%. The REIT focuses on owning the dominant grocer in each of the associated MSAs in which it invests.

| Property | Location | Associated MSA | Area (SF) | % of Total | Occupancy | Anchor |
|---|---|---|---|---|---|---|
| 98 Palms | Destin | Crestview-Fort Walton Beach-Destin | 84,682 | | 100% | Winn-Dixie |
| Bloomingdale Plaza | Brandon | Tampa-St. Petersburg | 83,237 | | 93% | Winn-Dixie |
| Errol Plaza | Orlando | Orlando | 72,150 | | 95% | Winn-Dixie |
| Meres Town Centre | Tarpon Springs | Tampa-St. Petersburg | 47,183 | | 100% | Winn-Dixie |
| Oak Hill Village | Jacksonville | Jacksonville | 78,492 | | 99% | Publix |
| Salerno Village Square | Stuart | Port St. Lucie | 77,677 | | 84% | Winn-Dixie |
| Seminole Oaks | Seminole | Tampa-St. Petersburg | 63,572 | | 100% | Winn-Dixie |
| Uptown Station | Fort Walton Beach | Crestview-Fort Walton Beach-Destin | 297,679 | | 87% | Winn-Dixie |
| **Total Florida** | | | **804,672** | **10%** | | |
| County Line Plaza | Philadelphia | Philadelphia | 75,649 | | 43% | Big Lots |
| Field Club Commons | New Castle | Pittsburgh | 131,270 | | 97% | Save-A-Lot |
| Kennywood Shops | Pittsburgh | Pittsburgh | 194,819 | | 99% | Giant Eagle |
| Lake Raystown Plaza | Huntingdon | Huntingdon | 140,159 | | 100% | Giant Foods |
| Summit Ridge | Mount Pleasant | Pittsburgh | 227,729 | | 100% | Walmart |
| **Total Pennsylvania** | | | **769,626** | **9%** | | |
| Buckeye Plaza | Cleveland | Cleveland | 116,905 | | 98% | Giant Eagle |
| Hocking Valley Mall | Lancaster | Columbus | 179,415 | | 43% | Kroger |
| Mulberry Square | Milford | Cincinnati | 146,730 | | 88% | Kroger |
| Pinewood Plaza | Dayton | Dayton | 88,700 | | 93% | Kroger |
| Springboro Plaza | Dayton | Dayton | 154,034 | | 100% | Kroger |
| **Total Ohio** | | | **685,784** | **8%** | | |
| Abbott's Village | Alpharetta | Atlanta | 109,586 | | 94% | Publix |
| Birmingham Shoppes | Milton | Atlanta | 82,905 | | 82% | Publix |
| Douglas Commons | Douglasville | Atlanta | 97,027 | | 95% | Kroger |
| Locust Grove | Locust Grove | Atlanta | 89,568 | | 79% | Publix |
| Merchants Crossing | Newnan | Atlanta | 174,059 | | 95% | Kroger |
| Merchants Square | Riverdale | Atlanta | 118,986 | | 98% | Kroger |
| Robson Crossing | Flowery Branch | Atlanta | 100,220 | | 90% | Publix |
| **Total Georgia** | | | **772,351** | **9%** | | |
| Flowers Plantation | Clayton | Raleigh | 53,500 | | 97% | Food Lion |
| Fuquay Crossing | Fuquay-Varnia | Raleigh-Durham | 96,638 | | 99% | Kroger |
| Independence Square | Charlotte | Charlotte | 190,361 | | 99% | Walmart |
| Mooresville Town Square | Mooresville | Charlotte | 89,824 | | 90% | Lowes Foods |
| North Summit Square | Winston-Salem | Winston-Salem | 224,530 | | 94% | Lowes Foods, Sam's Club |
| Wellington Park | Cary | Raleigh-Durham | 102,487 | | 97% | Lowe's |
| **Total North Carolina** | | | **757,340** | **9%** | | |
| Armstrong Plaza | Fountain Inn | Greenville | 57,838 | | 95% | BI-LO |
| Barefoot Commons | North Myrtle Beach | Myrtle Beach-Conway | 90,702 | | 95% | BI-LO |
| Dill Creek Commons | Greer | Greenville-Spartanburg-Anderson | 72,526 | | 100% | BI-LO |
| Little River Pavilion | North Myrtle Beach | Myrtle Beach-Conway | 63,823 | | 96% | Lowes Foods |
| North Augusta Plaza | North Augusta | Augusta-Richmond | 231,617 | | 91% | Publix |
| North Pointe | Columbia | Columbia | 64,255 | | 100% | Publix |
| **Total South Carolina** | | | **580,761** | **7%** | | |
| Cambridge Crossings | Troy | Detroit | 238,963 | | 99% | Walmart |
| Canton Shopping Centre | Canton | Detroit | 72,361 | | 84% | ALDI |
| City Centre Plaza | Westland | Detroit | 97,670 | | 97% | Kroger |
| Stadium Centre | Port Huron | Detroit-Warren-Dearborn | 92,365 | | 93% | Kroger |
| **Total Michigan** | | | **501,359** | **6%** | | |
| Highland Square | Crossville | Nashville | 179,243 | | 95% | Kroger |
| North Hixson Marketplace | Hixson | Chattanooga | 64,254 | | 80% | Food City |
| St. Elmo Central | Chattanooga | Chattanooga | 74,978 | | 95% | Food City |

