Automotive Properties Real Estate Investment Trust
Consolidated Financial Statements
For the year ended December 31, 2018 and 2017

MANAGEMENT'S STATEMENT OF RESPONSIBILITY FOR FINANCIAL REPORTING

The management of Automotive Properties Real Estate Investment Trust (the "REIT") is responsible for the preparation, presentation and integrity of the accompanying consolidated financial statements and Management's Discussion and Analysis. This responsibility includes the selection and consistent application of appropriate accounting principles and methods in addition to making the judgments and estimates necessary to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). It also includes ensuring that the financial information presented in the Management's Discussion and Analysis is consistent with that in the consolidated financial statements.

Management is also responsible for providing reasonable assurance that assets are safeguarded and that relevant and reliable financial information is produced. Management is required to design a system of internal controls and certify as to the design and operating effectiveness of internal controls over financial reporting. BDO Canada LLP, whose report follows, are the independent auditors engaged to audit the consolidated financial statements of the REIT.

The Board of Trustees, acting through an Audit Committee comprised solely of directors who are independent, is responsible for determining that management fulfills its responsibilities in the preparation of the consolidated financial statements and the financial control of operations. The Audit Committee recommends the independent auditors for appointment by the Unitholders. The Audit Committee meets regularly with senior and financial management and the independent auditors to discuss internal controls, auditing activities and financial reporting matters. The independent auditors have unrestricted access to the Audit Committee. These consolidated financial statements and Management's Discussion and Analysis have been approved by the Board of Trustees based on the review and recommendation of the Audit Committee.

Toronto, Canada
March 21, 2019

"Milton Lamb"

Milton Lamb
President and Chief Executive Officer

"Andrew A. Kalra"

Andrew A. Kalra, CPA, CA
Chief Financial Officer

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Independent Auditor's Report

To the Unitholders of Automotive Properties Real Estate Investment Trust

Opinion

We have audited the consolidated financial statements of Automotive Properties Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Kerri Plexman.

BDO Canada LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Canada
March 21, 2019

Automotive Properties REIT
Consolidated Balance Sheets

(in thousands of Canadian dollars)	**Note**	**As at December 31, 2018**	**As at December 31, 2017**
ASSETS			
Cash and cash equivalents		$295	$227
Prepaid expenses and other assets	**7**	1,946	1,689
Interest rate swaps	**8**	-	2,555
Investment properties	**6**	763,998	543,135
Total assets		**$766,239**	**$547,606**
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	**9**	$5,606	$4,060
Credit facilities and mortgages payable	**8**	416,872	264,318
Interest rate swaps	**8**	1,114	-
Deferred Units and Income Deferred Units	**12**	1,072	645
Class B LP Units	**11**	89,101	108,372
Total liabilities		513,765	377,395
Unitholders' equity		252,474	170,211
Total liabilities and unitholders' equity		**$766,239**	**$547,606**

See accompanying notes to the consolidated 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

Consolidated Statements of Income and Comprehensive Income

(in thousands of Canadian dollars) For the year ended December 31,	**Note**	**2018**	2017
Net Property Income			
Rental revenue from investment properties	**13**	**$48,254**	$41,803
Property costs	**13**	**(7,509)**	(6,351)
Net Operating Income		**40,745**	35,452
Other Income (Expenses)			
General and administrative expenses		**(3,002)**	(2,525)
Interest expense and other financing charges		**(10,496)**	(7,817)
Fair value adjustment on interest rate swaps	**8**	**(3,669)**	5,205
Distribution expense on Class B LP Units	**10**	**(7,988)**	(7,988)
Fair value adjustment on Class B LP Units and Deferred Units	**11, 12**	**19,461**	(2,282)
Fair value adjustment on investment properties	**6**	**4,099**	6,204
Net Income and Comprehensive Income		**$39,150**	$26,249

See accompanying notes to the consolidated financial statements.

