

Consolidating Canada's Automotive Dealership Properties

2017 THIRD QUARTER REPORT





Automotive Properties Real Estate Investment Trust

Management's Discussion and Analysis

September 30, 2017

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SECTION 1 – GENERAL INFORMATION AND CAUTIONARY STATEMENTS

Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Automotive Properties Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three and nine month periods ended September 30, 2017. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the REIT and accompanying notes for the three and nine month periods ended September 30, 2017. Further information about the REIT can be found in the REIT's annual information form dated March 20, 2017 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the SEDAR website at www.sedar.com and on the REIT's website at: www.automotivepropertiesreit.ca.

All dollar amounts in this MD&A are presented in thousands of Canadian dollars, except unit and per unit amounts. Unless otherwise noted, all comparisons of results for the three months ended September 30, 2017 ("Q3 2017") are against results for the three months ended September 30, 2016 ("Q3 2016") and comparisons of results for the nine months ended September 30, 2017 ("YTD 2017") are against results for the nine months ended September 30, 2016 ("YTD 2016").

The REIT

The REIT was formed primarily to own income producing automotive dealership properties located in Canada. The REIT commenced operations on July 22, 2015 following completion of an initial public offering of units (the "IPO"). In connection with the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (as defined below) (the "Initial Properties"), and leased the Initial Properties to the applicable member of the Dilawri Group (collectively, and including members of the Dilawri Group that became tenants at a REIT property after the IPO, the "Dilawri Tenants").

As at September 30, 2017, the REIT owned a portfolio of 35 income producing commercial properties, including the Initial Properties, located in Ontario, Saskatchewan, Alberta, British Columbia and Québec, totaling approximately 1.4 million square feet of gross leasable area ("GLA") on approximately 116 acres.

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, held an approximate 38% effective interest in the REIT as at September 30, 2017, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"). The Class B LP Units are economically equivalent to REIT Units (as defined below), and are exchangeable generally on a one-for-one basis. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

On February 7, 2017, the REIT issued an aggregate of 4,255,000 trust units of the REIT ("REIT Units" and, collectively with Class B LP Units, "Units") at a price of \$10.85 per REIT Unit in connection with a public offering of REIT Units for gross proceeds of \$46,167, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 555,000 REIT Units were issued at a price of \$10.85 per REIT Unit (the "Equity Offering"). Issuance costs of \$2,234 were netted against the gross proceeds.

On March 22, 2017, the REIT acquired the real estate underlying the Go Mazda dealership located in Edmonton, Alberta (the "Go Mazda Property") from a member of the Go Auto Group for approximately \$8,000. The Go Mazda Property is a 17,150 square foot full-service automotive dealership property. On closing of the transaction, the applicable tenant entered into a 17-year triple-net lease with the REIT. The tenant is controlled by the parent company operating as Go Auto, which indemnifies the dealerships' rental obligations.

On March 31, 2017, the REIT acquired the real estate underlying the Volkswagen dealership located in Barrie, Ontario (the "VW Barrie Property") from a member of the Dilawri Group for approximately \$8,850. The VW Barrie Property is a 20,102 square foot full-service automotive dealership property and is one of the three "Development Properties" that were to be acquired by the REIT upon substantial completion thereof, as previously announced by the REIT.

On closing of the transaction, the applicable Dilawri Tenant entered into a 17-year triple-net lease with the REIT. The tenant is controlled by the parent company operating as the Dilawri Group, which indemnifies the dealerships' rental obligations.

On April 7, 2017, the REIT acquired the real estate underlying the Honda dealership located in Calgary, Alberta (the "Heritage Honda Property") from a member of the Dilawri Group for approximately \$23,600. The Heritage Honda Property is a 58,913 square foot full-service automotive dealership property and is the third of the three "Development Properties" that were to be acquired by the REIT upon substantial completion thereof, as previously announced by the REIT. On closing of the transaction, the applicable Dilawri Tenant entered into an 18-year triple-net lease with the REIT. The tenant is controlled by the parent company operating as the Dilawri Group, which indemnifies the dealerships' rental obligations.

