Automotive Properties Real Estate Investment Trust
Condensed Consolidated Interim Financial Statements
For the period ended March 31, 2018

Automotive Properties REIT
Condensed Consolidated Interim Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	**Note**	**As at March 31, 2018**	As at December 31, 2017
ASSETS			
Cash and cash equivalents		$161	$227
Prepaid expenses and other assets	**5**	1,496	1,689
Interest rate swaps	**6**	3,370	2,555
Investment properties	**4**	550,274	543,135
Total assets		**$555,301**	**$547,606**
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	**7**	$3,188	$4,060
Credit facilities and mortgages payable	**6**	269,498	264,318
Deferred Units and Income Deferred Units	**10**	944	645
Class B LP Units	**9**	100,227	108,372
Total liabilities		373,857	377,395
Unitholders' equity		181,444	170,211
Total liabilities and unitholders' equity		**$555,301**	**$547,606**

See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees

"Louis Forbes"

Louis Forbes
Trustee, Audit Committee Chair

"John Morrison"

John Morrison
Trustee, Lead Independent

Automotive Properties REIT
Condensed Consolidated Interim Statements of Income and Comprehensive Income (Unaudited)

For the three months ended March 31, *(in thousands of Canadian dollars)*	Note	2018	2017
Net Property Income			
Rental revenue from investment properties	**11**	**$11,306**	$9,881
Property costs	**11**	**(1,706)**	(1,622)
Net Operating Income		**9,600**	8,259
Other Income (Expenses)			
General and administrative expenses		**(628)**	(540)
Interest expense and other financing charges		**(2,305)**	(1,774)
Fair value adjustment on interest rate swaps	**6**	**814**	27
Distribution expense on Class B LP Units	**8**	**(1,997)**	(1,997)
Fair value adjustment on Class B LP Units and Deferred Units	**9, 10**	**8,201**	(3,382)
Fair value adjustment on investment properties	**4**	**807**	539
Net Income and Comprehensive Income		**$14,492**	$1,132

See accompanying notes to the condensed consolidated interim financial statements.

Automotive Properties REIT
Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (Unaudited)

For the three months ended March 31, 2018
(*in thousands of Canadian dollars*)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2017		**$154,933**	**$38,487**	**$(23,209)**	**$170,211**
Issuance of Units	**9**	—	—	—	—
Net Income		—	14,492	—	14,492
Distributions	**8**	—	—	(3,259)	(3,259)
Unitholders' Equity at March 31, 2018		**$154,933**	**$52,979**	**$(26,468)**	**$181,444**

For the three months ended March 31, 2017
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2016		**$111,000**	**$12,238**	**$(10,457)**	**$112,781**
Issuance of Units	**9**	43,933	—		43,933
Net Income		—	1,132	—	1,132
Distributions	**8**	—	—	(2,974)	(2,974)
Unitholders' Equity at March 31, 2017		**$154,933**	**$13,370**	**$(13,431)**	**$154,872**

See accompanying notes to the condensed consolidated interim financial statements.

Automotive Properties REIT
Condensed Consolidated Interim Statements of Cash Flow (Unaudited)

For the three months ended March 31,
(in thousands of Canadian dollars)

	Note	2018	2017
OPERATING ACTIVITIES			
Net income		**$14,492**	$1,132
Straight-line rent		**(754)**	(700)
Non-cash compensation expense		**154**	109
Fair value adjustment on interest rate swaps		**(815)**	(27)
Distributions expense on Class B LP Units		**1,997**	1,997
Fair value adjustment on Class B LP Units and Deferred Units		**(8,201)**	3,382
Fair value adjustment on investment properties		**(807)**	(539)
Interest expense and other financing charges		**2,216**	1,711
Amortization of financing fees		**89**	63
Amortization of other assets		**19**	19
Change in non-cash operating accounts	**17**	**(7)**	(696)
Cash Flow from operating activities		**8,383**	6,451
INVESTING ACTIVITIES			
Acquisitions of investment properties		**(500)**	(16,758)
Development activities		**(5,578)**	-
Cash Flow used in investing activities		**(6,078)**	(16,758)
FINANCING ACTIVITIES			
Proceeds from Credit Facilities		**7,700**	8,770
Principal repayment on Credit Facilities		**(2,584)**	(36,136)
Interest paid		**(2,211)**	(1,494)
Financing fees paid		**(20)**	(7)
Issuance of Units		**-**	46,167
Issuance costs		**-**	(2,234)
Distributions to holders of Units and holders of Class B LP Units		**(5,256)**	(4,686)
Cash Flow from (used in) financing activities		**(2,371)**	10,380
Net increase (decrease) in cash and cash equivalents during the period		**(66)**	73
Cash and cash equivalents, beginning of period		**227**	257
Cash and cash equivalents, end of period		**$161**	$330

