The Becker Milk Company Limited

Management's Discussion and Analysis of Operations and Financial Condition

Nine Months ended January 31, 2017

This management discussion and analysis ("MD&A") of results of operations and financial condition of The Becker Milk Company Limited ("Beckers" or the "Company") describes the operations and financial results of the Company for the nine months ended January 31, 2017. The MD&A supplements, but does not form part of the financial statements of the Company, and should be read in conjunction with the Company's unaudited financial statements and related notes for the first nine months of fiscal 2017 as well as the audited financial statements and related notes for the year ended April 30, 2016. Financial information provided has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

FORWARD LOOKING STATEMENTS

Certain information included in this MD&A contains forward-looking statements within the meaning of applicable securities laws, including, among other things, statements concerning our objectives and our strategies to achieve those objectives, statements with respect to management's beliefs, plans, estimates and intentions and statements concerning anticipated future events, circumstances, expectations, results, operations or performance that are not historical facts. Forward-looking statements can be identified generally by the use of forward-looking terminology, such as "indicators", "outlook", "objective", "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "should", "plans", "continue" or similar expressions suggesting future outcomes or events. Such forward-looking statements reflect management's current beliefs and are based on information currently available to management.

The forward-looking statements in this MD&A are not guarantees of future results, operations or performance and are based on estimates and assumptions that are subject to risks and uncertainties, including those described below in this MD&A under "Risks and Uncertainties", which could cause actual results, operations or performance to differ materially from the forward-looking statements in this MD&A. Those risks and uncertainties include risks associated with property ownership, tenant termination and financial stability, liquidity, competition for real property investments, general uninsured losses and environmental matters. Historical results and percentage relationships contained in the Company's financial statements and MD&A, including trends that might appear, should not be taken as indicative of our future results, operations or performance.

Although the forward-looking statements contained in this MD&A are based on what management believes are reasonable assumptions, there can be no assurance that actual results, operations or performance will be consistent with these statements. All forward-looking statements in this MD&A are qualified by this forward-looking disclaimer. These statements are made as of June 16, 2016, and, except as required by applicable law, we undertake no obligation to update publicly or revise any such statements to reflect new information or the occurrence of future events or circumstances.

DATE OF MD&A

This MD&A was prepared on March 13, 2017.

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OVERALL PERFORMANCE

The Company owns and manages 64 (2016 – 65) retail commercial properties. One property is in Metro Toronto and the balance are in other areas of Southern Ontario. Most of the properties are single store sites with a few multi store plazas. As of January 31, 2017, the Company had leased 77 retail stores and 1 residential apartment above a retail commercial store. 56 stores were leased to Mac's Convenience Stores Inc. ("Mac's", a subsidiary of Alimentation Couche Tard Inc.). The remaining 21 retail stores were leased to sundry tenants. In addition, the Company is bearing the cost of 4 parcels of unoccupied land (1 of which is listed for sale), 5 vacant retail stores and 2 vacant residential apartments.

Our real estate management company produced revenues of $2,813,449 for the first nine months of fiscal 2017 compared to $2,995,940 for the first nine months of fiscal 2016. This decrease of $182,491 was mainly the result of a decline in revenue from sundry tenants. Net income for the first nine months of fiscal 2017 was $348,308, a decrease of $574,790 from the same period in fiscal 2016. This decrease is principally the result of reduced revenues, increased administrative expenses and a larger reduction in the fair value of investment properties for the first nine months of fiscal 2017 over the comparable period in fiscal 2016.

Income before other items was $1,450,323 for the first nine months of fiscal 2017. This was a $219,288 decrease from the first nine months of fiscal 2016. Lower revenues and higher expenses offset lower professional fees in connection with the PricewaterhouseCoopers' strategic review referred to below.

Comprehensive income for the first nine months of fiscal 2017 includes a net increase after tax in unrealized gains on available-for-sale marketable securities of $84,339 (2016-$278,553).