As at September 30, 2017, the total number of REIT Units and Class B LP Units issued and outstanding was 16,216,000 and 9,933,253, respectively, for a total of 26,149,253 Units. The REIT Units are listed on the Toronto Stock Exchange under the symbol "APR.UN".

The REIT announced monthly cash distributions of \$0.067 per REIT Unit, resulting in total distributions declared and paid of \$5,256 for Q3 2017 (Q3 2016 - \$3,886 declared and \$3,629 paid). For YTD 2017, the REIT declared distributions of \$15,484 and paid \$15,198 (YTD 2016 - \$11,145 declared and \$10,886 paid).

The REIT is externally administered by Dilawri pursuant to the Administration Agreement. The Strategic Alliance Agreement with Dilawri allows the REIT to benefit from a preferential relationship with Dilawri, as Dilawri develops and acquires automotive dealership properties in the future. These agreements are described under "Related Party Transactions" in this MD&A.

This MD&A is dated November 9, 2017.

Forward-Looking Statements

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

- the REIT's relationship with the Dilawri Group, Dilawri's shareholders and certain other related persons and entities (collectively, the "Dilawri Organization"), including in respect of (i) the Dilawri Organization's retained interest in the REIT and its current intention with respect thereto, (ii) the services to be provided to the REIT (whether directly or indirectly) by Dilawri pursuant to the Administration Agreement, and (iii) expected transactions to be entered into between Dilawri and the REIT (including the REIT's acquisition of certain interests in properties held by the Dilawri Group pursuant to the Strategic Alliance Agreement);
- the relocation of certain tenants within Dixie Auto Mall;
- the REIT's intention with respect to, and ability to execute, its external and internal growth strategies;
- 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 statements in this MD&A under Section 9 "Outlook".

The REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that the Canadian economy will remain stable over the next 12 months, that inflation will remain relatively low, that interest rates will remain stable, 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 "Risks & Uncertainties, Critical Judgements & Estimates" in this MD&A.

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

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

Non-IFRS Financial Measures

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

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

Gross book value (“GBV”), indebtedness, net asset value, debt to gross book value (“Debt to GBV”), debt service 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 performance and is indicative of the REIT’s ability to pay distributions, while FFO, NOI, Same Property NOI, Cash NOI, and EBITDA are important measures of operating performance of real estate businesses and properties. The IFRS measurement most directly comparable to FFO, AFFO, ACFO, NOI, Cash NOI, Same Property Cash NOI and EBITDA is net income.

“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 2017. FFO is calculated as net income in accordance with IFRS, adjusted by removing the impact of: (i) fair value adjustments on investment properties; (ii) other fair value adjustments including fair value adjustments on redeemable or exchangeable units; (iii) gains and losses on the sale of investment properties; (iv) amortization of tenant incentives; and (v) distributions on redeemable or exchangeable units treated as interest expense.

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

“AFFO” is a non-IFRS measure of earnings widely used in the real estate industry to assess an entity’s ability to pay distributions. Except for adjustment to remove non-cash unit-based compensation expense, the REIT calculates AFFO in accordance with the Real Property Association of Canada’s *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2017. 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) non-cash unit-based compensation expense.

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

AFFO payout ratio is calculated as distributions per Unit divided by the 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 (ACFO) for IFRS* issued in February 2017. 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; and (ii) amortization of financing costs and indemnity payable in respect of the third party tenant portfolio sublease structure; and (b) deduct interest expense.

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

“NOI” 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 general and administrative expenses, fair value adjustments and amortization.

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

“Same Property NOI” is a non-IFRS measure which reports the period-over-period performance of the same asset base having consistent gross leasable area in both periods. For Q3 2017 and Q3 2016, this includes the Initial Properties, the acquisition of the real estate underlying the Toyota Woodland dealership (the “Toyota Woodland Property”) completed on December 23, 2015, the acquisition of the real estate underlying the Porsche Centre Edmonton and Jaguar Land Rover dealership (the “Porsche JLR Edmonton Property”) completed on December 30, 2015 and the acquisition of the real estate underlying the Audi Barrie dealership (the “Audi Barrie Property”) completed on January 14, 2016.