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three months ended March 31, 2018 and 2017
(in thousands of Canadian dollars, except Unit and per Unit amounts)

1. NATURE OF OPERATIONS

Automotive Properties Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust existing pursuant to a declaration of trust dated June 1, 2015, as amended and restated on July 22, 2015 (the "Declaration of Trust") under, and governed by, the laws of the Province of Ontario. The REIT was formed primarily to own income-producing automotive dealership properties located in Canada. The principal, registered and head office of the REIT is located at 133 King Street East, Suite 300, Toronto, Ontario M5C 1G6. The REIT's trust units ("Units") are listed on the Toronto Stock Exchange and are traded under the symbol "APR.UN".

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, held an approximate 38% effective interest in the REIT as at March 31, 2018, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"). The Class B LP Units are economically equivalent to, and exchangeable for, Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

The REIT commenced operations on July 22, 2015 following completion of an initial public offering of Units (the "IPO"). In connection with the completion of the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (the "Initial Properties") and leased the Initial Properties to the applicable member of the Dilawri Group (collectively, and including members of the Dilawri Group that became tenants at a REIT property after the IPO, the "Dilawri Tenants").

As at March 31, 2018, the REIT owned a portfolio of 39 income-producing commercial properties and one development property. The properties are located in Ontario, Saskatchewan, Alberta, British Columbia and Quebec, totaling approximately 1.4 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 33 of the REIT's 39 income-producing commercial properties.

The subsidiaries of the REIT included in the REIT's consolidated financial statements include the Partnership and Automotive Properties REIT GP Inc.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The unaudited condensed consolidated interim financial statements of the REIT are prepared in accordance with International Accounting Standard ("IAS") 34 — "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed consolidated interim financial statements as at and for the year ended December 31, 2017 should be read in conjunction with the REIT's audited annual consolidated financial statements and the accompanying notes thereto. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Trustees of the REIT (the "Board") on May 15, 2018.

(b) Basis of Presentation

The condensed consolidated interim financial statements of the REIT have been prepared using the historical cost basis except for the following items that were measured at fair value:

- investment properties as described in note 4;
- interest rate swaps as described in note 6;
- Class B LP Units which are exchangeable for Units at the option of the holder as described in note 9; and
- Deferred Units ("DUs") and Income Deferred Units ("IDUs") which are exchangeable for Units in accordance with their terms as described in note 10.

The condensed consolidated interim financial statements are presented in Canadian dollars, the REIT's functional and reporting currency.

(c) Basis of Consolidation

The consolidated financial statements include the accounts of the REIT and the other entities that the REIT controls in accordance with IFRS 10 — *Consolidated Financial Statements*. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. All intercompany transactions and balances have been eliminated on consolidation.

(d) Significant accounting policies

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2017, except for the new accounting standards applied on January 1, 2018 as noted below:

IFRS 9 — *Financial Instruments*:

The REIT adopted IFRS 9 on January 1, 2018 which introduces a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. Upon transition to IFRS 9, the REIT's financial assets previously classified as loans and receivables and financial liabilities previously classified as other liabilities under IAS 39 are now classified at amortized cost. The financial assets and financial liabilities previously classified as fair value through profit or loss continue to be categorized as fair value through profit and loss. There were no changes in the measurement attributes for any of the REIT's financial assets and financial liabilities upon transition to IFRS 9 and adoption of the new expected credit loss impairment model did not result in any change to the REIT's allowance for impairment.

IFRS 15 — *Revenue from Contracts with Customers*:

The REIT adopted IFRS 15 on January 1, 2018 on a modified retrospective basis. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. As the REIT's most material revenue stream, rental revenue, is outside the scope of the new standard, the adoption of the IFRS 15 did not have a material impact to the unaudited condensed consolidated interim financial statements. Service components, including the recovery of costs within lease arrangements, fall within the scope of IFRS 15; however the REIT has concluded that the pattern of revenue recognition is unchanged.