Automotive Properties REIT
Consolidated Statements of Changes in Unitholders' Equity

For the year ended December 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	**11**	57,401			57,401
Net Income			39,150		39,150
Distributions	**10**			(14,288)	(14,288)
Unitholders' Equity at December 31, 2018		**$212,334**	**$77,637**	**$(37,497)**	**$252,474**

For the year ended December 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	**11**	43,933	-	-	43,933
Net Income		-	26,249	-	26,249
Distributions	**10**	-	-	(12,752)	(12,752)
Unitholders' Equity at December 31, 2017		**$154,933**	**$38,487**	**$(23,209)**	**$170,211**

See accompanying notes to the consolidated financial statements.

Automotive Properties REIT
Consolidated Statements of Cash Flow

(in thousands of Canadian dollars)			
For the year ended December 31,	**Note**	**2018**	2017
OPERATING ACTIVITIES			
Net income		**$39,150**	$26,249
Straight-line rent		**(2,910)**	(2,930)
Non-cash compensation expense		**690**	477
Fair value adjustment on interest rate swaps		**3,669**	(5,205)
Distributions expense on Class B LP Units		**7,988**	7,988
Fair value adjustment on Class B LP Units and Deferred Units		**(19,461)**	2,282
Fair value adjustment on investment properties		**(4,099)**	(6,204)
Interest expense and other charges		**10,031**	7,537
Financing fees		**465**	280
Amortization of other assets		**74**	74
Change in non-cash operating accounts	**19**	**1,160**	(66)
Cash Flow from operating activities		**36,757**	30,482
INVESTING ACTIVITIES			
Acquisitions of investment properties		**(208,734)**	(72,049)
Development activities		**(620)**	-
Cash Flow used in investing activities		**(209,354)**	(72,049)
FINANCING ACTIVITIES			
Proceeds from Credit Facilities and Mortgages-net		**183,050**	52,680
Principal repayment on Credit Facilities and Mortgages		**(28,845)**	(26,546)
Interest paid		**(9,923)**	(7,463)
Financing fees paid		**(2,117)**	(611)
Issuance of Units, net of costs		**52,401**	43,933
Distributions to REIT unitholders and Class B LP unitholders		**(21,901)**	(20,456)
Cash Flow from financing activities		**172,665**	41,537
Net increase (decrease) in cash and cash equivalents during the year		**68**	(30)
Cash and cash equivalents, beginning of year		**227**	257
Cash and cash equivalents, end of year		**$295**	$227

Supplemental cash flow information

Issuance of units on acquisition of investment property (Note 5)	$5,000	$-

See accompanying notes to the consolidated financial statements.

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 32.8% effective interest in the REIT as at December 31, 2018 (December 31, 2017 – approximately 38%), 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") and 480,552 Units. 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 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 December 31, 2018, the REIT owned a portfolio of 54 income producing commercial properties, and one development property. These properties are located in Ontario, Saskatchewan, Alberta, British Columbia and Quebec, totaling approximately 2.0 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 34 of the REIT's 54 income producing properties.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The consolidated financial statements of the REIT have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and using the accounting policies described herein.

These consolidated financial statements were authorized for issuance by the Board of Trustees of the REIT (the "Board") on March 21, 2019.

(b) Basis of Presentation

The consolidated 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 6;
- interest rate swaps as described in note 8;
- Class B LP Units which are exchangeable for Units at the option of the holder as described in note 11; and
- Deferred Units ("DUs") and Income Deferred Units ("IDUs") which are exchangeable for Units in accordance with their terms as described in note 12.

The consolidated 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) Investment Properties

Investment properties include properties held to earn rental income and/or for capital appreciation, and property under development. Investment properties are initially measured at cost, including directly attributable acquisition costs. Directly attributable acquisition costs include professional fees, land transfer taxes and other transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Fair value is determined based on available market evidence at each balance sheet date. The fair value of investment properties reflects, among other things, rental income from current leases and assumptions about rental income from future leases in light of current market conditions. Related fair value gains and losses are recorded in net income and comprehensive income in the period in which they arise.

The REIT adopted the amendments to IAS 40 that requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The REIT adopted the amendments on a retrospective basis on January 1, 2018, and it did not result in any impact.

(e) Revenue Recognition

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 IFRS 15 did not have a material impact on the 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.

The REIT has retained substantially all of the risks and benefits of ownership of its investment properties and, therefore, accounts for its leases with tenants as operating leases.