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

FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Same Property NOI and 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, Same Property NOI and Cash NOI may differ from other issuers’ methods and, accordingly, may not be comparable to measures used by other issuers. See “Results of Operations” in this MD&A for a reconciliation of these measures to net income or cash flow from operating activities, as applicable.

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

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

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

“Net Asset Value” means total assets less Indebtedness, accounts payable, accrued liabilities, credit facilities and interest rate swaps.

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

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

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

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

SECTION 2 – OVERVIEW, STRATEGY AND OBJECTIVES

Overview

Canada’s automotive retail industry is characterized by strong industry fundamentals. According to Statistics Canada, the automotive retail industry represented the largest component of total retail sales and merchandise in Canada, equating to approximately 6.7% of Gross Domestic Product in 2016. Industry sales totaled a record \$134 billion in 2016 (up 4.6% from 2015), representing approximately 25% 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 4.5%. The tables below contain new automobile sales by units in Canada for the eight months ended August 31, 2017 (the latest information available from Statistics Canada) and August 31, 2016, and for the 2016 and 2015 calendar years:

	Eight Months Ended August 31 (units)			2016
	2017	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	170,301	20,139	13.4%	150,162
British Columbia and the Territories	162,390	11,545	7.7%	150,845
Manitoba	42,174	3,620	9.4%	38,554
New Brunswick	31,317	(518)	-1.6%	31,835
Newfoundland and Labrador	23,546	21	0.1%	23,525
Nova Scotia	41,654	4,095	10.9%	37,559
Ontario	587,966	25,742	4.6%	562,224
Prince Edward Island	5,977	(74)	-1.2%	6,051
Québec	325,080	2,976	0.9%	322,104
Saskatchewan	38,420	3,811	11.0%	34,609
Total Canada	1,428,825	71,357	5.3%	1,357,468

	12 Months Ended December 31 (units)			2015
	2016	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	223,651	(18,325)	-7.6%	241,976
British Columbia and the Territories	221,772	10,513	5.0%	211,259
Manitoba	57,428	(558)	-1.0%	57,986
New Brunswick	44,984	249	0.6%	44,735
Newfoundland and Labrador	33,687	(1,332)	-3.8%	35,019
Nova Scotia	54,451	(606)	-1.1%	55,057
Ontario	821,762	43,046	5.5%	778,716
Prince Edward Island	8,768	792	9.9%	7,976
Québec	465,143	13,481	3.0%	451,662
Saskatchewan	52,099	(3,032)	-5.5%	55,131
Total Canada	1,983,745	44,228	2.3%	1,939,517

(Source: Statistics Canada)

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

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

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

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

Growth Strategies

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

External Growth

Accretive Acquisitions of Third Party Properties

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

- *Fragmented ownership* – Management estimates that the top 10 automotive dealership groups in Canada own less than 10% of the approximately 3,500 automotive dealerships in Canada;
- *Increasing momentum of consolidation* – The proportion of automotive dealerships in Canada that are owned by operators with fewer than five locations has declined from 71% in 2009 to 65% in 2013 (Source: DesRosiers Automotive Consultants). The REIT is uniquely positioned to work with the large dealership groups in unlocking the value of the underlying real estate as they accumulate dealerships.
- *Capital redeployment needs* – According to PricewaterhouseCoopers LLP's 2012 Automotive Trendsetter Report, 91% of dealers surveyed said that they own the properties underlying their dealerships. Monetizing the underlying real estate would allow 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. This is especially important given the aging demographics of the Canadian dealership owners.

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

The REIT seeks to acquire properties that meet its specific investment criteria. Acquisition opportunities are evaluated 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, which is further described under “Related Party Transactions”, 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.

