

Consolidating Canada's Automotive Dealership Properties

2018 FIRST QUARTER REPORT





Automotive Properties Real Estate Investment Trust

Management's Discussion and Analysis

March 31, 2018

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SECTION 1 - GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Automotive Properties Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three-month period ended March 31, 2018. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the REIT and accompanying notes for the three months ended March 31, 2018. Further information about the REIT can be found in the REIT's annual information form dated March 20, 2018 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the SEDAR website at www.sedar.com and on the REIT's website at: www.automotivepropertiesreit.ca.

All dollar amounts in this MD&A are presented in thousands of Canadian dollars, except unit and per unit amounts. All comparisons of results for the three-month period ended March 31, 2018 ("Q1 2018") are against results for the three-month period ended March 31, 2017 ("Q1 2017"), unless otherwise noted.

The REIT

The REIT was formed primarily to own income producing automotive dealership properties located in Canada. The REIT commenced operations on July 22, 2015 following completion of an initial public offering of units (the "IPO"). In connection with the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (as defined below) (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 become 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 Québec, totaling approximately 1.4 million square feet of gross leasable area ("GLA").

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, holds 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 REIT Units (as defined below), and exchangeable generally on a one-for-one basis. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

On February 13, 2018, the REIT acquired from a third party the real estate underlying a dealership property in Kitchener-Waterloo, Ontario (the "KW Development Property") which is to be redeveloped for a luxury, high-end car company that will occupy the premises. The REIT estimates that its total expenditures for the acquisition and development of the KW Development Property, including the purchase price, redevelopment costs and related expenses will be approximately \$7,500.

As at March 31, 2018, the total number of issued and outstanding trust units of the REIT ("REIT Units") and Class B LP Units issued and outstanding was 16,216,000 and 9,933,253, respectively, for a total of 26,149,253 units. The REIT Units are listed on the Toronto Stock Exchange under the symbol "APR.UN". REIT Units and Class B LP Units are collectively referred to in this MD&A as "Units".

The REIT announced monthly cash distributions of \$0.067 per REIT Unit, resulting in total distributions declared and paid of \$5,256 for Q1 2018 (Q1 2017 - \$4,971 declared and \$4,686 paid).

This MD&A is dated May 15, 2018.

Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. Particularly, statements regarding future results, performance, achievements, prospects or opportunities for the REIT or the real estate or automotive dealership industry are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", "likely", "schedule", "objectives", or the negative thereof or other similar expressions concerning matters that are not historical facts. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:

- the REIT's relationship with the Dilawri Group, Dilawri's shareholders and certain other related persons and entities (collectively, the "Dilawri Organization"), including in respect of (i) the Dilawri Organization's retained interest in the REIT and its current intention with respect thereto, (ii) the services to be provided to the REIT (whether directly or indirectly) by Dilawri pursuant to the Administration Agreement (as referenced below under Section 8 "Related Party Transactions") and (iii) expected transactions to be entered into between Dilawri and the REIT (including pursuant to the Strategic Alliance Agreement (as referenced below under Section 8 "Related Party Transactions"));
- the redevelopment of the KW Development Property and expenditures related thereto;
- the relocation of certain tenants within the Dixie Auto Mall;
- the REIT's intention with respect to, and ability to execute, its external and internal growth strategies;
- the maintenance by the REIT of a strong balance sheet and prudent financial management and associated minimization of financial risk;
- the expected increase in Same Property Cash NOI (as defined below);
- the REIT representing a unique alternative for automotive dealership operators considering a sale or recapitalization of their business;
- the REIT's capital expenditure requirements and capital expenditures to be made by the REIT and the Dilawri Group;
- the REIT's distribution policy and the distributions to be paid to Unitholders (as defined below);
- the REIT's debt strategy;
- the REIT's access to available sources of debt and/or equity financing;
- the expected tax treatment of the REIT and its distributions to Unitholders;
- the REIT's ability to meet its stated objectives;
- the REIT's ability to expand its asset base and make accretive acquisitions; and
- the ability of the REIT to qualify as a "Mutual Fund Trust" as defined in the *Income Tax Act* (Canada) (the "Tax Act"), and as a "Real Estate Investment Trust", as defined in the SIFT Rules (as defined below).

The REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that the Canadian economy will remain stable over the next 12 months, that tax laws remain unchanged, that conditions within the automotive dealership real estate industry and the automotive dealership industry generally, including competition for acquisitions, will be consistent with the current climate, that the Canadian capital markets will provide the REIT with access to equity and/or debt at reasonable rates when required and that the Dilawri Organization will continue its involvement with the REIT.

Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the REIT's control, that may cause the REIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the factors contained in the REIT's filings with securities regulators, including the factors discussed under Section 12 "Risks & Uncertainties, Critical Judgements & Estimates" in this MD&A.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. The forward-looking statements made in this MD&A relate only to events or information as of the date of this MD&A. Except as required by law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

All information regarding Dilawri contained in this MD&A (the "Dilawri Information") has been provided by, and is solely the responsibility of Dilawri and not of the REIT, the REIT's management nor the trustees of the REIT (the "Trustees"). Although the REIT has no reason to believe that the Dilawri Information contains a misrepresentation, Dilawri is a private company that is independent of, and operates entirely independently from, the REIT and, consequently, neither the REIT, its management nor its Trustees (in their capacities as such) have been involved in the preparation of the Dilawri Information, nor has the REIT approved such information. Readers are cautioned, therefore, not to place undue reliance on the Dilawri Information.

Non-IFRS Financial Measures

The REIT prepares its financial statements according to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains certain financial measures which are not defined under IFRS and may not be comparable to similar measures presented by other real estate investment trusts or enterprises.

Funds from operations ("FFO"), adjusted funds from operations ("AFFO"), FFO payout ratio, AFFO payout ratio, net operating income ("NOI"), Same Property net operating income ("Same Property NOI"), cash net operating income ("Cash NOI"), Same Property cash net operating income ("Same Property Cash NOI") and earnings before income tax, depreciation, and amortization ("EBITDA") are key measures of performance used by the REIT's management and real estate businesses.

Gross book value ("GBV"), indebtedness ("Indebtedness"), net asset value ("Net Asset Value"), debt to gross book value ("Debt to GBV"), debt service coverage ratio ("Debt Service Coverage Ratio"), interest coverage ratio ("Interest Coverage Ratio") and tangible net worth are measures of financial position defined by agreements to which the REIT is a party. These measures, as well as any associated "per Unit" amounts, are not defined by IFRS and do not have standardized meanings prescribed by IFRS, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS.

The REIT believes that AFFO is an important measure of economic earnings performance and is indicative of the REIT's ability to pay distributions from earnings, while FFO, NOI, Same Property NOI, Cash NOI, and EBITDA are important measures of operating performance of real estate businesses and properties. The IFRS measurement most directly comparable to FFO, AFFO, NOI, Cash NOI, Same Property Cash NOI and EBITDA is net income. Adjusted cash flow from operation ("ACFO") is a supplementary measure used by management to improve the understanding of the operating cash flow of the REIT. The IFRS measurement most directly comparable to ACFO is cash flow from operating activities.

“FFO” is a non-IFRS financial measure of operating performance widely used by the real estate industry, particularly by those publicly traded entities that own and operate income-producing properties. FFO should not be considered as an alternative to net income or cash flows provided by operating activities determined in accordance with IFRS. The REIT calculates FFO in accordance with the Real Property Association of Canada’s *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2018. FFO is calculated as net income in accordance with IFRS, adjusted by removing the impact of: (i) fair value adjustments on investment properties; (ii) other fair value adjustments including fair value adjustments on redeemable or exchangeable units; (iii) gains and losses on the sale of investment properties; (iv) amortization of tenant incentives; and (v) distributions on redeemable or exchangeable units treated as interest expense.

“FFO payout ratio” is calculated as distributions per unit divided by the FFO per Unit diluted.

“AFFO” is a non-IFRS measure of economic earnings performance widely used in the real estate industry to assess an entity’s distribution capacity from earnings. Except for adjustments to remove non-cash unit-based compensation expense, the REIT calculates AFFO in accordance with the Real Property Association of Canada’s *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2018. AFFO is calculated as FFO subject to certain adjustments, to remove the impact of: (i) any adjustments resulting from recognizing property rental revenues or expenses (including ground lease rental payments) on a straight-line basis; (ii) non-cash unit-based compensation expense; and (iii) capital expenditures. To date, the REIT has not incurred any capital expenditure costs. The REIT’s leases specifically state that the tenant is fully responsible for all maintenance capital costs and the REIT has no obligation and hence no maintenance capital reserve or amount is required to be deducted in arriving at AFFO.

