2020 SECOND QUARTER REPORT

Consolidating Canada's Automotive Dealership Properties

Automotive Properties REIT™

Automotive Properties Real Estate Investment Trust

Management's Discussion and Analysis

June 30, 2020

Table of Contents

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- and six-month periods ended June 30, 2020. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. 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 months ended June 30, 2020 ("Q2 2020") are against results for the three months ended June 30, 2019 ("Q2 2019") and all comparisons of results for the six months ended June 30, 2020 ("YTD 2020") are against results for the six months ended June 30, 2019 ("YTD 2019"), unless otherwise noted.

This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the REIT and accompanying notes for the three- and six-month periods ended June 30, 2020. Further information about the REIT can be found in the REIT's annual information form dated March 23, 2020 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the REIT's SEDAR profile at www.sedar.com and on the REIT's website at www.automotivepropertiesreit.ca. This MD&A is dated August 13, 2020.

The REIT

Since January 1, 2020, the REIT has been internally managed, unincorporated, open-ended real estate investment trust that was formed primarily to own income-producing automotive dealership properties in Canada. As at the date of this MD&A, the REIT owns a portfolio of 64 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.4 million square feet of gross leasable area ("GLA").

The REIT commenced operations on July 22, 2015 following completion of its initial public offering of trust 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 became tenants of a property owned by the REIT subsequent to the IPO, the "Dilawri Tenants").

893353 Alberta Inc. ("Dilawri") is a privately held corporation which, together with certain of its affiliates, holds an approximate 26.0% effective interest in the REIT as at June 30, 2020, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"), and 2,428,552 trust units of the REIT ("REIT Units"). The Class B LP Units are economically equivalent to REIT Units and are exchangeable generally on a one-for-one basis for REIT Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

On February 5, 2020, the REIT acquired the real estate underlying the Regina BMW automotive dealership property ("Regina BMW"), located in Regina, Saskatchewan, and on February 6, 2020, the REIT acquired the real estate underlying the Acura North Vancouver automotive dealership property ("Acura North Vancouver"), located in North Vancouver, British Columbia, from the Dilawri Group for a combined purchase price of approximately $28,850 plus acquisition costs of $718. The acquisitions consist of two full-service automotive dealership properties totaling 41,992 square feet of GLA.

The REIT provided capital for facility improvements to one of the tenants of the automotive dealership properties located in Winnipeg, Manitoba. The total capital of $1,908 resulted in an annual rent increase effective March 6, 2020.

On August 13, 2020, the REIT waived conditions for the purchase of real estate underlying a dealership property in Laval, Quebec, to be redeveloped for a luxury high-end car company that has committed to a long-term lease to occupy the premises. The REIT estimates that the total expenditures, including the purchase price, redevelopment costs and related expenses will be approximately $13,400.

As at June 30, 2020, the total number of issued and outstanding REIT Units and Class B LP Units was 37,697,052 and 9,933,253, respectively, for a total of 47,630,305 Units (as defined below). The REIT Units are listed and posted for trading 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 Unit, resulting in total distributions declared and paid of $9,574 for Q2 2020 (Q2 2019 – $6,914 declared and $6,378 paid). For YTD 2020, the REIT declared and paid distributions totalling $19,148 (YTD 2019 – $13,293 declared and $12,757 paid).

The REIT and Dilawri were previously parties to an Administration Agreement (the “Administration Agreement”), pursuant to which Dilawri provided, or caused to be provided, certain services to the REIT. The Administration Agreement was terminated effective December 31, 2019. As the termination of the Administration Agreement was completed in accordance with its terms, the REIT was not required to pay Dilawri any termination fees. Following termination of the Administration Agreement, the REIT’s management, operating and administrative support personnel became employed directly by the REIT (“Internalization”).

The Strategic Alliance Agreement with Dilawri continues to allow the REIT to benefit from a preferential relationship with Dilawri as Dilawri develops and acquires automotive dealerships in the future. These agreements are described under Section 8 “Related Party Transactions” in this MD&A.

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19 has had a significant adverse impact on trade and on local, national and global economies. Automotive industry analysts have forecasted that Canadian new automotive sales will decline by approximately 30% in 2020 as compared to 2019 as a result of COVID-19, although no assurance can be given in that regard.

Provincial governments across Canada enacted emergency measures, commencing in the second half of March 2020 to combat the spread of COVID-19, including the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, many of which continue in effect as of today. As a result of these measures, several of the REIT’s tenants’ automotive dealership businesses were either temporarily closed or operated on a limited basis. Further, heightened public concerns regarding COVID-19 has resulted in delayed automotive purchasing or servicing decisions by consumers, which has significantly impacted automotive dealership operators (including those that were permitted to remain open, or partially open, in line with their respective provincial government guidelines). At the end of May 2020, all of the REIT’s tenants were fully open for business. Since the onset of the COVID-19 pandemic, the REIT has engaged in regular discussions with its tenants regarding the impact that COVID-19 was and is having on their respective automotive dealership businesses.

According to Statistics Canada, new automobile sales in Canada for the five months ended May 31, 2020 were down approximately 39.7% compared to the corresponding period in 2019. As provincial lockdowns eased in May 2020, pent-up consumer demand resulted in a rebound in Canadian auto sales and an increase in service work performed at the automotive dealership level. According to one industry report, new automobile sales units in Canada for the month of June 2020 declined by approximately 16% as compared to June 2019.

The REIT has collected approximately 78% of its base rent for Q2 2020, with the remaining amount subject to rent deferral agreements (the “Deferral Agreements”) with tenants. Pursuant to the Deferral Agreements, the REIT has agreed to defer, predominately interest-free, a portion of the applicable tenants’ base rents for primarily a three-month period occurring between April and July 2020. Given the REIT’s triple-net lease structure, the only additional rent receivable relates to realty taxes and land lease payments, of which the REIT has collected all that was due in the months of April to June 2020 except for realty tax payments owing by one tenant group.

The REIT has collected approximately 99% of its expected July and August 2020 contractual base rent, including required payments under the Deferral Agreements.

The REIT made a fair value adjustment to its property portfolio for Q2 2020 of $(10,905) and for YTD 2020 of $(34,035), in accordance with adjustments made to valuation inputs reflecting the impact of COVID-19 on all tenants and the impact of depressed commodity prices on its tenants in Alberta. The overall capitalization rate applicable to the REIT's entire portfolio increased to 6.9% as at June 30, 2020 (December 31, 2019 - 6.6%).

Canadian federal and provincial governments have implemented economic support measures to offset the financial impact of the COVID-19 pandemic on Canadian businesses. In particular, in April 2020, the federal and provincial governments introduced rent relief for commercial tenants – the Canada Emergency Commercial Rent Assistance Program ("CECRA") – which provides rent relief to small commercial tenants. Based on publicly available information, as at the date of this MD&A, the REIT does not expect any of its tenants to qualify for CECRA, however, if this should change, the REIT may participate in the program.

As at June 30, 2020, the REIT is in a strong liquidity position with a Debt to GBV (as defined below) of 44.4%, $75,000 of undrawn Credit Facilities (as defined below), cash on hand of $3,750 and eight unencumbered properties with an aggregate value of approximately $128,000. See Section 7 "Liquidity and Capital Resources" in this MD&A for more details. The REIT proactively engaged in discussions with its key lenders regarding the easing of certain financial covenants contained in the REIT's Credit Facilities (as defined below). In particular, two of the REIT's lenders have amended their respective Credit Facilities to remove the cap on the REIT's distributions at 100% of AFFO payout ratio (calculated on a rolling four quarter basis) so long as the REIT's Debt to GBV ratio is less than 55% (or, in one case, the REIT has at least $17,000 in the aggregate of cash on hand and amounts available to be drawn under its revolving Credit Facilities). The third lender has increased the cap on distributions to 110% of AFFO (calculated on a rolling four quarter basis) until September 30, 2021. At the time of engaging in these discussions, the REIT did not expect to exceed the original limits contained in the Credit Facilities; however, management worked with the REIT's lenders in order to manage any potential further risk associated from the impact of COVID-19.

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 impact of the COVID-19 pandemic on the REIT and its investment properties, and its tenants, including with respect to payment of rents and deferrals thereof;
- the impact of the CECRA program, or other government commercial rent relief programs, on the REIT and its tenants;
- 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, and (ii) expected transactions to be entered into between Dilawri and the REIT (including pursuant to the Strategic Alliance Agreement);
- the expenditures related to the Tesla KW property;
- the REIT's intention with respect to, and ability to execute, its external and internal growth strategies;
- the level of forecasted new vehicle sales in Canada in 2020;

- the maintenance by the REIT of a strong balance sheet and prudent financial management and associated minimization of financial risk;
- 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;
- 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); and
- the REIT's ability to consolidate automotive dealership properties.

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 inflation will remain relatively low, that interest rates will remain stable or at lower levels for the near term, 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 Judgments & 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"), adjusted cash flow from operations ("ACFO"), FFO payout ratio, AFFO payout ratio, ACFO payout ratio, net operating income ("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, Cash NOI, Same Property 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. 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 2019. 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; (v) distributions on redeemable or exchangeable units treated as interest expense; and (vi) operational revenue and expenses from the right-of-use assets (referred to as "ROU" assets).

"FFO payout ratio" is calculated as distributions paid per Unit divided by the FFO per Unit diluted.

"AFFO" is a non-IFRS measure of economic earnings operating performance widely used in the real estate industry to assess an entity's distribution capacity from earnings. 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 2019. 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; and (ii) capital expenditures. The REIT includes a capital expenditure reserve of 0.5% of base rent in the AFFO calculation. To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management's best estimate of cost that the REIT may incur, related to the sustaining/maintaining of the existing leased area.

"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 AFFO payout ratio as the key measure of the REIT's distribution capacity from earnings. AFFO payout ratio is calculated as distributions paid 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 2019. 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. The REIT includes a capital expenditure reserve of 0.5% of base rent in the ACFO calculation. To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management's best estimate of cost that the REIT may incur, related to the sustaining/maintaining of the existing leased area.

"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 and deducts land lease payments.

"Same Property Cash NOI" is a non-IFRS measure which reports the period-over-period performance of the same asset base having consistent GLA during both periods of Cash NOI. The REIT uses this measure to assess financial returns and changes in property value.

FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash 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 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 under IFRS and 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 (D) 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, mortgages and interest rate swaps.

“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 at a particular time.