Property revenue includes basic rents earned from tenants under lease agreements and realty tax recoveries.

The REIT follows the straight-line method of recognizing rental revenue, whereby the total amount of basic rent to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable/payable is recorded for the current difference between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant and is included as part of investment properties on the consolidated balance sheet.

(f) Expenses

Property costs and general and administrative expenses are recognized in income in the period in which they are incurred. The indemnity fee is amortized over the average lease term with the Dilawri Tenants that have third party sub-tenants. The REIT follows a straight-line method for recognizing land lease expense.

(g) Income Taxes

The REIT qualifies as a "mutual fund trust" under the *Income Tax Act* (Canada). The Board intends to annually distribute all taxable income directly earned by the REIT to holders of Units ("Unitholders") and to deduct such distributions for income tax purposes.

Legislation relating to the federal income taxation of Specified Investment Flow Through trusts or partnerships ("SIFT") provide that certain distributions from a SIFT will not be deductible in computing the SIFT's taxable income and that the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as return of capital should generally not be subject to tax.

Under the SIFT rules, the taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the "REIT Exception"). The REIT has reviewed the SIFT rules and has assessed their interpretation and application to the REIT's assets and revenue. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes that it meets the REIT Exception and, accordingly, no net current income tax expense or deferred income tax assets or liabilities have been recorded in the consolidated statements of net income and comprehensive income.

(h) Units and Class B LP Units

Units are redeemable at the holder's option subject to certain limitations and restrictions. As a result, the Units are liabilities by definition but qualify for presentation as equity under certain limited exceptions within International Accounting Standards 32 — *Financial Instruments: Presentation* ("IAS 32"). The Class B LP Units are economically equivalent to Units, receive distributions equal to the distributions paid on Units and are exchangeable at the option of the holder into Units. One special voting unit in the REIT (the "Special Voting Units") has been issued to the holder of each Class B LP Unit issued (such Special Voting Unit does not have any entitlement in the REIT with respect to distributions, but does generally entitle the holder to that number of votes at any meeting of Unitholders to which a holder of the number of Units that are obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled). The limited IAS 32 exception for presentation as equity does not extend to the Class B LP Units. As a result, the Class B LP Units have been classified as financial liabilities and are measured at fair value through profit and loss ("FVTPL"). The fair value of the Class B LP Units is measured every period by reference to the traded value of the Units, with changes in value recorded through profit and loss.

Distributions on the Class B LP Units are recorded as an expense in the consolidated statements of income and comprehensive income in the period in which they become payable.

(i) Cash and Cash Equivalents

Cash consists of cash on hand and unrestricted cash. Cash equivalents consist of highly liquid marketable investments with an original maturity date of 90 days or less from the date of acquisition. As at December 31, 2018 and December 31, 2017, there were no cash equivalents.

(j) Financial instruments

The REIT adopted IFRS 9 on January 1, 2018 which introduced 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 financial liabilities under IAS 39, Financial Instruments – Recognition and Measurement, are now classified at amortized cost. The financial assets and financial liabilities previously classified as fair value through profit or loss ("FVTPL") continue to be categorized as FVTPL.

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 changes to the REIT's impairment allowance.

Financial instruments are classified as one of the following: (i) measured at amortized cost, (ii) fair value through other comprehensive income ("FVTOCI"), or (iii) FVTPL. Financial assets and liabilities classified as FVTPL are measured at fair value with gains and losses recognized in the consolidated statements of income and comprehensive income. Financial instruments classified as amortized cost are measured at amortized cost, using the effective interest method. FVTOCI financial instruments are measured at fair value and any unrealized gains and losses will be recognized in other comprehensive income.

The following summarizes the REIT's classification and measurement of financial assets and liabilities:

	Classification/Measurement
Financial assets	
Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Financial liabilities	
Accounts payable and accrued liabilities	Amortized cost
Credit facilities and mortgages	Amortized cost
Class B LP Units, Deferred Units and Income Deferred Units	FVTPL
Interest rate swaps	FVTPL

Acquisition costs other than those related to financial instruments classified as FVTPL, which are expensed as incurred, are capitalized to the carrying amount of the instrument and amortized using the effective interest method. These costs primarily include interest and finance fees that are incurred in connection with borrowings.

