CENTURION ASSET MANAGEMENT INC

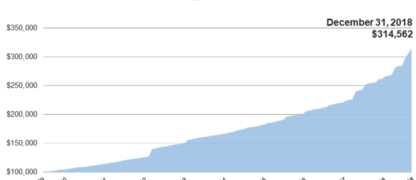
2018 Annual Commentary

Portfolio Year in Review

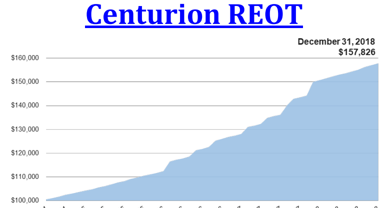
2018 saw a continuation of the exceptional performance of our funds in 2017. 2018 Fund Returns were:

Below are the performance results for all of the funds since inception:

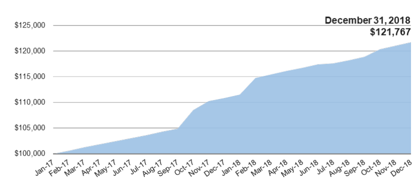
Centurion Apartment REIT



Centurion REOT



Centurion Financial Trust



In addition, we declared bonus distributions of $0.0833/unit in REOT and $0.1943/unit in CFIT for unitholders of record at December 31, 2018. These bonuses were paid in units.

In 2018, the REIT acquired or has agreed to acquire eight properties. Of these, five have closed and three are anticipated to close early this year:

- An 80 unit newly built apartment building in Kitchener, Ontario that was an intensification of an existing property at Kingswood Drive. The site now has 440 suites after the completion of this new addition. The property leased in record time of about two months. With these

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additional units, our portfolio in Kitchener is now 742 suites. (click here for the announcement)

- An 85% interest in a 224-unit rental apartment building in Waller, Texas. It was built in 2017 and is the first acquisition of a stabilized property in the U.S. (click here for the announcement)

- 100% interest in three newer vintage properties in Regina, Saskatchewan with a total of 187 units. Centurion already had a 60% interest in another newly built property, which we purchased from REOT in 2017, bringing our total holdings to 395 units on an undiluted basis and 312 on a diluted basis in this market. These properties were purchased from one of the partners in our REOT pipeline. (click here for the announcement)

- A 45% interest in a newly built 176 suite apartment property and a 50% interest in a newly built 416 suite apartment property in Winnepeg, Manitoba. These properties originated from our REOT program and our partners are remaining as co-investors with us. Closing is anticipated in the next few months. (click here for the announcement)

- A 50% interest in a newly built 134 suite apartment property in Victoria, British Columbia. This property originated from our REOT program and our partners are remaining as co-investors with us. Closing is anticipated in the next few months. (click here for the announcement)

In total, we are set to acquire a total of 1,217 suites on an undiluted basis and 812 suites on a diluted basis, which means that the last few quarters and the uncoming quarter combined will be the most active acquisition period we've had in years. All of the product is new or close to new and most of it came from our joint venture program in REOT. As such, we are very pleased that this program is producing the acquisition pipeline that we had hoped for, which was one of the main purposes of the program. We have numerous other properties in the development pipeline that we hope will complete in 2019 and beyond. Notably, we purchased no value-add type, older apartment properties in 2018, consistent with 2017 as we saw little of reasonable value compared to our view of the opportunities available in new product and also our lending and joint venture portfolio.

The REIT and REOT continued to deploy into U.S. development properties and we now have developments in progresss in Minneapolis, Dallas, Kansas City, Tampa.

The rental market in 2018 was extremely tight and rents have been rising quickly in our core market of Ontario. In Toronto, our market rents rose 18.5%. While it is true that we could have bought renovation properties and likely made our targeted returns based on what is happening with rents, we chose not to do so as it is inconsistent with our perception of risk and reward. We have always wanted to buy properties with a reasonable "going in" rate of return, and looked at rental upside as a way to drive total return. We have not wanted to buy poor "going in" returns, on the hope of improving them to get them to our target returns, as we perceive this as a much riskier strategy as you are relying on runaway rents and assuming that the politicians will remain passive to this. As the Ontario government showed with their re-introduction of rent controls in 2017, we cannot always assume that governments will not respond to political pressure to "do something" no matter how ill-advised that something could be. While Doug Ford, the premier of Ontario, reversed course and removed rent controls from newly built apartments, the damage to the market is already done as policy volatility was highlighted as a core risk to building 100-year assets when governments can change every 4 years. While we continue to build new apartments, most of them are outside Ontario or are in sub-markets outside of Toronto, given the poor economics of building in Toronto.

