



**CT REIT 2016 Fourth Quarter and Full-Year Results Conference Call**  
**Tuesday, February 14, 2017 – 9:00 AM ET**

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statements. These risks and uncertainties include, among other things, the factors discussed under the “Risk Factors” section of the 2016 Annual Information Form.

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**CORPORATE PARTICIPANTS**

**Ken Silver**

*Chief Executive Officer*

**Louis Forbes**

*Chief Financial Officer*

**CONFERENCE CALL PARTICIPANTS**

**Sam Damiani**

*TD Securities*

**Michael Smith**

*RBC Capital Markets*

**Pammi Bir**

*Scotia Capital*

**Jenny Mah**

*Canaccord Genuity*

**PRESENTATION**

**Operator**

Good morning. My name is Elena and I will be your Conference Operator today. At this time, I would like to welcome everyone to CT REIT's Fourth Quarter 2016 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press star, then the number one on your telephone keypad. To withdraw your question, please press the pound key.

The speakers on the call today are Ken Silver, Chief Executive Officer of CT REIT, and Louis Forbes, Chief Financial Officer of CT REIT.

Today's discussion may include forward-looking statements. Such statements are based on Management's assumptions and beliefs. These forward-

looking statements are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. Please see CT REIT's public filings for a discussion of these risk factors which are included in their 2016 MD&A and AIF, which can be found on CT REIT's website and on SEDAR.

I will now turn the call over to Ken Silver. Ken?

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**Ken Silver, Chief Executive Officer**

Thank you, Operator and good morning everyone. We're very pleased to welcome you to CT REIT's Fourth Quarter 2016 Earnings Conference Call. I'll lead off with a discussion of our investment and development activity, and Louis will then briefly review certain financial matters.

During the fourth quarter, the REIT completed the development of the 1.4 million square foot Canadian Tire distribution centre in Bolton, Ontario, and the acquisition of an enclosed mall including approximately 4 acres of development land in Fort St. John, British Columbia. In addition, the REIT completed the redevelopment of an enclosed mall anchored by a Canadian Tire store in Arnprior, Ontario; development of a Canadian Tire store in Hamilton, Ontario, and six expansions of Canadian Tire stores: 4 in Ontario, 1 in Quebec and 1 in British Columbia. As well, the construction of a 12,000 Mark's pad in Vaudreuil, Quebec, and a third-party pad ground lease in Blenheim, Ontario were also completed in the quarter.

We're off to a good start in 2017 having closed on three previously announced acquisitions from CTC of Canadian Tire anchored strip plazas in Cambridge, Ontario; Sainte-Agathe, Quebec; and Victoria, British Columbia. These three properties total 218,000 square feet of GLA and were acquired for a total investment of \$37 million at a weighted average going in cap rate of 6 percent based on existing NOI. Each of these properties has additional lease-out for pad development opportunities which we plan to pursue.

Yesterday, as detailed in our press release, we announced eight new investments, including the acquisition of three existing Canadian Tire stores from CTC in Cole Harbour, Nova Scotia; Maniwaki, Quebec; and Victoria, British Columbia; and five expansions of existing Canadian Tire stores in Ontario. All told, these



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new investments represent an estimated \$44 million of capital with approximately 202,000 square feet of incremental gross leasable area and are expected to earn a 6.15 percent weighted average going in cap rate. We expect the acquisitions of the stores to be completed during the first and second quarters of this year with one expansion expected to be completed in the second quarter of this year, while the remaining expansions should be completed in the fourth quarter of 2017.

Beyond what was completed in Q4, we are continuing to make progress as expected on the balance of our development projects and pipeline.

With that, I will turn it over to Louis for a review of our financial results.

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**Louis Forbes, Chief Financial Officer**

Thanks, Ken. Our fourth quarter results represent strong growth in AFFO per unit over the reported results for Q4 2015. In the fourth quarter of 2016 we reported FFO per unit of 27.4 cents as compared to 26.4 cents per unit in the fourth quarter of 2015. AFFO per unit was 22.2 cents, as compared to 20.6 cents in the comparable period, representing a healthy 7.8 percent growth rate.

For the year, we reported FFO per unit of \$1.071 as compared to \$1.038 reported for 2015. AFFO per unit for 2016 was 86.2 cents as compared to 80.8 cents reported for 2015, representing a 6.7 percent growth rate.