(k) Unit-Based Compensation

Deferred Units ("DUs") may be granted to members of the Board ("Trustees"), officers and employees of the REIT (each, a "Participant"). Each Deferred Unit shall receive a distribution of additional Income Deferred Units ("IDUs") equal to the amount of distributions paid per Unit by the REIT on its Units. Liability in respect of the DUs and IDUs is adjusted to reflect the change in their fair value at each reporting period with the changes in fair value recognized in the consolidated statements of income and comprehensive income. The holder of such DUs and IDUs cannot settle their DUs or IDUs for cash.

3. CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the consolidated financial statements requires management to make judgements and estimates in applying the REIT's accounting policies that affect the reported amounts and disclosures made in the consolidated financial statements and accompanying notes. Within the context of these consolidated financial statements, a judgment is a decision made by management in respect of the application of an accounting policy; a recognized or unrecognized financial statement amount and/or note disclosure, following an analysis of relevant information that may include estimates and assumptions. Estimates and assumptions are used mainly in determining the measurement of balances recognized or disclosed in the consolidated financial statements and are based on a set of underlying data that may include management's historical experience, knowledge of current events and conditions and other factors that are believed to be reasonable under the circumstances. Management continually evaluates the estimates and judgments it uses. The following are the accounting policies subject to judgments and key sources of estimation uncertainty that the REIT believes could have the most significant impact on the amounts recognized in the consolidated financial statements. The REIT's significant accounting policies are described in note 2.

Investment Properties

The REIT assesses whether the properties it acquires are considered to be asset acquisitions or business combinations. The REIT considers all the properties it has acquired to date to be asset acquisitions. The REIT has applied judgment 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.

Investment properties are valued by management. Valuations are completed by undertaking a discounted cash flow approach, whereby a current discount rate is applied to the projected net operating income that a property can reasonably be expected to produce in the future. These assumptions may not ultimately be achieved.

Leases

The REIT is required to make judgments in determining whether certain leases are operating or finance leases, in particular long term leases. All tenant leases entered into or assumed to date have been determined to be operating leases.

Income Taxes

The REIT is a mutual fund trust and a real estate investment trust as such terms are defined in the *Income Tax Act* (Canada). The REIT is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to Unitholders each year. The REIT is a real estate investment trust if it meets the prescribed conditions under the *Income Tax Act* (Canada) relating to the nature of its assets and revenue. The REIT uses judgment in reviewing these prescribed conditions and assessing its interpretation and application to the REIT's assets and revenue. The REIT has determined that it qualifies as a real estate investment trust in respect of the current period.

The REIT expects to continue to qualify as a mutual fund trust and real estate investment trust under the *Income Tax Act* (Canada), however, should it no longer qualify, the REIT would not be able to flow through its taxable income to Unitholders and would, therefore, be subject to tax.

4. NEW STANDARDS AND INTERPERTATIONS NOT YET ADOPTED

(i) Leases ("IFRS 16")

IFRS 16 will replace 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.

Management assessed the potential impact of the standard and does not expect this amendment to have a material impact on the consolidated financial statements.

(ii) Definition of material

The IASB issued amendments to IAS 1 – *Presentation of Financial Statements* and IAS - 8 *Accounting Policies, Changes in Accounting Estimates and Errors* in October 2018. The amendments clarified the definition of material, within the context that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments are effective from January 1, 2020 and are required to be applied prospectively. Management does not expect these amendments to have a significant impact on the consolidated financial statements.

(iii) Definition of business

The IASB issued amendments to IFRS 3 - *Business Combinations* in October 2018, The amendments clarified and tightened the definition of a business. The amendments will aid companies in determining whether an acquisition is of a business or a group of assets. An abridged assessment of whether an acquired set of activities and assets is a group of assets rather than a business is also permitted. It is important to differentiate between a business and a group of assets due to the recognition of goodwill only upon the acquisition of a business.

The amendments apply to transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. Management does not expect these amendments to have a significant impact on the consolidated financial statements.