NON-IFRS MEASURES

The Company reports its financial results in accordance with IFRS. However, in this MD&A we also use certain non-IFRS financial measures including "net operating income", "funds from operations" and "adjusted funds from operations". These measures are commonly used by entities in the real estate industry as useful metrics for measuring performance. However, they do not have any standardized meaning prescribed by IFRS and are not necessarily comparable to similar measures presented by other real estate entities. These measures should be considered as supplemental in nature and not a substitute for related financial information prepared in accordance with IFRS.

Net operating income ("NOI") is used by industry analysts, investors and management to measure operating performance at the Company's properties. NOI represents income from real estate properties less property operating expenses as presented in the statement of income. Accordingly, NOI excludes certain expenses included in the determination of net income such as property management, corporate expenses, interest expense, fair market value adjustments and other indirect operating expenses. NOI is not a recognized measure under IFRS and, accordingly, the term does not necessarily have a standardized meaning and may not be comparable to similarly titled measures presented by other publicly traded entities.

The Company uses funds from operations ("FFO") in addition to net income to report operating results. FFO is an industry standard for evaluating operating performance. The Company computes FFO in accordance with the Real Property Association of Canada ("REALpac") white paper on funds from operations issued in November 2012.

Adjusted Funds from Operations (AFFO) is an industry measure widely used to help evaluate dividend or distribution capacity. AFFO as calculated by the Company may not be comparable to similar titled measures reported by other entities. AFFO primarily adjusts FFO for amortization of straight-line rents as well as operating capital and leasing requirements that must be made to preserve and sustain the existing rental stream. Most of these maintenance capital expenditures would normally be considered investing activities in the statement of cash flows. Capital expenditures which generate a new investment or revenue stream, such as the development of a new property or the major reconstruction of an existing property would not be considered as maintenance capital expenditures and would not be included in determining AFFO

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RESULTS OF OPERATIONS

Net operating income

Presented below is a comparison of the results of operations using the NOI, FFO and AFFO measures of performance for the first nine months of fiscal 2017 and the first nine months of fiscal 2016.

The Becker Milk Company Limited
Net Operating Income and Funds from Operations

	May '16 - Jan '17	May '15 - Jan '16	$ Change
Net operating income (NOI)			
Net income for the period	$348,308	$923,098	($574,790)
Add (deduct):			
Provision for income taxes	278,464	416,417	(137,953)
Finance income	(17,048)	(14,198)	(2,850)
Administrative expenses	963,011	824,477	138,534
Expenses related to strategic review	-	124,229	(124,229)
Fair value adjustment to investment properties	818,892	330,096	488,796
Loss on sale of investment property	4,659	-	4,659
Net operating income	**$2,396,286**	**$2,604,119**	**($207,833)**
NOI per share	**$1.33**	**$1.44**	**($0.11)**
Funds from operations (FFO)			
Net income for the period	$348,308	$923,098	
Add (deduct) items not affecting cash:			
Fair value adjustment to investment properties	818,892	330,096	
Loss on sale of investment property	4,659	-	
Deferred income taxes	(93,335)	(28,390)	
Funds from operations	**$1,078,524**	**$1,224,804**	**($146,280)**
FFO per share	**$0.60**	**$0.68**	**($0.08)**
Adjusted funds from operations (AFFO)			
Funds from operations	$1,078,524	$1,224,804	($146,280)
Add (deduct):			
Straight line rent	33,834	44,789	(10,955)
Sustaining capital expenditures	(131,726)	(19,625)	(112,101)
Adjusted funds from operations	**$980,632**	**$1,249,968**	**($269,336)**
AFFO per share	**$0.54**	**$0.69**	**($0.15)**

As shown above, net operating income (NOI) in the first nine months of fiscal 2017 decreased $207,833 from the first nine months of fiscal 2016 to $2,396,286. This decrease is attributable to a decrease in operating revenues of 6.2% and an increase in property operating expenses in the first nine months of fiscal 2017 over the first nine months of fiscal 2016 of 6.0%.

Funds from operations (FFO) shows that the property portfolio produced $1,078,524 in the first nine months of fiscal 2017, a $146,280 decrease over the first nine months of fiscal 2016. This is mainly attributable to the $207,833 decrease in NOI and higher administrative expenses of $138,534 offset by lower current taxes of $73,008 and a reduction of $124,229 in professional fees related to the strategic review.