| Property | Location | Associated MSA | Area (SF) | % of Total | Occupancy | Anchor |
|---|---|---|---|---|---|---|
| Sunset Plaza | Johnson City | Johnson City | 143,752 | | 100% | Kroger |
| Westhaven Town Centre | Franklin | Nashville | 96,960 | | 98% | Kroger |
| **Total Tennessee** | | | **559,187** | **7%** | | |
| East Brainerd Mall | Brainerd | Minneapolis-St Paul | 191,459 | | 96% | Cub Foods |
| North Branch Marketplace | North Branch | Minneapolis-St Paul | 156,895 | | 97% | County Market |
| Phalen Retail Centre | St. Paul | Minneapolis-St Paul | 73,678 | | 98% | Cub Foods |
| **Total Minnesota** | | | **422,032** | **5%** | | |
| Cudahy Centre | Milwaukee | Milwaukee | 103,254 | | 94% | Pick 'n Save |
| Forest Plaza | Fond du Lac | Fond du Lac | 123,028 | | 100% | Pick 'n Save |
| Wausau Pick 'n Save | Wausau | Wausau | 67,951 | | 100% | Pick 'n Save |
| **Total Wisconsin** | | | **294,233** | **4%** | | |
| East Little Creek | Norfolk | Virginia Beach-Norfolk-Newport News | 68,770 | | 100% | Farm Fresh |
| Smithfield Shopping Plaza | Smithfield | Virginia Beach-Norfolk-Newport News | 134,664 | | 90% | Farm Fresh |
| **Total Virginia** | | | **203,434** | **2%** | | |
| Glidden Crossing | DeKalb | Chicago-Naperville-Joliet | 98,683 | | 96% | Schnucks |
| Oakland Commons | Bloomington | Bloomington | 73,705 | | 96% | Jewel-Osco |
| Plaza St. Clair | Fairview Heights | St. Louis | 97,459 | | 73% | Schnucks |
| **Total Illinois** | | | **269,847** | **3%** | | |
| Southgate Crossing | Minot | Minot | 159,780 | | 100% | CashWise |
| Watford Plaza | Watford City | McKenzie | 101,798 | | 100% | CashWise |
| **Total North Dakota** | | | **261,578** | **3%** | | |
| Charles Town Plaza | Charles Town | Washington-Baltimore | 206,146 | | 98% | Walmart |
| Eastpointe Shopping Centre | Clarksburg | Morgantown | 181,016 | | 99% | Kroger |
| **Total West Virginia** | | | **387,162** | **5%** | | |
| Roxborough Marketplace | Littleton | Denver Aurora-Lakewood | 106,816 | | 91% | Safeway |
| Westminster Plaza | Westminster | Denver Aurora-Lakewood | 97,013 | | 96% | Safeway |
| **Total Colorado** | | | **203,829** | **2%** | | |
| Derry Meadows Shoppes | Derry | Boston-Cambridge-Quincy | 187,001 | | 93% | Hannaford |
| **Total New Hampshire** | | | **187,001** | **2%** | | |
| Alta Mesa Plaza | Fort Worth | Dallas-Ft. Worth | 167,961 | | 98% | Kroger |
| **Total Texas** | | | **167,961** | **2%** | | |
| Mitchellville Plaza | Mitchellville | Washington, DC | 147,803 | | 92% | Weis |
| **Total Maryland** | | | **147,803** | **2%** | | |
| Waterbury Plaza | Waterbury | New Haven-Milford | 141,443 | | 100% | Stop & Shop |
| **Total Connecticut** | | | **141,443** | **2%** | | |
| Taylorsville Town Centre | Salt Lake City | Salt Lake City | 127,231 | | 97% | Fresh Market |
| **Total Utah** | | | **127,231** | **2%** | | |
| Stonefield Square | Louisville | Louisville | 90,991 | | 94% | The Fresh Market |
| **Total Kentucky** | | | **90,991** | **1%** | | |
| **Total / WA** | | | **8,335,625** | **100%** | **94%** | |

## CORPORATE INFORMATION

Slate Retail REIT is an unincorporated, open-ended investment trust fund under and governed by the laws of the Province of Ontario. The REIT focuses on acquiring, owning and leasing a portfolio of diversified revenue-producing commercial real estate properties in the United States with an emphasis on grocery-anchored retail properties. The REIT has a current portfolio that spans 8.3 million square feet of GLA and consists of 69 grocery-anchored retail commercial properties located in the United States.

**Head office**

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**Independent auditors**

Deloitte LLP
Chartered Professional Accountants
Toronto, Canada

**Stock exchange listing and symbol**

The REIT's units are listed on the Toronto Stock Exchange and trade under the symbols SRT.U (quoted in US dollars) and SRT.UN (quoted in Canadian dollars)

**Registrar and transfer agent**

TMX Equity Transfer Services Inc.
200 University Avenue, Suite 300
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The REIT's website www.slateam.com/SRT provides additional information regarding the REIT's portfolio, investment strategy, management and corporate governance. Additionally, the Investor section includes news, presentations, events, regulatory filings and stock information.

**Trustees**



(1) Compensation, Governance and Nomination Committee
(2) Audit Committee
(3) Investment Committee