“AFFO payout ratio” is a non-IFRS measure of the sustainability of the REIT’s distribution payout capacity from earnings. The REIT uses this metric to provide clarity of the performance of earnings and the overall management of the current portfolio of assets. Management considers the AFFO payout ratio as the key measure of the REIT’s distribution capacity from earnings. AFFO payout ratio is calculated as distributions per Unit divided by AFFO per Unit diluted.

“ACFO” is a non-IFRS financial measure. The REIT calculates ACFO in accordance with the Real Property Association of Canada’s *White Paper on Adjusted Cash Flow from Operations for IFRS* issued in February 2018. ACFO is calculated as cash flow from operating activities subject to certain adjustments, to (a) remove the impact of: (i) changes in non-cash working capital that are not sustainable in nature; (ii) amortization of financing costs and indemnity payable in respect of the third party tenant portfolio sublease structure; and (iii) capital expenditures and (b) deduct interest expense. To date, the REIT has not incurred any capital expenditure costs. The REIT’s leases specifically state that the tenant is fully responsible for all maintenance capital costs and the REIT has no obligation and hence no maintenance capital reserve or amount is required to be deducted in arriving at ACFO.

“ACFO payout ratio” is calculated as distributions declared divided by ACFO.

“NOI” is a non-IFRS financial measure and is defined as rental revenue from properties less property operating expenses as presented in the statement of income prepared in accordance with IFRS. Accordingly, NOI excludes certain expenses included in the determination of net income such as interest, general and administrative expenses, fair value adjustments and amortization.

“Cash NOI” is defined as NOI prior to the effects of straight-line adjustments.

“Same Property NOI” is a non-IFRS measure which reports the period-over-period performance of the same asset base having consistent GLA during both periods. For Q1 2018 and Q1 2017, this includes the Initial Properties, the acquisition of the real estate underlying the Toyota Woodland dealership (the “Toyota Woodland Property”), the acquisition of the real estate underlying the Porsche Centre Edmonton and Jaguar Land Rover dealership (the “Porsche JLR Edmonton Property”), the acquisition of the real estate underlying the Audi Barrie dealership (the “Audi Barrie Property”), the acquisition of the real estate underlying the Pfaff Audi dealership (the “Pfaff Audi Property”), the acquisition of the real estate underlying the St. Bruno Audi & VW Audi dealerships (the “St. Bruno Audi & VW Property”) and the acquisition of the real estate underlying the Mercedes dealership (the “MB West Island Property”).

“Same Property Cash NOI” is calculated as Same Property NOI prior to the effects of straight-line adjustments.

“Cash NOI” is defined as NOI prior to the effects of straight-line adjustments.

FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash NOI, Same Property NOI and Same Property Cash NOI should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of the REIT's performance. The REIT's method of calculating FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash NOI, Same Property NOI and Same Property Cash NOI may differ from other issuers' methods and, accordingly, may not be comparable to measures used by other issuers. See Section 6 "Non-IFRS Financial Measures" in this MD&A for a reconciliation of these measures to net income or cash flow from operating activities, as applicable.

"EBITDA" is defined as earnings before income tax, depreciation, and amortization.

"GBV" means, at any time, the greater of: (A) the book value of the assets of the REIT and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet, less the amount of any receivable reflecting interest rate subsidies on any debt assumed by the REIT; and (B) the historical cost of the investment properties, plus (i) the carrying value of cash and cash equivalents, (ii) the carrying value of mortgages receivable and (iii) the historical cost of other assets and investments used in operations.

"Indebtedness" of the REIT means (without duplication) (i) any obligation for borrowed money (including, for greater certainty, the full principal amount of convertible debt, notwithstanding its presentation under IFRS), (ii) any obligation incurred in connection with the acquisition of property, assets or businesses, (iii) any obligation issued or assumed as the deferred purchase price of property, (iv) any capital lease obligation (as defined in the Declaration of Trust), and (v) any obligations of the type referred to in clauses (i) through (iv) of another entity, the payment of which the REIT has guaranteed or for which the REIT is responsible or liable; provided that, (A) for the purpose of clauses (i) through (v) an obligation will constitute Indebtedness of the REIT only to the extent that it would appear as a liability on the consolidated balance sheet of the REIT in accordance with IFRS, (B) obligations referred to in clauses (i) through (iii) exclude trade accounts payable, distributions payable to Unitholders or holders of other securities excluded from the definition of Indebtedness pursuant to clause C below, accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith, deferred revenues, intangible liabilities, deferred income taxes, deferred financing costs, tenant deposits and indebtedness with respect to the unpaid balance of installment receipts where such indebtedness has a term not in excess of 12 months, and (C) REIT Units and Class B LP Units, exchangeable securities and other equity securities that constitute debt under IFRS do not constitute Indebtedness.

"Net Asset Value" means total assets less Indebtedness, accounts payable, accrued liabilities, credit facilities and interest rate swaps. The net balance is then divided by the total of Unitholders' equity plus the market value of Class B LP Units at a particular time.

"Debt to GBV" means the ratio of Indebtedness to GBV at a particular time.

"Debt Service" means the total payments of principal and interest on debt.

"Debt Service Coverage Ratio" means the ratio of EBITDA divided by Debt Service.

"Interest Coverage Ratio" means the ratio of Cash NOI less general and administrative expenses divided by the total of the interest expense and other financing charges.

SECTION 2 – OVERVIEW, STRATEGY AND OBJECTIVES

Overview

Canada's automotive retail industry is characterized by strong industry fundamentals. According to Statistics Canada, the automotive retail industry sales totaled a record \$156 billion in 2017 (up 9% from \$143 billion in 2016), representing approximately 27% of Canada's overall retail sales of products and merchandise. Over the last 20 years, retail automotive sales grew at a compound annual rate of 4.6%. The tables below contains new automobile sales by units in Canada for the 2017 and 2016 calendar years, and for the two months ended February 28, 2018 and February 28, 2017 (the latest available information from Statistics Canada):

	2 Months Ended February 28			2017
	2018	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	32,688	1,130	3.6%	31,558
British Columbia and the Territories	30,248	552	1.9%	29,696
Manitoba	9,414	1,932	25.8%	7,482
New Brunswick	4,635	38	0.8%	4,597
Newfoundland and Labrador	3,393	35	1.0%	3,358
Nova Scotia	5,432	(243)	(4.3%)	5,675
Ontario	100,830	2,222	2.3%	98,608
Prince Edward Island	704	2	0.3%	702
Québec	50,908	1,568	3.2%	49,340
Saskatchewan	7,211	(53)	(0.7%)	7,264
Total Canada	245,463	7,183	3.0%	238,280

	12 Months Ended December 31			2016
	2017	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	248,759	25,108	11.2%	223,651
British Columbia and the Territories	237,101	15,329	6.9%	221,772
Manitoba	63,228	5,800	10.1%	57,428
New Brunswick	44,822	(162)	(0.4%)	44,984
Newfoundland and Labrador	33,252	(435)	(1.3%)	33,687
Nova Scotia	58,951	4,500	8.3%	54,451
Ontario	857,222	35,460	4.3%	821,762
Prince Edward Island	8,587	(181)	(2.1%)	8,768
Québec	468,783	3,640	0.8%	465,143
Saskatchewan	56,265	4,166	8.0%	52,099
Total Canada	2,076,970	93,225	4.7%	1,983,745

(Source: Statistics Canada)

The REIT's portfolio of dealership properties, strong industry fundamentals and an attractive leasing profile support the stability of distributions to holders of REIT Units and Class B LP Units (collectively, "Unitholders"). The REIT is currently paying monthly cash distributions to Unitholders of \$0.067 per Unit, representing \$0.804 per Unit on an annualized basis.

Strategy and Objectives

The primary strategy of the REIT is to create long-term value for Unitholders by generating sustainable tax-efficient cash flow and capital appreciation, while maintaining a strong balance sheet and practicing prudent financial management. The objectives of the REIT are to:

- provide Unitholders with stable, predictable and growing monthly cash distributions on a tax-efficient basis;
- enhance the value of the REIT's assets in order to maximize long-term Unitholder value; and
- expand the REIT's asset base while also increasing the REIT's AFFO per Unit, including through accretive acquisitions.

Management intends to grow the value of the REIT's real estate portfolio while also increasing AFFO per Unit through accretive acquisitions and steady growth in rental rates. The REIT expects to be well-positioned to capitalize on acquisition opportunities presented by third parties due to the fragmented nature of the automotive dealership market. The REIT also expects to leverage its strategic arrangement with the Dilawri Group to acquire properties from the Dilawri Group that meet the REIT's investment criteria. Management intends to focus on obtaining new properties which have the potential to contribute to the REIT's ability to generate stable, predictable and growing monthly cash distributions to Unitholders.

The REIT has a well-defined, long-term growth strategy which includes both external and internal elements.

