



2017 ANNUAL REPORT

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FINANCIAL HIGHLIGHTS

Year Ended December 31 (In Thousands)

	2017	2016
INCOME STATEMENT		
Rental Revenues	\$ 10,040	\$ 1,560
Total Expenses ⁽¹⁾	12,585	4,739
Net Income	(2,525)	(3,173)
Funds From Operations	3,357	(1,941)
Modified Funds From Operations	4,035	351

BALANCE SHEET

Total Real Estate Investments ⁽²⁾	\$ 94,224	\$ 47,916
Total Assets	117,224	68,927
Total Liabilities	76,609	40,322
Shareholder Equity	40,615	28,605

SHAREHOLDER DATA

(Weighted Average Balances)

Common Shares Outstanding	2,956	1,148
UPREIT Units Outstanding	2,342	753
Common Shares/UPREIT Units Outstanding	5,298	1,901

(1) Total Expenses include acquisition costs which occur at the time of purchase only. Subject to new FASB standards in the second quarter of 2017.

(2) Total Real Estate Investments include real estate and related assets purchased at the time of acquisition.

DEAR VALUED INVESTORS,

On behalf of your Board of Trustees, Officers and the entire Sterling Team, thank you for placing your trust in us to provide consistent dividends and long-term growth of your investment. We are very pleased with our first two years of operations as we are establishing a strong foundation of quality, income producing real estate.

COMPANY FORMATION

Sterling Office and Industrial Trust was formed on March 2, 2016 to invest primarily in a diversified portfolio of single or multi-tenant, office and industrial properties leased to creditworthy tenants. Our core investments lie primarily in the Midwest corridor. Sterling Office and Industrial Properties, LLLP is the separate operating partnership that holds our real estate. Sterling Management, LLC is the external management company that manages our portfolio of real estate. Each company operates with one goal in mind, to provide investors with stable and reliable financial returns from quality, long-term real estate investments.

BUILDING THE FOUNDATION THROUGH ACQUISITION

In its first twenty-two months, Sterling Office and Industrial Trust has established the foundation of a strong performing investment fund for both the near-term as well as the long-term. Since our inception, we have grown our portfolio at a stable pace and established a highly respected reputation across multiple markets. Our ability to close transactions quickly, combined with the quality character of our advisor group, has provided long lasting credibility, adding value to the equity of our brand. Our newly established relationships, in addition to our long-standing relationships, are vitally important to cascading our mission as we seek to become a market leader in the primary markets we enter.

In 2017, we continued to establish our presence in the Omaha, NE market by adding 274,426 square feet of coveted multi-tenant office property. We also made a notable entrance into the Kansas City market by securing 237,000 square feet of multi-tenant office property in Overland Park, KS, a premier suburban business district. These assets were obtained through a total investment value of \$53.8 million. With this growth, our portfolio gives us a substantial baseline for success throughout the Midwest and will anchor strong financial returns as we continue to grow. We will continue to seek opportunities in several new markets and look to establish a greater presence in our current geography.

PERFORMANCE

An emerging portfolio takes time, patience and relentless effort to deliver optimal results. Although Sterling Office and Industrial Trust remains in its start-up phase, we are very pleased with our intentional growth and healthy financial performance. Our revenues grew by \$8.5 million over 2016, increasing to \$10.0 million and Net Operating Income (NOI) grew by a significant \$6.0 million, ending at \$7.2 million for the year. Perhaps most impressive, our Funds from Operations (FFO), a key real estate performance benchmark, grew by \$5.3 million, resulting in a year-end FFO



PACIFIC HILLS IV



PACIFIC HILLS V

of \$0.63 per share. This is a remarkable achievement, as our funds from operations of our real estate investments now cover 113% of our annual dividend yield. A high dividend coverage ratio is a key objective for Sterling Office and Industrial Trust and we are pleased with the growth.

We believe the fundamental measure of our success is the value we create for our shareholders. In 2017, we returned \$2.9 million in dividends and distributions to our holders of shares and units. Additionally, our shareholder equity increased 42% (\$28.6 million in 2016 versus \$40.6 million in 2017).

We continue to be diligent in our effort to maximize value through operating efficiency. In 2017, our NOI margin (NOI as a percent of total revenue) remained strong at 71.9%. Economic occupancy continues to outperform the national average for both office and industrial sectors, ending the year at 97.5%. These results demonstrate the precision in which we operate and establishes a benchmark of sustainable growth to build upon over the life of every property we own.

Financially, the health of our capital environment remained solid as we continued to take advantage of historically low interest rates. Our debt is well structured with an average interest rate of 4.20% and an average remaining loan term of 68 months, giving us long-term stability. Additionally, our Debt to Market Capitalization (Total Debt / Total Debt + Market Equity) increased slightly in 2017, to 58.4%, providing us with an optimal leveraged position by blending the benefits of lower cost debt while having a secure equity interest in each property.

OUR FUTURE

In 2018 we anticipate raising additional capital. This new equity will allow us to continue to make strategic acquisitions, further contributing to our mission of delivering a sustainable, quality income stream to our investors and ultimately generating a high valuation potential for our owners.

By adhering to our high standards and focused discipline, we anticipate 2018 to be another year of stabilized growth. We are grateful for you, our investors, for the confidence and trust you have placed in us. We look forward to another year of reliable dividend/distribution returns and continued growth.

Sincerely,

Wilbur D. Wright

Wilbur D. Wright
Chairman of the Board

Kenneth P. Regan

Kenneth P. Regan
Chief Executive Officer



COLLEGE OAKS



NORTH PARK 2

OUR BUSINESS

THE REIT STRUCTURE

A Real Estate Investment Trust (“REIT”) is an investment vehicle created in 1960 by the United States Congress with the Real Estate Investment Trust Act. This Act authorized a real estate ownership structure treated similar to mutual funds; a tax-exempt pass-through entity with broad based ownership, distributing most of its earnings and capital gains to investors. Investment in a REIT offers diversification benefits, since REITs often offer differing investment strategies in terms of property type and geographic focus.

STERLING OFFICE AND INDUSTRIAL TRUST

Sterling Office and Industrial Trust is an unincorporated North Dakota trust formed on March 2, 2016, to invest primarily in a diversified portfolio of freestanding, single or multi-tenant office and industrial properties leased to creditworthy tenants. The Trust has elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code. The Trust’s Mission is to provide investors the opportunity of long-term ownership in lower-risk and well-managed income-producing real estate.

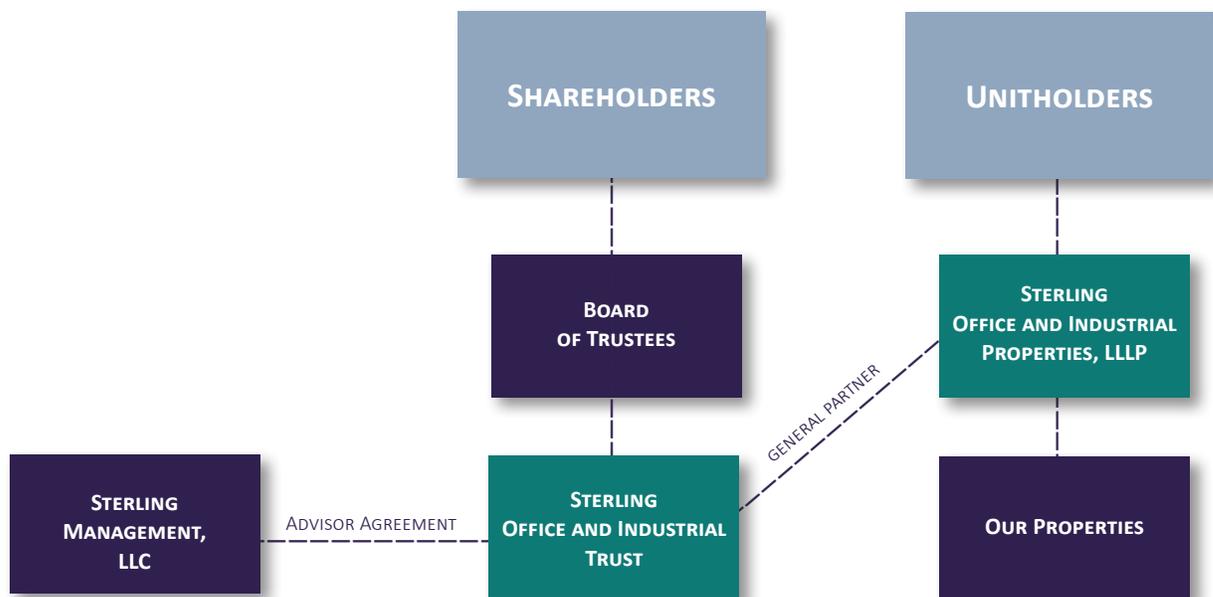
STERLING OFFICE AND INDUSTRIAL PROPERTIES, LLLP

Sterling Office and Industrial Trust is an Umbrella Partnership Real Estate Investment Trust that holds all of its properties in a separate partnership, Sterling Office and Industrial Properties, LLLP (“Sterling Office and Industrial Properties”). The Trust controls Sterling Office and Industrial Properties and acts as its general partner. The Trust uses Sterling Office and Industrial Properties to acquire properties, including through the exchange of limited partnership units for properties. These “UPREIT” exchanges can be advantageous, as the seller may be able to defer taxation of gain until the seller later resells the limited partnership units received in the exchange. By offering sellers the ability to defer taxation, the Trust gains an advantage in acquiring quality properties.

STERLING MANAGEMENT, LLC

Sterling Office and Industrial Trust operates under the direction of the Board of Trustees. Sterling Office and Industrial Trust has no employees, and therefore retains Sterling Management, LLC to manage its owned real estate and business operations. Sterling Management’s CEO, President, CIO, and CAO serve as executive officers of the trust.