Net operating income was \$73.7 million, an 8.1 percent increase over the \$68.1 million of NOI reported for Q4 2015. Our MD&A breaks this headline growth into its components: 1.8 percent growth on a same store basis, 1.9 percent growth on a same property basis, and the balance as a result of acquisition and development activity. The same-store growth is the result of the approximate 1.5 percent average annual increase in minimum rent contained within the Canadian Tire store and CTC DC leases, which are generally effective January 1st; recovery of capital expenditures and interest earned on the unrecovered balance; intensifications completed in 2015 and 2016, with a partial offset from the decrease in net recovery of operating expenses and property taxes. The same property growth layers in the effective intensifications on our results.

G&A expenses as a percentage of property revenue were lower at 2.4 percent compared to 2.8 percent in Q4 2015, and more in line with our standard run rate. G&A expenses decreased 6.6 percent versus Q4 2015 primarily due to lower costs pursuant to the service agreement as a result of internalization of certain services, lower legal expenses, a decrease in due diligence costs, partially offset by compensation costs due to the variable components of compensation awards and an increased headcount.

The REIT's fair value adjustment during the fourth quarter were typical of a normal quarter, however some of you may have noticed that the overall capitalization rate used at December 31 was 6.24 percent, 11 bps lower than the 6.35 percent used at September 30. This decrease in the overall capitalization rate was driven by the inclusion of the Bolton DC and income-producing properties at 2016 year end with fair value equalling the purchase price.

With respect to the balance sheet, the financial position continues to be strong and liquid. At December 31, the REIT's indebtedness ratio was 47.5 percent, a slight increase versus last quarter, but lower than Q4 2015. We also have approximately \$189 million available on our credit facility.

Two-hundred and ninety-eight of the REIT's assets are not encumbered, representing in excess of \$4.8 billion of unencumbered assets, or said another way, in excess of 97 percent of our assets.

Debt as compared to earnings before interest, taxes and fair value adjustments was a solid 7.94 times. I should point out that the Bolton DC with a rent commencement in late December, slightly ahead of the estimated January 1 commencement date, made only a nominal contribution to EBIT in 2016, and therefore, the debt to EBITDA ratio should come down in 2017.

While I'm talking about Bolton, I've seen a little confusion in some research that's already been printed and I've had a phone call on the matter, and I would just like to point out that last February, when we announced the Bolton acquisition, we characterized it as being a \$325 million investment. If you were to go back and look at our Q2 disclosures, you would see that we in fact spent a number significantly less than 325 in June, and more precisely, our payment in June was about \$285 million and that the balance of the purchase price was paid in the fourth quarter of this year. So the total investment



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continues to be approximately what we had disclosed back last February, and in terms of future dollars to be spent, there is a small construction hold-back that will probably be paid in the next week or two that might add an additional million dollars.

Going back to the script, in addition to our EBIT dynamic, interest coverage for the quarter continues to be strong at 3.74 times. The increase in this metric is the result of capitalizing interest on the Bolton DC property, which started in June of last year and ended in December. We expect the metric to return to normal levels in 2017.

Our AFFO payout ratio improved to a solid 77 percent for the fourth quarter and 79 percent for the full year 2016, reflecting the benefit of our investing activity on operating results.

On an operating basis, our portfolio continues to be 99.7 percent occupied. Canadian Tire represents 91.3 percent of our annualized base minimum rent, and when combined with other CTC banners represents 93.8 percent of our annualized base minimum rent. The decrease in CTC's share versus Q4 2015 is largely attributable to the purchase of the Sears DC in Calgary, Alberta and the Southland Mall in Winkler, Manitoba in the second quarter of 2016, and the Totem Mall in Fort St. John, British Columbia in the fourth quarter of 2016, as these properties are majority tenanted by third parties.

Again, I would like to take a minute to speak to the trend in our book value per unit. At December 31, 2016, the book value per unit was \$12.52, representing 7.3 percent growth over the book value of \$11.67 a year ago. A number of factors contribute to this growth in book value: a higher value for income producing properties due to ongoing growth in cash flow resulting from the annual rent increases. I would remind you that the valuation metrics on all properties other than the Bolton DC have not changed. Retained cash flow contributes to this growth, a higher receivable balance due to the recoverable Capex spend contributes, and accretive investing activity financed in part by equity issuance that is accretive to this book value per unit.

On a trailing basis, combining distributions and book value per unit growth, CT REIT has consistently delivered since IPO a total annual return in excess of 10 percent.

In January of this year, the REIT provided notice to Canadian Tire of its intention to redeem the Series 10

through 15 Class C LP units, which are redeemable or will have their rate reset as of May 31 this year. The rate of distribution on each of the series varies and has a range from 1.65 percent to 2.38 percent. At CTC's discretion the Class C LP units will either be redeemed or have their rate reset.