After adjusting FFO for the impact of straight line rent ($33,834) and sustaining capital expenditures ($131,726), the resulting adjusted funds from operations (AFFO) decreased by $269,336 in the first nine months of fiscal 2017 over the first nine months of fiscal 2016. This represents a decrease of $0.15 per share in the current period to $0.54 per share.

Net income

Reported net income for the first nine months of fiscal 2017 decreased by $574,790 over the first nine months of fiscal 2016 as shown in the following table.

Changes in net income - Nine months ended ended January 31, 2017 compared to nine months ended January 31, 2016

Decrease in net operating income	(207,833)
Decrease in fair value adjustment	(488,796)
Increase in administrative expenses	(138,534)
Decrease in expenses related to strategic review	$124,229
Increase in recovery of deferred taxes on investment properties	64,945
Decrease in current taxes	73,008
Increase in finance income	2,850
Increase in loss on disposal	(4,659)
Decrease in net income	($574,790)

Other results of operations

Overall revenue decreased by $182,491 as operating revenues were lower by $185,341, primarily as a result of the lower rents from sundry tenants and reduced recoveries of common expenses and property taxes. The end of a very favourable one-year lease at one location and the sale of another property, both in May 2016, significantly contributed to this result. The vacant property has been classified as held for sale, with an agreed sale closing date of April 28, 2017.

Property operating expenses increased $22,492 in the first nine months of fiscal 2017 over the first nine months of fiscal 2016 primarily as a result of higher repairs and maintenance and property tax expenses. Administrative expenses increased $138,534 as a result of higher legal costs mainly related to expropriation matters. Current income taxes decreased marginally by $73,008 as the decline in taxable income from operations was offset by tax on capital gains from the May 2016 property disposition.

The Company continues negotiations with Mac’s Convenience Stores over the renewal terms for 18 stores whose renewal options Mac’s exercised between 2013 and 2015. In addition, as of December 12, 2016, Mac’s has advised the Company that they would be exercising their option to extend their leases for a further 5 years on 25 stores whose lease terms expire on May 31, 2017. There were 7 stores previously renewed for 5 year terms in 2012 that were not renewed. There were no lease renewal negotiations finalized during the period.

The total fair value of investment properties at January 31, 2017 of $30,887,000 was determined based on a mix of internally prepared cash flow appraisals and independent appraisals conducted by a nationally recognized real estate appraisal firm. The properties are appraised on an individual basis, without the application of a portfolio effect in determining the total portfolio fair value. The appraisals are prepared to comply with the requirements of IAS 40 – Investment Property and the International Valuation Standard. The primary method of appraisal is the income approach, since purchasers typically focus on expected income. Management uses a discounted cash flow method to determine fair value, which employs an estimate of the present value of future cash flows over a specified time horizon, including the estimated proceeds from a potential future disposition. This approach is supported by external advice on capitalization rates provided by an independent real estate appraisal firm. The determination of values requires management and the appraisers to make estimates and assumptions that affect the values presented, and actual values in a sales transaction may differ from the value shown above.

The determination of which properties are externally appraised and which are internally appraised by management for any particular reporting period is based on a combination of factors, including property size, the level of redevelopment and leasing activity, and local market conditions. In addition, management ensures that each property in the portfolio is externally appraised at least once every five years. For properties internally appraised, management considers the last external appraisal completed for the property, material leasing activity and material changes in local market conditions.

For purposes of determining the total fair value of its investment properties at April 30, 2016, the Company commissioned independent appraisals for a selection of 14 of its 65 properties. The fair values of the remainder of the properties were determined by management following the method described above, with independent advice on the appropriate capitalization rates for each property.

In determining fair value, the Company considers all factors market participants would consider in pricing the properties, including the impact of any environmental damage on the investment properties. The Company reduces its appraisal amount by the amount that has been determined to be the best estimate of the amount a market participant would factor into the price, taking into consideration the property's highest and best use, future potential environmental and remediation costs based on currently available facts, existing technology, presently enacted laws and regulations, the likelihood of enacted laws and regulations changing, and the professional judgement of consultants.