We made continued but significant progress with the portfolio. Rents on turnover continue to rise strongly. The offset to this is that resident turnover has declined substantially as due to there being few alternative accommodations available and the higher prices they would have to pay if they did. Last year's rent gap of 10.4% has expanded to 13.7%. The gap-to-market is the amount of increase in rents that we would get, compared to the contract rates already in place, if all the rents were at the current market rent. In most years, the gap has been 3-4% of rents, meaning that our 13.7% gap is 3-4 times as large as the historical norm. This means that we forecast that we could get about another $13 million in rent based on today's market demand and rental rates, and we believe rental rates, due to extremely tight vacancy conditions, likely have room to rise. At an assumed capitalization rate of 4.5%, we believe that this could yield another $290 million in value creation on the portfolio, which is a very significant tailwind for future performance. Same property Net Operating Income increased by 12.1%. Stabilized properties are 90.0% of the portfolio, with unstabilized units at 3.0% and repositioning at 7.0%. According to some forecasts, 2019 rents in Toronto are expected to rise about 11% given the severe shortage of units for rent and, in our opinion, this seems reasonable. As I have stated for a a while, rental rates have gone up less than home prices for over 30 years and thus have a lot of room to move ahead in the next few years relative to house and condo prices. I do believe we have already seen the turning point and that rents will go up faster than home prices for the next few years, likely the medium term.

Portfolio occupancy exceeded 98.6% at the end of 2018, which reflects strong demand, low market vacancy rates, an increased tendency for residents to "stay put", and also excellent execution by our operating teams. We were able to push operating margins further, increasing them to about 67.1% up from 63.9% in 2017. We anticipate that we will add another 1.9 percentage points in 2019 and are targeting 69.0% for the full year 2019, all other things being equal.

All told, 2018 was even stronger than 2017, which at the time, was our best year ever. The REIT, on a consolidated basis, earned $196.0 million, up from $145.7 million; REOT earned $40.8 million, down from $44.2 million; and CFIT earned $4.6 million, up from $1.0 million. REIT consolidated assets ended the year at $1.794 billion, REOT assets ended the year at $556.3 million, and CFIT assets ended the year at $48.2 million.

A Look Forward to 2019

We continue to believe that there will be limited opportunities to buy value add properties in Canada due to tight market conditions similar to how the market has been the last few years. Our main focus is on new properties in Canada and the U.S., debt investment. and development opportunities where we find the risk/reward to be in our favour relative to buying older apartments requiring repositioning at today's prices.

We think that strong rental demand and rising rents will give the REIT an opportunity to increase both Net Operating Income and our margins, as we have consistently been able to do over time. Further, this strong rental growth may increase the potential for more development deals.

We believe that the financial markets will continue to be volatile in 2019, possibly much more so than the last quarter of 2018. I have significant concerns about Canada's direction, which I continue to be vocal about. Our inability to build pipelines to export our largest source of national wealth is doing serious harm. Capital is leaving Canada and less money is coming to Canada to invest as we are not seen as a good place to invest currently. I have concerns about the U.S. in that the Democrat-controlled house will likely focus more on disrupting Trump than passing sound policy, leading to significant economic uncertainty which could in itself significantly slow the economy. The government shutdown, now at a record length is just one more representation of the risks that politics could have on the economy. China also seems to be slowing significantly and there has been a rapid build up of debt, which could be a danger to China's financial stability. Given that its economy was a significant contributor to global growth, likely means that 2019 will be a slow year for the global economy with the potential for negative shocks, mostly due to political concerns. That said, given that 2019 is year 11 of a 5-year business cycle, a slowdown is long past due and is largely anticipated by the market at this point.

I believe that our portfolios are well-positioned into 2019. Leverage is exceptionally low in the REIT at 29.2%, REOT of 2.4% and CFIT effectively zero. With vacancy rates so low and a generally slowing economy, we expect rental demand to be robust with strong growth in rents. We have excellent tailwinds behind us on the property portfolio. The lending portfolio is also performing exceptionally well with plenty of runway to grow the portfolio. There is an excellent pipeline of U.S. investment opportunities, which we are examining. Liquidity positions are very good and we believe we'll be able to use that to seize the opportunities we expect to see in 2019.

Greg Romundt