Future accounting standards:

In January 2016, the IASB issued IFRS 16 — *Leases* (''IFRS 16'') which replaces IAS 17 — *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. The standard is effective for annual periods beginning on or after January 1, 2019, with early application permitted for entities that apply IFRS 15. The REIT is reviewing the potential impact of the standard with regards to the two operating land leases on its consolidated financial statements.

Property under development:

The REIT has applied judgement when reporting its property under development. The cost of the property under development includes the acquisition of the property, direct development costs and borrowing costs attributable to the development.

3. ACQUISITIONS

On February 13, 2018, the REIT acquired a dealership property in the Kitchener-Waterloo, Ontario area (the "KW Development Property"), which is to be redeveloped for a luxury high-end car company that will occupy the premises. As at March 31, 2018, $5,579 in development, interest, and acquisition costs have been incurred with regards to the KW Development Property.

During the year ended December 31, 2017, the REIT completed the following acquisitions:

				Consideration		
Property	**Location**	**Date of Acquisition**	**Total Investment Properties (1)**	**Debt Financing**	**Payables**	**Cash**
Go Mazda	Edmonton, AB	22-Mar	$8,040	$-	$-	$8,040
VW Barrie	Barrie, ON	31-Mar	9,063	8,120	150	793

Heritage Honda	Calgary, AB	7-Apr	23,610	23,556	-	54
Edmonton Portfolio	Edmonton, AB	1-Dec	23,331	23,331	-	-
Mazda Des Sources	Dorval, QC	15-Dec	8,148	7,529	619	-
Total Acquisitions			**$72,192**	**$62,536**	**$769**	**8,887**

(1) Includes acquisition costs.

4. INVESTMENT PROPERTIES

	Income producing properties	[1]**Property under development**	**March 31, 2018**	December 31, 2017
Balance, beginning of period	$543,135	$-	$543,135	$461,809
Acquisitions [2]	-	5,540	5,540	72,192
Capitalized interest and other		39	39	-
Fair value adjustment on investment properties	807	-	807	6,204
Straight-line rent	753	-	753	2,930
Balance, end of period	**$544,695**	**$5,579**	**$550,274**	$543,135

(1) Refers to the KW Development Property to be redeveloped for a luxury high-end car company.
(2) Includes acquisition costs.

Valuation of Investment Properties

The REIT valued the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. Property under development is measured using both a comparable sales method and a discounted cash flow method, net of costs to complete. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which indicate no change in capitalization rates from December 31, 2017. The overall implied capitalization rate applicable to the entire portfolio (excluding the KW Development Property) remained at 6.5%, which is equivalent to the REIT's overall assessment as at March 31, 2018.

A 25 basis point decrease or increase in capitalization rates would result in an increase or decrease in the fair value of the investment properties of approximately $19,200 or $(18,000), respectively.

Rental Commitments

Minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within 1 year	$36,360
After 1 year, but not more than 5 years	148,393
More than 5 years	329,838
	$514,591

5. PREPAID EXPENSES AND OTHER

As at	**March 31, 2018**	December 31, 2017
Prepaid indemnity fee	**$801**	$819
Prepaid other	**695**	870
	$1,496	$1,689

6. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit facilities and mortgages payable consists of:

As at	**March 31, 2018**	December 31, 2017
Facility 1[i]	**$134,459**	$135,804
Facility 2[ii]	**87,063**	80,086
Facility 3[iii]	**19,750**	20,000

Mortgages(iv)	**29,175**	29,441
Total	**$270,447**	$265,331
Financing fees(v)	**(949)**	(1,013)
	$269,498	$264,318

(i) Facility 1 includes:

A non-revolving loan in the amount of $107,559 (December 31, 2017 - $108,754) bearing interest at the bankers' acceptance ("BA") rate plus 150 basis points (bps) or Canadian prime rate ("Prime") plus 25 bps, maturing in July 2020, at which point it will become a demand loan. The principal is repayable in equal quarterly payments based on a 25 year amortization. The REIT entered into floating-to-fixed interest rate swaps with terms of 3 to 10 years, which resulted in a weighted average effective interest rate of 3.31%.

A non-revolving loan in the amount of $13,650 (December 31, 2017 - $13,800) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in December 2020, at which point it will become a demand loan. The principal is repayable in equal quarterly payments, based on a 25 year amortization. The REIT entered into a floating-to-fixed interest rate swap with a term of 7 years, which resulted in a weighted average effective interest rate of 3.17%.