Internal Growth

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

- Each of the leases with Dilawri Tenants (the “Dilawri Leases”) contains annual contractual basic rent escalators in the amount of 1.5% per annum. These leases are structured as triple-net leases under which the tenant is responsible for all costs relating to repair and maintenance, realty taxes, property insurance, utilities and non-structural capital improvements so that rent escalators are expected to flow directly to NOI; and
- Contractual rent escalators that are expected, wherever possible, to be negotiated into new leases entered into by the REIT with third party tenants. For example, the lease in respect of the Porsche JLR Edmonton Property has an annual rent escalator of 1.0% after the end of the fifth year of the term and the lease in respect of the Go Mazda Property has an annual rent escalator of 1.0% after the end of the first year of the term.

SECTION 3 - PROPERTY PORTFOLIO

Portfolio Overview

At September 30, 2017, the REIT’s portfolio consisted of 35 properties. Out of the 35 properties, 30 are exclusively occupied by members of the Dilawri Group for use as automotive dealerships or, in one case, an automotive repair facility, while two of the other five properties are jointly occupied by members of 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 three of the other five properties are exclusively occupied by third party tenants for use as automotive dealerships. Consequently, the Dilawri Group is the REIT’s most significant tenant and provides approximately 90.4% of the REIT’s Cash NOI, including rent from properties subleased to third parties in YTD 2017 (94.0% in YTD 2016).

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

Dixie Auto Mall includes an industrial property with approximately 53,000 square feet of GLA which is not included as part of the portfolio as it is not an asset over which the REIT has control. This property was acquired by the REIT for nominal consideration on July 22, 2015 from a member of the Dilawri Group. This property has been leased to the applicable Dilawri Tenant for nominal consideration. On September 22, 2017, the property was transferred back to the Dilawri Group for the same nominal consideration.

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

Property Portfolio Summary

As at September 30, 2017	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) ⁽¹⁾	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$36.82	15.1
Calgary	5	236,700	23.23	14.1
Regina	8	183,941	20.06	11.7
Greater Montréal Area (GMA)	3	173,292	16.79	15.9
Edmonton	2	61,929	33.67	15.6
Greater Toronto Area (GTA)	11	556,555	25.30	11.5
Total Portfolio	35	1,366,367	\$24.88	13.1

As at September 30, 2016	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) ⁽¹⁾	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$36.26	16.1
Calgary	4	177,787	21.53	14.0
Regina	8	183,941	19.76	12.7
Greater Montréal Area (GMA)	1	49,737	10.63	15.2
Edmonton	1	44,779	34.00	16.3
Greater Toronto Area (GTA)	10	536,453	24.44	12.0
Total Portfolio	30	1,146,647	\$24.76	13.4

(1) Based on 12-month rolling average.

Appendix "A" in this MD&A contains a list and description of the REIT's properties as at September 30, 2017.

Profile of the Dilawri Leases

The remaining terms of the Dilawri Leases range from 8.7 years to 17.5 years, with a weighted average lease term of approximately 13.5 years. As at September 30, 2017, the weighted average annual basic rent payable under the Dilawri Leases is approximately \$24.88 per square foot. The basic annual rental rates of these leases increase by 1.5% each lease year.

Material terms of the Dilawri Leases include the following:

- Requirements to obtain the REIT's consent for certain changes in use that might affect or impair the value of the properties;
- Options on the part of Dilawri to extend the leases for successive five-year periods as long as Dilawri meets certain conditions;
- The leases are triple-net to the REIT, with the tenant responsible for costs relating to the properties, including property taxes and non-structural repairs and maintenance;
- Rights on the part of Dilawri to cease operations under certain circumstances, provided it continues to comply with the other terms of the leases; and
- Other terms with respect to alterations, environmental covenants, assignment and subletting, damage and destruction and tenant expansion.

A full description of the material terms of the Dilawri Leases is contained in the REIT's AIF, which is available on SEDAR at www.sedar.com.