ORGANIZATIONAL STRUCTURE



COLLEGE OAKS OFFICE PARK

2017 HIGHLIGHTS

JANUARY

15 Sterling Office and Industrial Trust paid a fourth quarter 2016 dividend of \$0.1125 per share. Sterling Office and Industrial Properties, LLLP paid a fourth quarter 2016 distribution of \$0.1125 per unit. This was the 3rd quarterly dividend and distribution paid.

FEBRUARY

16 Sterling Office and Industrial Properties, LLLP successfully acquired North Park 4 and 5 office buildings located in Omaha, Nebraska for \$18,000,000. The purchase was comprised of two multi-tenant office buildings totaling 170,724 square feet.

APRIL

15 Sterling Office and Industrial Trust paid a first quarter 2017 dividend of \$0.1375 per share. Sterling Office and Industrial Properties, LLLP paid a first quarter 2017 distribution of \$0.1375 per unit. This was the 4th quarterly dividend and distribution paid.

The increase in payable dividends and distributions was attributed to a January 1, 2017 increase in share and unit prices from \$9.00 to \$10.00, and an increase in dividend yield from 5.0% to 5.5%.

JUNE

20 Sterling Office and Industrial Trust held its inaugural shareholder meeting at the Holiday Inn, Fargo, North Dakota.

JULY

15 Sterling Office and Industrial Trust paid a second quarter 2017 dividend of \$0.1375 per share. Sterling Office and Industrial Properties, LLLP paid a second quarter 2017 distribution of \$0.1375 per unit. This was the 5th quarterly dividend and distribution paid.

SEPTEMBER

14 Sterling Office and Industrial Properties, LLLP successfully acquires Pacific Hills III, IV, V and VI located in Omaha, Nebraska for \$10,342,500. The purchase was comprised of three multi-tenant buildings and one unimproved parcel of land, totaling 103,657 square feet.

25 Sterling Office and Industrial Trust elected Ryan M. Downs as President and Secretary of the Trust.

OCTOBER

15 Sterling Office and Industrial Trust paid a third quarter 2017 dividend of \$0.1375 per share. Sterling Office and Industrial Properties, LLLP paid a third quarter 2017 distribution of \$0.1375 per unit. This was the 6th quarterly dividend and distribution paid.

DECEMBER

13 Sterling Office and Industrial Trust's Board of Trustees approved an increase in share price from \$10.00 to \$10.25, effective January 1, 2018.

The Board of Trustees, acting as General Partner of Sterling Office and Industrial Properties, LLLP also approved an increase in the unit price from \$10.00 to \$10.25, effective January 1, 2018.

21 Sterling Office and Industrial Properties, LLLP successfully acquired College Oaks office park located in Overland Park, Kansas for \$25,520,000. The purchase was comprised of three multi-tenant office buildings totaling 236,837 square feet.

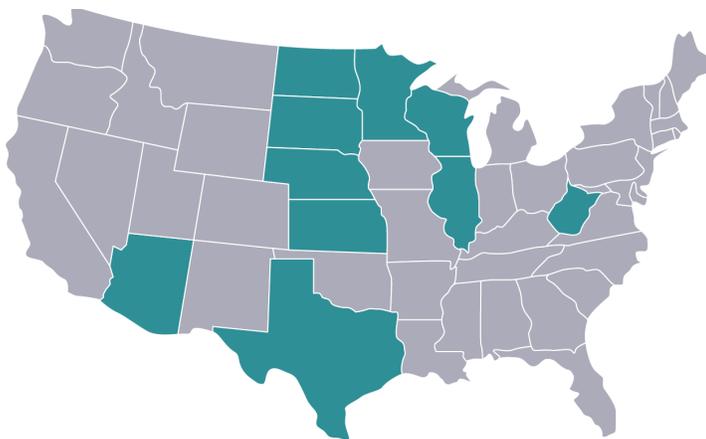
PORTFOLIO

DIVERSIFIED ASSETS BY INDUSTRY

We consider many factors as we build our portfolio of diversified office and industrial investment real estate. These factors include tenant strength, lease duration, financing terms, geography and industry. As of December 31, 2017, our portfolio consisted of 61% office space and 39% industrial space.

Sterling Office and Industrial Trust's investment objectives are to:

- Provide our investors a high-quality, long-term real estate investment through acquisition of stabilized office and industrial properties in the Midwest region of the United States.
- Offer an investment option where our common share value is correlated to real estate as an asset class rather than traditional asset classes such as stocks and bonds.
- Provide a hedge against inflation through the use of short-term and long-term lease arrangements with our tenants.



Our properties are geographically diverse with locations now in 10 states. Our properties are well located in or near metropolitan areas. We intend to maintain a long-term, buy-and-hold strategy while expanding our footprint throughout the Midwest corridor.

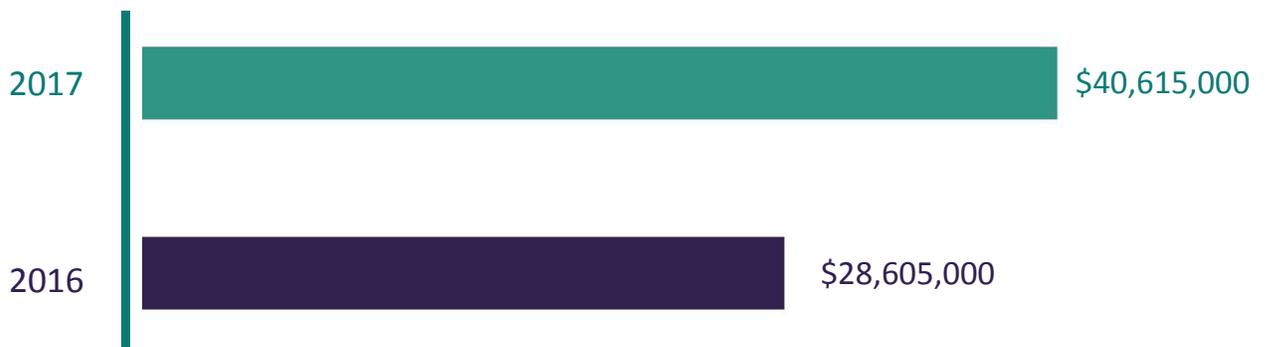


COLLEGE OAKS OFFICE PARK

INVESTOR RETURN

TOTAL EQUITY

Total equity is the residual interest in the assets of an entity that remains after deducting its liabilities. Sterling Office and Industrial Trust's year-end 2017 Equity was \$40,615,000, which includes accumulated depreciation and amortization of \$6,819,000 from real estate property value. Adding back the accumulated depreciation and amortization for 2017 shows an Adjusted Equity position of \$47,434,000.



DIVIDENDS AND DISTRIBUTIONS DECLARED

Sterling Office and Industrial Trust and Sterling Office and Industrial Properties, LLLP began a history of dividend and distribution payments to share and unit holders in 2016. In 2017, Sterling increased the annual yield from 5.00% to 5.50% (\$0.50 to \$0.55 per share) and declared its 7th consecutive quarterly dividend/distribution payment.



PER SHARE TOTALS

	2017	PERCENT CHANGE	2016
INVESTOR TOTALS			
Shareholders	202	80.4 %	112
Unitholders	22	10.0	21
Total	224	69.7	133

SHARES/UNITS OUTSTANDING

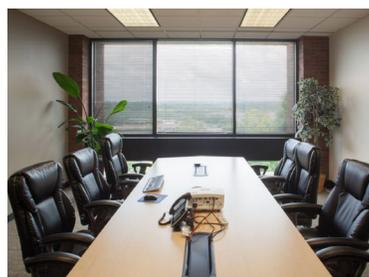
(Weighted YTD Average Balances)

Shares	2,956,198	157.6 %	1,147,593
Units	2,342,335	211.1	752,903
Total	5,298,534	178.8	1,900,496

PER SHARE TOTALS (\$)

(YTD)

Net Income	(0.48)	71.3 %	(1.67)
Funds From Operations (FFO)	0.63	161.8	(1.02)
Modified Funds From Operations (MFFO)	0.76	322.2	0.18
Price per Share	10.00	11.1	9.00
Dividends per Share	0.5500	63.0	0.3375
Dividends Declared	2,974,609	239.5	876,251



COLLEGE OAKS OFFICE PARK

BOARD OF TRUSTEES



WILBUR WRIGHT

Chairman of the Board,
Sterling Office and
Industrial Trust
1, 2*



KENNETH REGAN

Chief Executive Officer,
Sterling Office and
Industrial Trust



TIMOTHY HAUGEN

Former Vice President,
Sanford Health,
Orthopedics and Sports
Medicine
1*



RUP NAGALA

Physician, Sanford Health
3



JAMES WIELAND

Managing Partner,
GOLDMARK Commercial
Real Estate, Inc.
2, 3



DANIEL WILSON

Chief Financial Officer and
Vice President,
Corwin Automotive Group
1, 2



LANCE WOLF

Executive Vice President/
Director of Financial
Services, Gate City Bank
3*

1. Audit Committee
2. Executive Committee
3. Nominations and Governance Committee
* Committee Chair

The Sterling Office and Industrial Trust Board of Trustees met four times in 2017 and held nine committee meetings. Board members focus on a number of areas of importance to investors including: strategy, performance, risk management and regulatory matters. In 2017, the Board of Trustees received briefings on a variety of issues including financial performance, acquisition of assets, state and federal tax issues and regulatory and compliance matters.