“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

Industry analysts have forecasted that Canadian new automotive sales will decline by approximately 30% in 2020, compared to 2019, due to the COVID-19 pandemic, although no assurance can be given in that regard. Historically, Canada’s automotive retail industry has been characterized by strong industry fundamentals. According to Statistics Canada, automotive retail industry sales totaled a record $165 billion in 2019 (up 2% from $161 billion in 2018), 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 4.4%. The tables below contain new automobile sales by units in Canada for the five months ended May 31, 2020 and May 31, 2019, and for the 2019 and 2018 calendar years (the latest available information from Statistics Canada):

	Five Months Ended May 31 (units)			
	2020	**YoY unit increase/ (decrease)**	**YoY % increase/ (decrease)**	**2019**
Alberta	62,026	(31,464)	(33.7%)	93,490
British Columbia and the Territories	57,844	(31,710)	(35.4%)	89,554
Manitoba	15,254	(9,826)	(39.2%)	25,080
New Brunswick	10,479	(6,216)	(37.2%)	16,695
Newfoundland and Labrador	7,482	(4,677)	(38.5%)	12,159
Nova Scotia	11,943	(9,037)	(43.1%)	20,980
Ontario	205,079	(139,221)	(40.4%)	344,300
Prince Edward Island	1,928	(1,244)	(39.2%)	3,172
Québec	105,890	(83,341)	(44.0%)	189,231
Saskatchewan	13,672	(6,363)	(31.8%)	20,035
Total Canada	**491,597**	**(323,099)**	**(39.7%)**	**814,696**

	Twelve Months Ended December 31 (units)			
	2019	**YoY unit increase/ (decrease)**	**YoY % increase/ (decrease)**	**2018**
Alberta	222,286	(14,483)	(6.1%)	236,769
British Columbia and the Territories	208,315	(17,224)	(7.6%)	225,539
Manitoba	57,402	(10,492)	(15.5%)	67,894
New Brunswick	40,984	(330)	(0.8%)	41,314
Newfoundland and Labrador	30,498	244	0.8%	30,254
Nova Scotia	51,146	(1,651)	(3.1%)	52,797
Ontario	843,559	(18,754)	(2.2%)	862,313
Prince Edward Island	8,110	376	4.9%	7,734
Québec	450,318	(10,676)	(2.3%)	460,994
Saskatchewan	48,670	(1,554)	(3.1%)	50,224
Total Canada	**1,961,288**	**(74,544)**	**(3.7%)**	**2,035,832**

(Source: Statistics Canada)

Strategy and Objectives

The primary strategy of the REIT is to create long-term value for holders of REIT Units and Class B LP Units (collectively, "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

Management believes that the REIT is well-positioned to capitalize on opportunities for accretive acquisitions from third-party automotive dealership 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 dealership 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 entity in Canada exclusively focused on owning and acquiring automotive dealership properties.

The REIT evaluates acquisition opportunities based 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 a 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 11 automotive dealership properties from the Dilawri Group under the Strategic Alliance Agreement as of the date of this MD&A.

Internal Growth

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

- Each of the leases with a member of the Dilawri Group (each, a “Dilawri Lease”) contains annual contractual basic rent escalators in the amount of 1.5% per annum. The Dilawri 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 fixed rent escalators, most of which are on an annual basis or related to consumer price index adjustments, have been put in place with various tenants and are expected, whenever possible, to be negotiated into new leases entered into by the REIT.

SECTION 3 — PROPERTY PORTFOLIO

Portfolio Overview

At June 30, 2020, the REIT’s portfolio consisted of 64 income-producing commercial properties. Out of the 64 income-producing commercial properties, 35 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 29 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 27 properties are exclusively occupied by other dealership groups for use as automotive dealerships or for automotive dealership ancillary services, such as a vehicle service compound facility or a repair facility. Consequently, the Dilawri Group is the REIT’s most significant tenant and accounts for approximately 62% of the REIT’s YTD 2020 base rent, including rent from properties subleased to third parties (63% as at June 30, 2019).

The applicable Dilawri Tenant is the lead tenant for Dixie Auto Mall until July 2030. A Dixie Auto Mall sub-tenant that operated the Hyundai dealership moved from the premises at the end of the second quarter of 2019. As of June 30, 2020, the premises were leased but unoccupied; however, this change does not affect the term of the applicable Dilawri Lease.

Overall, at June 30, 2020, the REIT’s properties had a weighted average rental rate of $25.76 per square foot ($24.64 as at June 30, 2019).

Income Producing Property Portfolio Summary

As at June 30, 2020	**Number of Properties**	**GLA (sq. ft.)**	**Average rental rate (per sq. ft.)(1)**	**Weighted Average Lease Term (yrs)**
Greater Vancouver Area (GVA) (2)	8	199,244	$35.69	13.6
Calgary	7	293,158	$25.90	12.1
Edmonton	6	174,350	$29.86	13.1
Regina	9	203,560	$22.95	10.6
Winnipeg	2	96,135	$18.87	17.8
KW/Guelph	3	87,300	$21.47	16.0
Greater Toronto Area (GTA)	13	691,908	$28.15	10.4
Ottawa/Kingston	11	303,817	$23.96	17.0
Greater Montréal Area (GMA)	5	317,608	$18.74	14.6
Total Portfolio	**64**	**2,367,080**	**$25.76**	**13.0**

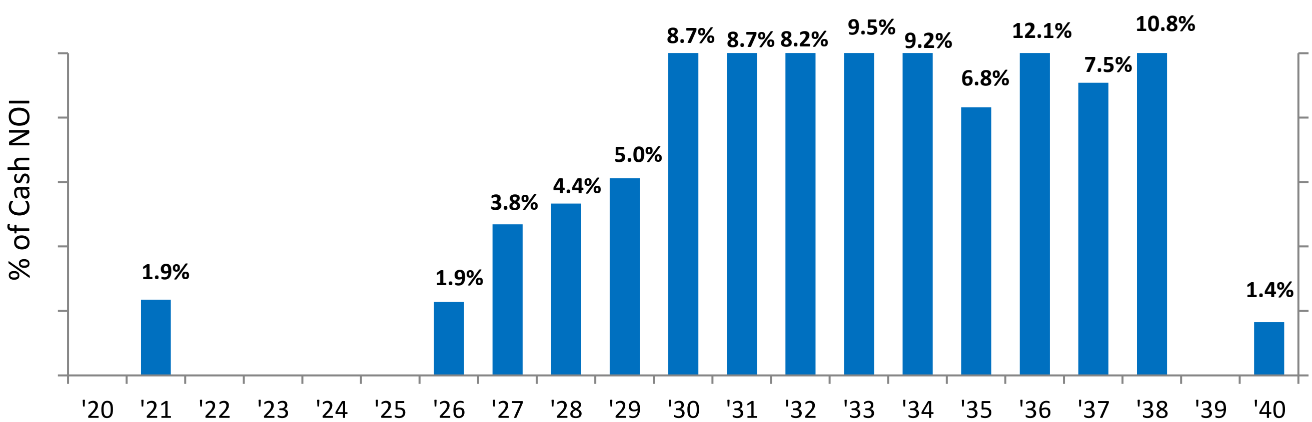
As at June 30, 2019	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.)(3)	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA) (2)	7	176,871	$34.54	14.1
Calgary	6	271,350	$25.32	12.9
Edmonton	6	174,350	$29.79	14.1
Regina	8	183,941	$20.59	9.9
Winnipeg	2	96,135	$17.31	18.8
KW/Guelph	3	87,300	$21.37	17.0
Greater Toronto Area (GTA)	12	619,861	$26.45	10.5
Ottawa/Kingston	11	303,817	$23.73	18.0
Greater Montréal Area (GMA)	5	317,608	$18.56	15.6
Total Portfolio	**60**	**2,231,233**	**$24.64**	**13.7**

(1) Based on 12-month period contractual rental revenue commencing June 30, 2020.
(2) Excludes land leases, which expenses are passed on to the tenant.
(3) Based on 12-month period contractual rental revenue commencing June 30, 2019.

Profile of Overall Lease Maturity

With the exception of one property, the lease portfolio matures between 2026 and 2040 as set out in the chart below:

Lease Maturity Profile (*)



(*) Based on 12-month period contractual rental revenue commencing June 30, 2020.

The REIT is in discussion with the current tenant to renew the terms of the existing lease expiring in 2021.

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 following table sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of June 30, 2020:

Manufacturer / Brand	REIT Auto Dealership GLA (Sq. Feet)	% of REIT Auto Dealership GLA	% of REIT Auto Dealership Rent	No. of REIT Locations
BMW (1)	320,824	13.7%	11.2%	7
Honda (2)	313,155	13.3%	13.2%	9
Volkswagen	252,299	10.7%	11.1%	7
Audi (3)	237,484	10.1%	11.2%	6
Toyota	210,360	9.0%	8.0%	5
Acura (2)	162,081	6.9%	7.2%	6
Other (4)	102,176	4.4%	5.4%	8
General Motors	99,851	4.3%	3.4%	2
Nissan (5)	85,411	3.6%	3.9%	3
Porsche (6)	84,569	3.6%	5.2%	2
Chrysler (7)	81,750	3.5%	1.9%	2
Mazda	81,352	3.5%	4.1%	4
Hyundai	80,950	3.4%	3.6%	4
Mercedes Benz	60,850	2.6%	2.4%	1
Infiniti	44,905	1.9%	3.0%	4
Kia	39,543	1.7%	1.8%	2
Ford	39,287	1.7%	1.5%	1
Subaru	19,033	0.8%	0.6%	2
Lexus	16,226	0.7%	0.6%	1
Mitsubishi	14,750	0.6%	0.7%	2
Total	**2,346,856**	**100.0%**	**100.0%**	**78**

Notes:

(1) Includes MINI.

(2) Includes Honda Used Car and Regina Collision Centre. Regina Honda/Acura split 75% and 25% of 30,863 sq. ft.

(3) Includes the Audi service property (formerly Infiniti Vancouver).

(4) 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 the former Dilawri Acura and BMW property in Regina at 1921 1st Avenue which is being used for ancillary dealership purposes by both the Dilawri Pre Owned 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 and Hyundai dealerships which have vacated their premises located in Dixie Auto Mall; and the applicable Dilawri Tenant will continue to be the lead tenant for Dixie Auto Mall until July 2030. Includes 3 vehicle compound facilities that were acquired as part of the Mierins Auto Group Portfolio. Also includes the Tesla KW service centre.

(5) Includes the new Nissan Truck expansion in the former KIA dealership at Dixie Auto Mall.

(6) Includes Porsche JLR Edmonton.

(7) 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 June 30, 2020 with comparative figures for the twelve months ended June 30, 2019 as provided to the REIT by Dilawri:

Dilawri Group's Financial Information ***(all figures are approximations, not in thousands)***		
	June 30, 2020 LTM(3)	**June 30, 2019 LTM**(3)
Combined Revenues (not audited or reviewed)	$3.4 billion	$3.4 billion
EBITDA (not audited or reviewed)	$107.8 million	$98.8 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	3.1(1)	3.1(2)
Term Debt (not audited or reviewed)	$468.4 million(1)	$470.0 million(2)
Term Debt to EBITDA Ratio (not audited or reviewed)	4.3(1)	4.8(2)

Notes:

(1) As at June 30, 2020.
(2) As at June 30, 2019.
(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 this 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 and the Term Debt to EBITDA ratio 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 term 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

The REIT’s performance is measured by management’s selection of certain key indicators including those set out in the table below. 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 June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
Rental revenue	**$18,800**	$16,425	**$37,406**	$32,109
NOI	**15,586**	13,972	**31,380**	27,543
Cash NOI	**14,755**	13,107	**29,671**	25,761
Same Property Cash NOI	**12,834**	13,071	**24,950**	25,034
Same Property Cash NOI (excluding bad debt expense)	**13,232**	13,071	**25,329**	25,034
Net Income (Loss)	**(23,356)**	8,436	**(7,609)**	(9,446)
FFO	**10,662**	8,754	**21,428**	17,335
AFFO	**9,856**	7,948	**19,827**	15,706
Fair value adjustment to investment properties	**(10,905)**	963	**(34,035)**	1,302
Distributions per Unit	**0.201**	0.201	**0.402**	0.402
Net Income (Loss) per Unit – basic (1)	**(0.490)**	0.264	**(0.160)**	(0.296)
Net Income (Loss) per Unit – diluted (2)	**(0.485)**	0.262	**(0.158)**	(0.294)
FFO per Unit – basic (3)	**0.224**	0.274	**0.450**	0.544
FFO per Unit – diluted (4)	**0.222**	0.272	**0.446**	0.541
AFFO per Unit – basic (3)	**0.207**	0.248	**0.416**	0.493
AFFO per Unit – diluted (4)	**0.205**	0.247	**0.412**	0.490
Weighted average Units – basic (5)	**47,630,305**	31,993,541	**47,630,305**	31,862,402
Weighted average Units – diluted (6)	**48,129,963**	32,238,171	**48,081,191**	32,067,290
Payout ratio (%)				
FFO	**90.5%**	73.9%	**90.1%**	74.3%
AFFO	**98.0%**	81.4%	**97.6%**	82.0%