External Growth

Accretive Acquisitions of Third Party Properties

Management believes that the REIT is well-positioned to capitalize on opportunities for accretive acquisitions from third party vendors due to certain features of the Canadian automotive dealership industry:

- *Fragmented ownership* – Management estimates that the top 10 automotive dealership groups in Canada own less than 10% of the approximately 3,500 automotive dealerships in Canada;
- *Capital redeployment needs* – Monetizing the real estate underlying automotive properties allows dealers to retain control of their dealership while redeploying capital into other areas of their business; and
- *Succession planning issues* – Management believes that for the majority of independent dealers, the dealership and its underlying real estate together represent the single largest proportion of their wealth. Selling the underlying real estate to the REIT can help such dealers address succession planning issues, particularly if the transaction can be effected on a tax efficient basis.

Management believes that the REIT represents a unique alternative for automotive dealership operators considering a sale or recapitalization of their business, as the REIT is at present the only publicly listed vehicle in Canada exclusively focused on owning and acquiring automotive dealership properties.

The REIT evaluates acquisition opportunities on a number of factors, including valuation, expected financial performance, stability of cash flows, physical features, existing leases, functionality of design, geographic market, location, automotive brand representation and opportunity for future value enhancement.

Right of First Offer to Acquire REIT-Suitable Properties from the Dilawri Group

Management believes that its relationship with the Dilawri Group provides the REIT with additional opportunities to add quality automotive dealership properties to its portfolio in an accretive manner. Pursuant to the Strategic Alliance Agreement, the REIT has the right of first offer on properties that are suitable for use as an automotive dealership that are acquired, developed, redeveloped, refurbished, repositioned or held for sale by the Dilawri Group.

Since completion of the IPO, the REIT has acquired seven automotive dealership properties from the Dilawri Group under the Strategic Alliance Agreement.

Internal Growth

Management believes that the REIT is well-positioned to achieve organic increases in cash flow and, as a result, increase the values of its properties over time. These increases are expected to come from the following sources:

- Each of the Dilawri Leases contains annual contractual basic rent escalators in the amount of 1.5% per annum. These leases are structured as triple-net leases under which the tenant is responsible for all costs relating to repair and maintenance, realty taxes, property insurance, utilities and non-structural capital improvements so that rent escalators are expected to flow directly to NOI; and
- Contractual rent escalators that are expected, wherever possible, to be negotiated into new leases entered into by the REIT. For example, the lease in respect of the Porsche JLR Edmonton Property has an annual rent accelerator after the end of the fifth year of the term, the lease in respect of the Go Mazda property has an annual rent escalator after the end of the first year of the term and the leases in respect of the Edmonton Portfolio have rent escalators effective July 2018 and July 2023.

SECTION 3 - PROPERTY PORTFOLIO

Portfolio Overview

At March 31, 2018, the REIT's portfolio consisted of 39 income-producing commercial properties, and one development property. Out of the 39 properties, 31 are exclusively occupied by the Dilawri Group for use as automotive dealerships or, in one case, an automotive repair facility, while two of the other eight properties are jointly occupied by the Dilawri Group (for use as automotive dealerships) and one or more third parties (for use as automotive dealerships or complementary uses, including restaurants), and the remaining six properties are exclusively occupied by other third party tenants for use as automotive dealerships or, in one case, a vehicle service compound facility. Consequently, the Dilawri Group is the REIT's most significant tenant and accounts for approximately 86.7% of the REIT's base rent, including rent from properties subleased to third parties (89.2% as at Q1 2017).

As the REIT grows, management intends to continue to diversify the REIT's tenant base, but management expects that the Dilawri Group will provide a significant proportion of the REIT's rental revenue for the foreseeable future.

The applicable Dilawri Tenant is the lead tenant for Dixie Auto Mall until July 2030. That Dilawri Tenant has provided a notice of termination to a Dixie Auto Mall sub-tenant that formerly operated a Honda dealership on the property. Dilawri has informed the REIT that the third party that operates a Kia dealership will move into the former Honda dealership location upon the completion of improvements under a long-term sub-lease. It is expected that the Dilawri Group's Nissan dealership, in addition to its current location at Dixie Auto Mall, will utilize the existing Kia dealership location by the end of the second quarter of 2018. None of these changes affect the terms of the applicable Dilawri Lease

Overall, at March 31, 2018, the REIT's properties had a weighted average rental rate of \$25.51 per square foot

Income Producing Property Portfolio Summary

As at March 31, 2018	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) ⁽¹⁾	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$37.09	14.6
Calgary	5	236,700	23.41	13.6
Regina	8	183,941	20.21	11.2
Greater Montréal Area (GMA)	4	189,993	18.68	15.8
Edmonton	5	104,073	35.22	13.2
Greater Toronto Area (GTA)	11	556,555	25.47	11.0
Total Portfolio	39	1,425,212	\$25.51	12.6

As at March 31, 2017	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) ⁽¹⁾	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$36.51	15.6
Calgary	4	177,787	21.70	13.5

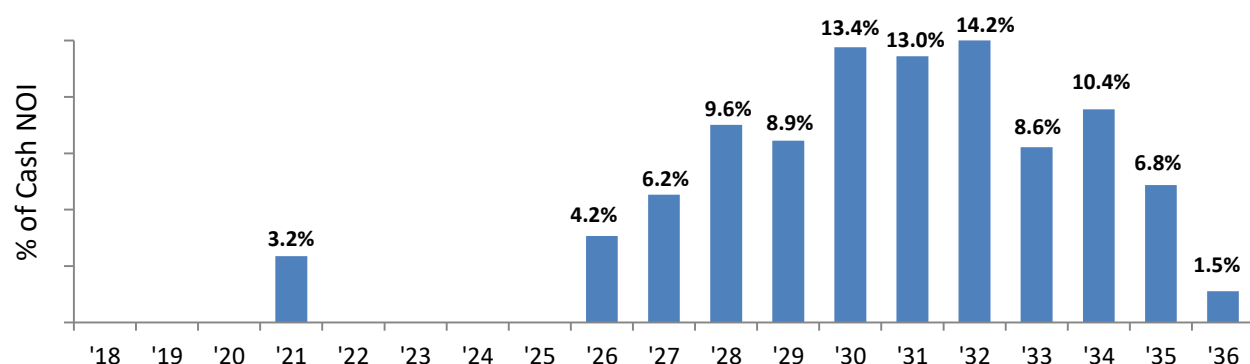
Regina	8	183,941	19.91	12.2
Greater Montréal Area (GMA)	3	173,292	16.67	16.4
Edmonton	2	61,929	33.63	16.1
Greater Toronto Area (GTA)	11	556,555	25.03	12.0
Total Portfolio	34	1,307,454	\$24.56	13.4

(1) Based on 12-month rolling average.

Profile of Overall Lease Maturity

With the exception of the Pfaff Audi Property, the lease portfolio matures between 2026 and 2036 as set out in the chart below.

Lease Maturity Profile ^(*)



(*) Based on a 12-month rolling average as at March 31, 2018.

Property Use and Brand Diversification

Sales for an individual automotive dealership are heavily influenced by the popularity of the automotive brands being marketed, and these, in turn, are often cyclical for each brand as new models are introduced and existing models are updated and refreshed. In addition, prospects for both mass market and luxury brands can vary with economic cycles. Management believes that the portfolio's broad automotive brand diversification contributes to the quality and stability of the REIT's cash flows. The table below sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of March 31, 2018:

Manufacturer / Brand	REIT Auto Dealership GLA (Sq. Feet)	% of REIT Auto Dealership GLA	% of REIT Auto Dealership Rent	No. of REIT Locations
Honda ⁽¹⁾	252,124	17.9%	17.5%	7
Audi	160,215	11.4%	10.4%	4
Porsche ⁽²⁾	84,569	6.0%	8.6%	2
Acura ⁽¹⁾	93,829	6.7%	8.3%	4
Mazda	81,352	5.8%	6.6%	4
Infiniti	56,627	4.1%	6.1%	5
Other ⁽³⁾	79,609	5.7%	5.8%	5
Volkswagen	84,957	6.0%	5.7%	3

BMW ⁽⁴⁾	100,180	7.1%	5.5%	2
Nissan	71,521	5.1%	5.2%	3
Hyundai	62,288	4.4%	4.5%	4
Mercedes Benz	60,850	4.3%	3.9%	1
Toyota	72,478	5.3%	3.1%	2
General Motors	35,504	2.5%	2.6%	1
Ford	39,287	2.8%	2.5%	1
Chrysler ⁽⁵⁾	40,957	2.9%	1.6%	1
Mitsubishi	14,750	1.0%	1.1%	2
Kia	13,890	1.0%	1.0%	1
Total	1,404,987	100.0%	100.0%	52

Notes:

- (1) Includes Honda Used Car and Regina Collision Centre. Regina Honda/Acura split 75% & 25% of 30,863 sq. ft.
- (2) Includes Porsche JLR Edmonton.
- (3) Includes the Dilawri Distinctive Collection property in Calgary, which currently has franchise agreements with Aston Martin and Bentley. In addition, the Dilawri Distinctive Collection sells a variety of used vehicles, including Audi, BMW, Lamborghini, Maserati, McLaren and Mercedes-Benz. Also includes Porsche JLR Edmonton (Jaguar and Land-Rover dealership). Also includes the former Dilawri Acura property in Regina at 1921 1st Avenue which is being used for ancillary dealership purposes by both the Dilawri BMW and the Triple 7 Chrysler dealerships. It continues to be leased by a Dilawri Tenant under the same lease as Dilawri BMW. Also, includes the former Toyota dealership located in Dixie Auto Mall which has vacated its premises; however, the third party tenant is expected to use the existing site for ancillary dealership purposes. The formerly operated Honda dealership has vacated its premises in the Dixie Auto Mall and Dilawri has informed the REIT that a third party operated Kia dealership will move into the former Honda dealership location upon the completion of improvements, which are anticipated to occur in the second quarter of 2018, under a long-term sub-lease. The applicable Dilawri Tenant will continue to be the lead tenant for Dixie Auto Mall until July 2030. None of these changes affect the terms of the applicable Dilawri Lease. Also includes the newly acquired Kentwood Ford Property as part of the Edmonton Portfolio which serves as a vehicle service compound facility.
- (4) Includes MINI.
- (5) Includes Dodge, FIAT, Jeep and RAM.

Description of the REIT's Key Tenant

The following chart summarizes certain relevant financial information of the Dilawri Group for the twelve months ended March 31, 2018 with comparative figures for the twelve months ended March 31, 2017 as provided to the REIT by Dilawri (all figures are approximations):

Dilawri Group's Financial Information (approximations)		
	March 31, 2018 LTM ⁽³⁾	March 31, 2017 LTM ⁽³⁾
Combined Revenues (not audited or reviewed)	\$ 2.9 billion	\$ 2.4 billion
EBITDA (not audited or reviewed)	\$91.8 million	\$ 77.3 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	3.2 ⁽¹⁾	3.2 ⁽¹⁾
Term Debt (not audited or reviewed)	\$ 142.2 million ⁽¹⁾	\$ 157.4 million ⁽¹⁾
Term Debt to EBITDA Ratio (not audited or reviewed)	1.5 ⁽¹⁾	2.0 ⁽¹⁾

Notes:

- (1) As at March 31, 2018.
 (2) As at March 31, 2017.
 (3) "LTM" means the last twelve months.

Although the REIT has no reason to believe that the above financial information of the Dilawri Group contains a misrepresentation, Dilawri is a private company that is independent of, and operates entirely independently from, the REIT and, consequently, neither the REIT, its management nor its Trustees in their capacities as such have been involved in the preparation of this financial information. Readers are cautioned, therefore, not to place undue reliance on that financial information.

Dilawri Additional and Non-ASPE Measures

Dilawri uses "EBITDA" in its financial statements which is an additional ASPE (as defined below) measure. "EBITDA" is defined as the earnings of the Dilawri Group before interest, taxes, depreciation and amortization, all as reflected in the non-consolidated combined financial statements of the Dilawri Group prepared in accordance with the recognition, measurement and disclosure principles of ASPE. Dilawri believes that EBITDA is an important measure of operating performance as it shows Dilawri's earnings before interest, taxes, depreciation and amortization. Dilawri's method of calculating EBITDA may differ from other issuers' calculations and, accordingly, may not be comparable to measures used by other issuers.

References to "Pro Forma Adjusted Rent Coverage Ratio", "Term Debt" and "Term Debt to EBITDA Ratio", which are key measures of performance used by automotive dealership businesses, refer to the Pro Forma Adjusted Rent Coverage Ratio, Term Debt and Term Debt to EBITDA Ratio of the Dilawri Group on a non-consolidated combined basis. Pro Forma Adjusted Rent Coverage Ratio, Term Debt and Term Debt to EBITDA Ratio are not defined by Canadian accounting standards for private enterprises ("ASPE") or IFRS and do not have standardized meanings prescribed by ASPE or IFRS.

"Pro Forma Adjusted Rent Coverage Ratio" is calculated by Dilawri as EBITDA for the LTM plus rent paid by the Dilawri Group for the LTM to third parties and the REIT, less rent received from third parties. The resultant figure is divided by rent paid by the Dilawri Group for the LTM to third parties and the REIT, less rent received from third parties.

"Term Debt" is calculated by Dilawri as the Dilawri Group's total debt reflected in its non-consolidated combined financial statements prepared in accordance with the recognition, measurement and disclosure principles of ASPE.

"Term Debt to EBITDA Ratio" is defined as the ratio of Term Debt to EBITDA.

SECTION 4 –KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

Key Performance Indicators

Acquisitions were the main contributing factors to the increase in rental revenue, NOI, Cash NOI, total assets, total liabilities, FFO, and AFFO in Q1 2018 relative to Q1 2017. The REIT's performance is measured by management's selection of these and other key indicators. For further information on the REIT's operating measures and non-IFRS measures, please refer to Sections 5 and 6 of this MD&A.

Operating Results	Three Months Ended	
	2018	2017
For the periods ended March 31,		
Rental revenue	\$11,306	\$9,881
NOI	9,600	8,259
Cash NOI	8,846	7,559
Same Property Cash NOI	7,648	7,543
Net Income	14,492	1,132
FFO	6,667	5,945
AFFO	6,067	5,354
Fair value adjustment to investment properties	807	539
Distributions per Unit	0.201	0.201

Net Income per Unit – basic ⁽¹⁾	0.554	0.046
Net Income per Unit – diluted ⁽²⁾	0.552	0.046
FFO per Unit - basic ⁽³⁾	0.255	0.244
FFO per Unit - diluted ⁽⁴⁾	0.254	0.244
AFFO per Unit - basic ⁽³⁾	0.232	0.219
AFFO per Unit - diluted ⁽⁴⁾	0.231	0.219
Weighted average Units – basic ⁽⁵⁾	26,149,253	24,399,775
Weighted average Units – diluted ⁽⁶⁾	26,232,967	24,407,903
Payout ratio (%)		
FFO	79.1%	82.4%
AFFO	87.0%	91.8%

Balance Sheet Metrics

As at March 31,	2018	2017
Total assets	\$555,301	\$482,625
Total liabilities	\$373,857	\$327,753
Number of units outstanding (includes Class B LP Units)	26,149,253	26,149,253
Market capitalization (includes Class B LP Units)	\$263,846	\$288,165
Overall capitalization rate	6.5%	6.5%
Fixed weighted average effective interest rate on debt (excludes revolving credit facilities) ⁽⁷⁾	3.43%	3.15%
Proportion of total debt at fixed interest rates through swaps and mortgages	91%	86%
Weighted average interest rate swap term remaining (years)	5.8	4.7
Weighted average term to maturity of debt (excludes revolving credit facilities)	3.3	3.3
Interest Coverage Ratio	3.6X	4.0X
Debt Service Coverage Ratio	1.9X	2.0X
Debt to GBV	48.7%	43.9%

- (1) Net Income per Unit – basic is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.
- (2) Net Income per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs (as defined below) granted to certain Trustees and management.
- (3) FFO per Unit and AFFO per Unit – basic is calculated by dividing the total FFO and AFFO by the amount of the total weighted average number of outstanding REIT Units and Class B LP Units.
- (4) FFO per Unit and AFFO per Unit – diluted is calculated by dividing the total FFO and AFFO by the amount of the total weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs (as defined below) granted to certain Trustees and management.
- (5) The weighted average number of outstanding Units basic - includes the Class B LP Units.
- (6) The weighted average number of outstanding Units - diluted includes the Class B LP Units, DUs and IDUs.
- (7) The fixed weighted average effective interest rate on debt is calculated on an annualized basis.

SECTION 5 – RESULTS OF OPERATIONS

Net Income and Comprehensive Income

Three Months Ended March 31,	2018	2017	Variance
Base rent	\$8,990	\$7,703	\$1,287
Property tax recoveries	1,537	1,453	84
Straight line rent adjustment	779	725	54
Rental Revenue	11,306	9,881	1,425
Property tax expense	(1,537)	(1,453)	(84)
Land leases	(144)	(144)	-
Straight line land lease adjustment	(25)	(25)	-
Property Costs	(1,706)	(1,622)	(84)

NOI	9,600	8,259	1,341
Other Income (Expenses)			
General and administrative expenses	(628)	(540)	(88)
Interest expense and other financing charges	(2,305)	(1,774)	(531)
Fair value adjustment on interest rate swaps	814	27	787
Distribution expense on Class B LP Units	(1,997)	(1,997)	-
Fair value adjustment on Class B LP Units, Deferred Units and Income Deferred Units	8,201	(3,382)	11,583
Fair value adjustment on investment properties	807	539	268
Net Income and Comprehensive Income	\$14,492	\$1,132	\$13,360

Net income and Comprehensive Income

For Q1 2018, net income was \$14,492 compared to \$1,132 in Q1 2017, the increase was primarily due to the growth in NOI and the change in the fair value adjustments for Class B LP Units, investment properties, and interest rate swaps.