Profile of Non-Dilawri Leases

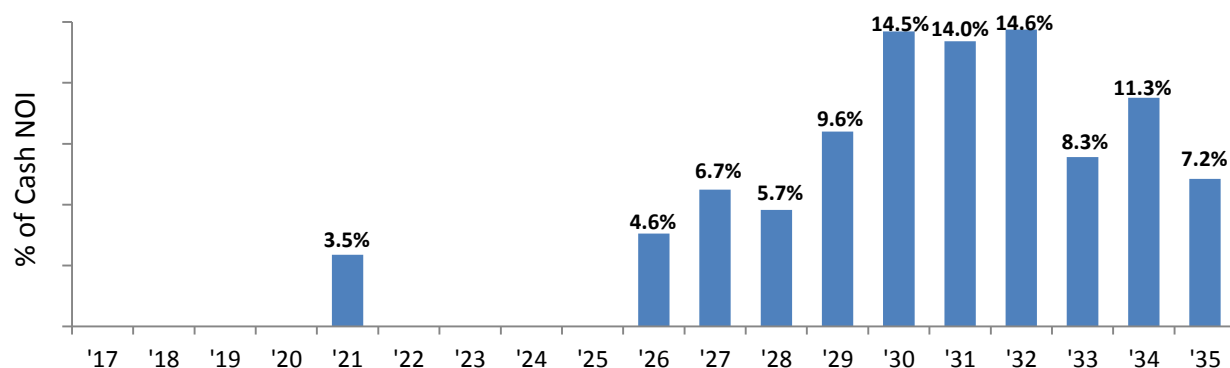
- The Porsche JLR Edmonton Property was the REIT's first acquisition of a dealership property with third party dealerships as the REIT's tenants. On closing of the transaction, the tenants entered into a 17-year triple-net lease with the REIT, with annual 1.0% rent escalations beginning at the end of the fifth year of the lease term. The tenant is controlled by the parent company operating as Go Auto, which indemnifies the dealerships' rental obligations.
- On September 20, 2016, the REIT acquired the real estate underlying Pfaff Audi (the "Pfaff Audi Property"). The Pfaff Audi Property was the REIT's second acquisition of a dealership property with a third party dealership as the REIT's tenant. On closing of the transaction, the REIT assumed the triple-net lease on the property, which had a remaining lease term of approximately five years, following which there are two five-year renewal options available to the tenant. The tenant is controlled by the parent company operating as Pfaff, which indemnifies the dealership's rental obligations.
- The Go Mazda Property was the REIT's third acquisition of a dealership property with third party dealerships as the REIT's tenants. On closing of the transaction, the tenants entered into a 17-year triple-net lease with the REIT, with annual 1.0% rent escalations beginning at the end of the first year of the lease term. The tenant is controlled by the parent company operating as Go Auto, which indemnifies the dealerships' rental obligations.

Profile of Overall Lease Maturity

The remaining terms of the leases range from 3.6 years to 17.5 years, with a weighted average lease term of approximately 13.1 years.

With the exception of the Pfaff Audi Property, the lease portfolio matures between 2026 and 2035 as set out in the chart below:

Lease Maturity Profile (*)



(*) Based on a 12-month rolling average as at September 30, 2017.

Property Use and Brand Diversification

Sales for an individual automotive dealership are heavily influenced by the popularity of the automotive brands being marketed, and these, in turn, are often cyclical for each brand as new models are introduced and existing models are updated and refreshed. In addition, prospects for both mass market and luxury brands can vary with economic cycles. Management believes that the portfolio's broad automotive brand diversification contributes to the quality and stability of the REIT's cash flows. The table below sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of September 30, 2017:

Manufacturer / Brand	REIT Auto Dealership GLA (Sq. Feet)	% of REIT Auto Dealership GLA	% of REIT Auto Dealership Rent	No. of REIT Locations
Honda ⁽¹⁾	252,124	18.7%	17.6%	7
Audi	160,215	11.9%	11.3%	4
Porsche ⁽²⁾	84,569	6.3%	9.4%	2
Acura ⁽¹⁾	93,829	7.1%	9.0%	4
BMW ⁽³⁾	100,180	7.4%	5.9%	2
Volkswagen	84,957	6.3%	5.7%	3
Nissan	71,521	5.4%	5.6%	3
Other ⁽⁴⁾	75,570	5.6%	5.6%	5
Mazda	64,650	4.8%	5.2%	3
Mercedes Benz	60,850	4.5%	4.2%	1
Infiniti	31,077	2.3%	3.9%	4
Hyundai	49,734	3.7%	3.7%	3
Toyota	72,478	5.4%	3.4%	2
General Motors	35,504	2.6%	2.8%	1
Ford	39,287	2.9%	2.7%	1
Chrysler ⁽⁵⁾	40,957	3.0%	1.7%	1
Mitsubishi	14,750	1.1%	1.2%	2
Kia	13,890	1.0%	1.1%	1
Total	1,346,142	100.0%	100.0%	49

Notes:

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

(2) Includes Porsche JLR Edmonton.

(3) Includes MINI.

(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 property in Regina at 1921 1st Avenue which is being used for ancillary dealership purposes by both the Dilawri BMW and the Triple 7 Chrysler dealerships. It continues to be leased by a

Dilawri Tenant under the same lease as Dilawri BMW. Also includes the former Honda and Toyota dealerships located in Dixie Auto Mall which have vacated their premises; however, the third party tenants are expected to use the existing sites for ancillary dealership purposes, and the applicable Dilawri Tenant will continue to be the lead tenant for Dixie Auto Mall until July 2030.

(5) *Includes Dodge, FIAT, Jeep and RAM.*

Description of the REIT's Key Tenant

The following chart summarizes certain relevant financial information of the Dilawri Group for the last twelve months ended September 30, 2017 with comparative figures for the last twelve months ended September 30, 2016 as provided to the REIT by Dilawri (all figures are approximations):

Dilawri Group's Financial Information (approximations, not in thousands)		
	September 30, 2017 LTM⁽³⁾	September 30, 2016 LTM⁽³⁾
Combined Revenues (not audited or reviewed)	\$ 2.7 billion	\$ 2.3 billion
EBITDA (not audited or reviewed)	\$ 93.3 million	\$ 73.3 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	3.4 ⁽¹⁾	3.0 ⁽²⁾
Term Debt (not audited or reviewed)	\$ 148.3 million ⁽¹⁾	\$ 141.1 million ⁽²⁾
Term Debt to EBITDA Ratio (not audited or reviewed)	1.6 ⁽¹⁾	2.0 ⁽²⁾

Notes:

- (1) As at September 30, 2017.
- (2) As at September 30, 2016.
- (3) "LTM" means the last twelve months.

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

Dilawri Additional and Non-ASPE Measures

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

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

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

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

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

SECTION 4 –KEY PERFORMANCE INDICATORS

Key Performance Indicators

The REIT’s performance is measured by management’s selection of these and other key indicators. For further information on the REIT’s operating measures and non-IFRS measures, please refer to sections 5 and 6 of this MD&A.

Operating Results	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
NOI	\$9,017	\$7,302	\$26,264	\$21,803
Same Property Cash NOI	6,709	6,612	19,407	19,130
Cash NOI	8,293	6,649	24,047	19,729
FFO	6,405	4,990	18,882	14,881
AFFO	5,811	4,375	17,015	13,031
Fair value adjustment to investment properties	4,286	2,890	5,600	5,217
Distributions per Unit	\$0.201	\$0.201	\$0.603	\$0.603
FFO per Unit - basic ⁽¹⁾	0.245	0.269	0.738	0.817
FFO per Unit - diluted ⁽²⁾	0.244	0.269	0.737	0.817
AFFO per Unit - basic ⁽¹⁾	0.222	0.236	0.665	0.715
AFFO per Unit - diluted ⁽²⁾	0.222	0.236	0.664	0.715
Weighted average Units – basic ⁽³⁾	26,149,053	18,554,253	25,572,368	18,221,472
Weighted average Units – diluted ⁽³⁾	26,220,165	18,554,293	25,621,401	18,221,485
Payout ratio (%)				
FFO	82.4%	74.7%	81.8%	73.8%
AFFO	90.5%	85.2%	90.8%	84.3%