Balance Sheet and Other Metrics	**As at June 30, 2020**	As at December 31, 2019	June 30, 2019
Total assets	**$897,139**	$935,733	$862,580
Total liabilities (excluding Class B LP Units)	**$433,328**	$420,452	$446,469
Number of Units outstanding (includes Class B LP Units)	**47,630,305**	47,630,305	39,729,805
Market price per REIT Unit – close (end of period)	**$9.26**	$12.15	$10.33
Market capitalization (includes Class B LP Units)	**$441,057**	$578,708	$410,409
Overall capitalization rate	**6.9%**	6.6%	6.6%
Fixed weighted average effective interest rate on debt (excludes revolving Credit Facilities) (7)	**3.77%**	3.77%	3.78%
Proportion of total debt at fixed interest rates through interest rate swaps and Mortgages	**95%**	95%	95%
Weighted average interest rate swap term remaining (years)	**5.5**	6.0	6.5
Weighted average term to maturity of debt	**3.4**	3.9	4.3
Interest Coverage Ratio (8)	**3.5X**	2.9X	2.8X
Debt Service Coverage Ratio (8)	**1.8X**	1.6X	1.6X
Debt to GBV	**44.4%**	43.6%	49.7%

(1) 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.
(2) 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 (each as defined below) granted to certain Trustees and management of the REIT.
(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 granted to certain Trustees and management of the REIT.
(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 granted to certain Trustees and management of the REIT.
(7) The fixed weighted average effective interest rate on debt is calculated on an annualized basis.
(8) For Q2 2020 ratios, see Section 7 “Financing Metrics and Debt Covenants”.

SECTION 5 — RESULTS OF OPERATIONS

Net Income (Loss) and Comprehensive Income (Loss)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Variance	**2020**	2019	Variance
Net Property Income						
Base rent	**$15,278**	$13,232	$2,046	**$30,353**	$26,044	$4,309
Property tax recoveries	**2,792**	2,453	339	**5,604**	4,566	1,038
Straight line rent adjustment	**730**	740	(10)	**1,449**	1,499	(50)
Rental Revenue	**18,800**	16,425	2,375	**37,406**	32,109	5,297
Property tax expense	**(2,792)**	(2,453)	(339)	**(5,604)**	(4,566)	(1,038)
Bad debt expense	**(422)**	-	(422)	**(422)**	-	(422)
Property Costs	**(3,214)**	(2,453)	(761)	**(6,026)**	(4,566)	(1,460)
NOI	**15,586**	13,972	1,614	**31,380**	27,543	3,837
Other Income (Expenses)						
General and administrative expenses	**(1,027)**	(754)	(273)	**(1,996)**	(1,469)	(527)
Interest expense and other financing charges	**(3,885)**	(4,437)	552	**(7,875)**	(8,643)	768
Fair value adjustment on interest rate swaps	**(1,796)**	(3,800)	2,004	**(20,427)**	(10,489)	(9,938)
Distribution expense on Class B LP Units	**(1,997)**	(1,997)	-	**(3,994)**	(3,994)	-
Fair value adjustment on Class B LP Units, DUs and IDUs	**(19,332)**	4,489	(23,821)	**29,338**	(13,696)	43,034
Fair value adjustment on investment properties	**(10,905)**	963	(11,868)	**(34,035)**	1,302	(35,337)
Net Income (Loss) and Comprehensive Income (Loss)	**$(23,356)**	$8,436	$(31,792)	**$(7,609)**	$(9,446)	$1,837

For Q2 2020, net loss was $23,356 compared to net income of $8,436 in Q2 2019. The negative variance was primarily due to fair value adjustments for Class B LP Units, DUs and IDUs, and investment properties, partially offset by an increase in NOI, fair adjustment for interest rate swaps and lower interest expense and other financing charges. NOI was $15,586 in Q2 2020 as compared to $13,972 in Q2 2019. The increase was primarily due to the properties acquired during and subsequent to Q2 2019 and contractual rent increases, offset by a bad debt expense of $422 in Q2 2020.

Rental Revenue and Property Costs

Rental revenue is based on triple net leases with tenants. As such, rental revenue also includes recoverable realty taxes and straight-line adjustments.

For Q2 2020, rental revenue was $18,800, an increase of $2,375, or 14.5%, compared to Q2 2019. The increase was attributable to the properties acquired during and subsequent to Q2 2019, and contractual rent increases.

For YTD 2020, rental revenue was $37,406, an increase of $5,297, or 16.5%, compared to YTD 2019. The increase was attributable to the properties acquired during and subsequent to YTD 2019 and contractual rent increases.

Property costs for Q2 2020 and YTD 2020 were $761 and $1,460 higher than Q2 2019 and YTD 2019, respectively. The increases are attributable to the properties acquired during and subsequent to Q2 2019 and YTD 2019 as well as bad debt expense recognized in Q2 2020. As a result of the credit risk related to the accounts receivable with the REIT's tenants, the REIT recognized a bad debt expense of $422 for Q2 2020 (Q2 2019 – $nil), which reflects the REIT's assessment of the credit risk relating to the collection of the tenant rent and other receivable balance under the Deferral Agreements totalling $4,141.

General and Administrative Expenses

The table below illustrates the breakdown of general and administrative expenses incurred in Q2 2020 and YTD 2020 as compared to Q2 2019 and YTD 2019:

	Q2 2020	Q2 2019	Variance	**YTD 2020**	YTD 2019	Variance
Human Resource Costs	**$487**	$399	$88	**$964**	$820	$144
Public Entity and Other Costs	**410**	267	143	**807**	498	309
Independent Trustee Fees	**130**	88	42	**225**	151	74
General and administrative expenses	**$1,027**	$754	$273	**$1,996**	$1,469	$527

Human resource costs reflect the expenses related to the management, operating and administrative support of the REIT. Human resource costs also include accruals for short-term incentive awards for management, Income Deferred Units ("IDUs") and the vesting of long-term Deferred Units ("DUs"). For Q2 2019, human resource costs of $235 and public entity and other costs of $19, totalling $254, and for YTD 2019, human resource costs of $490 and public entity and other costs of $59, totalling $549, were paid by the REIT to Dilawri in respect of the cost of the services provided by Dilawri pursuant to the Administration Agreement.

The public entity and other costs reflect the expenses related to ongoing operations of the REIT, including professional fees for legal and audit services and depreciation expense for an office lease ROU asset.

The increase in human resource costs in Q2 2020 and YTD 2020 of approximately $88 and $144, respectively, resulted from additional costs due to the Internalization. Additional increases of $143 and $309, respectively, in public entity and other costs are a result of the REIT's growth.

As at June 30, 2020, all independent Trustees of the REIT ("Independent Trustees") elected to receive board and committee fees in the form of DUs. The non-cash unit-based compensation expense relates to DUs and IDUs granted in accordance with the REIT's Equity Incentive Plan (the "Plan"). 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 Q2 2020 and YTD 2020, the REIT paid the Independent Trustees $130 and $225, respectively, related to the granting of DUs and IDUs, representing increases of $42 and $74, respectively, compared to the corresponding prior year periods, reflecting the appointment of an additional Independent Trustee in June 2019 and additional board of trustee meetings held during Q2 2020 as compared to Q2 2019 principally as a result of the COVID-19 pandemic.

Interest Expense and Other Financing Charges

Interest expense includes 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 Q2 2020 and YTD 2020, the interest expense and other financing charges were $3,885 and $7,875, respectively, representing decreases of $552 and $768 from Q2 2019 and YTD 2019, respectively. The decreases are primarily a result of the proceeds from the December 2019 Unit offering (the "December 2019 Equity Offering") which contributed to the repayment of the debt.

Changes in Fair Values 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. For Q2 2020 and YTD 2020, the fair value adjustments in investment properties were $(10,905) and $(34,035), respectively, compared to $963 for Q2 2019 and $1,302 for YTD 2019. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which has indicated changes in capitalization rates from December 31, 2019 for the markets the REIT is in. In Q2 2020, the REIT increased the discount rates for its entire property portfolio by approximately 10 basis points, which is an addition to the 20 basis point increase in Q1 2020, primarily due to the economic impact of COVID-19. The fair value loss adjustments for Q2 2020 and YTD 2020 were primarily due to an increase in discount rates and the transaction costs related to the Regina BMW and Acura North Vancouver property acquisitions, completed during Q1 2020, partially offset by NOI increases. The overall capitalization rate applicable to the REIT's entire portfolio increased to 6.9% as at June 30, 2020 (March 31, 2020 — 6.8%; December 31, 2019 — 6.6%). The historical book value of the investment properties owned by the REIT as at June 30, 2020 was $876,472 (December 31, 2019 – $845,828).

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 will be appraised annually.

A 25 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of investment properties of approximately $33,300 or $(31,000), respectively.

A 50 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $69,200 or $(59,800), respectively.

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

The Class B LP Units, DUs, IDUs 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 (loss) and comprehensive income (loss).

Under IFRS, the Class B LP Units, DUs and IDUs are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units, DUs and IDUs will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in net income (loss) and comprehensive income (loss). 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 impact of the movement in the traded value of the REIT Units resulted in an increase in the fair value adjustment for Class B LP Units in Q2 2020 of $19,332 (Q2 2019 – decrease of $4,489) and a decrease of $29,338 for YTD 2020 (YTD 2019 – increase of $13,696).

The REIT enters into interest rate swaps to limit its exposure to fluctuations in the interest rates on variable rate financings for certain of its 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 (loss) and comprehensive income (loss).

The fair value adjustments for interest rate swaps for Q2 2020 and YTD 2020 were a loss of $1,796 (Q2 2019 – $3,800) and $20,427 (YTD 2019 – $10,489), respectively. The variances reflect a decline in interest rates in the derivative market as at June 30, 2020.