Rental Revenue and Property Costs

Rental revenue is based on rents from leases entered into with tenants on closing of the applicable acquisitions, all of which are triple-net leases and, as such, include recoverable realty taxes and straight line adjustments.

For Q1 2018, rental revenue was \$11,306 compared to \$9,881 in Q1 2017, the increase was primarily due to the properties acquired subsequent to Q1 2017 and contractual annual rent increases.

Property costs for Q1 2018 were \$84 higher than Q1 2017. The increase is attributable to the properties acquired subsequent to Q1 2017.

General and Administrative Expenses

The REIT's general and administrative expenses consisted of: (i) outsourced costs, (ii) public entity costs, and (iii) unit-based compensation expense, Deferred Units ("DUs") and Income Deferred Units ("IDUs"). The outsourced costs are largely related to the services provided by Dilawri pursuant to the Administration Agreement. The REIT will reimburse Dilawri for costs incurred in connection with the provision of such services so long as such costs are identified in the then current annual budget of the REIT or are otherwise approved by the REIT. The REIT paid to Dilawri \$291 in respect of services provided in Q1 2018 (Q1 2017 – \$244). The increase of \$47 is due to the additional allocation of resources to manage the REIT.

The public entity costs reflect the expenses related to ongoing operations of the REIT, including professional fees for legal and audit services and fees payable to members of the REIT's Board of Trustees (the "Board"). For Q1 2018, public entity costs were \$4 lower than Q1 2017. Public entity costs will fluctuate from quarter to quarter depending on when such expenses are incurred.

The non-cash unit-based compensation expense relates to DUs and IDUs granted in accordance with the REIT's Equity Incentive Plan (the "Plan"). As at March 31, 2018, all independent Trustees 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 REIT Units for the five trading days immediately preceding the grant date. For Q1 2018, the REIT incurred an expense of \$85 related to the granting of DUs, IDUs, and the vesting of long-term DUs.

For Q1 2018, the REIT accrued management short-term incentive awards of \$69, which will be settled by the granting of DUs.

The table below illustrates the breakdown of general and administrative expenses incurred in Q1 2018 as compared to Q1 2017:

	Q1 2018	Q1 2017	Variance
Administration Agreement	\$ (291)	\$ (244)	\$ (47)
Public entity costs and other	(183)	(187)	4
Trustees, DUs and IDUs expense	(85)	(42)	(43)

Management short term compensation expense	(69)	(67)	(2)
General and administrative expenses	\$ (628)	\$ (540)	\$ (88)

Interest Expense and Other Financing Charges

Interest expenses include amounts payable to lenders under the REIT's Credit Facilities and Mortgages (each as defined in Section 7 "Liquidity and Capital Resources" below), as well as amortization of upfront costs and costs to hedge the applicable Credit Facilities and Mortgages at fixed rates. For Q1 2018, the interest expense and other financing charges were \$2,305, an increase from Q1 2017, primarily due to additional debt incurred to acquire properties subsequent to Q1 2017.

The weighted average fixed rate of interest on the REIT's debt was 3.43% as at March 31, 2018 (March 31, 2017 - 3.15%).

Changes in Fair Values of 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) KW property to be redeveloped for a luxury high-end car company

(2) Includes acquisition costs

On February 13, 2018, the REIT acquired 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 direct development, borrowing and acquisition costs have been incurred in respect of the KW Development Property.

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. 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.

In accordance with the REIT's valuation policy, an independent appraiser is engaged to prepare valuations on a portion of the portfolio annually, such that the entire portfolio is appraised at least once every three years. In addition, any investment property which represents greater than 15% of the overall portfolio value is appraised annually.

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

Changes in Fair Values of Class B LP Units and Interest Rate Swaps

The Class B LP Units and the interest rate hedges (see Section 7 "Liquidity and Capital Resources" in this MD&A) are required to be presented under relevant accounting standards at fair value on the balance sheet. The resulting changes in these items are recorded in net income and comprehensive income.

The REIT entered into interest rate swaps to limit its exposure to fluctuations in the interest rates on variable rate financings for certain credit facilities. Gains or losses arising from the change in the fair value of the interest rate derivative contracts are recognized in the consolidated statements of income and comprehensive income.

Under IFRS, the Class B LP Units are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in the net income and comprehensive income. . Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

The contribution to net income for Q1 2018 is primarily attributable to an increase of interest rate levels since December 31, 2017, which resulted in a fair value adjustment for interest rate swaps of \$814.

SECTION 6 – NON-IFRS FINANCIAL MEASURES

FFO, AFFO, Cash NOI and ACFO

In Q1 2018, FFO increased 12.2% to \$6,667, or \$0.254 per Unit, from \$5,945, or \$0.244 per Unit, in Q1 2017. The increase was primarily due to the properties acquired subsequent to Q1 2017.

AFFO was \$6,667 in Q1 2018 (Q1 2017 - \$5,354), or \$0.231 per Unit (Q1 2017 - \$0.219); and Cash NOI was \$8,846 on \$11,306 of revenue (compared to Cash NOI of \$7,559 on revenue of \$9,881 for Q1 2017), the increases were primarily due to the properties acquired subsequent to Q1 2017.

The REIT declared and paid distributions of \$5,256 for Q1 2018 (Q1 2017 - \$4,971 declared and \$4,686 paid), or \$0.201 per Unit, to Unitholders, which resulted in an AFFO payout ratio of 87.0% in Q1 2018 (Q1 2017 – 91.8%). The Q1 2017 payout ratio was lower primarily due to the properties acquired subsequent to Q1 2017.

ACFO in Q1 2018 increased to \$5,909 compared to \$5,319 in Q1 2017, which resulted in an ACFO payout ratio of 88.9% in Q1 2018 (Q1 2017 – 93.5%) which was lower due to the properties acquired subsequent to Q1 2017.

Reconciliation of NOI, Cash NOI, FFO and AFFO to Net Income and Comprehensive Income

The REIT uses the following non-IFRS key performance indicators: NOI, Cash NOI, FFO, AFFO, FFO payout ratio and AFFO payout ratio. The REIT believes these non-IFRS measures and ratios provide useful supplemental information to both management and investors in measuring the financial performance and financial condition of the REIT. These measures and ratios do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures and ratios presented by other publicly traded real estate investment trusts, and should not be construed as an alternative to other financial measures determined in accordance with IFRS (see “Non-IFRS Financial Measures” in this section of the MD&A). To date, the REIT has not incurred any capital expenditure costs. The REIT’s leases specifically state that the tenant is fully responsible for all maintenance capital costs and the REIT has no obligation and hence no maintenance capital reserve or amount is required to be deducted in arriving at AFFO.

The calculations of these measures and the reconciliation to net income and comprehensive income are set out in the following table:

Three months ended March 31, (\$000s, except per Unit amounts)	2018	2017	Variance
Calculation of NOI			
Property revenue	\$11,306	\$9,881	\$1,425
Property costs	(1,706)	(1,622)	(84)
NOI (including straight-line adjustments)	\$9,600	\$8,259	\$1,341
Adjustments:			
Straight-line adjustment (rent and land lease)	(754)	(700)	(54)
Cash NOI	8,846	7,559	1,287
Reconciliation of net income to FFO and AFFO			
Net income and comprehensive income	\$14,492	\$1,132	\$13,360

Adjustments:			
Change in fair value – Interest rate swaps	(814)	(27)	(787)
Distributions on Class B LP Units	1,997	1,997	-
Change in fair value – Class B LP Units and Deferred Units	(8,201)	3,382	(11,583)
Change in fair value – investment properties	(807)	(539)	(268)
FFO	\$6,667	\$5,945	\$722
Adjustments:			
Straight-line adjustment (rent and land lease)	\$(754)	\$(700)	\$(54)
Non-cash unit-based compensation expense ⁽¹⁾	154	109	45
AFFO	\$6,067	\$5,354	\$713
NOI (including straight-line adjustments)	\$9,600	\$8,259	\$1,341
Adjustments:			
Straight-line adjustment (rent and land lease)	(754)	(700)	(54)
Cash NOI	\$8,846	\$7,559	\$1,287
Number of Units outstanding (including Class B LP Units)	26,149,253	26,149,253	-
Weighted average Units Outstanding – basic	26,149,253	24,399,775	\$1,749,478
Weighted average Units Outstanding – diluted	26,232,967	24,407,903	\$1,825,064
FFO per Unit - basic⁽²⁾	\$0.255	\$0.244	\$0.011
FFO per Unit - diluted⁽³⁾	\$0.254	\$0.244	\$0.010
AFFO per Unit - basic⁽²⁾	\$0.232	\$0.219	\$0.013
AFFO per Unit - diluted⁽³⁾	\$0.231	\$0.219	\$0.012
Distributions per Unit	\$0.201	\$0.201	-
FFO payout ratio	79.1%	82.4%	(3.3%)
AFFO payout ratio	87.0%	91.8%	(4.9%)

(1) For Q1 2018, the REIT incurred an expense of \$85 related to the granting of DUs, IDUs, and the vesting of long-term DU and \$69 accrued for non-cash unit-based management compensation expense as part of the Plan. The DUs and IDUs granted were included in the weighted average number of outstanding REIT Units and Class B LP Units.