(iv) IASB annual improvements

The IASB issued amendments to four standards in December 2017. These included IFRS 3 – *Business Combinations*, IFRS 11 – *Joint Arrangements*, IAS 12 – *Income Taxes* and IAS 23 – *Borrowing Costs*.

These amendments will be effective for annual periods beginning on or after January 1, 2019. Management does not expect these amendments to have a significant impact on the consolidated financial statements.

5. ACQUISITIONS

During the year ended December 31, 2018, the REIT completed the following acquisitions:

Property	**Location**	**Date of Acquisition**	**Total Investment Properties**[1]
KW Development[i]	Kitchener-Waterloo, ON	13-Feb	$5,541
Frost GM Expansion[ii]	Brampton, ON	1-Jun	$2,008
Country Hills[iii]	Calgary, AB	19-Jun	$18,069
BMW Laval & Sherwood Park VW[iv]	Laval, QC & Sherwood Park, AB	28-Sep	$56,509
Brimell Toyota[v]	Scarborough, ON	30-Nov	$27,182
MAG[vi]	Ottawa, ON & Kingston, ON	12-Dec	$103,925
Total Acquisitions			**$213,234**

(1) Includes acquisition costs.

The total purchase price for the above noted properties of $213,234 comprised of cash consideration paid of $57,401, the assumption of payables of $1,285 and debt financing of $154,548.

(i) On February 13, 2018, the REIT acquired from a third party the real estate underlying an automotive dealership property located in the Kitchener-Waterloo, Ontario area (the “KW Development Property”) for approximately $5,541, which is to be redeveloped for a luxury, high-end car company that will occupy the premises. As at December 31, 2018, $620 in development, interest, and acquisition costs have been incurred with regards to the KW Development Property. The REIT has completed its development commitments and the tenant has commenced its construction requirements.

(ii) The REIT funded the completed dealership facility expansion at its Frost GM automotive dealership property located in Brampton, Ontario. The expansion added 7,706 square feet of gross leasable area at a cost of approximately $2,000 plus transaction costs of $8, resulting in an annual rent increase effective June 1, 2018. The tenant has exercised an early lease renewal and extended the duration of the existing lease term to 2033. The REIT paid for the expansion through cash on hand and draws on its revolving credit facility.

(iii) On June 19, 2018, the REIT acquired the real estate underlying the Country Hills Volkswagen automotive dealership located in Calgary, Alberta (the “Country Hills”), for approximately $18,000 plus acquisition costs of $69, from the Dilawri Group. The REIT funded a portion of the $18,000 purchase price for the property through the issuance of 480,552 Units to the vendor, valued at approximately $5,000. The remaining $13,000 of the purchase price was funded through draws on the REIT’s credit facilities and cash on hand. The Country Hills property is a 34,650 square foot full-service automotive dealership property.

(iv) On September 28, 2018, the REIT acquired from Auto Canada Inc. a real estate portfolio consisting of two automotive dealership properties located in Laval, Québec (the “BMW Laval”) and Sherwood Park, Alberta (the “Sherwood Park VW”) for approximately $55,500 plus acquisition costs of $1,009. The portfolio consists of two full-service automotive dealership properties, including basement space totaling 197,892 square feet of gross leasable area.

(v) On November 30, 2018, the REIT acquired the real estate underlying the Brimell Toyota dealership located in Scarborough, Ontario (the “Brimell Toyota”), for approximately $26,000 plus acquisition costs of $1,182, from a third party. The Brimell Toyota property is a 55,600 square foot full-service automotive dealership property.

(vi) On December 12, 2018, the REIT acquired from Mierins Auto Group (“MAG”) a real estate portfolio of properties located in Ottawa, Ontario and Kingston, Ontario (the “MAG Portfolio”) for approximately $101,392 plus acquisition costs of $2,533. The portfolio consists of 9 full-service automotive dealership properties, 1 detail centre and 3 vehicle compound facilities/unimproved lands totaling 303,817 square feet of gross leasable area.