SECTION 6 — NON-IFRS FINANCIAL MEASURES

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

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”). The calculations of these measures and the reconciliation to net income (loss) and comprehensive income (loss) are set out in the following table:

($000s, except per Unit amounts)	Three Months Ended June 30, 2020	2019	Variance	Six Months Ended June 30, 2020	2019	Variance
Calculation of NOI						
Property revenue	**$18,800**	$16,425	$2,375	**$37,406**	$32,109	$5,297
Property costs	**(3,214)**	(2,453)	(761)	**(6,026)**	(4,566)	(1,460)
NOI (including straight-line adjustments)	**$15,586**	$13,972	$1,614	**$31,380**	$27,543	$3,837
Adjustments:						
Land lease payments	**(101)**	(125)	24	**(260)**	(283)	23
Straight-line adjustment	**(730)**	(740)	10	**(1,449)**	(1,499)	50
Cash NOI	**$14,755**	$13,107	$1,648	**$29,671**	$25,761	$3,910
Reconciliation of net income to FFO and AFFO						
Net income (loss) and comprehensive income (loss)	**$(23,356)**	$8,436	$(31,792)	**$(7,609)**	$(9,446)	$1,837
Adjustments:						
Change in fair value — Interest rate swaps	**1,796**	3,800	(2,004)	**20,427**	10,489	9,938
Distributions on Class B LP Units	**1,997**	1,997	—	**3,994**	3,994	—
Change in fair value — Class B LP Units, DUs and IDUs	**19,332**	(4,489)	23,821	**(29,338)**	13,696	(43,034)
Change in fair value — investment properties	**10,905**	(963)	11,868	**34,035**	(1,302)	35,337
ROU asset net balance of depreciation/interest and lease payments	**(12)**	(27)	15	**(81)**	(96)	15
FFO	**$10,662**	$8,754	$1,908	**$21,428**	$17,335	$4,093
Adjustments:						
Straight-line adjustment	**(730)**	(740)	10	**(1,449)**	(1,499)	50
Capital expenditure reserve	**(76)**	(66)	(10)	**(152)**	(130)	(22)
AFFO	**$9,856**	$7,948	$1,908	**$19,827**	$15,706	$4,121
Number of Units outstanding (including Class B LP Units)	**47,630,305**	39,729,805	7,900,500	**47,630,305**	39,729,805	7,900,500
Weighted average Units outstanding — basic	**47,630,305**	31,993,541	15,636,764	**47,630,305**	31,862,402	15,767,903
Weighted average Units outstanding — diluted	**48,129,963**	32,238,171	15,891,792	**48,081,191**	32,067,290	16,013,901
FFO per Unit — basic(1)	**$0.224**	$0.274	$(0.050)	**$0.450**	$0.544	$(0.094)
FFO per Unit — diluted(2)	**$0.222**	$0.272	$(0.050)	**$0.446**	$0.541	$(0.095)
AFFO per Unit — basic(1)	**$0.207**	$0.248	$(0.041)	**$0.416**	$0.493	$(0.077)
AFFO per Unit — diluted(2)	**$0.205**	$0.247	$(0.042)	**$0.412**	$0.490	$(0.078)
Distributions per Unit	**$0.201**	$0.201	—	**$0.402**	$0.402	—
FFO payout ratio	**90.5%**	73.9%	16.6%	**90.1%**	74.3%	15.8%
AFFO payout ratio	**98.0%**	81.4%	16.6%	**97.6%**	82.0%	15.6%

(1) 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.
(2) 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 of the REIT.

FFO, AFFO and Cash NOI

FFO for Q2 2020 increased 21.8% to $10,662, compared to $8,754 in Q2 2019. The increase in FFO was primarily due to the properties acquired during and subsequent to Q2 2019, together with contractual rent increases. FFO per Unit (diluted) was $0.222 in Q2 2020, compared to $0.272 in Q2 2019. The decline in FFO per Unit (diluted) in Q2 2020 was primarily due to the deleveraging and enhancing of the REIT's liquidity position as a result of the December 2019 Equity Offering. A portion of the proceeds of the December 2019 Equity Offering was used to fund the acquisitions of Regina BMW and Acura North Vancouver, which closed on February 5 and February 6, 2020, respectively.

FFO for YTD 2020 increased 23.6% to $21,428, compared to $17,335 in YTD 2019. The increase in FFO was primarily due to the properties acquired during and subsequent to YTD 2019, together with contractual rent increases. FFO per Unit (diluted) was $0.446 in YTD 2020, compared to $0.541 in YTD 2019. The decline in FFO per Unit (diluted) in YTD 2020 was primarily due to the deleveraging and enhancing of the REIT's liquidity position as result of the closing of the December 2019 Equity Offering.

AFFO for Q2 2020 increased 24.0% to $9,856, compared to $7,948 in Q2 2019; and Cash NOI in Q2 2020 was $14,755 on $18,800 of rental revenue, compared to Cash NOI of $13,107 on rental revenue of $16,425 in Q2 2019. The increases were primarily due to the properties acquired during and subsequent to Q2 2019, together with contractual rent increases partially offset by bad debt expense. AFFO per Unit (diluted) was $0.205 in Q2 2020, compared to $0.247 in Q2 2019. The decline in AFFO per Unit (diluted) in Q2 2020 was primarily due to the deleveraging and enhancing of the REIT's liquidity position as result of the closing of the December 2019 Equity Offering.

AFFO for YTD 2020 increased 26.2% to $19,827, compared to $15,706 in YTD 2019; and Cash NOI in YTD 2020 was $29,671 on $37,406 of rental revenue, compared to Cash NOI of $25,761 on rental revenue of $32,109 in YTD 2019. The increases were primarily due to the properties acquired during and subsequent to 2019, together with contractual rent increases partially offset by bad debt expense. AFFO per Unit (diluted) was $0.412 in YTD 2020, compared to $0.490 in YTD 2019. The decline in AFFO per Unit (diluted) in YTD 2020 was primarily due to the deleveraging and enhancing of the REIT's liquidity position as result of the closing of the December 2019 Equity Offering.

For Q2 2020, the REIT declared and paid distributions to Unitholders of $9,574, or $0.201 per Unit (Q2 2019 – $6,914 declared and $6,378 paid), and for YTD 2020 the REIT declared and paid distributions of $19,148, or $0.402 per Unit (YTD 2019 – $13,293 declared and $12,757 paid). This resulted in an AFFO payout ratio of 98.0% in Q2 2020 (Q2 2019 – 81.4%) and 97.6% in YTD 2020 (YTD 2019 – 82.0%). The AFFO payout ratio was higher in Q2 2020 and YTD 2020 due to the deleveraging and enhancing of the REIT's liquidity position as a result of the closing of the December 2019 Equity Offering and bad debt expense relating to the tenant receivables.

Same Property Cash Net Operating Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Variance	**2020**	2019	Variance
Same property base rental revenue	**$13,333**	$13,196	$137	**$25,589**	$25,317	$272
Bad debt expense	**(398)**	—	(398)	**(379)**	—	(379)
Land lease payments	**(101)**	(125)	24	**(260)**	(283)	23
Same Property Cash NOI	**$12,834**	$13,071	$(237)	**$24,950**	$25,034	$(84)
Bad debt expense	**398**	—	398	**379**	—	379
Same Property Cash NOI (excluding bad debt expense)	**$13,232**	$13,071	$161	**$25,329**	$25,034	$295

Excluding bad debt expense, Same Property Cash NOI increased 1.2% to $13,232 in Q2 2020 from $13,071 in Q2 2019, and 1.2% to $25,329 in YTD 2020 from $25,034 in YTD 2019. The increase is primarily a result of contractual rent increases. The decrease in land lease payments is due to a deferral granted to the REIT in respect of Q2 2020, which is repayable July 1, 2020.

Reconciliation of Cash Flow from Operating Activities to ACFO

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 2019. 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"). To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve of 0.5% of base rent is based on the lease terms, renewal retention rates, triple-net lease structure and management's best estimate of cost on a per square foot basis related to sustaining/maintaining existing space that the REIT may incur. The calculation of ACFO and the reconciliation to cash flow from operating activities are set out in the table below:

	Three Months Ended June 30,			Six Months Ended June 30,		
($000s)	**2020**	2019	Variance	**2020**	2019	Variance
Cash flow from operating activities	**$11,702**	$12,795	$(1,093)	**$25,743**	$25,484	$259
Change in non-cash working capital	**(130)**	(35)	(95)	**523**	(225)	748
Interest paid	**(3,616)**	(4,064)	448	**(7,273)**	(8,033)	760
Amortization of financing fees	**(154)**	(164)	10	**(302)**	(350)	48
Amortization of indemnification fees	**(41)**	(41)	—	**(82)**	(71)	(11)
Net interest expense and other financing charges in excess of interest paid	**(115)**	(209)	94	**(300)**	(260)	(40)
Capital expenditure reserve	**(76)**	(66)	(10)	**(152)**	(130)	(22)
ACFO	**$7,570**	$8,216	$(646)	**$18,157**	$16,415	$1,742
ACFO payout ratio	**126.5%**	77.6%	48.9%	**105.5%**	77.7%	27.8%

ACFO decreased in Q2 2020 to $7,570, from $8,216 in Q2 2019, primarily due to $3,659 of tenant rent deferrals pursuant to the Deferral Agreements and $482 of realty tax receivables in Q2 2020, net of contractual rent increases. This resulted in an ACFO payout ratio of 126.5% in Q2 2020 (Q2 2019 – 77.6%).

ACFO increased in YTD 2020 to $18,157, compared to $16,415 in YTD 2019, primarily due to contractual rent increases. This resulted in an ACFO payout ratio of 105.5% in YTD 2020 (YTD 2019 – 77.7%). The ACFO payout ratio for YTD 2020 was higher than the comparative period, primarily due to $3,659 of rent deferrals pursuant to the Deferral Agreements and $482 of realty tax receivables in Q2 2020.

The REIT's Q2 2020 distributions were funded from cash flows for operating activities as well as cash on hand. The REIT believes that future distributions will be funded through cash flows from operating activities. As at June 30, 2020, the REIT is in a strong liquidity position with a Debt to GBV of 44.4%, $75,000 of undrawn Credit Facilities, cash on hand of $3,750 and eight unencumbered properties with an aggregate value of $128,000.

SECTION 7 — LIQUIDITY AND CAPITAL RESOURCES

Capital Structure

		Key Terms					
Debt	Term (yrs)	Hedged Term (yrs)	Interest Rate	Payments & Interest/Amortization	Effective Interest Rate (fixed)	**Outstanding as at June 30, 2020**	**Outstanding as at December 31, 2019**
Facility 1	3.0 (1)	2.1 to 8.5	BA + 150 bps, Prime +25 bps	(1)	3.75%	**$190,575**(4)	$194,665(4)
Facility 2	4.0 (2)	2.1 to 9.0	BA + 150 bps, Prime +25 bps	(2)	3.54%	**97,610**	99,913
Facility 3	3.4 (3)	5.5 to 8.4	BA + 150 bps, Prime +50 bps	(3)	4.05%	**87,875**	90,250
Mortgages	0.5 to 7.0	n/a	Fixed 3.22% to 3.72 %	P&I, 20 yrs and 25yrs	3.52%	**15,191**	15,472
						$391,251	$400,300
Financing fees						**(2,094)**	(2,371)
Weighted Average /Total	**3.4**	**5.5**			**3.77%**	**$389,157**	$397,929
Class B LP Units, DUs and IDUs						**$95,388**	$123,935
Cash Balance						**$3,754**	$45,266

Key Financing Metrics and Debt Covenants (5)(6)	Debt Covenant	Declaration of Trust (7)	**As at June 30, 2020**	As at December 31, 2019
Interest coverage	—	—	**3.5**	2.9
Debt to GBV	<60% (8)	<60% (8)	**44.4%**	43.6%
Unitholders' Equity (including Class B LP Units, DUs and IDUs)	>$120,000	—	**$467,217**	$518,527
Debt Service Coverage	>1.35	—	**1.8**	1.6
AFFO payout ratio	(9) (10) (11)	—	**98.0%**	88.6%

(1) Facility 1 and the associated revolving facility matures in June 2023.
(2) Facility 2 and the associated revolving facility matures in June 2024.
(3) Facility 3 and the associated revolving facility matures in December 2023.
(4) $18,810 of the non-revolving balance of Facility 1 remains at floating rates (December 31, 2019 – $19,206).
(5) The calculations of these ratios, which are non-IFRS measures, are set out under "Financing Metrics and Debt Covenants" below.
(6) 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.
(7) 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.
(8) Including convertible debentures, the maximum ratio is 65%.
(9) The AFFO payout ratio in respect of Facility 1 may exceed 100% so long as (i) the REIT's Debt to GBV ratio is less than 55% or (ii) the REIT's 12 month retrospective rolling AFFO payout ratio is less than 100%.
(10) The AFFO payout ratio in respect of Facility 2 may exceed 100% (four quarter rolling) during the period from April 1, 2020 to September 30, 2021, subject to maximum AFFO payout ratio of 110%.
(11) The AFFO payout ratio in respect of Facility 3 may exceed 100% (four quarter rolling) so long as (i) the REIT's Debt to GBV ratio is less than 55% and (ii) the REIT's cash on hand plus the cumulative amount available to be drawn under the revolving Credit Facilities exceeds $17,000.