(2) The FFO and AFFO per Unit – basic is calculated by dividing the total FFO and AFFO by the amount of the total weighted-average number of outstanding REIT Units and Class B LP Units.

(3) The FFO and AFFO per Unit – diluted is calculated by dividing the total FFO and AFFO by the amount of the total weighted-average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted to certain independent Trustees and management.

Same Property Net Operating Income and Cash Net Operating Income

Three months ended March 31,	2018	2017	Variance
Base rental revenue	\$7,792	\$ 7,687	\$ 105
Straight line rent adjustments	619	724	(105)
Property tax	1,340	1,363	(23)
Rental revenue	9,751	9,774	(23)
Straight line land lease adjustments	(25)	(25)	-
Property tax	(1,340)	(1,363)	23
Land lease adjustments	(144)	(144)	-
Property costs	(1,509)	(1,532)	23
Same Property NOI	8,242	8,242	-
Straight line adjustments	(594)	(699)	105
Same Property Cash NOI	7,648	7,543	105

Same Property NOI consists of base rental revenue, which for Q1 2018 increased by \$105 compared to Q1 2017, primarily due to annual contractual rent increases which were offset by a decrease in straight-line rent adjustment of \$105 for the same period. Same Property Cash NOI increased by \$105 in Q1 2018, compared to Q1 2017, primarily due to annual contractual rent increases.

Reconciliation of ACFO to Cash Flow from Operating Activities

The REIT calculates its ACFO in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cash Flow from Operations (ACFO) for IFRS* issued in February 2018. The REIT believes that ACFO provides useful supplemental information to both management and investors in measuring the financial performance and financial condition of the REIT. ACFO does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures utilized by other publicly traded real estate investment trusts, and should not be considered as an alternative to other financial measures determined in accordance with IFRS (see "Non-IFRS Financial Measures" in this section of the MD&A). To date, the REIT has not incurred any capital expenditure costs. The REIT's leases specifically state that the tenant is fully responsible for all maintenance capital costs and the REIT has no obligation and hence no maintenance capital reserve or amount is required to be deducted in arriving at ACFO. The calculation of ACFO and the reconciliation to cash flow from operating activities is set out in the table below:

Three months ended March 31, (\$000s)	2018	2017	Variance
Cash flow from operating activities	\$ 8,383	\$ 6,451	\$ 1,932
Change in non-cash working capital	(149)	661	(810)
Interest paid	(2,211)	(1,494)	(717)
Amortization of financing fees	(89)	(63)	(26)
Amortization of indemnification fees	(19)	(19)	-
Net interest expense and other financing charges in excess of interest paid	(6)	(217)	211
ACFO	\$ 5,909	\$ 5,319	\$590
ACFO payout ratio	88.9%	93.5%	(4.6%)

The ACFO payout ratio was 88.9% in Q1 2018 (Q1 2017 – 93.5%). The decrease from Q1 2017 was due to the properties acquired subsequent to Q1 2017.

SECTION 7 – LIQUIDITY AND CAPITAL RESOURCES

Capital Structure

Key Terms							
Debt ⁽⁶⁾	Term (yrs)	Hedged Term (yrs)	Interest Rate	Payments & Interest/Amortization	Effective Interest Rate (fixed)	Outstanding as at March 31, 2018	Outstanding as at December 31, 2017
Facility 1	(1)	2.3 to 7.4	BA + 150 bps, Prime +25 bps	(1)	3.29%	134,459	\$ 135,804
Facility 2	4.2 ⁽²⁾	2.3 to 9.7	BA + 150 bps, Prime +25 bps	(2)	3.44%	87,063	80,086
Facility 3	4.7 ⁽³⁾	9.7	BA + 150 bps, Prime +50 bps	(3)	4.02%	19,750	20,000
Mortgages	0.8 to 9.1	n/a	Fixed 3.22% to 3.72 %	P&I, 20 yrs and 25yrs	3.51%	29,175	29,441
						\$270,447	\$ 265,331
Financing fees						(949)	(1,013)
Weighted Average /Total	3.3	5.8			3.43%	\$ 269,498	\$ 264,318
Cash Balance						\$161	\$227

Key Financing Metrics and Debt Covenants^{(4),(7)}	Debt Covenant	Declaration of Trust⁽⁵⁾	As at March 31, 2018	As at December 31, 2017
Interest coverage	-	-	3.6	3.8
Debt to GBV	<65% ⁽⁶⁾	<65% ⁽⁶⁾	48.7%	48.5%
Unitholders' Equity (including Class B LP Units, DUs and IDUs)	>\$120,000	-	\$282,616	\$279,228
Debt Service Coverage	>1.35	-	1.9	2.0
AFFO payout ratio	<100%	-	87.0%	91.5%

(1) \$107,559 of this facility matures in July 2020, \$13,250 of this facility matures December 2020 and the revolving facility matures in July 2018 (the REIT is in decisions to extend).

(2) Facility 2 and the associated revolving facility matures June 2022.

(3) Facility 3 and the associated revolving facility matures in December 2022.

(4) The calculations of these ratios, which are non-IFRS measures, are set out under "Financing Metrics and Debt Covenants" below.

(5) The Declaration of Trust contains other operating covenants that do not relate to leverage or debt service/coverage. The Declaration of Trust is available on www.sedar.com and is described in the AIF. Management believes that the REIT is in compliance with these operating covenants.

(6) Including convertible debentures. Excluding convertible debentures, the maximum ratio is 60%.

(7) The debt agreements for Facility 1, Facility 2 and Facility 3 have other covenants that do not directly relate to the REIT's consolidated financial position. Management believes that the REIT is in compliance with all such covenants and with the debt agreement covenants for Facility 1, Facility 2, Facility 3 and the Mortgages

In order to maintain or adjust its capital structure, the REIT may increase or decrease the amount of distributions paid to Unitholders, issue new REIT Units and debt, or repay debt. Factors affecting such decisions include:

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

Principal repayments are as follows:

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

Management believes that the REIT's liquidity position as at March 31, 2018, which includes approximately \$19,212 of undrawn and uncommitted revolving credit facilities and cash on hand of \$161, is sufficient to carry out its obligations, discharge liabilities as they come due and fund distributions to Unitholders.

Capital requirements in the next two years are low, the REIT is in discussions to extend Facility 1 revolving credit facility before time of maturity (July 2018) and capital expenditure requirements are expected to be insignificant. Capital required for investing activities will be addressed through additional borrowings or issuances of equity as acquisition and development opportunities arise.

Debt Financing

The REIT's overall borrowing policy is to obtain secured credit facilities, principally on a fixed rate or effectively fixed rate basis, which will allow the REIT to (i) achieve and maintain staggered maturities to lessen exposure to re-financing

risk in any particular period; (ii) achieve and maintain fixed rates to lessen exposure to interest rate fluctuations; and (iii) extend loan terms and fixed rate periods as long as possible when borrowing conditions are favourable. Subject to market conditions and the growth of the REIT, management currently intends to target Indebtedness of approximately 55%-60% of GBV. As at March 31, 2018, the REIT's Debt to GBV ratio was 48.7% (March 31, 2017 – 43.9%). The increase is due to the acquisition subsequent to Q1 2017. Management expects that the ratio of Debt to GBV may increase, at least temporarily, following an acquisition by the REIT of one or more additional properties. Interest rates and loan maturities will be reviewed on a regular basis to ensure appropriate debt management strategies are implemented.

Pursuant to the Declaration of Trust, the REIT may not incur or assume any Indebtedness, if after giving effect to the incurring or assumption of such Indebtedness, the total Indebtedness of the REIT would be more than 65% of GBV, including convertible debentures.