A revolving credit facility in the amount of $15,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in July 2018, of which $13,250 was drawn as at March 31, 2018 (December 31, 2017 - $13,250) and of which $838 was secured for the issuance of irrevocable letters of credit (the "LCs") on October 24, 2017.

(ii) Facility 2 includes:

A non-revolving loan in the amount of $76,363 (December 31, 2017 - $77,086) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in June 2022, at which point it will become a demand loan. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with terms of 3 to 10 years. In January 2018, the REIT entered into a new floating-to-fixed interest rate swap in the amount of $9,679 for a term of 10 years. All the above resulted in a weighted average effective interest rate of 3.44%.

A revolving credit facility in the amount of $15,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2022, of which $10,700 was drawn as at March 31, 2018 (December 31, 2017 - $3,000).

(iii) Facility 3 includes:

A non-revolving loan in the amount of $19,750 (December 31, 2017 - $20,000) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps, maturing in December 2022, at which point it will become a demand loan. The principal is repayable in monthly blended payments based on a 20 year amortization. In January 2018, the REIT entered into a new floating-to-fixed interest rate swap in the amount of $20,000 for a term of 10 years, which resulted in a weighted average effective interest rate of 4.02%.

A revolving credit facility in the amount of $14,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2022, of which $nil was drawn as at March 31, 2018 (December 31, 2017 - $nil).

(iv) Mortgages:

The REIT has entered into certain mortgages with Canadian Schedule 1 banks that have interest rates that range from 3.22% to 3.72% and have maturity dates that range from February 2019 to June 2027. As at March 31, 2018, the weighted average interest rate of the mortgages was 3.51% (December 31, 2017 – 3.51%).

(v) During the three month period ended March 31, 2018, the REIT incurred financing fees of $20 (December 31, 2017 - $636). The amounts are accounted for using the effective interest method, $949 remains unamortized as at March 31, 2018 (December 31, 2017 - $1,013).

The credit facilities described above (the "Credit Facilities") and the mortgages (the "Mortgages") are secured by the REIT's investment properties except for the Mazda Des Sources property and the Edmonton Portfolio.

Principal repayments are as follows:

Remainder of 2018	$21,251
2019	22,499
2020	116,729
2021	10,544
2022	90,882
Thereafter	8,542
Total	$270,447

(b) Interest Rate Swaps

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on variable rate financings for Facility 1, Facility 2, and Facility 3. Gains or losses arising from changes in the fair value of the interest rate derivative contracts are recognized in the condensed consolidated statements of net income (loss) and comprehensive income (loss) (terms described in Note 6 (a)(i), (ii) and (iii) above).

As at March 31, 2018, the notional principal amount of the interest rate swaps was approximately $217,000 (December 31, 2017 – approximately $190,000) and the fair value adjustment of the interest rate swaps was $814 (March 31, 2017 - $27) resulting in an asset balance of $3,370 (December 31, 2017 - $2,555).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	**March 31, 2018**	December 31, 2017
Accounts payable and accrued liabilities	**$1,115**	$1,993
Accrued interest	**321**	315
Distributions payable (Note 8)	**1,752**	1,752
	$3,188	$4,060

8. DISTRIBUTIONS

For the three months ended March 31,	**2018**			2017		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Paid in Cash	**$3,259**	**$1,997**	**$5,256**	$2,689	$1,997	$4,686
Declared	**3,259**	**1,997**	**5,256**	2,974	1,997	4,971
Payable as at period end	**1,086**	**666**	**1,752**	1,086	$666	1,752

9. UNITHOLDERS' EQUITY AND CLASS B LP UNITS

Units

The REIT is authorized to issue an unlimited number of Units.

Each Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT, whether of net income, net realized capital gains (other than such gains allocated and distributed to redeeming holders of Units ("Unitholders")) or other amounts and, in the event of the termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. All Units rank equally among themselves without discrimination, preference or priority and entitle the holder thereof to receive notice of, to attend and to one vote at all meetings of Unitholders and holders of Special Voting Units (as defined below) or in respect of any written resolution thereof.

Unitholders are entitled to receive distributions from the REIT (whether of net income, net realized capital gains or other amounts) if, as and when declared by the Board. Upon the termination or winding-up of the REIT, Unitholders will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine.

Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any Unit, except for Dilawri as set out in the Exchange Agreement entered into on closing of the IPO between the REIT and certain members of the Dilawri Group, pursuant to which such members of the Dilawri Group have been granted, among other things, certain rights to participate in future offerings of the REIT.