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

Property	Location	Date of Acquisition	Total Investment Properties(1)
Go Mazda	Edmonton, AB	22-Mar	$8,040
VW Barrie	Barrie, ON	31-Mar	9,063
Heritage Honda	Calgary, AB	7-Apr	23,610
Edmonton Portfolio	Edmonton, AB	1-Dec	23,331
Mazda Des Sources	Dorval, QC	15-Dec	8,148
Total Acquisitions			**$72,192**

(1) Includes acquisition costs.

The total purchase price for the above noted properties of $72,192 comprised of cash consideration paid of $8,887, the assumption of payables of $769 and debt financing of $62,536.

6. INVESTMENT PROPERTIES

	Income producing properties	Property under development(1)	December 31, 2018	December 31, 2017
Balance, beginning of period	$543,135	$-	$543,135	$461,809
Acquisitions (2)	207,693	5,541	213,234	72,192
Capitalized costs and interest	-	620	620	-
Fair value adjustment on investment properties	4,099	-	4,099	6,204
Straight-line rent	2,910	-	2,910	2,930
Balance, end of period	**$757,837**	**$6,161**	**$763,998**	$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 significant change in the capitalization rates for the markets the REIT is in, except for a decrease in the Vancouver and Calgary markets from December 31, 2017. The assessment by the REIT of the entire portfolio (excluding the KW Development Property) results in an overall implied capitalization rate of 6.6% (December 31, 2017 – 6.5%).

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 $30,000 or $(28,000), respectively.

Rental Commitments

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

Within 1 year	$50,891
After 1 year, but not more than 5 years	206,506
More than 5 years	493,163
	$750,560

7. PREPAID EXPENSES AND OTHER ASSETS

As at	December 31, 2018	December 31, 2017
Prepaid indemnity fee	**$746**	$819
Prepaid other	**1,200**	870
	$1,946	$1,689

8. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit facilities and mortgages consist of:

As at	December 31, 2018	December 31, 2017
Facility 1(i)	**$210,347**	$135,804
Facility 2(ii)	**85,791**	80,086
Facility 3(iii)	**95,000**	20,000
Mortgages(iv)	**28,376**	29,441
Total	**$419,514**	$265,331
Financing fees(v)	**(2,642)**	(1,013)
	$416,872	$264,318

(i) Facility 1 includes:

A non-revolving loan in the amount of $182,847 (December 31, 2017 - $122,554) bearing interest at the bankers' acceptance ("BA") rate plus 150 basis points ("bps") or the Canadian Prime rate ("Prime") plus 25 bps. 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 remaining terms of 4 to 10 years. On June 18, 2018, the REIT combined its non-revolving outstanding loans in respect of Facility 1, increased the amount by $30,000 and extended the maturity to June 2023. On December 12, 2018, the REIT further increased Facility 1 by $35,000 and entered into new floating-to-fixed interest rate swaps in the amounts of $21,000 for a term of 7 years and $14,000 for a term of 10 years. On December 18, 2018 the REIT also entered into a new floating-to-fixed interest rate swap on the $15,000 non-revolving balance that was previously at floating rates as well as extended the maturity of one of its interest rate swaps in the amount of approximately $26,290 from July 2020 to December 2024. All the above resulted in a weighted average effective interest rate of 3.75%. All other terms of the interest rate swaps remain unchanged.

On June 18, 2018, the REIT increased the amount available under the revolving credit facility to $20,000 and on December 12, 2018, the REIT further increased the amount available under the revolving credit facility to $30,000 (December 31, 2017 – $15,000), bearing interest at Prime plus 25 bps or BA rate plus 150 bps and maturing in June 2023. $27,500 was drawn as at December 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 $73,991 (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 remaining terms of 4 to 9 years. On January 25, 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. On December 19, 2018, the REIT extended the maturity of one of its interest rate swaps in the amount of approximately $10,955 for a term of 5 years. All the above resulted in a weighted average effective interest rate of 3.55%. All other terms of the interest rate swaps remain unchanged.

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 $11,800 was drawn as at December 31, 2018 (December 31, 2017 - $3,000).