Changes in the fair value of the Company's investment properties are largely the result of several key factors: changes in capitalization rates from time to time, property sales and the ongoing pattern of renewals, extensions and expiries of leases with the Company's principal tenant, Mac's Convenience Stores Limited.

As advised by the Company's external real estate appraisal consultants, no change in capitalization rates from the rates used for the portfolio valuation at April 30, 2016 was required at January 31, 2017.

The Company has 13 investment properties that have both convenience store and gas bar facilities. As at April 30, 2016, based on the independent real estate appraisals of 4 of these properties, the Company increased the anticipated future cash flows from the cash flow amounts estimated in the prior year appraisals. The change in estimate is primarily due to choosing a new comparable that, in management's opinion, is more reflective of the actual future rents that will be realized on the investment properties. The impact of this change in estimate on the 13 investment properties increased the carrying amount of the Company's investment portfolio by approximately $2.8 million as at April 30, 2016.

As at January 31, 2017, the Company has 43 leases that had been renewed under commitment letters where the annual rental amounts have yet to be negotiated. In the meantime, the tenant continues to pay rent based on the amount in the previous lease agreement, pending final negotiation or arbitration of rents. The Company has recorded a provision of $200,000 related to this matter. The amount of ultimate cash flows from the finalization of the lease amounts could vary according to the amount, timing and related costs as the amounts relating to the five-year lease renewals are finalized.

The fair value adjustment in the Statements of Income decreased by $488,796 from a negative $330,096 adjustment for the first nine months of fiscal 2016 to a negative $818,892 adjustment for the first nine months of fiscal 2017. The higher negative adjustment in the first nine months of fiscal 2017 reflects the impact of the extension for a further 5 years of the 25 leases expiring in May 2017 renewed by Mac's Convenience Stores Limited and future cash flow reductions anticipated from current negotiations on lease renewal rental rates.

During 2014 the Company received Notices of Expropriation and Possession from Metrolinx, an agency of the Government of Ontario. These Notices refer to 22% of the Company's property at 393 Eglinton Avenue East, Toronto required in connection with the construction of the Eglinton Crosstown rapid transit line. Title to a portion of this property was registered by Metrolinx on April 7, 2014. In addition, Metrolinx registered an easement on another portion of the property for a three-year period. The notices specify a possession date of August 1, 2014.

On April 28, 2015, the Company was advised by Metrolinx it would receive $428,104 for the expropriation, plus $41,507, plus HST, for the easement as compensation in connection with the Notices from Metrolinx. These amounts were subsequently received in May, 2015. The Company maintains this compensation is inadequate and has accepted this payment on an interim, without prejudice basis. The Company has retained professional advisors to assist negotiating appropriate compensation. The disposal of the property and payment for the easement have been recognized in the Company's financial statements, based on the interim compensation amounts. Ultimate proceeds from this matter could require a process similar to the expropriation of the Leamington property described in Note 16 to the Annual Financial statements for 2016.

On May 6, 2016, the Company disposed a property classified at April 30, 2016 as a held-for-sale asset for proceeds equal to its carrying value of $475,000. The sale proceeds have been collected in full. There were transaction costs of $4,659 which have been reported as a loss on disposal.

On December 15, 2015, the Company disposed an investment property for proceeds of $210,000 less $15,261 disposal costs. The $22,260 difference between the net disposal proceeds of $194,739 and the $216,999 carrying value were reported as a loss on disposal. The sale proceeds have been collected in full.

ASSET HELD-FOR-SALE

As a result of an agreement to dispose of one of the Company's locations, on April 28, 2017, for cash proceeds of $535,000, less disposal costs, the property has been classified as held-for-sale as at January 31, 2017. This location is a single tenant location. The property has been recorded as held for sale at estimated net sale proceeds of $503,000.