EXECUTIVE OFFICERS STERLING OFFICE AND INDUSTRIAL TRUST

KENNETH REGAN
Chief Executive Officer

RYAN DOWNS
President

ANGELA STOCK
Chief Accounting Officer

JOEL THOMSEN
Chief Investment Officer

INVESTOR RELATIONS

Sterling Office and Industrial Trust was formed to invest primarily in a diversified portfolio of freestanding, single and multi-tenant, office and industrial properties leased to creditworthy tenants. Our work for investors starts with our Mission; to provide investors the opportunity of long-term ownership in lower-risk and well-managed income-producing real estate. It declares our purpose and serves as the gold standard against which we weigh our decisions. It is enduring and drives us to consistently look forward.

Communications concerning shareholder address changes, stock transfers, changes of ownership, payment of dividends or other account services can be directed to:

Brittany Edmondson
Investor Relations Coordinator
1711 Gold Drive South, Suite 100
Fargo, ND 58103
(877) 269-1031
bedmondson@sretrust.com

For additional information, visit us online at www.soitrust.com.

ANNUAL MEETING

We sincerely hope you can join us for this year's annual meeting on June 20, 2018, at 6:00 p.m. at the Holiday Inn, Fargo, North Dakota.

If you have any questions regarding the annual meeting, please contact Brittany Edmondson by calling (877) 269-1031.

We look forward to seeing you in June!



NORTH PARK 5



NORTH PARK 1

AUDITED FINANCIALS

December 31, 2017

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STERLING | OFFICE AND INDUSTRIAL TRUST

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS AS OF *DECEMBER 31, 2017* AND *2016*,
AND THE RELATED CONSOLIDATED STATEMENTS OF OPERATIONS,
SHAREHOLDERS' EQUITY AND CASH FLOWS FOR THE YEAR ENDED
DECEMBER 31, 2017 AND PERIOD FROM *MARCH 11, 2016 (INCEPTION) TO DECEMBER 31, 2016*
INCLUDING NOTES

and

INDEPENDENT AUDITORS' REPORT

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES

INDEPENDENT AUDITOR’S REPORT ii

CONSOLIDATED FINANCIAL STATEMENTS

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 Consolidated Statements of Shareholders’ Equity 3

 Consolidated Statements of Cash Flows 4

 Notes to Consolidated Financial Statements 6

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Audit Committee and Board of Directors
Sterling Office and Industrial Trust and Subsidiaries
Fargo, North Dakota

We have audited the accompanying consolidated financial statements of Sterling Office and Industrial Trust and its subsidiaries (“the Company”) which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of operations, shareholders’ equity, and cash flows for the year ended December 31, 2017 and for the period March 11, 2016 to December 31, 2016 and the related notes to the consolidated financial statements.

Management’s Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors’ Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the year ended December 31, 2017 and for the period March 11, 2016 to December 31, 2016 in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Chicago, Illinois
March 27, 2018

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2017 AND 2016

	December 31,	December 31,
	2017	2016
	(in thousands)	
ASSETS		
Real estate investments	\$ 91,488	\$ 47,586
Cash and cash equivalents	6,165	9,419
Restricted deposits	242	-
Receivables	619	144
Prepaid expenses	30	26
Financing and lease costs, less accumulated amortization of \$1 in 2017 and \$5 in 2016	7	5
Intangible assets, less accumulated amortization of \$4,367 in 2017 and \$387 in 2016	18,560	11,247
Other assets	113	500
Total Assets	\$ 117,224	\$ 68,927
LIABILITIES		
Mortgage notes payable, net	\$ 68,720	\$ 35,168
Special assessments payable	380	295
Dividends and distributions payable	750	411
Due to related party	510	775
Tenant security deposits payable	322	94
Lease intangible liabilities, less accumulated amortization of \$433 in 2017 and \$64 in 2016	4,374	2,897
Accounts payable - trade	171	179
Accrued expenses and other liabilities	1,382	503
Total Liabilities	76,609	40,322
SHAREHOLDERS' EQUITY		
Beneficial interest	23,678	9,761
Noncontrolling interest		
Special limited partner in the Operating Partnership	5	5
Common unitholders in the Operating Partnership	16,932	18,839
Total Noncontrolling interest	16,937	18,844
Total Shareholders' Equity	40,615	28,605
Total Liabilities and Shareholders' Equity	\$ 117,224	\$ 68,927

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND PERIOD FROM MARCH 11, 2016
(INCEPTION) TO DECEMBER 31, 2016

	Year Ended December 31, 2017	Period Ended December 31, 2016
	(in thousands, except per share data)	
Income from rental operations		
Real estate rental income	\$ 8,143	\$ 1,502
Tenant reimbursements	1,897	58
	10,040	1,560
Expenses		
Expenses from rental operations		
Interest	2,122	425
Depreciation and amortization	5,882	792
Real estate taxes	810	306
Property management fees	254	5
Utilities	569	13
Repairs and maintenance	1,136	20
Insurance	56	4
Goodwill impairment	-	439
	10,829	2,004
Administration of REIT		
Administrative expenses	134	63
Advisory fees	798	249
Acquisition and disposition expenses	679	2,293
Trustee fees	24	20
Legal and accounting	122	111
	1,757	2,736
Total expenses	12,586	4,740
Loss from operations	\$ (2,546)	\$ (3,180)
Other income (expense)	21	7
Net loss	\$ (2,525)	\$ (3,173)
Net loss attributable to noncontrolling interest	(1,116)	(1,257)
Net loss attributable to Sterling Office and Industrial Trust	\$ (1,409)	\$ (1,916)
Net loss per common share, basic and diluted	\$ (0.48)	\$ (1.67)

**STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017 AND PERIOD FROM MARCH 11, 2016 (INCEPTION) TO DECEMBER 31, 2016**

	Common Shares	Paid-in Capital	Accumulated Distributions in Excess of Earnings	Total		Total
				Beneficial Interest	Noncontrolling Interest	
(in thousands)						
BALANCE AT MARCH 11, 2016	-	\$ -	\$ -	-	\$ -	\$ -
Issuance of common shares	1,330	11,910	-	11,910	-	11,910
Contribution of assets in exchange for the issuance of noncontrolling interest shares	-	-	-	-	20,524	20,524
Dividends and distributions declared	-	-	(453)	(453)	(423)	(876)
Dividends reinvested - stock dividend	23	220	-	220	-	220
Net loss	-	-	(1,916)	(1,916)	(1,257)	(3,173)
BALANCE AT DECEMBER 31, 2016	1,353	\$ 12,130	\$ (2,369)	\$ 9,761	\$ 18,844	\$ 28,605
Issuance of common shares	1,650	16,500	-	16,500	-	16,500
Contribution of assets in exchange for the issuance of noncontrolling interest shares	-	-	-	-	500	500
Dividends and distributions declared	-	-	(1,684)	(1,684)	(1,291)	(2,975)
Dividends reinvested - stock dividend	105	998	-	998	-	998
Syndication costs	-	-	(488)	(488)	-	(488)
Net loss	-	-	(1,409)	(1,409)	(1,116)	(2,525)
BALANCE AT DECEMBER 31, 2017	3,108	\$ 29,628	\$ (5,950)	\$ 23,678	\$ 16,937	\$ 40,615

See notes to consolidated financial statements

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND PERIOD FROM MARCH 11, 2016
(INCEPTION) TO DECEMBER 31, 2016

	Year Ended December 31, 2017	Period Ended December 31, 2016
(in thousands)		
OPERATING ACTIVITIES		
Net loss	\$ (2,525)	\$ (3,173)
Adjustments to reconcile net loss to net cash from operating activities		
Depreciation	2,406	330
Amortization	3,612	419
Amortization of debt issuance costs	109	45
Goodwill impairment	-	439
Effects on operating cash flows due to changes in		
Restricted deposits - tenant security deposits	(42)	-
Receivables	(475)	(144)
Prepaid expenses	(4)	(26)
Other assets	387	(500)
Due to related party	(265)	775
Tenant security deposits payable	1	40
Accounts payable - trade	(181)	53
Accrued expenses and other liabilities	319	429
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	3,342	(1,313)
INVESTING ACTIVITIES		
Purchase of real estate investment properties	(18,833)	(4,274)
Capital expenditures and tenant improvements	(352)	-
Restricted deposits - replacement reserves	(200)	-
NET CASH USED IN INVESTING ACTIVITIES	(19,385)	(4,274)
FINANCING ACTIVITIES		
Payments for financing and lease costs	(373)	(289)
Principal payments on special assessments payable	(4)	(15)
Proceeds from issuance of mortgage notes payable	-	3,854
Principal payments on mortgage notes payable	(1,209)	(208)
Proceeds from issuance of common shares	16,500	11,910
Dividends/distributions paid	(1,637)	(246)
Payment of syndication costs	(488)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	12,789	15,006
NET CHANGE IN CASH AND CASH EQUIVALENTS	(3,254)	9,419
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,419	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 6,165	\$ 9,419

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017 AND PERIOD FROM MARCH 11, 2016 (INCEPTION)
TO DECEMBER 31, 2016 (continued)

	Year Ended	Period Ended
	December 31,	December 31,
	2017	2016
(in thousands)		
SCHEDULE OF CASH FLOW INFORMATION		
Cash paid during the period for interest	\$ 1,946	\$ 322
SUPPLEMENTARY SCHEDULE OF NONCASH INVESTING AND FINANCING ACTIVITIES		
Dividends reinvested	\$ 998	\$ 220
Dividends declared and not paid	427	152
UPREIT distributions declared and not paid	323	258
Acquisitions of assets in exchange for the issuance of noncontrolling interest units in UPREIT	500	20,524
Increase in land improvements due to increase in special assessments payable	104	288
Acquisition of assets with new financing	35,023	14,314
Acquisition of assets through assumption of debt and liabilities	594	17,719

STERLING OFFICE AND INDUSTRIAL TRUST AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

(Dollar amounts in thousands, except share and per share data)

NOTE 1 - ORGANIZATION

Sterling Office and Industrial Trust (“Sterling”, “the Trust” or “the Company”) is a registered, but unincorporated business trust organized in North Dakota in March 2016. Sterling has elected to be taxed as a Real Estate Investment Trust (“REIT”) under Sections 856-860 of the Internal Revenue Code, which requires that 75% of the assets of a REIT must consist of real estate assets and that 75% of its gross income must be derived from real estate. The net income of the REIT is allocated in accordance with the stock ownership in the same fashion as a regular corporation.