(iii) Facility 3:

On January 10, 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. On December 12, 2018, the REIT combined its non-revolving outstanding loan with its revolving loan, that had a balance of $25,500, in respect of Facility 3 and increased the amount by $50,250 to $95,000 (December 31, 2017 - $20,000) and extended the maturity to December 2023. The non-revolving loan bears interest at the BA rate plus 150 bps or Prime plus 50 bps repayable in monthly blended payments based on a 20 year amortization. The REIT entered into a floating-to-fixed interest rate swap, with a remaining term of 9 years, as well as on December 18, 2018 entered into floating-to-fixed interest rate swaps on the new loan, in the amounts of $45,600 for a term of 7 years and $30,400 for a term of 10 years. All the above resulted in a weighted average effective interest rate of 4.05%.

On September 26, 2018, the REIT increased the amount available under the revolving credit facility to $43,900 and on December 12, 2018, as part of the new loan restructuring, the amount available under the revolving credit facility was $30,000 (December 31, 2017 - $14,000), bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in December 2023, of which $nil was drawn as at December 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 December 31, 2018, the weighted average interest rate of the mortgages was 3.51% (December 31, 2017 – 3.51%).

(v) During 2018, the REIT incurred financing fees of $2,117 (December 31, 2017 - $636). The amounts are accounted for using the effective interest method, and $2,642 remains unamortized at December 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 KW Development Property and the Brimell Toyota property.

Principal repayments are as follows:

2019	$28,352
2020	16,124
2021	21,721
2022	88,170
2023	256,899
Thereafter	8,248
Total	$419,514

(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 consolidated statements of income and comprehensive income (terms described in Note 8(a)(i), (ii) and (iii) above).

As at December 31, 2018, the notional principal amount of the interest rate swaps was approximately $352,000 (December 31, 2017 – approximately $190,000) and the fair value adjustment of the interest rate swaps was $(3,669)

(December 31, 2017 - $5,205). This resulted in a liability balance of $1,114 (December 31, 2017 – asset balance of $2,555).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	**December 31, 2018**	December 31, 2017
Accounts payable and accrued liabilities	**$3,057**	$1,993
Accrued interest	**423**	315
Distributions payable (Note 10)	**2,126**	1,752
	$5,606	$4,060

10. DISTRIBUTIONS

	December 31, 2018			December 31, 2017		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Paid in Cash	**$13,913**	**$7,988**	**$21,901**	$12,468	$7,988	$20,456
Declared	**14,288**	**7,988**	**22,276**	12,752	7,988	20,740
Payable as at period end	**1,460**	**666**	**2,126**	1,086	666	1,752

11. 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) 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 holders of Units ("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 year ended December 31, 2018

	Units	Amount
Units, beginning of year	16,216,000	$154,933
Units issued, net of costs	5,580,552	57,401
Total Units, end of year	**21,796,552**	**212,334**
Class B LP Units, beginning of year	9,933,253	$108,372
Fair value adjustment on Class B LP Units	-	(19,271)
Total Class B LP Units, end of year	**9,933,253**	**$89,101**
Total Units and Class B LP Units, end of year	**31,729,805**	**$301,435**

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**

12. 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 Board upon recommendation of the Governance, Compensation and Nominating Committee. 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 or 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 year ended December 31, 2018, the REIT accrued for short-term incentive awards in the amount of $343 which will be settled by the granting of DUs (December 31, 2017 - $270).

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 December 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	**52,538**	**537**	48,959	539
IDUs	**7,791**	**82**	2,701	30
Fair value adjustments	**-**	**(192)**	-	(3)
Outstanding DUs and IDUs, end of period (1)	**119,417**	**$1,072**	59,088	$645

(1) For the year ended December 31, 2018, a total of 83,344 DUs and IDUs were granted, of which 29,599 DUs and IDUs will be accounted for in accordance with the vesting schedule.

13. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue

For the year ended December 31,	**2018**	2017
Base rent	**$38,441**	$33,098
Property tax recoveries	**6,801**	5,673
Straight line rent adjustment	**3,012**	3,032
Rental revenue	**$48,254**	$41,803

(b) Property Costs

For the year ended December 31,	**2018**	2017
Property tax expense	**$6,831**	$5,673
Land lease	**576**	576
Straight line land lease adjustment	**102**	102
Property cost	**$7,509**	$6,351

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.