With that, I will turn it back to Ken.

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**Ken Silver, Chief Executive Officer**

Thanks, Louis. As we enter our fourth full year of operations, I can assure our listeners that Management of CT REIT continues to pursue the strategies that have worked well since our IPO: delivering attractive growth built on a foundation of long-term leases with CTC while maintaining a strong balance sheet and taking a conservative approach to risk. As we celebrate 2016 milestones, hitting \$5 billion in assets and announcing our third distribution increase in three years, we continue to work towards celebrating more.

While we're thinking of celebrations, we scheduled this call for an early time slot so you could get your reports done and leave the office to celebrate Valentine's Day. We hope it's a good one for you.

Now Operator, I'll turn the call back to you for any questions from our listeners.

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**QUESTION AND ANSWER SESSION**

**Operator**

Thank you. At this time, I would like to remind everyone in order to ask a question, please press star, then the number one on your telephone keypad. We ask that you please pick up the handset or step close to your speaker phone system when asking your question to provide maximum audio clarity. We'll pause for just a moment to compile the Q&A roster.

Our first question is from Sam Damiani with TD Securities. Please go ahead.





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**Sam Damiani, TD Securities**

Thank you and good morning.

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**Ken Silver, Chief Executive Officer**

Good morning.

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**Sam Damiani, TD Securities**

Just on the growth outlook from here, it's been about six months since Stephen Wetmore went back to Canadian Tire as CEO. Has there been any sort of update or change in outlook for store expansions, store growth at Canadian Tire since then? Just wondering what your overall outlook is generally for the REIT for acquisitions from the parent company.

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**Ken Silver, Chief Executive Officer**

Sam, its Ken. Of course I'd refer you to anything that Canadian Tire has said about their plans or anything Stephen has said since he came back.

What I would say in respect to the REIT, we don't see any changes emanating from Canadian Tire at this point that have any implications for our growth plans.

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**Sam Damiani, TD Securities**

Just generally overall, how do you see sort of overall asset growth for the REIT over the next year or two?

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**Ken Silver, Chief Executive Officer**

Well, you know if I look back and in particular to 2016, of course we had the Bolton transaction which was out of the ordinary. It's very difficult to predict when you'll see something attractive that I would characterize as perhaps a little bit more opportunistic like the Sears DC. But beyond that, we have delivered and expect to deliver a level of investment and growth consistent with what we've done in recent years.

**Sam Damiani, TD Securities**

Okay. Just switching gears to Alberta, I wonder if you're—I think you'd commented last year seeing some opportunities there. What's your outlook there for opportunities given the market environment in Alberta specifically?

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**Ken Silver, Chief Executive Officer**

Sam, we remain interested in Alberta. I think what we're seeing, both ourselves and certainly what we hear from others is that retail has remained pretty solid in Alberta, notwithstanding the fact that the economy is off. I'd made comments earlier that after a long run of very robust growth in the province that retailers enjoyed fairly productive stores in that part of the country. So, it would appear that retail is certainly hanging in there. We don't see a lot on the market. We don't see a lot coming in the market, but nevertheless, we remain interested.

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**Sam Damiani, TD Securities**

Thank you. I'll turn it back.

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**Ken Silver, Chief Executive Officer**

Thanks, Sam.

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**Operator**

Thank you. The next question is from Michael Smith with RBC Capital Markets. Please go ahead.

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**Michael Smith, RBC Capital Markets**

Thank you and good morning.



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**Ken Silver, Chief Executive Officer**

Good morning, Michael.

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**Michael Smith, RBC Capital Markets**

Just a question. The property that you bought in Maniwaki, 27,000 square feet, can we assume that there's expansion potential on that or is that the right size store for that small market?

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**Ken Silver, Chief Executive Officer**

It is a small store. I think that it is going through an expansion. That would be the area of the store once completed.

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**Michael Smith, RBC Capital Markets**

Okay. I see. Okay. So the other two, in Cole Harbour and Victoria, what's the age of those properties? I assume that those are good sizes.

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**Ken Silver, Chief Executive Officer**

Yes. I mean those stores are right sized to the markets and with all the Canadian Tire properties that we have in the portfolio, these are properties to which Canadian Tire has made a long-term lease commitment.

The Cole Harbour property was an older property that's been expanded to its current size and format. The property in Victoria is more recent but had also been expanded, so suffice it to say they're both current and right sized for their trade area.

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**Michael Smith, RBC Capital Markets**

Okay. Then just switching gears, back again to Canadian Tire with the change in leadership there, has there been any discussion about eCommerce that would relate to click and collect or anything like that within the real estate that you operate?