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SUMMARY OF QUARTERLY RESULTS

The unaudited comparative quarterly results are listed below for the last 8 quarters:

	2017 3rd Quarter January 31, 2017 $	2017 2nd Quarter October 31, 2016 $	2017 1st Quarter July 31, 2016 $	2016 4th Quarter April 30, 2016 $	2016 3nd Quarter January 31, 2016 $	2016 2nd Quarter October 31, 2015 $	2016 1st Quarter July 31, 2015 $	2015 4th Quarter April 30, 2015 $
Revenue	938,008	937,236	938,205	790,317	1,008,396	992,729	994,815	983,889
Net income	(51,983)	255,102	145,189	1,773,925	375,055	262,932	285,111	737,886
Per share(2)	(0.03)	0.14	0.80	0.98	0.21	0.15	0.16	0.41
Net operating income	791,714	805,518	799,054	649,215	882,411	847,636	874,072	846,244
Per share(2)	0.44	0.45	0.44	0.36	0.49	0.47	0.48	0.47
Funds from operations	355,633	375,020	347,871	240,823	467,281	373,454	384,067	315,493
Per share(1)(2)	0.20	0.21	0.19	0.13	0.26	0.21	0.21	0.17
Adjusted funds from operations	330,411	361,298	288,923	225,267	462,585	388,384	398,997	329,941
Average quarterly dividends declared	361,672	361,672	361,672	361,672	361,672	361,672	361,672	361,672
Dividends as a percentage of FFO	102%	96%	104%	150%	77%	97%	94%	115%
Dividends as a percentage of AFFO	109%	100%	125%	161%	78%	93%	91%	110%

(1) Adjusted to conform with definition in REALpac white paper of November 2012.

(2) Basic and fully diluted earnings per Class B and common shares.

There are no seasonal factors affecting the Company's quarterly results. Quarterly revenue may be impacted by the timing of lease renewals and retroactive adjustments to rents on these renewals. Net income per share will be significantly impacted by quarterly changes in the fair value adjustment depending on the timing of lease expiries, renewals and changes in overall capitalization rates.

LIQUIDITY & CAPITAL RESOURCES

The Company continues to operate with a positive cash position and no debt. As at January 31, 2017, the balance sheet reflects a cash and cash equivalent balance of $1,159,074 (2016 - $2,218,132). There were investments of $1,615,309 at January 31, 2017 (2016 -$393,861). The increase in cash balances was primarily the result of cash flow from operations and the disposal of a property in May 2016.

As at January 31, 2017 cash flow from operations was sufficient to meet the Company's working capital requirements.

The authorized share capital of the Company consists of: (i) 8,000 Class A preference shares; (ii) 2,459,250 Class B special shares; and (iii) 640,750 common shares.

Share capital outstanding:

	January 31, 2017	April 30, 2016
Class B special shares	**1,267,610**	1,267,610
Common shares	**540,750**	540,750

OFF BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements.

TRANSACTIONS WITH RELATED PARTIES

Key management personnel are those people having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. The Company's key management personnel include the Chairman and Chief Executive Officer, the Vice-Chairman, and the Chief Financial Officer. The compensation paid or payable to key management personnel for employee services is shown below:

	Nine months ended January 31, 2017	**Nine months ended** January 31, 2016
Salaries and other compensation	$ 296,047	$ 279,882

PROPOSED TRANSACTIONS

There were no proposed transactions except as described in Additional Disclosures in this document.

CONTINGENT GAINS

Leamington

On December 29, 2009, the Municipality of Leamington registered an expropriation plan whereby an 18% portion of the land in the Company's property in that municipality was expropriated for road widening. The expropriation plan has been completed and $36,900 has been received as expropriation proceeds.

However, the Company has obtained advice that the impact of the expropriation on the value of the whole property caused by an injurious affection exceeds the amount offered for the partial taking. The Company has received a final appraisal report on the matter and has advised the Municipality of Leamington of its intention to assert a claim based on the report. A meeting on the matter with the provincial Board of Negotiation was held in November 2016. Negotiations with the Municipality are ongoing.

A transaction relating to this claim will be recorded in the Company's accounts when a reasonable assessment can be made of the matter's eventual settlement amount.

Toronto

As described above under Results of Operations, the Company has received $428,104 for an expropriation, plus $41,507, plus HST, for an easement as compensation in connection with the Notices of Expropriation from Metrolinx for its property at 393 Eglinton Avenue East, Toronto required in connection with the construction of the Eglinton Crosstown rapid transit line.

The Company maintains this compensation is inadequate as the impact of the expropriation on the value of the whole property caused by an injurious affection exceeds the amount offered for the partial taking. The Company has retained professional advisors to assist negotiating appropriate compensation.