Facility 1, Facility 2 and Facility 3 described above are collectively referred to as the “Credit Facilities” and the mortgages described above are referred to as the “Mortgages”.

The Credit Facilities AFFO payout ratio covenant was adjusted to exceed 100% to manage any potential further risk associated from the impact of COVID-19. The AFFO payout ratio debt covenant is based on the rolling average of the last four fiscal quarters. For the four quarters ended June 30, 2020, the AFFO payout ratio was approximately 96%.

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 or debt, or repay debt. Factors affecting such decisions include:

- complying with the guidelines set out in the REIT’s Declaration of Trust;
- complying with the REIT’s 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 2020	$9,081
2021	23,750
2022	18,156
2023	260,259
2024	72,082
Thereafter	7,923
Total	$391,251

The REIT’s liquidity position as at June 30, 2020 includes approximately $75,000 of undrawn revolving Credit Facilities and cash on hand of $3,754, which management believes 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 and capital expenditure requirements are expected to be insignificant. Nonetheless, the current economic, operating and capital market environment resulting from the COVID-19 pandemic has led to an increased emphasis on liquidity. While the REIT has not changed its objectives in managing its capital structure, the current focus has been on ensuring that the REIT retains sufficient liquidity.

Capital required for investing activities will be addressed through additional borrowings or issuances of equity as acquisition and development opportunities arise. A Mortgage in the amount of $6,013 will mature in January 2021 and is expected to be paid through one of the REIT’s revolving Credit Facilities. As at June 30, 2020, eight of the REIT’s properties are unencumbered and can be used as security in respect of future financing requirements, as and when needed.

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 50%-55% of GBV. As at June 30, 2020, the REIT’s Debt to GBV ratio was 44.4% (December 31, 2019 – 43.6% and

June 30, 2019 – 49.7%). The increase as compared to December 31, 2019 is primarily attributable to the fair value adjustment of $(34,035) on investment properties. The reduction as compared to June 30, 2019 is attributable to the repayment of outstanding debt under the REIT's revolving Credit Facilities from the net proceeds of the REIT's June 2019 equity offering and the December 2019 Equity Offering (collectively, the "2019 Equity Offerings") and the increase in the REIT's assets through acquisitions funded by the 2019 Equity Offerings. 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 exceed 60% of GBV (or 65% of GBV including convertible debentures).

Secured Credit Facilities, Mortgages and Interest Rate Swap Arrangements

All of the REIT's Credit Facilities and Mortgages are with Canadian Schedule 1 banks and are secured by all but eight of the REIT's investment properties.

As at June 30, 2020, the REIT had total revolving Credit Facilities of $75,000, of which $75,000 was undrawn ($30,000 in Facility 1, $15,000 in Facility 2, and $30,000 in Facility 3).

Financing Fees

During YTD 2020, the REIT incurred financing fees of $25 (December 31, 2019 – $407). The amounts are accounted for using the effective interest method, $2,094 remains unamortized as at June 30, 2020 (December 31, 2019 – $2,371).

Interest Rate Swaps

The REIT enters 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 (loss) and comprehensive income (loss).

The following table sets out the combined borrowings under Facility 1, Facility 2 and Facility 3 and the remaining expected term to maturity of the related interest rate swaps as at June 30, 2020.

Remaining Term (yrs)	Amount ($000s)	Total Swapped Fixed Rate Debt (%)
2.5	86,149	24.1
4.7	86,810	24.3
5.6	74,673	20.9
8.3	109,620	30.7
5.5	**357,250**	**100.0**

As at June 30, 2020, the notional principal amount of the interest rate swaps was $357,300 (December 31, 2019 – $365,600) and the fair value adjustment of the interest rate swaps was $(1,796) and $(20,427) for the three- and six-month periods ended June 30, 2020, respectively, compared to $(3,800) and $(10,489) for the three- and six-month periods ended June 30, 2019, respectively. This resulted in a liability balance of $25,442 (December 31, 2019 – $5,016).

Unitholders' Equity (including Class B LP Units)

Unitholders' equity consists of two classes of Units: REIT Units and Class B LP Units, as further 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 of Trustees (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 June 30, 2020, the total number of REIT Units outstanding was 37,697,052.

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 (loss) and comprehensive income (loss). 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 June 30, 2020, the total number of Class B LP Units outstanding was 9,933,253.

Deferred Units

The REIT offers an Equity Incentive Plan, pursuant to which 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 1,000,000. 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.

For the six-month period ended June 30, 2020, a total of 132,815 DUs and IDUs were granted, of which 45,844 DUs and IDUs will be accounted for in accordance with the vesting schedule. As at June 30, 2020, a total of 531,386 DUs and IDUs have been granted, of which 367,836 were outstanding and 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.

In determining the amount of the monthly cash distributions paid to holders of REIT Units, the Board applies discretionary judgment to forward-looking information, which includes forecasts, 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 REIT is currently paying monthly cash distributions to Unitholders of $0.067 per Unit, representing $0.804 per Unit on an annualized basis.

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:

Calculations of financial metrics and debt covenants			As at June 30, 2020	As at December 31, 2019
Net Asset Value				
Investment properties, IFRS value			$897,019	$888,129
Cash, prepaid and other assets			10,120	47,604
Accounts payable and accrued liabilities			(15,323)	(14,261)
Credit Facilities, Mortgages and interest rate swaps			(414,599)	(402,945)
Total Net Asset Value			**$467,217**	**$518,527**
REIT Units and Class B LP Units outstanding			47,630,305	47,630,305
Debt to GBV				
Indebtedness outstanding :				
Credit Facilities & Mortgages (excludes deferred financing costs)		**A**	$391,251	$400,300
Lease Liability		**A1**	7,231	7,356
Gross Book Value				
Total assets		**B**	897,139	935,733
Debt to GBV (1)	**((A+A1)/B) X 100**		**44.4%**	**43.6%**
Unitholders' Equity & Class B LP Units & DUs & IDUs				
Unitholders' Equity			$371,829	$394,592
Value of DUs & IDUs			3,406	3,246
Value of Class B LP Units			91,982	120,689
Total Unitholders' Equity & Class B LP Units & DUs & IDUs			**$467,217**	**$518,527**

Calculations of financial metrics and debt covenants				
Interest coverage	**Q2 2020**	**Q2 2019**	**YTD 2020**	**YTD 2019**
Cash NOI	$14,755	$13,107	$29,671	$25,761

General and administrative expenses		(1,027)	(754)	(1,996)	(1,469)
Income before interest expense and fair value adjustments	**C**	13,728	12,353	27,675	24,292
Interest expense and other financing charges	**D**	3,885	4,437	7,875	8,643
Interest Coverage Ratio (2)	**C/D**	**3.5X**	**2.8X**	**3.5X**	**2.8X**
Debt Service Coverage					
Consolidated net income (loss)		$(23,356)	$8,436	$(7,609)	$(9,446)
Interest expense and other financing charges		3,885	4,437	7,875	8,643
Distribution expense on Class B LP Units		1,997	1,997	3,994	3,994
Amortization of other assets		41	41	82	71
Fair value adjustments, net		32,033	(1,652)	25,124	22,883
EBITDA	**E**	14,600	13,259	29,466	26,145
Principal payments on debt		4,527	4,268	9,048	8,328
Interest payments on debt (excludes bank charges)		3,616	4,062	7,273	8,033
Debt Service	**F**	8,143	8,330	16,321	16,361
Debt Service Ratio (3)	**E/F**	**1.8X**	**1.6X**	**1.8X**	**1.6X**
AFFO payout ratio					
AFFO		9,855	7,948	19,827	15,706
Distributions on REIT Units		7,577	4,381	15,154	8,763
Distributions on Class B LP Units		1,997	1,997	3,994	3,994
		9,574	6,378	19,148	12,757
AFFO payout ratio (4)		**98.0%**	**81.4%**	**97.6%**	**82.0%**
Rolling 12-month AFFO payout ratio		**96.0%**	**85.6%**	**96.0%**	**85.6%**

Notes:

(1) The Debt to GBV ratio as at June 30, 2020 increased as compared to December 31, 2019, primarily attributable to the decrease in fair value on investment properties.

(2) The Interest Coverage Ratio for Q2 2020 increased compared to the same period in the previous year, mainly due to the increase in Cash NOI resulting from the acquisitions of properties funded with the 2019 Equity Offerings.

(3) The Debt Service Ratio for Q1 2020 increased compared to the same period in the previous year, mainly due to the decrease in interest payments and an increase in EBITDA.

(4) 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 June 30, 2020 held an approximate 26.0% effective interest in the REIT on a fully diluted basis, through its ownership of all of the issued and outstanding Class B LP Units and 2,428,552 REIT 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, 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. The REIT subsequently issued letters of credit to the land transfer tax authority in the amount of approximately $753 to defer the land transfer tax, on behalf of specific members of the Dilawri Group that sold certain of the Initial Properties to the REIT in connection with the IPO. The Dilawri Group held all of the 9,933,253 issued and outstanding Class B LP Units for three years subsequent to the IPO and, accordingly, the LCs are expected to be released. The REIT is working with the applicable tax authorities and Dilawri to secure the release of the LCs.

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

Administration Agreement

On December 3, 2019, the REIT announced that the Independent Trustees had notified Dilawri of the REIT's intention to terminate the Administration Agreement, which termination was effective as of December 31, 2019. Following termination, the REIT's management, operating and administrative support personnel were employed directly by the REIT. As the termination of the Administration Agreement was completed in accordance with its terms, the REIT was not required to pay Dilawri any termination fees.

Subject to certain exceptions, Dilawri provided administration services to the REIT under the Administration Agreement on a cost-recovery basis, reflecting Dilawri's actual costs in providing such services. The REIT was responsible for reimbursing Dilawri for costs incurred in connection with the provision of such services so long as such costs were identified in the then current annual budget of the REIT or were otherwise approved by the REIT.

The initial term of the Administration Agreement was for five years commencing on closing of the IPO and was subject to automatic renewal unless otherwise terminated in accordance with its terms. Additional information regarding the Administration Agreement can be found in the AIF.

Following termination of the Administration Agreement, limited transition services continue to be provided between the REIT and Dilawri on a reimbursement of cost basis for a limited period of time following termination, and the Strategic Alliance Agreement continues in effect in accordance with its terms (see "Strategic Alliance Agreement" below).

General and administrative expenses for Q2 2019 and YTD 2019 include $254 and $549, respectively, paid by the REIT to Dilawri pursuant to the Administration Agreement.

Strategic Alliance Agreement

In connection with the IPO, the REIT and Dilawri 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 and supported by an independent appraisal report. Pursuant to the Strategic Alliance Agreement, the REIT acquired the following investment properties in 2019 and year to date 2020:

- On February 6, 2020, the REIT acquired the Acura North Vancouver automotive dealership property from a member of the Dilawri Group for $17,500 and leased it to a Dilawri Tenant.
- On February 5, 2020, the REIT acquired the Regina BMW automotive dealership property from a member of the Dilawri Group for $11,350 and leased it to a Dilawri Tenant.

- On September 19, 2019, the REIT acquired the Audi Queensway automotive dealership property from a member of the Dilawri Group for approximately $36,500 and leased it to a Dilawri Tenant.