Sterling plans to hold all, or substantially all, of the assets through an operating partnership (“Sterling Office and Industrial Properties, LLLP”), a limited liability limited partnership (“LLLP”) organized in North Dakota in March 2016. The Operating Partnership will own real estate investments and other real estate related assets, directly or indirectly. As the general partner, Sterling has management responsibility for all activities of the operating partnership. As of December 31, 2017 and 2016, Sterling owned approximately 57.0% and 37.1% of the operating partnership, respectively.

NOTE 2 – PRINCIPAL ACTIVITY AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements include the accounts of Sterling and all subsidiaries for which we maintain a controlling interest.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of Sterling, Sterling Office and Industrial Properties, LLLP and wholly-owned limited liability companies. All significant intercompany transactions and balances have been eliminated in consolidation.

Additionally, we evaluate the need to consolidate affiliates based on standards set forth in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 810, Consolidation (“ASC 810”). In determining whether we have a requirement to consolidate the accounts of an entity, management considers factors such as our ownership interest, our authority to make decisions and contractual and substantive participating rights of the limited partners and shareholders, as well as whether the entity is a variable interest entity (“VIE”) for which we have both: a) the power to direct the activities of the VIE that most significantly impact the entity’s economic performance, and b) the obligation to absorb losses or the right to receive benefits from the VIE that could be potentially significant to the VIE.

Principal Business Activity

Sterling expects to acquire primarily freestanding, single or multi-tenant office and industrial properties net leased to creditworthy tenants.

Sterling owns 18 commercial industrial and office properties located in Arizona, Illinois, Kansas, Minnesota, Nebraska, North Dakota, South Dakota, Texas, West Virginia and Wisconsin as of December 31, 2017.

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Commercial Property	Location	No. of Properties	Sq. Ft
	Arizona	1	63,618
	Illinois	1	49,090
	Kansas	3	236,837
	Minnesota	1	116,605
	Nebraska	7	395,628
	North Dakota	1	102,000
	South Dakota	1	98,816
	Texas	1	72,800
	West Virginia	1	18,815
	Wisconsin	1	131,802
		<u>18</u>	<u>1,286,011</u>

Concentration of Credit Risk

Our cash balances are maintained in various bank deposit accounts. The bank deposit amounts in these accounts may exceed federally insured limits at various times throughout the year.

Real Estate Investments

Real estate investments are recorded at cost less accumulated depreciation. Ordinary repairs and maintenance are expensed as incurred.

The Company allocates the purchase price of each acquired investment property accounted for as a business combination based upon the estimated acquisition date fair value of the individual assets acquired and liabilities assumed, which generally include (i) land, (ii) building and other improvements, (iii) in-place lease value intangibles, (iv) acquired above and below market lease intangibles, (v) any assumed financing that is determined to be above or below market, (vi) the value of customer relationships and (vii) goodwill, if any. Transaction costs related to acquisitions accounted for as business combinations are expensed as incurred and included within "Administration of REIT expenses" in the accompanying consolidated statements of operations and other comprehensive income.

The Company elected to early adopt ASU 2017-01, Business Combinations, on a prospective basis as of July 1, 2017. This new guidance clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not considered a business and, thus, accounted for as an asset acquisition as opposed to a business combination. Refer to the "Recent Accounting Pronouncements" section within Note 2 to the consolidated financial statements. Under this new guidance, the Company expects most acquisitions of investment property will meet this screen and, thus, be accounted for as asset acquisitions. The Company allocates the purchase price of each acquired investment property that is accounted for as an asset acquisition based upon the relative fair value of the individual assets acquired and liabilities assumed, which generally include (i) land, (ii) building and other improvements, (iii) in-place lease value intangibles, (iv) acquired above and below market lease intangibles, (v) any assumed financing that is determined to be above or below market and (vi) the value of customer relationships. Asset acquisitions do not give rise to goodwill and the related transaction costs are capitalized and included with the allocated purchase price.

For tangible assets acquired, including land, building and other improvements, the Company considers available comparable market and industry information in estimating acquisition date fair value. Key factors considered in the calculation of fair value of both real property and intangible assets include the current market rent values, "dark" periods (building in vacant status), direct costs estimated with obtaining a new tenant, discount rates, escalation factors, standard lease terms, and tenant improvement costs. The Company allocates a portion of the purchase price to the estimated acquired in-place lease value intangibles based on factors available in third party appraisals or cash flow estimates of the property prepared by our internal analysis. These estimates are based upon cash flow projections

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for the property, existing leases, lease origination costs for similar leases as well as lost rental payments during an assumed lease-up period. The Company also evaluates each acquired lease as compared to current market rates. If an acquired lease is determined to be above or below market, the Company allocates a portion of the purchase price to such above or below market leases based upon the present value of the difference between the contractual lease payments and estimated market rent payments over the remaining lease term. Renewal periods are included within the lease term in the calculation of above and below market lease values if, based upon factors known at the acquisition date, market participants would consider it reasonably assured that the lessee would exercise such options. Fair value estimates used in acquisition accounting, including the discount rate used, require the Company to consider various factors, including, but not limited to, market knowledge, demographics, age and physical condition of the property, geographic location, and size and location of tenant spaces within the acquired investment property.

The portion of the purchase price allocated to acquired in-place lease value intangibles is amortized on a straight-line basis over the life of the related lease as amortization expense. The Company incurred amortization expense pertaining to acquired in-place lease value intangibles of \$3,476 and \$365 for the year ended December 31, 2017 and period ended December 31, 2016, respectively.

The portion of the purchase price allocated to acquired above and below market lease intangibles is amortized on a straight-line basis over the life of the related lease as an adjustment to rental income. Amortization pertaining to above market lease intangibles of \$505 and \$22 for the years ended December 31, 2017 and 2016, respectively, was recorded as a reduction to income from rental operations. Amortization pertaining to below market lease intangibles of \$369 and \$64 for year ended December 31, 2017 and period ended December 31, 2016, respectively, was recorded as an increase to income from rental operations.

Furniture and fixtures are stated at cost less accumulated depreciation. All costs associated with the development and construction of real estate investments, including acquisition fees and interest, are capitalized as a cost of the property. Expenditures for renewals and improvements that significantly add to the productive capacity or extend the useful life of an asset are capitalized. Expenditures for routine maintenance and repairs, which do not add to the value or extend useful lives, are charged to expense as incurred.

Depreciation is provided for over the estimated useful lives of the individual assets using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Furniture, fixtures and equipment	5-9 years
Tenant improvements	1-20 years

Depreciation expense for the year ended December 31, 2017 totaled \$2,406. Depreciation expense from inception to December 31, 2016 totaled \$330.

The Company's investment properties are reviewed for potential impairment at the end of each reporting period whenever events or changes in circumstances indicate that the carrying value may not be recoverable. At the end of each reporting period, the Company separately determines whether impairment indicators exist for each property.

Examples of situations considered to be impairment indicators include, but are not limited to:

- a substantial decline or continued low occupancy rate;
- continued difficulty in leasing space;
- significant financially troubled tenants;
- a change in plan to sell a property prior to the end of its useful life or holding period;
- a significant decrease in market price not in line with general market trends; and
- any other quantitative or qualitative events or factors deemed significant by the Company's management or board of trustees.

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If the presence of one or more impairment indicators as described above is identified at the end of the reporting period or throughout the year with respect to an investment property, the asset is tested for recoverability by comparing its carrying value to the estimated future undiscounted cash flows. An investment property is considered to be impaired when the estimated future undiscounted cash flows from the use and eventual disposition of the property are less than its current carrying value. When performing a test for recoverability or estimating the fair value of an impaired investment property, the Company makes complex or subjective assumptions which include, but are not limited to:

- projected operating cash flows considering factors such as vacancy rates, rental rates, lease terms, tenant financial strength, demographics, holding period and property location;
- projected capital expenditures and lease origination costs;
- projected cash flows from the eventual disposition of an operating property using a property specific capitalization rate;
- comparable selling prices; and
- property specific discount rates for fair value estimates as necessary.

To the extent impairment has occurred, the Company will record an impairment charge calculated as the excess of the carrying value of the asset over its fair value for impairment of investment properties. There were no impairment losses on real estate properties during the year ended December 31, 2017 or the period ended December 31, 2016.

Cash and Cash Equivalents

We classify highly liquid investments with a maturity of three months or less when purchased as cash equivalents.

Receivables

Receivables consist primarily of amounts due for rent and real estate taxes. The receivables are non-interest bearing. The carrying amount of receivables is reduced by an amount that reflects management's best estimates of the amounts that will not be collected. As of December 31, 2017 and 2016, management determined no allowance was necessary for uncollectible receivables.

Financing and Lease Costs

Financing costs related to lines of credit have been capitalized and are being amortized over the life of the financing using the effective interest method. Unamortized financing costs are written off when debt is retired before the maturity date and included in amortization expense at that time.