Class B LP Units

In conjunction with the IPO, and as partial consideration for the Initial Properties, the REIT, through the Partnership, issued Class B LP Units to certain members of the Dilawri Group. Each Class B LP Unit is exchangeable at the option of the holder for one Unit (subject to certain anti-dilution adjustments), is accompanied by a special voting unit (a "Special Voting Unit") (which provides the holder with that number of votes at any meeting of Unitholders to which a holder of the number of Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled), and will receive distributions of cash from the Partnership equal to the distributions to which a holder of the number of Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled.

For the three months ended March 31, 2018

	Units	Amount
Units, beginning of period	16,216,000	$154,933
Units issued, net of costs	-	-
Total Units, end of period	**16,216,000**	**$154,933**
Class B LP Units, beginning of period	9,933,253	$108,372
Fair value adjustment on Class B LP Units	-	(8,145)
Total Class B LP Units, end of period	**9,933,253**	**$100,227**
Total Units and Class B LP Units, end of period	**26,149,253**	**$255,160**

For the year ended December 31, 2017

	Units	Amount
Units, beginning of year	11,961,000	$111,000
Units issued, net of costs	4,255,000	43,933
Total Units, end of year	**16,216,000**	**$154,933**
Class B LP Units, beginning of year	9,933,253	$106,087
Fair value adjustment on Class B LP Units	-	2,285
Total Class B LP Units, end of year	**9,933,253**	**$108,372**
Total Units and Class B LP Units, end of year	**26,149,253**	**$263,305**

10. UNIT BASED-COMPENSATION

The REIT offers an Equity Incentive Plan (the "Plan") whereby DUs may be granted to eligible participants under the Plan (each, a "Participant") on a discretionary basis by the Governance, Compensation and Nominating Committee of the Board. The maximum number of Units available for issuance under the Plan is 500,000. Each DU is economically equivalent to one Unit, however, under no circumstances shall DUs be considered Units nor entitle a Participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU shall receive a distribution of additional IDUs equal to the amount of distributions paid per Unit by the REIT on its Units. Upon vesting of the DUs and IDUs, a Participant may elect, prior to the expiry of such DU or IDU, to exchange such vested DUs and IDUs (subject to satisfaction of any applicable withholding taxes) for an equal number of Units. The holder of such DUs and IDUs cannot settle the DUs and IDUs for cash.

Under the Plan, the fair value of the DUs and IDUs is recognized as compensation expense over the vesting period. Fair value is determined with reference to the market price of the Units.

The Units are redeemable at the option of the holder and are considered puttable instruments in accordance with IAS 32 — *Financial instruments: presentation* ("IAS 32"). As the exemption under IAS 32 does not apply to IFRS 2 — *Share based payments*, the DUs and IDUs are accounted for as a liability. The deferred unit liability is adjusted to reflect the change in their fair value at each reporting period with the changes in fair value recognized as compensation expense.

During the three months ended March 31, 2018, the REIT accrued for short-term incentive awards in the amount of $69 (March 31, 2017 - $67) which will be settled by the granting of DUs.

Certain independent trustees of the REIT elected to receive board and committee fees in the form of DUs. The fair value of each DU granted is measured based on the volume-weighted average trading price of the Units for the five trading days immediately preceding the grant date. A summary of DUs and IDUs outstanding under the Plan is outlined below:

	As at March 31, 2018		As at December 31, 2017	
	Units	**Amount**	Units	Amount
Outstanding DUs and IDUs, beginning of period	59,088	$645	7,428	$ 79
DUs	32,700	339	48,959	539
IDUs	1,261	16	2,701	30
Fair value adjustments	-	(56)	-	(3)
Outstanding DUs and IDUs, end of period (1)	**93,049**	**$944**	59,088	$645

(1) For the three month period ended March 31, 2018 a total of 58,995 DUs and IDUs were granted, of which 26,576 DUs will be accounted for in accordance with the vesting schedule.

11. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue

For the three months ended March 31,	**2018**	2017
Base rent	**$8,990**	$7,703
Property tax recoveries	**1,537**	1,453
Straight line rent adjustment	**779**	725
Rental revenue	**$11,306**	$9,881

(b) Property Costs

For the three months ended March 31,	**2018**	2017
Property tax expense	**$1,537**	$1,453
Land lease	**144**	144
Straight line land lease adjustment	**25**	25
Property cost	**$1,706**	$1,622

Two of the Initial Properties are subject to land leases. Land lease expense includes straight line rent on the land leases over the expected lease term and recoverable realty taxes that have been paid by the REIT.