SECTION 9 — OUTLOOK

As a result of the COVID-19 pandemic, provinces across Canada began implementing emergency measures to combat the spread of COVID-19 in the second half of March 2020, resulting in the full or partial closure of automotive dealerships until the end of May 2020. According to Statistics Canada new automobile sales per unit in Canada for the five months ended May 31, 2020 were down approximately 39.7% compared to the corresponding period in 2019. Accordingly, COVID-19 has had a significant adverse impact on the profitability of the REIT's tenants. Industry analysts have forecasted that new automotive sales in Canada will decline by approximately 30% in 2020 compared to 2019, and that the supply chain of new vehicles and automotive parts could also be disrupted. The REIT expects that there will be a significant negative impact on overall automotive dealership profitability for 2020, even with the support programs provided by original equipment manufacturers, financial institutions, governments and rent deferral programs. The Canadian federal and provincial governments have reacted with significant intervention programs designed to stabilize economic conditions. However, the success of these programs remains uncertain at this time. The length and severity of the pandemic, and the related impact on the financial performance and financial position of the REIT and its tenants in future periods, is unknown at this time. As provincial lockdowns have eased, the pent-up consumer demand resulted in a rebound in Canadian auto sales and an increase in service work performed at the automotive dealership level. At the end of May 2020, all of the REIT's tenants were fully open for business. According to one industry report, new automobile sales units in Canada for the month of June 2020 declined by approximately 16% as compared to June 2019.

The Canadian automotive retail industry is a large sector within the overall economy, with a track record of long-term stability. According to Statistics Canada, overall automotive retail industry sales totaled a record $165 billion in 2019 and represented approximately 27% of Canada's overall retail sales of products and merchandise. Over the last 20 years, Canadian automobile retail sales grew at a compound annual rate of 4.4%. The REIT believes that the long-term fundamentals of the automotive dealership business have not changed and that the industry should continue to stabilize as the COVID-19 pandemic is brought under control. At the date of this MD&A, the REIT has either collected base rents, or entered into Deferral Agreements with tenants, representing in the aggregate approximately 99% of the REIT's base rent in July and August 2020.

The REIT intends to pursue acquisitions on a selective basis and will generally fund any transactions through debt financing and available liquidity. In considering potential acquisitions, diversification of automobile brand and geographic location remain important criteria for the REIT, as some automotive brands continue to gain market share while other brands are experiencing sales deterioration, and certain markets present a more stable economic outlook.

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 dealership owners 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 Canadian automotive dealership industry is highly fragmented, and the REIT expects continued consolidation over the mid to long term due to increased industry sophistication and growing capital requirements for owner operators, which encourages them to pursue increased economies of scale. In 2020, the REIT expects that the pace of consolidation will significantly decrease due to the COVID-19 pandemic and the related economic uncertainty. The REIT is focused on preserving its strong liquidity position in this current environment.

As at June 30, 2020, the REIT is in a strong liquidity position with a Debt to GBV of 44.4%, $75,000 of undrawn Credit Facilities, cash on hand of $3,750 and eight unencumbered properties with an aggregate value of $128,000. The past five months have seen unusual volatility in the financial markets. It is premature for management to quantify the impact that COVID-19 will have on the cost and availability of debt and equity capital to the REIT. Management and the Trustees are closely monitoring the impact of the COVID-19 pandemic on the REIT's business and the business of the REIT's tenants, and will continue to prudently manage the REIT's available resources during this period of economic uncertainty. Management has also proactively raised its level of preparedness planning to adapt more quickly should risk levels rise and will continue to monitor and adjust its business continuity and other plans as the COVID-19 pandemic continues to evolve.

SECTION 10 — OTHER DISCLOSURES

Commitments and Contingencies

The REIT, as lessee, is committed under long term land and other leases that are classified as a liability to make lease payments with minimum annual rental commitments as follows:

Within 1 year	$435
After 1 year, but not more than 5 years	2,007
More than 5 years	4,789
Total	$7,231

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 Q2 2020 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

Management recognizes 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:

($ thousands except where otherwise indicated)	**Second Quarter 2020**	First Quarter 2020	Fourth Quarter 2019	Third Quarter 2019	Second Quarter 2019	First Quarter 2019	Fourth Quarter 2018	Third Quarter 2018
Number of Properties	**64**	64	62	61	60	57	54	42
GLA (sq. ft.)	**2,367,080**	2,367,080	2,325,088	2,296,780	2,231,233	2,139,512	2,024,877	1,665,460
Rental revenue	**18,800**	18,606	18,122	17,349	16,425	15,684	13,741	11,834
Net Operating Income	**15,586**	15,794	15,144	14,667	13,972	13,571	11,493	9,993
Net Income (Loss)	**(23,356)**	15,748	3,894	1,054	8,436	(17,882)	13,666	5,675

Net Income (Loss) per Unit — basic(i)	**(0.490)**	0.331	0.096	0.027	0.264	(0.564)	0.442	0.213
Net Income (Loss) per Unit — diluted(ii)	**(0.485)**	0.328	0.096	0.026	0.262	(0.561)	0.440	0.212
FFO per Unit — basic(iii)	**0.224**	0.226	0.222	0.247	0.274	0.270	0.235	0.250
FFO per Unit — diluted(iv)	**0.222**	0.224	0.220	0.246	0.272	0.269	0.234	0.249
AFFO per Unit — basic(iii), (v)	**0.207**	0.209	0.203	0.226	0.248	0.245	0.211	0.222
AFFO per Unit — diluted(iv), (v)	**0.205**	0.208	0.202	0.224	0.247	0.243	0.210	0.220
AFFO payout ratio(v)	**98.0%**	96.6%	99.6%	89.7%	81.4%	82.7%	95.7%	91.4%
Distribution declared per Unit	**0.201**	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Weighted average Units — basic	**47,630,305**	47,630,305	40,502,680	39,729,805	31,993,541	31,729,805	30,898,283	26,629,805
Weighted average Units — diluted	**48,129,963**	48,032,420	40,767,092	39,981,885	32,238,171	31,898,661	31,057,609	26,780,847
Market price per REIT Unit — close (end of period)	**$9.26**	$7.38	$12.15	$11.09	$10.33	$10.78	$8.97	$10.68
Total assets	**897,139**	919,352	935,733	871,762	862,580	800,014	766,239	641,630
Debt to GBV	**44.4%**	44.9%	43.6%	49.6%	49.7%	56.3%	54.7%	53.1%
Debt service coverage	**1.8X**	1.8X	1.6X	1.6X	1.6X	1.6x	1.8X	1.8X

Notes:

(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 June 30, 2020, to certain Trustees and management of the REIT.

(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 2019.

(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 June 30, 2020 to certain Trustees and management of the REIT. 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 2019.

(v) Comparative figures have been adjusted to reflect the change to the calculation of AFFO in 2019 to include a capital expenditure reserve of 0.5% of base rent in the calculation. See "Non-IFRS Measures".

The increase in rental revenue and NOI, net of bad debt expense for Q2 2020, is primarily attributable to the thirty-eight property acquisitions completed since the REIT's IPO. Net income (loss) is also impacted by fluctuations in fair value adjustments 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, 2019 (the "Annual MD&A") and in its AIF, all of which, except as described below, remain unchanged at the date of this MD&A and are available at www.sedar.com.

COVID-19

To date, COVID-19 has had a significant adverse impact on trade and on local, national and global economies. Provincial governments across Canada enacted emergency measures, commencing in the second half of March 2020, to combat the spread of COVID-19, including the implementation of travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, many of which continue in effect as of today. As a result of these measures, a number of the REIT's tenants' automotive dealership businesses either temporarily closed or operated on a limited basis. At the end of May 2020, all of the REIT's tenants were fully open for business. Automotive industry analysts have forecasted that Canadian new automotive sales will decline by approximately 30% in 2020 as compared to 2019, due to COVID-19, although no assurance can be given in that regard.

Given the rapidly evolving circumstances surrounding COVID-19, it is not possible to predict with certainty the nature, duration and extent of the COVID-19 pandemic and the impact it will have on the business and operations of the REIT and the REIT's tenants. The impact of the COVID-19 pandemic is highly dependent on ongoing and future developments, which include, among other things, emerging information with respect to COVID-19 and the actions required to contain or manage its impact. In the long term, aspects of the REIT's business and operations that may be impacted by COVID-19 include rental income, occupancy, tenant inducements, future demand for the REIT's properties and market rents.

The REIT has already taken and will continue to take actions to mitigate the effects of COVID-19 on its business and operations, keeping in mind the interests of its tenants and other stakeholders. Contingency planning has been advanced from both an operational and financial perspective, and appropriate liquidity preservation measures have been implemented. The REIT continues to closely monitor its operations and may take further actions to mitigate the impact of COVID-19 as required.

Although the REIT has collected approximately 78% of its base rent for Q2 2020, with the remaining amount subject to rent Deferral Agreements with tenants, and has collected approximately 99% of its expected July and August 2020 contractual base rent (including required payments under the Deferral Agreements), it is premature to determine the quantum of rental revenue that may be withheld throughout the remainder of the year. The REIT provided for an allowance for doubtful accounts and bad debt expense of $422 for Q2 2020 relating to the REIT's assessment of the estimated credit risk relating to the collection of rents and other receivable balances under the Deferral Agreements of $4,141. No assurance can be given in respect of the REIT's actual level of bad debts that may arise as a result of COVID-19 or otherwise. COVID-19 could materially impact the REIT's tenants' ability to pay rent in part or at all. Further, the REIT and/or its tenants may not be eligible to participate in the federal and provincial governments' COVID-19 relief programs, including CECRA.

The REIT will continue to review its discounted cash flow projections, changes in capitalization rates and the impact on the fair value of its investment properties during these unprecedented times. Valuation inputs and assumptions relating to rental income, rent collection, reserves and discount rates may change materially in the near term as additional market data becomes available. These potential changes could negatively impact the future value of the REIT's investment properties and its operating results.

Automotive Properties Real Estate Investment Trust
Condensed Consolidated Interim Financial Statements

For the period ended June 30, 2020

Automotive Properties REIT
Condensed Consolidated Interim Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	Note	As at June 30, 2020	As at December 31, 2019
ASSETS			
Cash and cash equivalents		$3,754	$45,266
Prepaid expenses and other assets	**5**	6,366	2,338
Investment properties	**4**	887,019	888,129
Total assets		**$897,139**	**$935,733**
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	**7**	$15,323	$14,261
Credit facilities and mortgages payable	**6**	389,157	397,929
Interest rate swaps	**6**	25,442	5,016
Deferred Units and Income Deferred Units	**10**	3,406	3,246
Class B LP Units	**9**	91,982	120,689
Total liabilities		525,310	541,141
Unitholders' equity		371,829	394,592
Total liabilities and unitholders' equity		**$897,139**	**$935,733**

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 (Loss) and Comprehensive Income (Loss) (Unaudited)

(in thousands of Canadian dollars)	**Note**	**Three months ended June 30, 2020**	Three months ended June 30, 2019	**Six months ended June 30, 2020**	Six months ended June 30, 2019
Net Property Income					
Rental revenue from investment properties	**11**	**$18,800**	$16,425	**$37,406**	$32,109
Property costs	**11**	**(3,214)**	(2,453)	**(6,026)**	(4,566)
Net Operating Income		**15,586**	13,972	**31,380**	27,543
Other Income (Expenses)					
General and administrative expenses		**(1,027)**	(754)	**(1,996)**	(1,469)
Interest expense and other financing charges		**(3,885)**	(4,437)	**(7,875)**	(8,643)
Fair value adjustment on interest rate swaps	**6**	**(1,796)**	(3,800)	**(20,427)**	(10,489)
Distribution expense on Class B LP Units	**8**	**(1,997)**	(1,997)	**(3,994)**	(3,994)
Fair value adjustment on Class B LP Units and Deferred Units	**9, 10**	**(19,332)**	4,489	**29,338**	(13,696)
Fair value adjustment on investment properties	**4**	**(10,905)**	963	**(34,035)**	1,302
Net Income (Loss) and Comprehensive Income (Loss)		**$(23,356)**	$8,436	**$(7,609)**	$(9,446)

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 six months ended June 30, 2020
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2019		**$380,757**	**$73,138**	**$(59,303)**	**$394,592**
Issuance of Units	9	—	—	—	—
Net Loss		—	(7,609)	—	(7,609)
Distributions	8	—	—	(15,154)	(15,154)
Unitholders' Equity at June 30, 2020		**$380,757**	**$65,529**	**$(74,457)**	**$371,829**

For the six months ended June 30, 2019
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2018		**$212,334**	**$77,637**	**$(37,497)**	**$252,474**
Issuance of Units	9	79,771	—	—	79,771
Net Loss		—	(9,446)	—	(9,446)
Distributions	8	—	—	(9,299)	(9,299)
Unitholders' Equity at June 30, 2019		**$292,105**	**$68,191**	**$(46,796)**	**$313,500**

See accompanying notes to the condensed consolidated interim financial statements.