**Ken Silver, Chief Executive Officer**

Michael, again I would refer you to any disclosure or any discussions Canadian Tire has in regard to its eCommerce or multichannel strategy. I would also just let you know that under the terms of our leases with Canadian Tire, which is the same as the terms of the leases that Canadian Tire has with other landlords, that Canadian Tire has a fair bit of latitude to operate the buildings as it sees fit for its building, so we may have notice and in some cases approval rights, but typically Canadian Tire can modify the buildings as they need, whether it's to enable a click and collect strategy or other things that they need to do to manage the business as it evolves.

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**Michael Smith, RBC Capital Markets**

Okay. Thank you.

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**Ken Silver, Chief Executive Officer**

Thank you.

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**Operator**

Thank you. The next question is from Pammi Bir with Scotia Capital. Please go ahead.

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**Pammi Bir, Scotia Capital**

Thanks. Good morning.

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**Ken Silver, Chief Executive Officer**

Good morning.

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**Pammi Bir, Scotia Capital**

Just with respect to the straight line rent adjustment, there's going to be a couple of moving parts in Q1 with the step up in rents and the Bolton DC, so how should we



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expect that number to—what should we expect it to look like, or even a range, if you can provide?

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**Louis Forbes, Chief Financial Officer**

It's a good question and I don't have the precise math in front of me, Pammi. The core portfolio has a typical rundown in straight line rent of approximately \$3.5 million a year, but when I say core I meant the IPO portfolio. Bolton, you could probably do the math. If you assume an investment of 325 and the cap rate that we've disclosed, and then grow it by 1.25 percent for 20 years, you'll get total rent over the 20 years; divide by 20 and you'll get the average. Then subtract the going in rate from the average and you'll have the extent to which Bolton is increasing our straight line rent adjustment during the year.

Those would be the two biggest components of that puzzle but I don't have the number to give it to you.

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**Pammi Bir, Scotia Capital**

Okay. Thank you for laying out the math for us. Maybe in terms of the—going back to one of the earlier questions with respect to I guess opportunities from Canadian Tire for future acquisitions, what's your sense of how much is left from the Parent in terms of I guess assets that could be vended into the REIT over the next few years? And if you compare that to I guess what was roughly maybe a billion dollars at the IPO, how much of that is left at this stage? Excluding Bolton because I don't think that was part of it.

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**Ken Silver, Chief Executive Officer**

You're right, Pammi. It's Ken. Bolton wasn't in that original pool of assets that we had talked about acquiring those. We talked specifically about the retail stores.

We had about 80 properties I think at the outset that we talked about and I would say we're roughly about half way through that inventory, so to speak. As I've said before, some of those are actually stores that may be get replaced along the way so we may be talking to Canadian Tire about the new store and we may be also looking at the store that will become redundant. Suffice it

to say, we still have runway left with respect to the pool of acquisitions, potential acquisitions from Canadian Tire.

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**Pammi Bir, Scotia Capital**

Okay. Then maybe just going back to the Class C unit redemptions, the 70 million, any indication yet of what the outcome there is going to be, between a reset or redemption? If it is a redemption then, would it be cash or Class B units?

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**Louis Forbes, Chief Financial Officer**

Pammi, we've delivered the notice of redemption to Canadian Tire from the REIT. Canadian Tire has not yet responded, so we do not have an indication from them yet. It's not overdue; it could be a few weeks into the future before they would be expected to respond. That's really all I can say.

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**Pammi Bir, Scotia Capital**

Then just lastly, maybe Louis, looking at the development pipeline, I guess sitting at maybe 70 million bucks in terms of the total I guess potential investment there, is this a sort of expectation of how much could come online for the course of the year, or is it a little bit lower than that?

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**Louis Forbes, Chief Financial Officer**

I think that number would extend—of the identified projects would extend into 2018. So I think what we plan to spend on the projects that have been disclosed would be less than \$70 million this year, but we could still unearth some as-yet unannounced development activity that could happen this year.

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**Pammi Bir, Scotia Capital**

Okay, great. Thank you.





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**Operator**

Thank you. As a reminder, please press star, then the number one on your telephone keypad if you have a question.

The next question is a follow up question from Sam Damiani with TD Securities. Please go ahead.

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**Sam Damiani, TD Securities**

Thank you. I just was wondering if, Ken, you could update us on what's going on with the DC in Brampton and being decommissioned, in terms of I guess the timing and also the REIT's involvement in that potential opportunity.