12. SEGMENT INFORMATION

All of the REIT's assets and liabilities are in, and its revenues are derived from, the Canadian real estate industry segment. The REIT's investment properties are, therefore, considered by management to have similar economic characteristics.

13. CAPITAL MANAGEMENT

The REIT defines its capital as the aggregate of Unitholders' equity, Class B LP Units, Credit Facilities and Mortgages. The REIT is free to determine the appropriate level of capital in the context of its cash flow requirements, overall business risks and potential business opportunities. The REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

In order to maintain or adjust its capital structure, the REIT may increase or decrease the amount of distributions paid to Unitholders, issue new Units and debt, or repay debt. The REIT manages its capital structure with the objective of:

- complying with the guidelines set out in its Declaration of Trust;
- complying with debt covenants;
- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future growth; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

The REIT has certain key financial covenants in its Credit Facilities and Mortgages, including debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the REIT on an ongoing basis to ensure compliance with the agreements. As at March 31, 2018, the REIT was in compliance with each of the covenants under these agreements.

14. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

(a) The fair value of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature.

The following table provides the classification and measurement of financial assets and liabilities as at March 31, 2018:

	Fair value through profit or loss	**Amortized cost**		**Total**	**Total**
Measurement basis	Fair value	Amortized cost	Fair value	Carrying value	Fair value
Financial Liabilities					
Credit Facilities and Mortgages	$ -	$(269,498)	$(270,447)	$(269,498)	$(270,447)
Interest rate swaps	3,370	-	-	3,370	3,370
Class B LP Units	(100,227)	-	-	(100,227)	(100,227)
Deferred Units and Income Deferred Units	(944)	-	-	(944)	(944)
	$(97,801)	**$(269,498)**	**$(270,447)**	**$(367,299)**	**$(368,248)**

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2017:

	Fair value through profit or loss	Amortized cost		Total	Total
Measurement basis	Fair value	Amortized cost	Fair value	Carrying value	Fair value
Financial Liabilities					
Credit Facilities and Mortgages	$ -	$(264,318)	$(265,331)	$(264,318)	$(265,331)
Interest rate swaps	2,555	-	-	2,555	2,555
Class B LP Units	(108,372)	-	-	(108,372)	(108,372)
Deferred Units and Income Deferred Units	(645)	-	-	(645)	(645)
	$(106,462)	$(264,318)	$(265,331)	$(370,780)	$(371,793)

The REIT adopted IFRS 9 retrospectively, effective January 1, 2018. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities.

The REIT uses various methods to estimate the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 – quoted prices in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 – valuation technique for which significant inputs are not based on observable market data.

The following summarizes the significant methods and assumptions used in estimating the fair value of the REIT's assets and liabilities measured at fair value:

(i) Investment Properties

The REIT assessed the valuation of the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. The fair value of investment properties as at March 31, 2018 is $550,274 (December 31, 2017 - $543,135) (Level 3).

(ii) Credit Facilities

The fair value of the REIT's Credit Facilities and Mortgages is determined based on the present value of future payments, discounted at the yield on Government of Canada bonds, plus an estimated credit spread at the reporting date for a comparable loan (Level 2).

(iii) Interest Rate Swaps

The fair value of the REIT's interest rate swaps which represents an asset balance as at March 31, 2018 is $3,370 (December 31, 2017 - $2,555). The fair value of an interest rate swap is determined using rates unobservable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at March 31, 2018 is $100,227 (December 31, 2017 - $108,372). The fair value of the Class B LP Units is based on the traded value of the Units as at March 31, 2018 (Level 1).

(v) DUs and IDUs

The fair value of the DUs and IDUs as at March 31, 2018 is $944 (December 31, 2017 - $645). The fair value of the DUs and IDUs is based on the traded value of the Units as at March 31, 2018 (Level 1).

Financial Risk Management

The REIT's activities expose it to a variety of financial risks. The main risks arising from the REIT's financial instruments are market and liquidity risks. The following is a description of those risks and how the exposures are managed:

Market Risk

The REIT is exposed to market risk as a result of changes in factors such as interest rates and the market price of the Units.

Interest Rate Risk - The majority of the REIT's debt is financed with floating rates. Interest rate swaps (with maturities staggered over 10 years) have been entered into to mitigate interest rate fluctuations, thereby mitigating the exposure to changes in interest rates.