Secured Credit Facilities and Mortgages

All the Credit Facilities and mortgages are with Canadian Schedule 1 Banks and are secured by the REIT's investment properties. As at March 31, 2018, the Mazda des Sources property and the Edmonton portfolio properties are unencumbered and are able to be used as security for future financing requirements.

The REIT has a total of \$44,000 available in its revolving credit facilities. As at March 31, 2018, that REIT had undrawn and uncommitted revolving credit facilities of \$19,212 (\$912 in Facility 1, \$4,300 in Facility 2, and \$14,000 in Facility 3).

Financing Fees

During Q1 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 at March 31, 2018 (December 31, 2017 - \$1,013).

Interest Rate Swaps

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on its variable rate financings under 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.

The following table sets out the combined borrowings under Facility 1, Facility 2, and Facility 3 the remaining expected term to maturity of the related interest rate swaps.

Remaining Term (yrs)	Amount (\$000s)	Total Swapped Fixed Rate Debt (%)
2.3	38,311	17.6
4.5	54,722	25.2
5.3	26,890	12.5
6.3	12,693	5.8
7.3	41,130	18.9
8.3	14,173	6.5
9.7	29,403	13.5
4.7	217,322	100.0

As at March 31, 2018, the notional principal amount of the interest rate swaps was \$217,322 (December 31, 2017 – approximately \$190,000) and the fair value adjustment of the interest rate swaps was \$814 (December 31, 2017 - \$5,205) resulting in an asset balance of \$3,370 (December 31, 2017 - \$2,555).

Unitholders' Equity (including Class B LP Units)

Unitholders' equity consists of two classes of Units described below:

REIT Units

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

Each REIT Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT. All REIT 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 REIT Units and holders of Special Voting Units (as defined below) or in respect of any written resolution thereof.

Holders of REIT Units are entitled to receive distributions from the REIT if, as and when declared by the Board. Upon the termination or winding-up of the REIT, holders of REIT Units 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. REIT 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 REIT Units, 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.

As at March 31, 2018, the total number of the REIT Units outstanding was 16,216,000.

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. The Class B LP Units are economically equivalent to REIT Units, and are exchangeable at the option of the holder for REIT Units on a one-for-one basis (subject to certain anti-dilution adjustments), are accompanied by a special voting unit (a "Special Voting Unit") (which provides the holder with that number of votes at any meeting of holders of REIT Units to which a holder of the number of REIT 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 REIT 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. Under IFRS, the Class B LP Units are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in net income and comprehensive income. Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

As at March 31, 2018, the total number of Class B LP Units outstanding was 9,933,253.

Deferred Units

The REIT offers an Equity Incentive Plan (the "Plan"). Under the Plan, DUs may be granted to Trustees, officers and employees of the REIT on a discretionary basis by the Governance, Compensation and Nominating Committee of the Board. The maximum number of REIT Units available for issuance under the Plan is 500,000. Each DU is economically equivalent to one REIT Unit, however, under no circumstances shall DUs be considered REIT 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 REIT Unit by the REIT on its REIT 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) whereby the REIT will issue to the participant an equal number of REIT Units in exchange for the DUs and IDUs. The holder of such DUs and IDUs cannot settle such DUs and IDUs for cash.

A total of 58,995 DUs and IDUs were granted in Q1 2018, of which 26,576 will be accounted for in accordance with their vesting schedule. As at March 31, 2018, the total number of DUs and IDUs granted was 141,269, of which 91,507 were outstanding and fully vested.

Distributions

Holders of REIT Units 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, holders of REIT Units 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. REIT 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 REIT Units, except for Dilawri as set out in the Exchange Agreement, or as otherwise agreed to by the REIT pursuant to a binding written agreement.

In determining the amount of the monthly cash distributions paid to unitholders, the Board applies discretionary judgment to forward-looking cash flow information, which includes forecasts and budgets and many other factors including provisions in the Declaration of Trust, the macro-economic and industry-specific environment, debt maturities and covenants and taxable income.

The Board regularly reviews the REIT's rate of distributions to ensure an appropriate level of cash distributions.

Net income prepared in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt or payment of cash. Therefore, in applying judgment, consideration is given to AFFO (which is the product of the earnings performance) and other factors when establishing cash distributions to holders of REIT Units.

Financing Metrics and Debt Covenants

The calculations of financial metrics and debt covenants are set out in the table below:

<i>Calculations of financial metrics and debt covenants</i>		As at March 31, 2018	As at December 31, 2017
Net Asset Value			
Investment properties, IFRS value		\$550,274	\$543,135
Cash, prepaid and other assets		5,027	4,471
Accounts payable and accrued liabilities		(3,188)	(4,060)
Credit Facilities and Mortgages, interest rate swaps		<u>(269,498)</u>	<u>(264,318)</u>
Total Net Asset Value		\$282,615	\$279,228
REIT Units and Class B LP Units outstanding		26,149,253	26,149,253
Debt to GBV			
<i>Indebtedness outstanding :</i>			
Credit Facilities & Mortgages (excludes deferred financing costs)	A	\$270,447	\$265,331
<i>Gross Book Value</i>			
Total assets	B	555,301	547,606
Debt to GBV	(A/B) X 100	48.7%	48.5%
Unitholders' Equity & Class B LP Units & DUs & IDUs			
Unitholders' Equity		\$181,444	\$170,211
Value of DUs & IDUs		944	645
Value of Class B LP Units		<u>100,227</u>	<u>108,372</u>
Total Unitholders' Equity & Class B LP Units & DUs & IDUs		282,615	279,228
Calculations of financial metrics and debt covenants			
Interest coverage		Q1 2018	Q1 2017
Cash NOI		\$8,846	\$7,559

General and administrative expenses		<u>(628)</u>	<u>(540)</u>
Income before interest expense and fair value adjustments	C	8,218	7,019
Interest expense and other financing charges	D	2,305	1,774
Interest Coverage Ratio ⁽²⁾	C/D	3.6X	4.0X
<hr/> Debt Service Coverage <hr/>			
Consolidated net income		\$14,492	\$1,132
Interest expense and other financing charges		2,305	1,774
Distribution expense on Class B LP Units		1,997	1,997
Amortization of indemnity fee		19	19
Fair value adjustments, net		<u>(9,822)</u>	<u>2,816</u>
EBITDA	E	8,991	7,738
Principal payments on debt		\$2,584	\$2,136
Interest payments on debt (excluding bank charges)		<u>2,196</u>	<u>1,701</u>
Debt Service	F	4,780	3,837
Debt Service Ratio ⁽³⁾	E/F	1.9X	2.0 X
<hr/> AFFO payout ratio <hr/>			
AFFO		<u>\$6.067</u>	<u>\$5,354</u>
Distributions on REIT Units		3,259	2,974
Distributions on Class B LP Units		<u>1,997</u>	<u>1,997</u>
		5,256	4,971
AFFO payout ratio ⁽⁴⁾		87.0%	91.8%

(1) The Interest Coverage Ratio for Q1 2018 decreased compared to the same period in the previous year due to the increase in interest expense and other financing charges.

(2) The Debt Service Ratio for Q1 2018 decreased compared to the same period in the previous year, mainly due to the increase in interest payments.

(3) The AFFO payout ratio is calculated as distributions per REIT Unit divided by the AFFO per Unit - diluted.

SECTION 8 – RELATED PARTY TRANSACTIONS

The REIT's largest Unitholder and lead tenant is the Dilawri Group, which as at March 31, 2018, held an approximate 38% effective interest in the REIT on a fully diluted basis, through its ownership of all of the issued and outstanding Class B LP Units.

In the normal course of its operations, the REIT enters into various transactions with related parties and the REIT's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions and in accordance with the Related Party Transaction Policy adopted by the Board and the Declaration of Trust.

In consideration of the applicable Dilawri Tenants leasing the entirety of two of the Initial Properties with third party tenants (and thereby bearing occupancy, rental and other risks associated with the portions of those properties to be subleased to third party tenants for the initial lease terms of 12 and 15 years for those properties), 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).

In addition, the REIT paid Dilawri \$1,800 as part of the purchase price of the Initial Properties with respect to the recoverable land transfer taxes associated with the acquisitions that may become payable by Dilawri over the 3 years following the IPO. Subsequently, this amount was adjusted to \$896 and the remaining balance of \$904 was paid back to the REIT from Dilawri.

Refer to the AIF for additional information on related party agreements and arrangements with Dilawri, please refer to the AIF which can be found on the SEDAR website at www.sedar.com and on the REIT's website www.automotiveproperties.ca.