A transaction relating to this claim will be recorded in the Company's accounts when a reasonable assessment can be made of the matter's eventual settlement amount.

OTHER CONTINGENCY

The Company has been named as a defendant, along with Mac's Convenience Stores Limited, in a lawsuit served on the Company on May 3, 2016. The Plaintiff is claiming damages of $1,730,000 as a result of the alleged migration of contaminants from the Company's property in Listowel, Ontario to a neighbouring property. The Company has retained legal counsel to review the merits of this claim and advise on an appropriate response and defence. At this time, a preliminary review of materials indicates that if the plaintiff's property is impacted, it may be the result of historic activities undertaken on the plaintiff's property. While the action is in the very early stages, it appears that the Plaintiff's claim is both exaggerated and without merit.

RISKS AND UNCERTAINTIES

There are certain risks and uncertainties inherent in the activities of the Company, including the following:

Industry and Economic Conditions

Annually a significant portion of the Company's leases are renewed for terms generally ranging between 5 and 15 years. The Company's exposure to risks from industry and economic factors that could materially affect its business are therefore significantly reduced.

Real Property Ownership

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions, local real estate markets, supply and demand for leased premises, competition from other available premises, realty taxes based on market value assessment and various other factors. The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants.

Tenant Terminations and Financial Stability

The Company's net income would be adversely affected if its major tenant or a significant number of tenants were to become unable to meet their obligations under their leases or if a significant amount of available space in the properties were not able to be leased on economically favourable lease terms. Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the Company than the existing lease. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and substantial costs in protecting the Company's investment may be incurred. Furthermore, at any time, a tenant of any of the Company's properties may seek the protection of bankruptcy, insolvency or similar laws that could result in the rejection and termination of such tenant's lease and thereby cause a reduction in the cash flow available to the Company. The ability to rent unleased space in the properties in which the Company will have an interest will be affected by many factors. Costs may be incurred in making improvements or repairs to property required by a new tenant. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the Company's financial condition.

Environmental Matters

As an owner of real property, some of which includes retail gas sites, the Company is subject to various federal, provincial and municipal laws relating to environmental matters. In the event that the Company's tenants are unable to meet their contractual obligations to the Company with respect to environmental matters, such laws provide that the Company could be liable for the costs of removal of certain hazardous substances and remediation of certain hazardous locations. The failure to remove or remediate such substances or locations, if any, could adversely affect the Company's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the Company. The Company is not aware of any material non-compliance with environmental laws at any of its properties.

Except as disclosed herein, the Company is also not aware of any pending or threatened investigations or actions by environmental regulatory authorities in connection with any of its properties or any pending or threatened claims relating to environmental conditions at the properties. Environmental laws and regulations may change and the Company may become subject to more stringent environmental laws and regulations in the future. Compliance with more stringent environmental laws and regulations could have an adverse effect on the Company's business, financial condition or results of operation.

Fixed Costs

Certain significant expenditures, including property taxes, maintenance costs, insurance costs and related charges must be made by the Company throughout the period of its ownership of the properties regardless of whether the property is producing any income.

Liquidity

Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the Company's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Company were to be required to liquidate its real property investments, the proceeds to the Company might be significantly less than the aggregate carrying value of its properties.

Competition

The real estate business is competitive. Numerous other developers, managers and owners of retail properties compete with the Company in seeking tenants. Some of the properties of the Company's competitors are better located than its properties and any property in which the Company subsequently acquires an interest. Some of the Company's competitors are better capitalized and stronger financially and hence better able to withstand an economic downturn. The existence of competing developers and owners and competition for the Company's tenants could have an adverse effect on the Company's ability to lease space in its properties and on the rents charged or concessions granted, and could adversely affect the Company's revenues.

General Uninsured Losses

The Company carries comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or underinsured loss occur, the Company could lose its investment in, and anticipated profits and cash flows from, one or more of its properties.

CRITICAL ACCOUNTING ESTIMATES

The Company's significant accounting policies are described in its annual Financial Statements.