Lease costs incurred in connection with new leases have been capitalized and are being amortized over the life of the lease using the straight-line method. We record the amortization of leasing costs in depreciation and amortization on the consolidated statements of operations. If an applicable lease terminates prior to the expiration of its initial lease term, we write off the carrying amount of the costs to amortization expense.

Debt Issuance Costs

We amortize external debt issuance costs related to notes and mortgage notes using the effective interest rate method, over the estimated life of the related debt. We record debt issuance costs related to notes and mortgage notes, net of amortization, on our consolidated balance sheets as an offset to their related debt. We record debt issuance costs related to revolving lines of credit on our consolidated balance sheets as financing fees, regardless of whether a balance on the line of credit is outstanding. We record the amortization of all debt issuance costs as interest expense.

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Intangible Assets

Lease intangibles are a result of the purchase price allocation recorded on property acquisition. The lease intangibles represent the estimated value of in-place leases, tenant relationships and the value of leases with above or below market lease terms. Lease intangibles are amortized over the term of the related lease.

The carrying amount of intangible assets is regularly reviewed for indicators of impairments in value. Impairment is recognized only if the carrying amount of the intangible asset is considered to be unrecoverable from its undiscounted cash flows and is measured as the difference between the carrying amount and the estimated fair value of the asset. Based on the review, management determined no impairment charges were necessary at December 31, 2017 and 2016.

Goodwill

We record the excess cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed as goodwill. Goodwill is not amortized but is tested for impairment on an annual basis during the fourth quarter of each calendar year, or more frequently if circumstances indicate that a possible impairment has occurred. The goodwill was determined to be impaired as of December 31, 2016 and was written-off. See Note 15 for additional information.

Noncontrolling Interest

A noncontrolling interest in a subsidiary (minority interest) is in most cases an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements and separate from the parent company's equity. In addition, consolidated net income is required to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest and the amount of consolidated net income attributable to the parent and the noncontrolling interest are required to be disclosed on the face of the consolidated statement of operations.

Operating Partnership: Interests in the operating partnership held by limited partners are represented by operating partnership units. The operating partnership's income is allocated to holders of units based upon the ratio of their holdings to the total units outstanding during the period. Capital contributions, distributions, syndication costs, and profits and losses are allocated to noncontrolling interests in accordance with the terms of the operating partnership agreement.

Syndication Costs

Syndication costs consist of costs paid to attorneys, accountants, and selling agents, related to the raising of capital. Syndication costs are recorded as a reduction to beneficial and noncontrolling interest.

Special Limited Partner

Pursuant to the LLLP Agreement, the Founders (as defined in the Trust's Private Placement Memorandum dated April 1, 2016) own, jointly, one (1) special limited partnership interest in the operating partnership. As a special limited partner, the Founders have no voting rights but have rights to certain redemption payments upon liquidation in exchange for the special limited partnership interest.

Federal Income Taxes

We have elected to be taxed as a REIT under the Internal Revenue Code, as amended, beginning with our taxable year ending December 31, 2016. A REIT calculates taxable income similar to other domestic corporations, with the major difference being a REIT is entitled to a deduction for dividends paid. A REIT is generally required to distribute each year at least 90% of its taxable income. If it chooses to retain the remaining 10% of taxable income, it may do so, but it will be subject to a corporate tax on such income. REIT shareholders are taxed on REIT distributions of ordinary income in the same manner as they are taxed on other corporate distributions. A summary of the tax characterization

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of the dividends paid to shareholders of the Company's common stock for the year ended December 31, 2017 and the period ended December 31, 2016 as follows:

	Tax Year Ended December 31,			
	Dividend	%	Dividend	%
	2017	2017	2016	2016
Tax status				
Ordinary income	\$ 0.5064	92.08 %	\$ 0.2644	78.34 %
Capital gain	-	-	-	-
Return of capital	0.0436	7.92 %	0.0731	21.66 %
	<u>\$ 0.5500</u>	<u>100.00 %</u>	<u>\$ 0.3375</u>	<u>100.00 %</u>

We intend to continue to qualify as a REIT and, provided we maintain such status, will not be taxed on the portion of the income that is distributed to shareholders. In addition, we intend to distribute all of our taxable income; therefore, no provisions or liabilities for income taxes have been recorded in the financial statements.

Sterling conducts its business activity as an Umbrella Partnership Real Estate Investment Trust ("UPREIT") through its Operating Partnership – Sterling Office and Industrial Properties, LLLP. The Operating Partnership is organized as a limited liability limited partnership. Income or loss is allocated to the partners in accordance with the provisions of the Internal Revenue Code 704(b) and 704(c). UPREIT status allows non-recognition of gain by an owner of appreciated real estate if that owner contributes the real estate to a partnership in exchange for a partnership interest. The conversion of a partnership interest to shares of beneficial interest in the REIT will be a taxable event to the limited partner.

We follow ASC Topic 740, *Income Taxes*, to recognize, measure, present and disclose in our consolidated financial statements uncertain tax positions that we have taken or expect to take on a tax return. As of December 31, 2017 and 2016, we did not have any liabilities for uncertain tax positions that we believe should be recognized in our consolidated financial statements.

We have elected to record related interest and penalties, if any, as income tax expense on the consolidated statements of operations and other comprehensive income.

Revenue Recognition

We derive over 95% of our revenues from tenant rents and other tenant-related activities. We lease commercial space primarily under long-term lease agreements. Commercial tenant rents include base rents, expense reimbursements (such as common area maintenance, real estate taxes and utilities), and a straight-line rent adjustment. We record base rents on a straight-line basis. The monthly base rent income according to the terms of our leases is adjusted so that an average monthly rent is recorded for each tenant over the term of its lease. The straight-line rent adjustment increased revenue by \$459 and \$141 for the year ended December 31, 2017 and period ended December 31, 2016, respectively. The straight-line receivable balance included in receivables on the consolidated balance sheet as of December 31, 2017 and 2016 was \$600 and \$141, respectively. We receive payments for expense reimbursements from certain multi-tenant commercial tenants throughout the year based on estimates. Differences between estimated recoveries and the final billed amounts, which generally are immaterial, are recognized in the subsequent year.

Earnings per Common Share

Basic earnings per common share is computed by dividing net income available to common shareholders (the "numerator") by the weighted average number of common shares outstanding (the "denominator") during the period. Sterling had no dilutive potential common shares as of December 31, 2017 and 2016, and therefore, basic earnings per common share was equal to diluted earnings per common share for the period.

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For the year ended December 31, 2017 and period ended December 31, 2016, Sterling's denominators for the basic and diluted earnings per common share were approximately 2,956,000 and 1,148,000, respectively.

Recent Accounting Pronouncements

In May 2014, the FASB and International Accounting Standards Board issued their final standard on revenue from contracts with customers, which was issued by the FASB as Accounting Standards Update 2014-09, *Revenue from Contracts with Customers*, or ASU 2014-09. ASU 2014-09, which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, supersedes most current GAAP applicable to revenue recognition and converges U.S. and international accounting standards in this area. The core principle of the new guidance is that revenue shall only be recognized when an entity has transferred control of goods or services to a customer and for an amount reflecting the consideration to which the entity expects to be entitled for such exchange. Additionally, lease contracts are specifically excluded from ASU 2014-09. In July 2015, the FASB decided to defer the effective date for annual reporting periods beginning after December 15, 2018. Early adoption is permitted beginning on the original effective date of periods beginning after December 15, 2016. Upon adoption, ASU 2014-09 allows for full retrospective adoption applied to all periods presented or modified retrospective adoption with the cumulative effect of initially applying the standard recognized at the date of initial application. We have performed a review of the requirements of the new guidance and have identified which of our revenue streams will be within the scope of ASU 2014-09. We have completed an adoption plan which included a review of transactions supporting each revenue stream to determine the impact of accounting treatment under ASU 2014-09, an evaluation of the method of adoption and assessing changes that might be necessary to information technology systems, processes and internal controls to capture new data and address changes in financial reporting. We will adopt this standard effective as of January 1, 2018 and will utilize the cumulative effect transition method of adoption. The adoption of this guidance will not have an impact on our financial position or results of operations. We concluded this standard will have an impact on the disclosure of gain/loss on sale of real estate investments upon the adoption of the update ASU 2016-02, Leases, but will not have an impact on "total real estate rental income."

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which amends existing accounting standards for lease accounting, including by requiring lessees to recognize most leases on the balance sheet and making certain changes to lessor accounting. The standard will take effect for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with earlier application permitted. The Company is evaluating the impact of ASU No. 2016-02 on its financial position and results of operations. In January 2018, the FASB released an exposure draft to ASU No. 2016-02 that if issued in its current form would (1) simplify transition requirements for both lessees and lessors by adding an option that would permit an organization to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements and, (2) provide a practical expedient for lessors that would permit lessors to not be required to separate non-lease components from the associated lease components if certain conditions are met.

In January 2017, the FASB issued a new standard which clarifies the definition of a business. The standard's objective is to add additional guidance that assists companies in determining whether transactions should be accounted for as an asset acquisition or a business combination. The new standard first requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If this threshold is not met, the entity next evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Among other differences, transaction costs associated with asset acquisitions are capitalized while those associated with business combinations are expensed as incurred. In addition, purchase price in an asset acquisition is allocated on a relative fair value basis while in a business combination it is generally measured at fair value. The Company early adopted the new standard as allowed effective July 1, 2017. The Company concluded that substantially all of its transactions will now be accounted for as asset acquisitions, which means transaction costs will largely be capitalized as noted above. The adoption of this pronouncement resulted in the Company's acquisition of investment property subsequent to July 1, 2017 to qualify as asset acquisition and as such, the related transaction costs of \$1,088 were capitalized.