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

(in thousands of Canadian dollars)	**Note**	**Three months ended June 30, 2020**	2019	**Six months ended June 30, 2020**	2019
OPERATING ACTIVITIES					
Net income (loss)		**$(23,356)**	$8,436	**$(7,609)**	$(9,446)
Straight-line rent		**(730)**	(740)	**(1,449)**	(1,499)
Bad debt expense		**422**	-	**422**	-
Non-cash compensation expense		**609**	145	**791**	335
Fair value adjustment on interest rate swaps		**1,796**	3,800	**20,426**	10,489
Distribution expense on Class B LP Units		**1,997**	1,997	**3,994**	3,994
Fair value adjustment on Class B LP Units and Deferred Units		**19,332**	(4,488)	**(29,338)**	13,697
Fair value adjustment on investment properties		**10,905**	(963)	**34,035**	(1,302)
Interest expense and other charges		**3,731**	4,273	**7,573**	8,293
Financing fees		**154**	164	**302**	350
Amortization of other assets		**41**	41	**82**	71
Change in non-cash operating accounts	**16**	**(3,199)**	130	**(3,486)**	502
Cash Flow from operating activities		**11,702**	12,795	**24,743**	25,484
INVESTING ACTIVITIES					
Acquisitions of investment properties		**(70)**	(30,918)	**(29,568)**	(55,730)
Additions to investment properties		**-**	-	**(1,908)**	(151)
Cash Flow used in investing activities		**(70)**	(30,918)	**(31,476)**	(55,881)
FINANCING ACTIVITIES					
Proceeds from Credit Facilities and Mortgages		**-**	14,704	**10,000**	17,904
Principal repayment on Credit Facilities and Mortgages		**(14,528)**	(35,868)	**(19,048)**	(16,028)
Interest paid		**(3,616)**	(4,064)	**(7,273)**	(8,033)
Financing fees paid		**-**	(188)	**-**	(270)
Repayment on lease liabilities		**(126)**	(142)	**(310)**	(320)
Issuance of Units, net of costs		**-**	79,771	**-**	79,771
Distributions to holders of Units and Class B LP Units		**(9,574)**	(6,378)	**(19,148)**	(12,757)
Cash Flow from (used in) financing activities		**(27,844)**	47,835	**(35,779)**	60,267
Net increase (decrease) in cash and cash equivalents during the period		**(16,212)**	29,712	**(41,512)**	29,870
Cash and cash equivalents, beginning of period		**19,966**	453	**45,266**	295
Cash and cash equivalents, end of period		**$3,754**	$30,165	**$3,754**	$30,165

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and six months ended June 30, 2020 and 2019
(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 internally managed, 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 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 and posted for trading on the Toronto Stock Exchange under the symbol "APR.UN".

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, held an approximate 26.0% effective interest in the REIT as at June 30, 2020, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"), and 2,428,552 Units. The Class B LP Units are economically equivalent to, and exchangeable for, Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

The REIT commenced operations on July 22, 2015 following completion of an initial public offering of Units (the "IPO"). In connection with 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 June 30, 2020, the REIT owned a portfolio of 64 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.4 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 37 of the REIT's 64 income-producing commercial properties as at June 30, 2020.

The subsidiaries of the REIT included in the REIT's unaudited condensed consolidated interim financial statements include the Partnership and Automotive Properties REIT GP Inc. Effective January 1, 2020, management, operating and administrative support personnel were employed directly by the REIT.

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 should be read in conjunction with the REIT's audited annual consolidated financial statements as at and for the year ended December 31, 2019 and the accompanying notes thereto. These unaudited 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 unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Trustees of the REIT (the "Board") on August 13, 2020.

(b) Basis of Presentation

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

(c) Basis of Consolidation

The unaudited condensed consolidated interim 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 unaudited 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, 2019.

(e) Critical accounting judgements and estimates

COVID-19

The REIT has incorporated its assessment of the potential impact of COVID-19 into its estimates and assumptions, all of which are subject to increased uncertainty due to the market disruptions caused by COVID-19, specifically with respect to the fair value of the REIT's investment properties in Note 4.

The REIT has collected approximately 78% of its base rent for the three month period ended June 30, 2020, with the remaining amount subject to rent deferral agreements (the "Deferral Agreements") with tenants. Pursuant to the Deferral Agreements, the REIT has agreed to defer, predominately interest-free, a portion of the applicable tenants' base rents for primarily a three-month period occurring between April and July 2020. Given the REIT's triple-net lease structure, the only additional rent receivable relates to realty taxes and land lease payments, of which the REIT has collected all that was due in the months of April to June 2020 except for realty tax payments owing by one tenant group.

The REIT assessed the risk of credit loss on a tenant-by-tenant basis based on its credit history with each tenant as well as the duration of the applicable Deferral Agreement. For the six-month period ended June 30, 2020, the REIT provided for an allowance for doubtful accounts and bad debt expense of $422 which reflects the credit risk relating to the collection of the receivable balances totalling $4,141.

The REIT collected approximately 99% of the expected July and August 2020 contractual base rent, including required payments under the Deferral Agreements.

The REIT will continue to review its discounted cash flow projections, changes in capitalization rates and the impact on the fair value of its investment properties. Valuation inputs and assumptions relating to rental income, rent collection, reserves and discount rates may change materially in the near term as additional market data becomes available. These potential changes could negatively impact the future value of the REIT's investment properties and its operating results.

3. ACQUISITIONS

On February 5, 2020 and February 6, 2020, the REIT acquired the real estate underlying two automotive dealership properties, Regina BMW located in Regina, Saskatchewan, and Acura North Vancouver located in North Vancouver, British Columbia, for approximately $28,850 plus acquisition costs of $718. The acquisitions consist of two full-service automotive dealership properties totaling 41,992 square feet of gross leasable area.

During the year ended December 31, 2019, the REIT completed the following acquisitions:

Property	Location	Date of Acquisition	Total Investment Properties(1)
St. James VW & McNaught Cadillac Buick GMC	Winnipeg, MB	March 29	$24,880
Abbotsford VW, Wellington Motors & Guelph Hyundai	Abbotsford, BC and Guelph, ON	June 25	$30,918
Audi Queensway	Etobicoke, ON	September 19	$38,056
Straightline Kia	Calgary, AB	December 16	$8,505
Total Acquisitions			**$102,359**

(1) Includes acquisition costs.

4. INVESTMENT PROPERTIES

	Income producing properties	Right-of-use assets(1)	Total June 30, 2020	Total December 31, 2019
Balance, beginning of period	$881,337	$6,792	$888,129	$763,998
Adoption of IFRS 16	-	-	-	7,244
Acquisitions(2)	29,568	-	29,568	102,359
Additions(2)	1,908	-	1,908	8,408
Fair value adjustment on investment properties	(33,808)	(227)	(34,035)	3,150
Straight-line rent(3)	1,449	-	1,449	2,970
Balance, end of period	**$880,454**	**$6,565**	**$887,019**	$888,129

(1) Refers to two land leases.
(2) Includes acquisition costs.
(3) Includes a deduction for amortization of tenant allowance of $63 (December 31, 2019 — $115).

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 indicated an increase in capitalization rates from December 31, 2019. For the three-month period ended June 30, 2020, the REIT increased the discount rates for its entire property portfolio by approximately 10 basis points, which is in addition to the 20 basis point increase for the three-month period ended March 31, 2020, primarily due to the economic impact of COVID-19. The fair value loss adjustments for the three- and six-month periods ended June 30, 2020 were primarily due to an increase in discount rates and the transaction costs related to the Regina BMW and Acura North Vancouver property acquisitions, completed during the three-month period ended June 30, 2020, partially offset by NOI increases. The overall capitalization rate applicable to the REIT's entire portfolio increased to 6.9% as at June 30, 2020 (March 31, 2020 – 6.8%; December 31, 2019 – 6.6%). The historical book value of the investment properties owned by the REIT as at June 30, 2020 was $876,472 (December 31, 2019 – $845,828).

In 2020, the REIT provided capital for facility improvements to one of the tenants of the automotive dealership properties located in Winnipeg, Manitoba. The total capital of $1,908 resulted in an annual rent increase effective March 6, 2020.

In 2019, the REIT provided capital for facility improvements to the tenants of 401 Dixie Auto Mall and Meadowvale Honda automotive dealership properties located in Mississauga, Ontario. The total capital of $7,000, plus transaction costs of $7, resulted in an annual rent increase on these properties effective December 16, 2019. An additional $1,401 of capital for facility improvements was provided to another tenant in 2019.

A 25 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $33,300 or $(31,000), respectively.

A 50 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $69,200 or $(59,800), respectively.

Rental Commitments

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

Within 1 year	$61,511
After 1 year, but not more than 5 years	248,803
More than 5 years	544,895
	$855,209

5. PREPAID EXPENSES AND OTHER ASSETS

As at	June 30, 2020	December 31, 2019
Prepaid indemnity fee	**$634**	$671
Right of use assets, net of depreciation	**225**	269
Tenant accounts receivable (Note 2 (e))(1)	**3,719**	-
Prepaid other	**1,788**	1,398
	$6,366	$2,338

(1) Net of allowance for doubtful accounts of $422 (December 31, 2019 — $nil).

6. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit facilities and mortgages payable consist of:

As at	June 30, 2020	December 31, 2019
Facility 1(i)	**$190,575**	$194,665
Facility 2(ii)	**97,610**	99,913
Facility 3(iii)	**87,875**	90,250
Mortgages(iv)	**15,191**	15,472
Total	**$391,251**	400,300
Financing fees(v)	**(2,094)**	(2,371)
	$389,157	$397,929

(i) Facility 1 includes:

A non-revolving loan in the amount of $190,575 (December 31, 2019 — $194,665) bearing interest at the bankers' acceptance ("BA") rate plus 150 basis points ("bps") or the Canadian Prime rate ("Prime") plus 25 bps, maturing in June 2023. The principal is repayable in equal quarterly payments based on a 25 year amortization. The REIT entered into floating-to-fixed interest rate swaps, with remaining terms of 2 to 9 years as at June 30, 2020, which resulted in a weighted average effective interest rate of 3.75% (December 31, 2019 — 3.75%), of which $18,810 (December 31, 2019 — $19,206) of the non-revolving balance remains at floating rates.