Management chooses the accounting policies and estimates that it believes are appropriate to fairly report the Company's operating results and financial position. Management regularly assesses its critical accounting estimates in light of current and forecasted economic conditions and reviews these estimates with its Audit Committee. The following outlines the most significant judgment and estimate used in the preparation of the financial statements:

Fair Value of Investment Properties

Investment properties include all of the Company's income producing commercial properties, properties under development and surplus lands. Investment properties are recorded at fair value. Fair value is based on a combination of external appraisals and internal valuations. Significant assumptions and estimates are made in determining the fair value of investment properties, including the normalized level of income for a particular property, future cash flows for discounted cash flow purposes and which capitalization rate or discount rate to use on each property. External appraisals use a number of different valuation approaches, including the direct capitalization approach and a direct comparison approach. The discounted cash flow approach, which discounts expected future cash flows, is used by management.

Other critical judgments that have been made in applying the Company's accounting policies and that have the most significant effect on the amounts in the financial statements:

The Company makes judgment in determining the extent and frequency of external appraisals of Investment Properties.

The Company records management's best estimates of future environmental and remediation costs based on currently available facts, existing technology, presently enacted laws and regulations, and the professional judgement of consultants. Where the available information is sufficient to estimate the amount of the liability, that estimate has been used. Where the information is only sufficient to establish a range of probable liability and no point within the range is more likely than the other, the mid-point in the range is used. The amount of the estimate is then present valued based on management's determination of timing of the expenditures to settle the obligation which will only occur when the relevant investment property changes its current use or otherwise determined by the Company under existing environmental laws.

In determining estimates of fair value and net realizable value of real estate properties, the assumptions underlying the estimated values are limited by the availability of comparable data and the uncertainty of predictions concerning future events. Should the assumptions change, actual results could differ from the estimated amounts. In addition, the Company is currently negotiating the annual rental amounts on certain lease renewals.

In addition, certain environmental matters are the primary responsibility of the tenants under the terms of the leases or other specific agreements where there is a requirement to return the investment property to a specified condition upon termination of the tenant/landlord relationship. On these properties, the Company has determined that the tenants (and their officers and directors) have the responsibility to clean up any environmental damage, and accordingly no liability has been recorded on these properties.

In addition, the computation of cost reimbursements from tenants for realty taxes, insurance and common area maintenance charges involves a number of estimates including the interpretation of terms and other tenant lease provisions. Cost recovery revenues are based on the Company's best estimate of the final amounts to be billed and collected.

The Company recognizes expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. When the actual liability arising from these issues differs from these estimates, such differences will have an impact on the income tax and deferred tax balances in the period when such determination is made.

FUTURE CHANGES IN ACCOUNTING POLICIES

A number of new standards, and amendments to standards and interpretations under IFRS, are not yet effective for the year ending April 30, 2017, and have not been applied in preparing these interim financial statements. New standards which will have, or may have, an impact on the Company's financial statements are as follows.

Financial Instruments

IFRS 9, "Financial Instruments" ("IFRS 9"), issued in July 2014, and replaces IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). IFRS 9 addresses the classification and measurement of all financial assets and financial liabilities within the scope of the current IAS 39 and a new expected credit loss impairment model that will require more timely recognition of expected credit losses and a substantially reformed model for hedge accounting. Also included are the requirements to measure debt-based financial assets at either amortized cost or fair value through profit or loss ("FVTPL") and to measure equity-based financial assets as either held-for-trading or as fair value through other comprehensive income ("FVTOCI"). No amounts are reclassified out of other comprehensive income ("OCI") if the FVTOCI option is elected. Additionally, embedded derivatives in financial assets would no longer be bifurcated and accounted for separately under IFRS 9.

A new general hedge accounting standard, part of IFRS 9 (2013), was issued in November 2013, permitting additional hedging strategies used for risk management to qualify for hedge accounting.

The IASB has set January 1, 2018 as the effective date for the mandatory application of IFRS 9. The Company is in the process of assessing the impact of IFRS 9 on its financial statements.