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In November 2016, the FASB issued ASU No. 2016-18 to require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. Therefore, amounts generally described as restricted cash and restricted cash equivalents will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. ASU 2016-18 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. The pronouncement requires a retrospective transition method of adoption. Upon adoption, the Company will include amounts generally described as restricted cash within the beginning-of-period, change and end-of-period total amounts on the statement of cash flows rather than within an activity on the statement of cash flows.

In August 2016, the FASB issued ASU No. 2016-15 to provide guidance for areas where there is diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company does not currently anticipate that the guidance will have a material impact on our consolidated financial statements.

Management does not believe that any other recently issued, but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying Consolidated Financial Statements.

NOTE 3 – REAL ESTATE INVESTMENTS

As of December 31, 2017

	(in thousands)
Land and land improvements	\$ 23,331
Building and improvements	70,813
Furniture, fixtures and equipment	80
	<u>94,224</u>
Less accumulated depreciation	(2,736)
	<u>\$ 91,488</u>

As of December 31, 2016

	(in thousands)
Land and land improvements	\$ 9,632
Building and improvements	38,204
Furniture, fixtures and equipment	80
	<u>47,916</u>
Less accumulated depreciation	(330)
	<u>\$ 47,586</u>

NOTE 4 – RESTRICTED DEPOSITS AND FUNDED RESERVES

Tenant Security Deposits

We have set aside funds to repay tenant security deposits upon tenant move-out.

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Replacement Reserves

Pursuant to the terms of certain mortgages, we have established and maintain replacement reserve accounts.

NOTE 5 – LEASE INTANGIBLES

The following table summarizes the net value of other intangible assets and liabilities and the accumulated amortization for each class of intangible:

As of December 31, 2017	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
(in thousands)			
Intangible Assets			
In-place leases	\$ 21,028	\$ (3,841)	\$ 17,187
Above-market leases	1,899	(526)	1,373
	\$ 22,927	\$ (4,367)	\$ 18,560
Intangible Liabilities			
Below-market leases	\$ (4,807)	\$ 433	\$ (4,374)
As of December 31, 2016	Lease Intangibles	Accumulated Amortization	Lease Intangibles, net
(in thousands)			
Intangible Assets			
In-place leases	\$ 11,029	\$ (365)	\$ 10,664
Above-market leases	605	(22)	583
	\$ 11,634	\$ (387)	\$ 11,247
Intangible Liabilities			
Below-market leases	\$ (2,961)	\$ 64	\$ (2,897)

The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows:

Years ending December 31,	Intangible Assets	Intangible Liabilities
(in thousands)		
2018	\$ 4,937	\$ 689
2019	3,157	646
2020	2,562	625
2021	1,868	549
2022	1,076	283
Thereafter	4,960	1,582
	\$ 18,560	\$ 4,374

The weighted average amortization period for the intangible assets (in-place leases, above-market leases) and intangible liabilities (below-market leases) acquired as of December 31, 2017 was 3.52 years.

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NOTE 6 – LINE OF CREDIT

We have a \$1,388 variable rate (1-month LIBOR plus 2.00%) line of credit agreement with Bank of the West, which expires in June 2019. The line of credit is secured by property in Scott Depot, West Virginia. At December 31, 2017 and 2016, there was no balance outstanding on the line of credit, leaving \$1,388 available and unused under the agreement.

The line of credit agreement includes covenants that, in part, impose maintenance of certain debt service coverage and debt to net worth ratios. As of December 31, 2017, we were in compliance with all covenants.

NOTE 7 – MORTGAGE NOTES PAYABLE

The following table summarizes the Company's mortgage notes payable:

<u>Property Name</u>	<u>Maturity Date</u>	<u>Interest Rate Per Annum</u>	<u>December 31, 2017</u>	<u>December 31, 2016</u>
(in thousands)				
Dock 99	10/10/21	3.53 %	\$ 5,619	\$ 5,825
College Oaks A	01/01/28	4.20 %	11,900	-
College Oaks C	01/01/28	4.20 %	2,000	-
College Oaks D	01/01/28	4.20 %	2,700	-
Little Potato Company	12/21/21	4.35 %	10,268	10,500
MPP-Corsicana, TX	05/10/23	3.72 %	1,679	1,742
MPP-DuQuoin, IL	05/10/23	3.72 %	1,014	1,052
MPP-Phoenix, AZ	05/10/23	3.72 %	1,782	1,848
North Park 1 and 2	12/15/21	3.91 %	7,321	7,500
North Park 4 and 5	02/10/24	4.54 %	11,478	-
Pacific Hills 3, 4, 5 and 6	09/14/27	4.60 %	6,686	-
Shoremaster	04/30/21	4.13 %	3,685	3,768
Silvercote	07/01/21	4.15 %	3,088	3,171
Fixed rate mortgage notes payable			69,220	\$ 35,406
Less unamortized debt issuance costs			(500)	(238)
			<u>\$ 68,720</u>	<u>\$ 35,168</u>

As of December 31, 2017, we had 13 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 3.53% to 4.60% per annum and a weighted average effective interest rate of 4.20% per annum.

As of December 31, 2016, we had 8 fixed rate and no variable rate mortgage loans with effective interest rates ranging from 3.53% to 4.35% per annum and a weighted average effective interest rate of 4.00% per annum.

The majority of the Company's mortgages payable require monthly payments of principal and interest. Mortgages are secured by the respective properties, assignment of rents, business assets, deeds to secure debt, deeds of trust and/or cash deposits with the lender.

Certain mortgage note agreements include covenants that, in part, impose maintenance of certain debt service coverage and debt to worth ratios. As of December 31, 2017, no loans were out of compliance.

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We are required to make the following principal payments on our outstanding mortgage notes payable for each of the five succeeding fiscal years and thereafter as follows:

<u>Years ending December 31,</u>	<u>Amount</u>
	<u>(in thousands)</u>
2018	\$ 1,758
2019	1,865
2020	1,941
2021	28,512
2022	1,149
Thereafter	33,995
Total payments	<u>\$ 69,220</u>

NOTE 8 – NONCONTROLLING INTEREST OF UNITHOLDERS IN OPERATING PARTNERSHIP

Non-controlling Interests

As of December 31, 2017 and 2016, outstanding common limited partnership units totaled 2,347,000 and 2,297,000, respectively. The operating partnership declared fourth quarter distributions of \$323 and \$258, respectively, to limited partners paid in January 2018 and 2017, respectively. Distributions per unit were \$0.5500 and \$0.3375 during the year ended December 31, 2017 and period ended December 31, 2016, respectively.

Limited Partners may request the operating partnership to exchange their limited partnership units. The operating partnership may choose to offer the Limited Partner: (i) cash for the exchange or, at the request of the Limited Partner, (2) shares in lieu of cash for the exchange on a basis of one limited partnership unit for one Sterling common share (the “Exchange Request”). The Exchange Request shall be exercised pursuant to a Notice of Exchange. If the issuance of Sterling common shares pursuant to an Exchange Request will cause the shareholder to exceed the ownership limitations, as defined in the Declaration of Trust and/or the Limited Liability Partnership Agreement, among other reasons, payment will be made to the Limited Partner in cash. No Limited Partner may exercise an Exchange Request more than twice during any calendar year, and Exchange Requests may not be made for less than 1,000 limited partnership units. If a Limited Partner owns less than 1,000 limited partnership units, all of the limited partnership units held by the Limited Partner must be exchanged pursuant to the Exchange Request.

Special Limited Partner

As of December 31, 2017 and 2016, outstanding special limited partnership units totaled 1.

Pursuant to the LLLP Agreement, the Founders (as defined in the Trust’s Private Placement Memorandum dated April 1, 2016) own, jointly, one (1) special limited partnership interest in the operating partnership. As a special limited partner, the Founders have no voting rights but have rights to certain redemption payments in exchange for the special limited partnership interest, as described below:

- In connection with a merger or sale of assets or other transaction, or our shares of beneficial interest become listed on a national securities exchange, the operating partnership will redeem the Founders’ special limited partnership interest for \$5,000 plus an amount equal to 15% of the net proceeds remaining, as if all assets of the Trust and the operating partnership had been sold for such value and all liabilities had been satisfied in full according to their terms. The proceeds shall be determined utilizing the then current established share/unit price, or if greater, the value of the partners or shareholders original contribution.

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Redemption of the Founders' special limited partnership interest for the amounts stated above shall be in cash or, at the option of the Founders, units of limited partner interests in our operating partnership or common shares of beneficial interest in the Trust.

NOTE 9 – REDEMPTION PLANS

Our Board of Trustees has approved redemption plans that enable our shareholders to sell their common shares and the partners of our operating partnership to sell their limited partnership units to us, after they have held the securities for at least one year and subject to other conditions and limitations described in the plans.

Our redemption plans currently provide that the maximum amount that can be redeemed under the plan is \$5,000 worth of securities. Currently, the fixed redemption price is \$9.25 per share or unit under the plans which price became effective January 1, 2018. Prior to January 1, 2018 the redemption price was \$9.00 per share or unit under the plan.

We may redeem securities under the plans provided the aggregate total has not been exceeded if we have sufficient funds to do so. The plans will terminate in the event the shares become listed on any national securities exchange, the subject of bona fide quotes on any inter-dealer quotation system or electronic communications network or are the subject of bona fide quotes in the pink sheets. Additionally, the Board, in its sole discretion, may terminate, amend or suspend the redemption plans, either or both of them, if it determines to do so in its sole discretion.

During the years ended December 31, 2017 and period ended December 31, 2016, the Company redeemed no common shares or units.