A revolving credit facility in the amount of $30,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2023, of which $nil was drawn as at June 30, 2020 (December 31, 2019 — $nil) 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 $97,610 (December 31, 2019 — $99,913) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in June 2024. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 2 to 9 years, which resulted in a weighted average effective interest rate of 3.54% (December 31, 2019 — 3.54%).

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 2024, of which $nil was drawn as at June 30, 2020 (December 31, 2019 — $nil).

(iii) Facility 3 includes:

A non-revolving loan in the amount of $87,875 (December 31, 2019 — $90,250) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps, maturing in December 2023. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 6 to 9 years, which resulted in a weighted average effective interest rate of 4.05% (December 31, 2019 — 4.05%).

A revolving credit facility in the amount of $30,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in December 2023, of which $nil was drawn as at June 30, 2020 (December 31, 2019 — $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 January 2021 to June 2027 (the “Mortgages”). As at June 30, 2020, the weighted average interest rate of the Mortgages was 3.52% (December 31, 2019 — 3.52%).

(v) During the six-month period ended June 30, 2020, the REIT incurred financing fees of $25 (December 31, 2019 — $407). The amounts are accounted for using the effective interest method, and $2,094 remains unamortized as at June 30, 2020 (December 31, 2019 — $2,371).

The credit facilities described above (the “Credit Facilities”) and the Mortgages are secured by the REIT’s investment properties. The REIT has eight unencumbered properties with an aggregate fair value of $127,780.

Principal repayments are as follows:

Remainder of 2020	$9,081
2021	23,750
2022	18,156
2023	260,259
2024	72,082
Thereafter	7,923
Total	$391,251

(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 June 30, 2020, the notional principal amount of the interest rate swaps was approximately $357,300 (December 31, 2019 — approximately $365,600) and the fair value adjustment of the interest rate swaps was $(1,796) and $(20,427) for the three- and six-month periods ended June 30, 2020, respectively, compared to $(3,800) and $(10,489) for the three- and six-month periods ended June 30, 2019, respectively. This resulted in a liability balance of $25,442 (December 31, 2019 — $5,016).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	June 30, 2020	December 31, 2019
Accounts payable and accrued liabilities	**$4,404**	$3,332
Accrued interest	**497**	381
Distributions payable (Note 8)	**3,191**	3,192
Lease liability	**7,231**	7,356
	$15,323	$14,261

As at June 30, 2020, the REIT, as lessee, is committed under long term land and other leases that are classified as a liability to make lease payments with minimum annual rental commitments as follows (not including imputed interest costs):

Within 1 year	$435
After 1 year, but not more than 5 years	2,007
More than 5 years	4,789
Total	$7,231

8. DISTRIBUTIONS

	Three months ended June 30, 2020			Three months ended June 30, 2019		
	Units	**Class B LP Units**	**Total**	Units	Class B LP Units	Total
Paid in Cash	**$7,577**	**$1,997**	**$9,574**	$4,381	$1,997	$6,378
Declared	**7,577**	**1,997**	**9,574**	4,917	1,997	6,914
Payable as at period end	**2,525**	**666**	**3,191**	1,996	666	2,662

	Six months ended June 30, 2020			Six months ended June 30, 2019		
	Units	**Class B LP Units**	**Total**	Units	Class B LP Units	Total
Paid in Cash	**$15,154**	**$3,994**	**$19,148**	$8,763	$3,994	$12,757
Declared	**15,154**	**3,994**	**19,148**	9,299	3,994	13,293
Payable as at period end	**2,525**	**666**	**3,191**	1,996	666	2,662

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 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 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 (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 six months ended June 30, 2020

	Units	Amount
Units, beginning of period	37,697,052	$380,757
Units issued, net of costs	-	-
Total Units, end of period	**37,697,052**	**$380,757**
Class B LP Units, beginning of period	9,933,253	$120,689
Fair value adjustment on Class B LP Units	-	(28,707)
Total Class B LP Units, end of period	**9,933,253**	**$91,982**
Total Units and Class B LP Units, end of period	**47,630,305**	**$472,739**

For the year ended December 31, 2019

	Units	Amount
Units, beginning of year	21,796,552	$212,334
Units issued, net of costs	15,900,500	168,423
Total Units, end of year	**37,697,052**	**$380,757**
Class B LP Units, beginning of year	9,933,253	$89,101
Fair value adjustment on Class B LP Units	-	31,588
Total Class B LP Units, end of year	**9,933,253**	**$120,689**
Total Units and Class B LP Units, end of year	**47,630,305**	**$501,446**

10. UNIT BASED-COMPENSATION

The REIT offers an Equity Incentive Plan (the "Plan") whereby DUs may be granted to eligible Participants 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 1,000,000. 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 six months ended June 30, 2020, the REIT accrued for short-term incentive awards in the amount of $230 (June 30, 2019 — $159) which will be settled by the granting of DUs or cash assuming achievement of management targets once established.

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 June 30, 2020		As at December 31, 2019	
	Units	**Amount**	Units	Amount
Outstanding DUs and IDUs, beginning of period	**267,187**	**$3,246**	119,417	$1,072
DUs	**87,011**	**661**	133,366	1,505
IDUs	**13,638**	**130**	14,404	182
Fair value adjustments	**-**	**(631)**	-	487
Outstanding DUs and IDUs, end of period (1)	**367,836**	**$3,406**	267,187	$3,246

(1) For the six-month period ended June 30, 2020, a total of 132,815 DUs and IDUs were granted, of which 45,844 DUs will be accounted for in accordance with the vesting schedule. As at June 30, 2020, a total of 531,386 DUs and IDUs have been granted.

11. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue

For the three months ended June 30,	**2020**	2019
Base rent	**$15,278**	$13,232
Property tax recoveries	**2,792**	2,453
Straight line rent adjustment	**730**	740
Rental revenue	**$18,800**	$16,425

For the six months ended June 30,	**2020**	2019
Base rent	**$30,353**	$26,044
Property tax recoveries	**5,604**	4,566
Straight line rent adjustment	**1,449**	1,499
Rental revenue	**$37,406**	$32,109

(b) Property Costs

For the three months ended June 30,	**2020**	2019
Property tax expense	**$2,792**	$2,453
Bad debt expense (Note 2 (e))	**422**	-
Property cost	**$3,214**	$2,453

For the six months ended June 30,	**2020**	2019
Property tax expense	**$5,604**	$4,566
Bad debt expense (Note 2 (e))	**422**	-
Property cost	**$6,026**	$4,566

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 which, as at June 30, 2020, totaled $852,968 (December 31, 2019 — $913,210). 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 June 30, 2020, the REIT was in compliance with each of the covenants under these agreements.

14. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

The fair value of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature. References to "FVTPL" refer to the fair value through profit or loss.

The following table provides the classification and measurement of financial assets and liabilities as at June 30, 2020:

Financial Assets/(Liabilities)	Classification/ Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages Payable	Amortized Cost	$(389,157)	$(391,251)
Interest Rate Swaps	FVTPL	(25,442)	(25,442)
Class B LP Units	FVTPL	(91,982)	(91,982)
DUs and IDUs	FVTPL	(3,406)	(3,406)
		$(509,987)	**$(512,081)**

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2019:

Financial Assets/(Liabilities)	Classification/ Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages Payable	Amortized Cost	$(397,929)	$(400,299)
Interest Rate Swaps	FVTPL	(5,016)	(5,016)
Class B LP Units	FVTPL	(120,689)	(120,689)

DUs and IDUs	FVTPL	(3,246)	(3,246)
		$(526,880)	**$(529,250)**

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 June 30, 2020 is $887,019 (December 31, 2019 — $888,129) (Level 3). See Notes 4 and 2 (e).

(ii) Credit Facilities and Mortgages

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 a liability balance as at June 30, 2020 is $25,442 (December 31, 2019 — $5,016). The fair value of an interest rate swap is determined using rates observable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at June 30, 2020 is $91,982 (December 31, 2019 — $120,689). The fair value of the Class B LP Units is based on the traded value of the Units as at June 30, 2020 (Level 1).

(v) DUs and IDUs

The fair value of the DUs and IDUs as at June 30, 2020 is $3,406 (December 31, 2019 — $3,246). The fair value of the DUs and IDUs is based on the traded value of the Units as at June 30, 2020 (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, liquidity and credit risks. Below is a description of those risks and how the exposures are managed. See also Note 2 (e) for a discussion of the risks and uncertainties related to the COVID-19 pandemic.

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 (loss) when the Unit price rises and positively impact net income (loss) 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. A significant portion of the REIT's assets have been pledged as security under the REIT's Credit Facilities and Mortgages. Certain of the Credit Facilities allow for an extension of the term in advance of expiration.

Credit Risk

The REIT is exposed to credit risk from the possibility that counterparties could default on their financial obligations to the REIT. Exposure to credit risk arises from the possibility that the REIT's counterparties may experience financial difficulty and be unable to meet their obligations. The REIT's revenues will be dependent on the ability of the tenants to meet their obligations and the REIT's ability to collect rent therefrom. See also Note 2 (e) for a discussion of the risks and uncertainties related to the COVID-19 pandemic.

15. 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 62.1% and 61.9% of the REIT's rental income for the three- and six-month periods ended June 30, 2020, respectively (61.9% and 62.9% for the three- and six-month periods ended June 30, 2019, respectively).

Pursuant to the Administration Agreement prior to its termination effective December 31, 2019, Dilawri provided, or caused 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 and Chief Financial Officer and Corporate Secretary and operating and administrative support functions. Services were provided under the Administration Agreement on a cost-recovery basis.

General and administrative expenses includes for the six-month period ended June 30, 2020 $nil (June 30, 2019 — $549) paid by the REIT to Dilawri pursuant to the Administration Agreement.

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

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

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 and supported by an independent appraisal report. Pursuant to the Strategic Alliance Agreement, the REIT acquired the following investment properties in 2019 and year to date 2020:

- On February 6, 2020, the REIT acquired the Acura North Vancouver automotive dealership property from a member of the Dilawri Group for $17,500 and leased it to a Dilawri Tenant.
- On February 5, 2020, the REIT acquired the Regina BMW automotive dealership property from a member of the Dilawri Group for $11,350 and leased it to a Dilawri Tenant.
- On September 19, 2019, the REIT acquired the Audi Queensway automotive dealership property from a member of the Dilawri Group for $36,500 and leased it to a Dilawri Tenant.

16. SUPPLEMENTARY INFORMATION

Changes in non-cash operating accounts

(in thousands of Canadian dollars)	**Three months ended June 30,** **2020**	2019	**Six months ended June 30,** **2020**	2019
Prepaid expenses and other assets	**$(4,637)**	$(366)	**$(4,531)**	$(445)
Reduction (additions) to right of use assets	**-**	92	**-**	(7,603)
Accounts payable and accrued liabilities	**1,438**	496	**1,045**	947
Additions (reduction) to lease liabilities	**-**	(92)	**-**	7,603
Change in non-cash operating accounts	**$(3,199)**	$130	**$(3,486)**	$502

17. SUBSEQUENT EVENTS

Subsequent to June 30, 2020, the REIT provided capital for facility improvements to one of the tenants of the automotive dealership properties located in Winnipeg, Manitoba. The total capital of $1,346 resulted in an annual rent increase effective July 7, 2020.

On August 13, 2020, the REIT waived conditions for the purchase of real estate underlying a dealership property in Laval, Quebec, to be redeveloped for a luxury high-end car company that will occupy the premises. The REIT estimates that the total expenditures, including the purchase price, redevelopment costs and related expenses will be approximately $13,400.