CENTURION
ASSET MANAGEMENT INC

2016 Annual Portfolio Manager Commentary

2016 – Portfolio Year in Review

In 2016, the REIT bought five properties:

- A 50% interest in 1 Columbia Street West in Waterloo ON, a new 22-storey luxury 370-bed student residence in December. Centurion had financed the construction of this property with the developer.
- 5 Schroder Crescent in Guelph ON, a new 5-storey luxury 66-suite apartment property in September. Centurion had financed the construction of this property with the developer.
- 1731, 1735, 1739 Victoria Park Ave in Toronto ON, a block of three 4-storey walkup apartment buildings with 129 suites in May
- 275 North Service Road in Mississauga ON, an 81-suite apartment property in March
- 11 Wendy Court in Cambridge ON, a 96-unit, 3-storey walkup apartment building in January

On a weighted basis, the REIT added a total of 557 rental units in the year. Of these, 251 units came out of the REIT/REOT development pipeline. There were no dispositions in the year. Acquisitions activity was well short of what we hoped for, but not a surprise given how competitive the market has been.

The REIT's strategy was, and still is, to increase the number of opportunities to purchase newly built properties upon completion. However, in 2016 it became clear that on a number of development projects in which we have participated, that if the current market stays as is, a number of these properties will be sold to the open market rather than be purchased by the REIT upon completion. In many cases, the market is willing to pay much more than we are willing to. I see my mandate as an asset manager to first protect capital, then to make money, and to the extent possible, be tax efficient; in that order. It's not my job to just buy properties. While growing the portfolio has benefits to unitholders in terms of diversification and economies of scale, I don't believe that means we should buy at any price. To the extent that we can exit investments at solid returns, where the return from continuing to hold them is below our threshold, then it makes sense for us to exit that investment and redeploy into another investment. REOT had its first exited development investment, selling 5 Schroder Crescent in Guelph to the REIT in September. The REOT earned an approximate return on its equity in this investment of 40%, well above initial expectations. We anticipate that we will have additional development exits in 2017, with the next likely to occur late in the first quarter or early in the second quarter.

The REIT made significant progress in moving properties along the stabilization process. 84.7% of the portfolio is stabilized up from 54.5% at 2015 YE. Portfolio occupancy rose to 94.4% from 91.3% at 2015 YE. The stabilized and repositioning portfolio occupancy was at 98.0% at year-end compared to 96.5% at 2015 YE. Unstabilized properties comprise only 13.5% of the portfolio and ended the

year at 71.4% occupancy up from 54.8% at 2015 YE. We anticipate moving more properties into the stabilized category this year and further increasing overall occupancy.

The REOT's investment portfolio performed well, with average coupon rates stable at around 10.2% and the development pipeline progressing. REOT has a small portion of the portfolio in workout (approximately 8.6%) as is expected in the high interest loan business, but there are no impaired loans (meaning we do not expect to take a loss on our investment).

Returns in 2016 were solid with the REIT earning 9.81% and REOT earning 14.14% on a full-year basis (including reinvested distributions). We are targeting similar type returns in 2017.

In 2016, we raised very little capital and both the REIT and the REOT were only open for limited capacity. The REIT raised $58 million and the REOT raised $45 million. We've started 2017 with a limited raise of $40 million by the REIT, which is being directed towards increasing its investment in the REOT as its holding had been diluted down by outside investors. The REIT's current objective is to continue to hold a 50-60% stake in the REOT as the risk/return profile on further investment in the REOT portfolio is superior to buying apartments at this time. After the raise on February 1st, the REIT will be approximately 60% of REOT's equity.

A Look Forward to 2017

In 2017, we believe that there will be limited new acquisition opportunities for the REIT but are seeing excellent deal flow in the REOT. We expect the REOT to continue to grow steadily this year. In January 2017, we launched the Centurion Financial Trust ("CFiT") which will expand on the strategy used in the REOT to include private corporate debt investments as we are seeing increasing demand for credit alternatives to traditional bank financing. We believe that there is a lot of opportunity in private debt investments and that a broadly diversified strategy between corporate and real estate debt type investments will have an attractive risk/return profile. From a risk/return point of view, we like debt and development opportunities right now better than investing in stabilized apartment or student properties and our investment activity in 2016 has demonstrated that shift.

We have offered unitholders of both the REIT and the REOT the opportunity to roll their existing investment into CFIT as we believe that we'll see tremendous opportunities in this space and are positioning to capitalize on them. A separate communication will be going out to unitholders and their advisors with information on this. In terms of capacity to accept investor capital, we anticipate that CFIT will be the primary fund where we will be accepting investor capital in 2017.

We believe that the financial markets will be volatile in the coming year. I was off on my timing from last year on my call for negative interest rates in Canada but believe that I will be right in time. There are a few things on my radar, Trump, Europe, China, and the broader trend towards de-globalization.

The Trump presidency has great capacity to disrupt Canada and its economy. To name a few:

- A border tax, unless Canada is exempted, could see significant damage to our exports. There is already anecdotal evidence of Canadian companies looking to shift production into the US to reduce their risks to border taxes and restrictions.
- Significant US corporate and personal tax rate cuts could further exacerbate the problem. Canada would either have to respond in kind to maintain tax competitiveness or it risks losing

existing companies, seeing a reduction in inbound investment and experience a talent brain drain.

- Trump is moving in the opposite direction to Canada on environmental regulations and carbon taxes making our industries, economy, and our resources even less competitive than they are now on a relative basis. All the more reason for companies and people to either move out of Canada or to not invest or immigrate here.
- Trump is very pro energy which seems to have signaled to some Canadian oil patch investors that things are going to get better. However, Trumps vision is to make the US energy independent and with fracking, it could be. Our largest (effectively only) customer in oil will become our largest competitor in no time. We need to diversify and fast. This means pipelines and shipping off our coasts.
- All of the above wouldn't be so bad if we had a government that wasn't so entrenched in their own ideology that I fear that they will not react in time or at all as the adaptations likely required are completely at odds to how they campaigned.

I further believe that we will see further erosion and ultimately the implosion of the EU project. It is certainly doomed to failure. Whether it happens in 2017 is anyone's guess, but right wing, anti-EU parties continue to rise quickly throughout Europe. China is also a debt bomb waiting to go off, and money continues to flow out searching for safe havens. A border tax or trade war could severely damage their over leveraged, export dependent economy. There is no question that globalization and open borders are being questioned by an increasing percentage of people around the world and we are certainly moving towards greater protectionism and national isolationism. Whatever ones' view of globalization is, reversing decades of consensus will create tremendous volatility and uncertainty. It is my hope to position the portfolios to protect capital in this environment and also capitalize on the opportunities that will certainly arise.

Against this backdrop, the fiscal room for Canada will be very limited and with a government trapped into its own ideology, it seems that the only way to protect the economy will be rate reductions in Canada. I believe that low rates, and capital continuing to seek safe havens in an increasingly uncertain environment will be supportive of our core businesses and present many opportunities.

Wishing you and your loved ones all the best for 2017.

Greg Romundt