NOTE 10 – BENEFICIAL INTEREST

We are authorized to issue 100,000,000 voting common shares of beneficial interest with \$0.01 par value and 50,000,000 voting preferred shares with \$0.01 par value, which collectively represent the beneficial interest of Sterling. As of December 31, 2017 and 2016, there were 3,108,000 and 1,353,000 common shares outstanding. We had no preferred shares outstanding as of either date.

The Trust declared fourth quarter distributions of \$427 and \$152, respectively, to limited partners paid in January 2018 and 2017, respectively. Dividends paid to holders of common shares were \$0.5500 and \$0.3375 per share for the year ended December 31, 2017 and period ended December 31, 2016, respectively.

NOTE 11 – DIVIDEND REINVESTMENT PLAN

Our Board of Trustees approved a dividend reinvestment plan to provide existing holders of our common shares with a convenient method to purchase additional common shares without payment of brokerage commissions, fees or service charges.

Under this plan, eligible shareholders may elect to have all or a portion (but not less than 25%) of the cash dividends they receive automatically reinvested in our common shares. The purchase price per common share under the plan equals 95% of the estimated value per common share for dividend reinvestments, as determined by our Board of Trustees.

The purchase price per common share for dividend reinvestments is \$9.50 at December 31, 2017 and 2016. The Board, in its sole discretion, may amend, suspend or terminate the plan at any time, without the consent of shareholders, upon a ten day notice to participants.

During the year ended December 31, 2017, 105,000 shares were issued pursuant to dividend reinvestments under the plan. During the period ended December 31, 2016, 23,000 shares were issued pursuant to dividend reinvestments under the plan.

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NOTE 12 – RELATED PARTY TRANSACTIONS

Property Management Fee

During the year ended December 31, 2017 and period ended December 31, 2016, we paid property management fees to GOLDMARK Property Management in an amount equal to approximately 5% of rents of the properties managed. GOLDMARK Property Management is owned in part by Kenneth Regan and James Wieland, two of our trustees. For the year ended December 31, 2017, we paid management fees of \$16, to GOLDMARK Property Management. No management fees were paid to GOLDMARK Property Management in 2016. In addition, during the year ended December 31, 2017, we paid repair and maintenance related payroll and payroll related expenses to GOLDMARK Property Management totaling \$2.

Board of Trustee Fees

We incurred independent Trustee fees of \$24 and \$20 during the year ended December 31, 2017 and period ended December 31, 2016, respectively. As of December 31, 2017 we owed our independent Trustees \$4 for unpaid board of trustee fees. As of December 31, 2016, we did not owe our independent Trustees for unpaid board of trustee fees. Amounts paid to independent trustees per meeting is as follows:

Board Chairman – Board Meeting	\$1,200/meeting
Trustee – Board Meeting	\$800/meeting
Committee Chair – Committee Meeting	\$300/meeting
Trustee – Committee Meeting	\$300/meeting

Advisory Agreement

We are an externally managed trust and as such, although we have a Board of Trustees and executive officers responsible for our management, we have no paid employees. The following is a brief description of the current fees and compensation that may be received by the Advisor under the Advisory Agreement, which must be renewed on an annual basis and approved by a majority of the independent trustees. The Advisory Agreement was approved by the Board of Trustees (including all the independent Trustees) on April 5, 2017, effective January 1, 2017.

Management Fee: 0.8% of our total assets (before depreciation and amortization), annually. Total assets are our gross assets (before depreciation and amortization) as reflected on our consolidated financial statements, taken as of the end of the fiscal quarter last preceding the date of computation. The management fee will be payable monthly in cash or our common shares, at the option of the Advisor, not to exceed one-twelfth of 0.8% of the total assets as of the last day of the immediately preceding month. The management fee calculation is subject to quarterly and annual reconciliations. The management fee may be deferred at the option of the Advisor, without interest.

Acquisition Fee: For its services in investigating and negotiating acquisitions of investments for us, the Advisor receives an acquisition fee of 2.5% of the purchase price of each property acquired, capped at \$375 per acquisition. The total of all acquisition fees and acquisition expenses cannot exceed 6% of the purchase price of the investment, unless approved by a majority of the trustees, including a majority of the independent trustees, if they determine the transaction to be commercially competitive, fair and reasonable to us.

Disposition Fee: For its services in the effort to sell any investment for us, the Advisor receives a disposition fee of 2.5% of the sales price of each property disposition, capped at \$375 per disposition.

Financing Fee: 0.25% of all amounts made available to us pursuant to any loan, refinance (excluding rate and/or term modifications of an existing loan with the same lender), line of credit or other credit facility, capped at \$38 per loan,

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refinance (excluding rate and/or term modifications of an existing loan with the same lender), line of credit or other credit facility.

Development Fee: Based on regressive sliding scale (starting at 5% and declining to 3%) of total project costs, excluding cost of land, for development services requested by us.

Total Cost	Fee	Range of Fee	Formula
0 - 10M	5.0 %	0 - .5M	0M - 5.0% x (TC - 0M)
10M - 20M	4.5 %	.5 M - .95M	.50M - 4.5% x (TC - 10M)
20M - 30M	4.0 %	.95 M - 1.35M	.95M - 4.0% x (TC - 20M)
30M - 40M	3.5 %	1.35 M - 1.70M	1.35M - 3.5% x (TC - 30M)
40M - 50M	3.0 %	1.70 M - 2.00M	1.70M - 3.0% x (TC - 40M)

TC = Total Project Cost

Management Fees

During the year ended December 31, 2017 and period ended December 31, 2016, we incurred advisory management fees of \$798 and \$249 with Sterling Management, LLC, our Advisor. As of December 31, 2017 and 2016, we owed our Advisor \$83 and \$58, respectively, for unpaid advisory management fees. These fees cover the office facilities, equipment, supplies, and staff required to manage our day-to-day operations. In addition, during the year ended December 31, 2017 and period ended December 31, 2016, we reimbursed the Advisor for operating expenses such as travel and meals, legal and office supplies totaling \$15 and \$13, respectively.

Acquisition Fees

During the year ended December 31, 2017 and period ended December 31, 2016, we incurred acquisition fees of \$1,009 and \$1,366, respectively, with our Advisor. As of December 31, 2017 and 2016, we owed our Advisor \$375 and \$663, respectively, for unpaid acquisition fees.

Financing Fees

During the year ended December 31, 2017 and period ended December 31, 2016, we incurred financing fees of \$84 and \$93, respectively, with our Advisor for loan financing and refinancing activities. As of December 31, 2017 and 2016, we owed our Advisor \$38 and \$45, respectively, for unpaid financing fees.

Operating Partnership Units Issued in Connection with Acquisitions

During the period ended December 31, 2016, we issued directly or indirectly, 132,000 operating partnership units to entities affiliated with Messrs. Regan and Wieland and Messr. Thomsen, one of our current officers, and Messr. Swenson, a former officer, in connection with the acquisition of various properties. The aggregate value of these units was \$1,060.

Commissions

During the year ended December 31, 2017 and period ended December 31, 2016, we incurred real estate commissions of \$630 and \$818, respectively, owed to GOLDMARK SCHLOSSMAN Commercial Real Estate Services, Inc., which

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is controlled by Messrs. Regan, Wieland, and Thomsen. There were no outstanding commissions owed as of December 31, 2017 and 2016.

During the year ended December 31, 2017, we incurred brokerage fees of \$348, \$73, and \$66 to a broker-dealer benefiting Dale Lian, Joel Thomsen, and James Echtenkamp, respectively, shareholders of Sterling and members of our Advisor. Brokerage fees were based on 7% of the purchase price of Sterling common shares sold. There were no outstanding brokerage fees owed as of December 31, 2017 or 2016.

NOTE 13 – RENTALS UNDER OPERATING LEASES / RENTAL INCOME

Commercial properties are leased to tenants under terms expiring at various dates through 2036. Lease terms often include renewal options. For the year ended December 31, 2017 and period ended December 31, 2016, gross revenues from commercial property rentals, including CAM income (common area maintenance) of \$1,897 and \$58, respectively, totaled \$10,040 and \$1,560, respectively.

Commercial space is rented under long-term agreements. Minimum future rentals on non-cancelable operating leases as of December 31, 2017 are as follows:

Years ending December 31,	Amount
	(in thousands)
2018	\$ 12,489
2019	9,905
2020	8,872
2021	7,461
2022	5,631
Thereafter	37,050
	<u>\$ 81,408</u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Environmental Matters

Federal law (and the laws of some states in which we own or may acquire properties) imposes liability on a landowner for the presence on the premises of hazardous substances or wastes (as defined by present and future federal and state laws and regulations). This liability is without regard to fault or knowledge of the presence of such substances and may be imposed jointly and severally upon all succeeding landowners. If such hazardous substance is discovered on a property acquired by us, we could incur liability for the removal of the substances and the cleanup of the property.

There can be no assurance that we would have effective remedies against prior owners of the property. In addition, we may be liable to tenants and may find it difficult or impossible to sell the property either prior to or following such a cleanup.

Risk of Uninsured Property Losses

We maintain property damage, fire loss, and liability insurance. However, there are certain types of losses (generally of a catastrophic nature) which may be either uninsurable or not economically insurable. Such excluded risks may include war, earthquakes, tornados, certain environmental hazards, and floods. Should such events occur, (i) we might suffer a loss of capital invested, (ii) tenants may suffer losses and may be unable to pay rent for the spaces, and (iii) we may suffer a loss of profits which might be anticipated from one or more properties.

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Litigation

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the financial statements of the Company.