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**Ken Silver, Chief Executive Officer**

Sam, the property at Steeles and Bramalea Road, as a reminder, is a 90-acre property. It is still in Canadian Tire Corporation. The supply chain folks will be out of the building completely in 2018. The transition to Bolton takes a while, and Canadian Tire Corporation is assessing whether it has a requirement for that property for one or more of its banners in future redevelopment of the site. So, suffice it to say is we're working very closely with the Canadian Tire folks in terms of the planning for that property and, as I said, once Canadian Tire has kind of locked into whether they need the property, to the extent that they need the property, then we'll be able to come up with a redevelopment plan and proceed with that. So, that's the update so far.

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**Sam Damiani, TD Securities**

Okay, that's great. Just generally big picture, when you look at the REIT today, could you see going forward taking on more active development on balance sheet as opposed to buying sort of newly completed product from Canadian Tire? I'm just wondering how you look at potentially taking on a 90-acre site in the future for redevelopment.

**Ken Silver, Chief Executive Officer**

Well, we're certainly open to development and redevelopment. We frankly stuck our toe into the water in 2016 with some of the small redevelopment projects that we began and completed like with Arnprior and the little mall in Antigonish. So, notwithstanding the fact that they're small in dollars, they were significant in complexity so they're good learning opportunities, as we sort through those.

I would say that in every regard, regardless of the scale of the development, our approach to risk would be the same, which is we don't like taking a lot of risk on development. Even if we look at a project like Canada Square, which is also complex, I mean obviously it's a fabulous corner. We look to engage with a highly qualified co-owner as the development manager, so I would say if you look, I guess the range from Arnprior to Canada Square would be from the sublime to—well, I'm not going to call it—whatever. Again, the approach to risk is the same, is we're going to be very careful as we go forward. We're certainly open to and engaged in creating development opportunities for ourselves where we can create value.

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**Sam Damiani, TD Securities**

In your comment earlier—thank you for that, by the way. In your comment earlier about new stores and the pipeline is about half what it was about three or four years ago, for the future redundant stores as Canadian Tire moves into newly built stores in some cases, would the REIT take on the redundant stores and do a redevelopment for on its own?

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**Ken Silver, Chief Executive Officer**

Yes, we've done a few, or we certainly have a few of those in the portfolio we bought early on in the REIT's history, some redeveloped Canadian Tire stores. We continue to work on a few of those that remain in Canadian Tire. So, really, it's a question again of how much risk do we take on in buying a building completely on spec or do we do some pre-leasing in advance and buy it from Canadian Tire when the pre-leasing is well



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advanced? But those are in our pipeline, so to speak, our development pipeline.

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**Sam Damiani, TD Securities**

Good. Thank you very much.

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**Ken Silver, Chief Executive Officer**

Thanks.

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**Operator**

Thank you. The next question is from Jenny Mah with Canaccord Genuity. Please go ahead.

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**Jenny Mah, Canaccord Genuity**

Hi. Good morning.

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**Ken Silver, Chief Executive Officer**

Good morning.

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**Jenny Mah, Canaccord Genuity**

I just want to follow up on your exposure to Sears. It looks like they're the largest non-CTC exposure in the portfolio and I have a couple of questions. Number one, do you have any of their stores in the portfolio, or is it all just the DC? Then for the DC in Calgary, is that the 2021 expiry in the schedule that I see?

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**Ken Silver, Chief Executive Officer**

Jenny, its Ken. Firstly, we do not have any Sears stores in the portfolio, so the entirety of our exposure to Sears is the DC in Calgary, and you're correct, that 2021 expiry would be the Calgary DC, although I should point out that Sears does have renewal options.

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**Jenny Mah, Canaccord Genuity**

Could you speak to any bumps in the rent, if there's—on renewal?

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**Ken Silver, Chief Executive Officer**

I probably can't get into the specifics of the lease other than to say that the lease is generally on market terms.

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**Jenny Mah, Canaccord Genuity**

General, okay. Generally on market terms.

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**Ken Silver, Chief Executive Officer**

Yes.

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**Jenny Mah, Canaccord Genuity**

Okay, perfect. That's helpful. Thank you very much.

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**Ken Silver, Chief Executive Officer**

Thank you.

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**Operator**

Thank you. As there are no further questions at this time, I will turn the call over to Ken Silver, CEO, for any closing remarks.

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**Ken Silver, Chief Executive Officer**

Thank you, Operator, and thank you all for joining us today. We expect our first quarter results will be released the week of May 8th, and we look forward to speaking with you then. Have a good day.



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**Operator**

Thank you. The conference has now ended. Please disconnect your lines at this time and we thank you for your participation.

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