Revenue from contracts with customers

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), was issued in May 2014, and replaces IAS 11, "Construction Contracts", IAS 18, "Revenue Recognition", IFRIC 13, "Customer Loyalty Programmes", IFRIC 15, "Agreements for the Construction of Real Estate", IFRIC 18, "Transfers of Assets from Customers", and SIC-31, "Revenue – Barter Transactions Involving Advertising Services". IFRS 15 provides a single, principles-based five-step model that will apply to all contracts with customers with limited exceptions, including, but not limited to, leases within the scope of IAS 17 "Leases"; financial instruments and other contractual rights or obligations within the scope of IFRS 9, IFRS 10, "Consolidated Financial Statements", and IFRS 11, "Joint Arrangements". In addition to the five-step model, the standard specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. The incremental costs of obtaining a contract must be recognized as an asset if the entity expects to recover these costs. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some nonfinancial assets that are not an output of the entity's ordinary activities.

IFRS 15 is required for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company is in the process of assessing the impact of IFRS 15 on its financial statements.

Leases

On January 13, 2016, the IASB released IFRS 16 Leases, completing its long-running project on lease accounting. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (the lessee and the lessor). The standard is effective for annual periods on or after January 1, 2019, with early application permitted in certain circumstances once the Accounting Standards Board has incorporated the standard into Part 1 of the CPA Canada Handbook – Accounting. The Company will be assessing the impact of IFRS 16 on its financial statements.

FINANCIAL INSTRUMENTS

Cash, investments and assets held for sale are carried at fair market value. The carrying values of accounts receivable, net of allowance for doubtful accounts and accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments. The carrying value of mortgages receivable approximates their fair value because management estimates that the mortgages are bearing interest rates matching the prevailing interest rates in the market.

DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management maintains appropriate information systems, procedures and controls to ensure that information that is publicly disclosed is complete, reliable and timely. The President and Chief Executive Officer and the Chief Financial Officer evaluated the design of our disclosure controls and procedures (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at January 31, 2017 and have concluded that such disclosure controls and procedures were appropriately designed and were operating effectively.

Management is responsible for establishing adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP (as now defined under IFRS). The President and Chief Executive Officer and the Chief Financial Officer assessed our internal controls over financial reporting (as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings) as at January 31, 2017, using the Committee of Sponsoring Organizations Internal Control – Integrated Framework. Based on that assessment, the President and Chief Executive Officer and the Chief Financial Officer determined that our internal controls over financial reporting were appropriately designed and were operating effectively.

There has been no change in the design of internal controls over financial reporting in the first nine months of fiscal 2017 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

It should be noted that a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance of control issues, including instances of fraud, if any, have been detected. These inherent limitations include, among other items: (i) that management's assumptions and judgments could ultimately prove to be incorrect under varying conditions and circumstances; (ii) the impact of any undetected errors; and (iii) that controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override.

ADDITIONAL DISCLOSURES

Strategic review and environmental matters

During the second quarter of fiscal 2014, the Company's Board of Directors re-initiated its 2008 review of strategies available to the Company to enhance shareholder value. The Company retained PricewaterhouseCoopers Real Estate Inc. ("PWC") to explore a possible sale of the Company. The Company previously announced that PWC had completed the initial steps in the sale process and that the Company was engaged in advanced discussions with a single potential acquirer.

Although those discussions were terminated in fiscal 2016, the Company continues to review its strategic alternatives and will update the market as appropriate and as required.

In support of this process, the Company retained the services of legal advisors, as well as an engineering consulting firm to conduct a property condition survey and environmental assessments of all properties in fiscal 2015. These surveys were completed in fiscal 2015.

The property condition survey report received from the consultant in fiscal 2015 recommended a 10-year schedule of repairs and sustaining investment that is consistent with management's expectations and previous experience.

Phase I environmental assessments were completed on all the Company's properties and Phase II assessments were completed on 30 properties where the Phase I studies indicated a Phase II study was warranted. Management believes none of these assessments found any circumstances that identified a legal or constructive obligation to settle any environmental obligations, except as set out in Note 3 to the January 31, 2017 interim financial statements.

As at January 31, 2017 total legal and engineering costs of $825,815 had been incurred in connection with the potential sale of the Company.

Additional information regarding the Company, including its AIF dated July 28, 2016, is available on Sedar at www.sedar.com