Unit Price Risk - The REIT is exposed to Unit price risk as a result of the issuance of Class B LP Units. Class B LP Units are recorded at their fair value based on market trading prices. Class B LP Units negatively impact net income when the Unit price rises and positively impact net income when the Unit price declines.

Liquidity Risk

Liquidity risk arises from the possibility of an inability to renew maturing debt or not having sufficient capital available to the REIT. Mitigation of liquidity risk is discussed above in Note 13 - Capital Management. A significant portion of the REIT's assets have been pledged as security under the REIT's Credit Facilities and Mortgages. Certain Credit Facilities allow for the extension of term in advance of expiration.

15. COMMITMENTS AND CONTINGENCIES

In conjunction with the IPO, the REIT and Dilawri entered into an Administration Agreement which covers various operational and administrative services to be provided to the REIT by Dilawri on a cost-recovery basis. The Administration Agreement has a term of 5 years from the closing of the IPO and will be automatically renewed for successive one year terms, subject to certain termination rights set out in the Administration Agreement.

The REIT, as lessee, is committed under long-term land leases that are classified as operating leases with expiry dates to 2034 with minimum annual rental commitments as follows:

Within 1 year	$591
After 1 year, but not more than 5 years	2,539
More than 5 years	8,197
Total	$11,327

Subsequent to March 31, 2018, the REIT entered into construction commitments of approximately $350 for the KW Development Property.

16. RELATED PARTY TRANSACTIONS

The REIT's independent trustees approve all related party transactions in accordance with the Related Party Transaction Policy adopted by the Board. The Dilawri Tenants are the REIT's major tenant and accounted for approximately 86.7% of the REIT's rental income for the three month period ended March 31, 2018 (March 31, 2017 – 89.2%).

Pursuant to the Administration Agreement, Dilawri will provide, or cause to be provided, if and as requested by the REIT, subject to the overriding supervision and direction of the Board, management consisting of the REIT's President and Chief Executive Officer, Chief Financial Officer and Corporate Secretary and operating and administrative support functions. The Administration Agreement has a term of 5 years and will be automatically renewed for successive one year terms, subject to certain termination rights set out in the agreement. Services are provided under the Administration Agreement on a cost-recovery basis.

General and administrative expenses include $291 for the three month period ended March 31, 2018 paid by the REIT to Dilawri pursuant to the Administration Agreement (March 31, 2017 - $244).

In consideration of the applicable Dilawri Tenants leasing the entirety of the two Initial Properties with third party tenants (and thereby bearing occupancy, rental and other risks associated with the portions of those properties subleased to third party tenants for the initial lease terms of 12 and 15 years), the REIT paid to such Dilawri Tenants an indemnity fee in the aggregate amount of $1,000 at the time of closing of the IPO (amortizable over the term of the leases).

On October 24, 2017, Dilawri paid the REIT $896 in respect of the recoverable land transfer tax associated with the acquisition of the Initial Properties. To defer the land transfer tax, the REIT subsequently issued the LCs to the land transfer tax authority in the amount of approximately $753 on behalf of specific members of the Dilawri Group that sold certain of the Initial Properties to the REIT in connection with the IPO. If the Dilawri Group continues to hold all of the 9,933,253 issued and outstanding Class B LP Units for 3 years subsequent to the IPO, the LCs are expected to be released.

In connection with the IPO, the REIT and Dilawri entered into the Strategic Alliance Agreement which established a preferential and mutually beneficial business and operating relationship between the REIT and Dilawri. The Strategic Alliance Agreement will be in effect so long as Dilawri and certain other entities related to Dilawri own, control or direct, in the aggregate, an effective interest of at least 10% (on a fully-diluted basis) in the REIT. The Strategic Alliance Agreement provides the REIT with the first right to purchase REIT-Suitable Properties (as defined in the Strategic Alliance Agreement) in Canada or the United States acquired or developed by the Dilawri Group. The purchase price in respect of a REIT-Suitable Property will be mutually agreed by the REIT and Dilawri at the applicable time.

17. SUPPLEMENTRY INFORMATION

Changes in non-cash operating accounts

For the three months ended March 31,	**2018**	2017
Prepaid expenses and other assets	**$175**	$87
Accounts payable and accrued liabilities	**(182)**	(783)
Change in non-cash operating accounts	**$(7)**	$(696)