NOTE 15 – BUSINESS COMBINATIONS AND ACQUISITIONS

The Company closed on the following property acquisitions during the period ended December 31, 2017:

<u>Date</u>	<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Units/ Square Footage/ Acres</u>	<u>Acquisition Price</u>	<u>Prorata Acquisition Price</u>
(in thousands)						
02/16/17	North Park 4	Omaha, NE	Office	99,295 sq. ft.	\$ 10,098	\$ 10,098
02/16/17	North Park 5	Omaha, NE	Office	71,429 sq. ft.	7,902	7,902
09/14/17	Pacific Hills 3	Omaha, NE	Office	34,130 sq. ft.	3,237	3,237
09/14/17	Pacific Hills 4	Omaha, NE	Office	35,449 sq. ft.	3,623	3,623
09/14/17	Pacific Hills 5	Omaha, NE	Office	34,123 sq. ft.	3,221	3,221
09/14/17	Pacific Hills 6	Omaha, NE	Land	0.8 acres	261	261
12/21/17	College Oaks A	Overland Park, KS	Office	168,570 sq. ft.	18,081	18,081
12/21/17	College Oaks C	Overland Park, KS	Office	31,275 sq. ft.	3,195	3,195
12/21/17	College Oaks D	Overland Park, KS	Office	36,992 sq. ft.	4,244	4,244
					<u>\$ 53,862</u>	<u>\$ 53,862</u>

(a) Acquisition price does not include capitalized closing costs and adjustments of \$1,088.

Total consideration given for acquisitions for the year ended December 31, 2017 was completed through issuing approximately 50,000 limited partnership units of the operating partnership valued at \$10.00 per unit, for an aggregate consideration of approximately \$500, new loans of \$35,023 and assumed liabilities of \$594 and cash of \$18,833. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the estimated fair value at the time of issuance.

On March 11, 2016, the Company completed a 721 UPREIT contribution of Black Arbor Group, LLC, a real estate advisor located in Fargo, North Dakota. Black Arbor Group, LLC is owned in part by Messrs. Regan and Wieland, trustees and Messrs. Thomsen, officer and a former officer. Under the terms of the contribution, the Company acquired 100% of the outstanding member interest. The contribution value was \$530, which was valued based on 75,000 limited partnership units at \$7 per unit and one special limited partnership unit valued at \$5.

The following table summarizes the allocation of the purchase price to the net assets acquired (in thousands):

Acquired contractual intangible assets	\$ 91
Goodwill	439
Net assets acquired	530
Equity/limited partnership unit consideration	530
Net cash consideration	\$ -

Intangibles were a result of the purchase price allocation recorded on property acquisition. The intangibles represented the estimated value of legal contracts including purchase agreements and letters of intent. Intangibles were amortized

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over the term of the related contracts including extensions and were fully amortized at December 31, 2016. The amortization expense for the period ended December 31, 2016 was \$91.

Goodwill of \$439, which was the excess of the consideration over the estimated fair value of net assets acquired, was recorded in the acquisition and is the result of expected operational synergies, intangible assets that do not qualify for separate recognition and other factors. The goodwill recognized by the Company is not deductible for income tax purposes. The goodwill was written-off as of the period ended December 31, 2016.

The Company closed on the following property acquisitions during the period ended December 31, 2016:

<u>Date</u>	<u>Property Name</u>	<u>Location</u>	<u>Property Type</u>	<u>Units/ Square Footage/ Acres</u>	<u>Acquisition Price</u>	<u>Prorata Acquisition Price</u>
(in thousands)						
04/26/16	Shoremaster	Fergus Falls, MN	Industrial	116,605 sq. ft.	\$ 5,100	\$ 5,100
05/20/16	MPP	Corsicana, TX	Industrial	72,800 sq. ft.	2,700	2,700
05/20/16	MPP	Du Quoin, IL	Industrial	43,090 sq. ft.	1,650	1,650
05/20/16	MPP	Phoenix, AZ	Industrial	63,618 sq. ft.	2,900	2,900
05/20/16	Triad	Scott Depot, WV	Office	18,815 sq. ft.	1,850	1,850
07/01/16	Silvercote	Sioux Falls, SD	Industrial	98,816 sq. ft.	4,925	4,925
09/27/16	Dock 99	West Fargo, ND	Industrial	102,000 sq. ft.	9,000	9,000
12/15/16	North Park 1	Omaha, NE	Office	62,654 sq. ft.	5,440	5,440
12/15/16	North Park 2	Omaha, NE	Office	58,548 sq. ft.	6,060	6,060
12/21/16	Little Potato Company	DeForest, WI	Industrial	131,802 sq. ft.	16,550	16,550
					<u>\$ 56,175</u>	<u>\$ 56,175</u>

Total consideration given for acquisitions through December 31, 2016 was completed through issuing approximately 2,297,000 limited partnership units of the operating partnership valued at \$9.00 per unit, for an aggregate consideration of approximately \$19,994, new loans of \$14,314, assumed loans of \$17,446 and assumed liabilities of \$147 and cash of \$4,274. The value of units issued in exchange for property is determined through a value established annually by our Board of Trustees, and reflects the estimated fair value at the time of issuance.

The following table summarizes the acquisition date fair values, before prorations, the Company recorded in conjunction with the acquisitions discussed above:

	<u>2017</u>	<u>2016</u>
(in thousands)		
Land, building, tenant improvements and FF&E	\$ 45,424	\$ 47,502
Acquired lease intangible assets	11,314	11,634
Acquired lease intangible liabilities	(1,788)	(2,961)
Mortgage notes payable assumed	-	(17,446)
Other liabilities	(594)	(147)
Net assets acquired	<u>54,356</u>	<u>38,582</u>
Equity/limited partnership unit consideration	(500)	(19,994)
New loans	<u>(35,023)</u>	<u>(14,314)</u>
Net cash consideration	<u>\$ 18,833</u>	<u>\$ 4,274</u>

The acquisitions completed after July 1, 2017 were considered asset acquisitions and, as such, transaction costs were capitalized upon closing. For acquisitions prior to July 1, 2017, which were accounted for as business combinations,

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the transaction costs totaled \$679 and \$2,293 for the year ended December 31, 2017 and the period ended December 31, 2016, respectively, are included in “Acquisition and disposition expenses” in the accompanying consolidated statements of operations.

Estimated Value of Units/Shares

The Board determined the value of the shares and limited partnership units to be \$9.00 per share/unit effective March 11, 2016. The Board determined the value of the shares and limited partnership units to be \$10.00 per share/unit effective January 1, 2017. The price of shares and limited partnership units was arbitrarily determined by the Board of Trustees and should not be considered as an objective indication of the actual value of the Company or the shares or units and it bears no relationship to the Trust’s assets, earnings, book value or any other objective value.

In determining this value, the Board relied upon their experience with, and knowledge about, the Trust’s real estate portfolio and debt obligations. The Board typically determines the share price on an annual basis.

The trustees determined the current price for 2018 in their discretion and use data points to guide their determination which is typically based on a consensus of opinion. In addition, the Board considers how the price chosen will affect existing share and unit values, redemption prices, dividend coverage ratios, yield percentages, dividend reinvestment factors, and future UPREIT transactions, among other considerations and information.

Based on the results of the methodologies, the Board determined the fair value of the shares and limited partnership units to be \$9.00 per share/unit for effective March 11, 2016. The Board determined the value of the shares and limited partnership units to be \$10.00 per share/unit effective January 1, 2017. The Board determined the fair value of the shares and limited partnership units to be \$10.25 per share/unit effective January 1, 2018.

Determination of price is a matter within the Board’s sole discretion. The Trust does not determine price based on any rote formula or specific factors. At this time, no shares are held in street name accounts and the Trust is not subject to FINRA’s specific pricing requirements set out in Rule 2340 or otherwise. Thus, the Trust does not employ any specific valuation methodology or formula. Rather, the Board looks to available data and information, which is often adjusted and weighted to comport more closely with the assets held by the Trust at the time of valuation. The principal valuation methodology utilized is the NAV calculation/direct capitalization method. The information made available to the Board is assembled by the Trust’s Advisor.

As with any valuation methodology, the methodologies utilized by the Board in reaching an estimate of the value of the shares and limited partnership units are based upon a number of estimates, assumptions, judgments or opinions that may, or may not, prove to be correct. The use of different estimates, assumptions, judgments, or opinions would likely have resulted in significantly different estimates of the value of the shares and limited partnership units. In addition, the Board’s estimate of share and limited partnership unit value is not based on the book values of our real estate, as determined by GAAP, as our book value for most real estate is based on the amortized cost of the property, subject to certain adjustments.

Furthermore, in reaching an estimate of the value of the shares and limited partnership units, the Board applied a liquidity discount to one valuation scenario in order to reflect the fact that the shares and limited partnership units are not currently traded on a national securities exchange; a discount for debt that may include a prepayment obligation or a provision precluding assumption of the debt by a third party; or the costs that are likely to be incurred in connection with an appropriate exit strategy, whether that strategy might be a listing of the limited partnership units or common shares on a national securities exchange or a merger or sale of our portfolio.

NOTE 16 - SUBSEQUENT EVENTS

On January 16, 2018, we paid a dividend or distribution of \$0.1375 per share on our common shares of beneficial interest or limited partnership units, to common shareholders and limited unit holders of record on December 31, 2017.

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Pursuant to the purchase agreement dated January 3, 2018, the operating partnership purchased an 18,502 square foot office property in Kansas City, Missouri for approximately \$2,280 on February 16, 2018. The purchase price was financed with the issuance of limited partnership units and cash.

The Trust commenced a Regulation D offering on February 1, 2018 to accredited investors only for up to \$15,000 amount and there is no assurance that any shares will be sold at the \$10.25 offering price.

Pending acquisitions and dispositions are subject to numerous conditions and contingencies and there are no assurances that the transactions will be completed

We have evaluated subsequent events through the date of this report. We are not aware of any other subsequent events which would require recognition or disclosure in the consolidated financial statements.

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