Administration Agreement

Pursuant to the Administration Agreement, Dilawri has agreed to provide, or cause to be provided, if and as requested by the REIT and, in each case, subject to the overriding supervision and direction of the Trustees, the REIT with:

- i. the REIT's President and Chief Executive Officer, Chief Financial Officer and Corporate Secretary, as approved by the REIT;
- ii. certain administrative and other support services, including assisting the President and Chief Executive Officer and the Chief Financial Officer and Corporate Secretary with the standard functions of a public company, including financial reporting, investor relations, quarterly conference calls, ongoing disclosure obligations, Unitholder correspondence, annual and special meetings of the Unitholders, compliance with the Declaration of Trust and providing office space for the REIT; and
- iii. such other services as may from time to time be agreed in writing by the REIT and Dilawri for which Dilawri will be compensated on terms to be agreed prior to the provision of such services.

Subject to certain exceptions, Dilawri provided these services to the REIT on a cost-recovery basis, reflecting Dilawri's actual costs in providing such services. The REIT will reimburse Dilawri for costs incurred in connection with the provision of the above services so long as such costs are identified in the then current annual budget of the REIT or are otherwise approved by the REIT.

The term of the Administration Agreement is for five years commencing on closing of the IPO and will be automatically renewed for further one-year terms. The REIT's independent Trustees may terminate the Administration Agreement in part in respect of one or more particular services, in each case, upon 90 days' prior written notice, without payment of any termination fees. As part of any termination of the Administration Agreement, the REIT will be permitted to solicit employees of the Dilawri Group who provide services to the REIT under the Administration Agreement.

General and administrative expenses include \$291 for Q1 2018 (Q1 2017 - \$244) paid by the REIT to Dilawri pursuant to the Administration Agreement.

Strategic Alliance Agreement

In connection with the IPO, the REIT and the Dilawri Group entered into the Strategic Alliance Agreement which establishes a preferential and mutually beneficial business and operating relationship between the REIT and the Dilawri Group. The Strategic Alliance agreement will be in effect so long as the Dilawri Organization and the applicable transferors of the Initial Properties own, control or direct, in the aggregate, an effective interest of at least 10% (on a fully-diluted basis) in the REIT. Among other things, 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.

SECTION 9 – OUTLOOK

The Canadian automotive retail industry is a large and stable business with a track record of long-term growth. Over the last 20 years, Canadian automobile retail sales grew at a compound annual rate of 4.6%. For calendar year 2017, this steady growth has continued, with sales of new automobiles up 4.7% to 2,076,970 units, compared to 1,983,745 units for 2016 (*Source: Statistics Canada*). For the two months ended February 28, 2018, this steady growth continued,

with sales of new automobiles up 3.0% to 245,463 units, compared to 238,280 units for the two months ended February 28, 2017 (Source: Statistics Canada).

Management believes that the stable industry sales levels within the Canadian automotive retail sector support the ability of the automobile dealership tenants within the REIT's portfolio to meet their current lease obligations and the contractual annual rent escalators in place.

As the only publicly traded Canadian real estate entity focused on owning automotive dealership properties, the REIT provides a unique opportunity for automotive dealership owners to monetize the real estate underlying their dealerships while retaining ownership and control of their core automotive dealership businesses. This provides them with liquidity to advance their individual strategic objectives, whether it be succession planning, directly investing in upgrading their dealerships, or facilitating acquisitions in this period of industry consolidation. The automotive dealership industry is highly fragmented, and the REIT expects consolidation will continue due to increased industry sophistication and growing capital requirements for owner operators, which encourages them to pursue increased economies of scale. The REIT's acquisition program execution has been slowed in part as a result of the continued record automotive retail sales, which has delayed dealer disposition activity.

The REIT is well positioned to acquire additional properties on an accretive basis given management's transaction experience, increasing awareness of the REIT in the automotive dealership community, the REIT's ability to access the capital markets for funding, and the REIT's current strong acquisition capacity. The REIT's Debt to GBV of 48.7% as at March 31, 2018 provides the REIT with the capacity to acquire additional properties in the future.

SECTION 10 – OTHER DISCLOSURES

Commitments and Contingencies

In conjunction with the IPO, the REIT and Dilawri entered into the 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 agreement.

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

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.....	<u>8,197</u>
Total.....	<u><u>\$11,327</u></u>

Disclosure Controls and Internal Controls over Financial Reporting

The REIT's certifying officers have designed a system of disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the REIT, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by the REIT in its annual filings, interim filings and other reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Also, the REIT's certifying officers have designed a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes to the REIT's ICFR during Q1 2018 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the REIT intends to take whatever steps are necessary to minimize the consequences thereof.

Consistent with National Instrument 52-109–Certification of Disclosure in Issuers’ Annual and Interim Filings, the REIT has filed certificates on Form 52-109F2.

SECTION 11 – QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected consolidated financial information for each of the eight most recently completed quarters:

Selected Quarterly Information

(\$ thousands except where otherwise indicated)	First Quarter 2018	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016
Number of Properties	39	39	35	35	34	32	30	29
GLA (sq. ft.)	1,425,212	1,425,212	1,366,367	1,366,367	1,307,454	1,270,202	1,146,684	1,077,773
Rental revenue	11,306	10,856	10,599	10,467	9,881	9,127	8,538	8,302
Net Operating Income	9,600	9,188	9,017	8,988	8,259	7,683	7,302	7,266
Net Income (loss)	14,492	6,594	12,729	5,793	1,132	5,643	1,171	(2,530)
Net Income (loss) per unit – basic ⁽ⁱ⁾	0.554	0.252	0.487	0.222	0.046	0.258	0.063	(0.140)
Net Income (loss) per unit – diluted ⁽ⁱⁱ⁾	0.552	0.251	0.485	0.221	0.046	0.258	0.063	(0.140)
FFO per unit – basic ⁽ⁱⁱⁱ⁾	0.255	0.238	0.245	0.250	0.244	0.229	0.269	0.269
FFO per unit – diluted ^(iv)	0.254	0.237	0.244	0.249	0.244	0.229	0.269	0.269
AFFO per unit – basic ⁽ⁱⁱⁱ⁾	0.232	0.216	0.222	0.224	0.219	0.210	0.236	0.240
AFFO per unit – diluted ^(iv)	0.231	0.215	0.222	0.223	0.219	0.210	0.236	0.240
AFFO payout ratio	87.0%	93.5%	90.5%	90.1%	91.8%	95.7%	85.2%	83.8%
Distribution declared per unit	0.201	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Weighted average Units – basic	26,149,253	26,149,053	26,149,053	26,149,053	24,399,775	21,894,253	18,554,253	18,053,253
Weighted average Units – diluted	26,232,967	26,226,225	26,220,165	26,215,815	24,407,903	21,897,998	18,554,293	18,053,253
Total assets	555,301	547,606	514,618	507,814	482,625	464,338	430,294	407,366
Debt to GBV	48.7%	48.5%	45.8%	46.5%	43.9%	51.5%	48.2%	55.6%
Debt service coverage	1.9x	1.9x	2.0x	2.1x	2.0x	1.8x	1.7x	1.8x

(i) Net Income (loss) per Unit – basic is calculated in accordance with IFRS by dividing the Net Income (loss) by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.

(ii) Net Income (Loss) per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income (Loss) by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted as at March 31, 2018, to certain Trustees and management.

(iii) The FFO and AFFO per Unit-basic is calculated by using the weighted-average number of outstanding REIT Units and Class B LP Units. The FFO and AFFO per Unit basic comparable numbers were adjusted in accordance with the Real Property Association of Canada’s White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2018.

(iv) The FFO and AFFO per Unit-diluted is calculated by using the weighted-average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted as at March 31, 2018. The FFO and AFFO per Unit diluted comparable numbers were adjusted in accordance with the Real Property Association of Canada’s White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2018.

The increase in rental revenue and NOI is primarily attributable to the thirteen acquisitions completed since the REIT’s IPO. The net income (loss) is impacted by the fluctuations in fair value of Class B LP Units, investment properties and interest rate swaps.

SECTION 12 – RISKS & UNCERTAINTIES, CRITICAL JUDGEMENTS & ESTIMATES

The risks inherent in the REIT's business are identified in the REIT's Management's Discussion and Analysis for the year ended December 31, 2017 and in its current AIF, all of which remain unchanged at the date of this MD&A and are available at www.sedar.com.

In addition to the risks identified in the Annual MD&A, as an owner of a property under development, the KW Development Property, the REIT is subject to customary risks of development, including construction delays, development cost overages, and the risk of the tenant not occupying the premises as per the lease requirements. Management will work to mitigate such risks by adhering to a detailed business plan outlining all deliverables and processes to be completed in respect of the development of the KW Development Property.



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)

<i>(in thousands of Canadian dollars)</i>	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:

Property	Location	Date of Acquisition	Total Investment Properties ⁽¹⁾	Consideration		
				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	<u>8,542</u>
Total	<u>\$270,447</u>

(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

<i>For the three months ended March 31,</i>	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

<i>For the three months ended March 31,</i>	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	<u>8,197</u>
Total	<u>\$11,327</u>

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

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