14. 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.

15. CAPITAL MANAGEMENT

The REIT defines its capital as the aggregate of Unitholders' equity, Class B LP Units, Credit Facilities and Mortgages, as at December 31, 2018 $758,447 (December 31, 2017 – $542,901). 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 December 31, 2018, the REIT was in compliance with each of the covenants under these agreements.

16. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

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 December 31, 2018:

Financial Assets/(Liabilities)	Classification/Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages	Amortized Cost	$(416,872)	$(419,514)
Interest Rate Swaps	FVTPL	(1,114)	(1,114)
Class B LP Units	FVTPL	(89,101)	(89,101)
DUs and IDUs	FVTPL	(1,072)	(1,072)
		$(508,159)	**$(510,801)**

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

Financial Assets/(Liabilities)	Classification/Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages	Amortized Cost	$(264,318)	$(265,331)
Interest Rate Swaps	FVTPL	2,555	2,555
Class B LP Units	FVTPL	(108,372)	(108,372)
DUs and IDUs	FVTPL	(645)	(645)
		$(370,780)	**$(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 December 31, 2018 is $763,998 (December 31, 2017 - $543,135) (Level 3).

(ii) Credit Facilities and Mortgages

The fair value of the REIT's Credit facilities and mortgages payable are determined based on the present value of future payments, using appropriate discount rates 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 a liability as at December 31, 2018, is $1,114 (December 31, 2017 - $2,555). The fair value of an interest rate swap is determined using rates observable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at December 31, 2018 is $89,101 (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 December 31, 2018 (Level 1).

(v) DUs and IDUs

The fair value of the DUs and IDUs as at December 31, 2018 is $1,072 (December 31, 2017 - $645). The fair value of the DUs and IDUs is based on the traded value of the Units as at December 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 15 - 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.

17. 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 and other leases that are classified as operating leases with expiry dates to 2038 with minimum annual rental commitments as follows:

Within 1 year	$796
After 1 year, but not more than 5 years	3,101
More than 5 years	7,721
Total	$11,618

The REIT has also committed to pay approximately $1,300 in other costs in relation to the construction of the KW Development Property.

18. RELATED PARTY TRANSACTIONS

The REIT was formed primarily to own income-producing automotive dealership properties located in Canada. In connection with the closing of the IPO on July 22, 2015, the REIT indirectly acquired the Initial Properties from certain members of Dilawri Group, for use as automotive dealerships, an automotive repair facility, or complementary uses, including restaurants, and leased these properties to Dilawri Tenants. 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 83.3% of the REIT's rental income for the year ended December 31, 2018 (December 31, 2017 – 90.2%).

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 (expiring in July 2020) 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 $1,054 for the twelve month period ended December 31, 2018 paid by the REIT to Dilawri pursuant to the Administration Agreement (December 31, 2017 - $995).

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. The Dilawri Group held 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. The REIT is working with the applicable tax authorities to secure the release of the LC's.

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. Pursuant to the Strategic Alliance Agreement, the REIT acquired the following investment properties in 2018 and 2017:

- On June 19, 2018, the REIT acquired the Country Hills Property from a member of the Dilawri Group and leased it to a Dilawri Tenant.
- On March 31, 2017, the REIT acquired the VW Barrie Property from a member of the Dilawri Group and leased it to a Dilawri Tenant.
- On April 7, 2017, the REIT acquired the Heritage Honda Property from a member of the Dilawri Group and leased it to a Dilawri Tenant.
- On December 15, 2017, the REIT acquired the Mazda Des Sources Property from a member of the Dilawri Group and leased it to a Dilawri Tenant.

19. SUPPLEMENTARY INFORMATION

Changes in non-cash operating accounts

(in thousands of Canadian dollars)	**2018**	2017
Prepaid expenses and other assets	**$(330)**	$509
Accounts payable and accrued liabilities	**1,490**	(575)
Change in non-cash operating accounts	**$1,160**	$(66)

20. SUBSEQUENT EVENT

The mortgage of $12,400 which expired on February 2019 has been extended to May 2019.