Balance Sheet Metrics	As at September 30, 2017	As at December 31, 2016
Total assets	\$514,618	\$464,338
Units outstanding (includes Class B LP Units)	26,149,253	21,894,253
Market capitalization (includes Class B LP Units)	\$287,903	\$233,831
Fixed weighted average effective interest rate on debt (excludes revolving credit facilities) ⁽⁴⁾	3.35%	3.15%
Proportion of total debt at fixed interest rates through swaps and mortgages	94%	86%
Weighted average interest rate swap term remaining (years)	5.6	5.0
Weighted average term to maturity of debt (excludes revolving credit facilities)	3.6	3.5
Interest Coverage Ratio	3.9X	3.4X
Debt Service Coverage Ratio	2.1X	1.8X
Debt to GBV	45.8%	51.5%

(1) 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.

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

(3) The weighted average number of outstanding Units includes the Class B LP Units.

(4) The fixed weighted average effective interest rate on debt is calculated on an annualized basis.

SECTION 5 – RESULTS OF OPERATIONS

Net Income (Loss) and Comprehensive Income (Loss)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Variance	2017	2016	Variance
Net Property Income						
Rental revenue from investment properties	\$10,599	\$8,538	\$2,061	\$30,947	\$25,147	\$5,800
Property costs	(1,582)	(1,236)	(346)	(4,683)	(3,344)	(1,339)
NOI	9,017	7,302	1,715	26,264	21,803	4,461
Other Income (Expenses)						
General and administrative expenses	(576)	(507)	(69)	(1,683)	(1,518)	(165)
Interest expense and other financing charges	(2,036)	(1,805)	(231)	(5,699)	(5,404)	(295)
Fair value adjustment on interest rate swaps	3,135	354	2,781	4,444	(2,588)	7,032
Distribution expense on Class B LP Units	(1,997)	(1,997)	-	(5,991)	(5,991)	-
Fair value adjustment on Class B LP Units, Deferred Units and Income Deferred Units	900	(5,066)	5,966	(3,280)	(22,549)	19,269
Fair value adjustment on investment properties	4,286	2,890	1,396	5,600	5,217	383
Net Income (Loss) and Comprehensive Income (Loss)	\$12,729	\$1,171	\$11,558	\$19,655	\$(11,030)	\$30,685

Rental Revenue and Property Costs

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

For Q3 2017, rental revenue of \$10,599 was \$2,061, or 24.1%, higher than Q3 2016, primarily due to the properties acquired subsequent to Q3 2016 and contractual annual rent increases of 1.5% from the Dilawri Leases which were offset for the accounting of the straight-line lease adjustments.

For YTD 2017, rental revenue of \$30,947 was \$5,800, or 23.1%, higher than YTD 2016, primarily due to the properties acquired subsequent to YTD 2016 and contractual annual rent increases of 1.5% from the Dilawri Leases which were offset for the accounting of the straight-line lease adjustments.

Property costs for Q3 2017 and YTD 2017 were \$346 and \$1,339 higher than Q3 2016 and YTD 2016, respectively. The increases are attributable to the five properties acquired subsequent to Q3 2016 and YTD 2016.

Property costs as a percentage of revenue increased from approximately 14.5% and 13.3% in Q3 2016 and YTD 2016, respectively, to approximately 15% in Q3 2017 and YTD 2017, mainly due to an increase in realty tax payments for the properties acquired subsequent to Q3 2016 and YTD 2016. These costs are recoverable from the tenants pursuant to the terms of the triple-net leases.

Same Property Net Operating Income and Cash Net Operating Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Variance	2017	2016	Variance
Base rental revenue	\$6,853	\$6,756	\$97	\$19,839	\$19,562	\$277
Straight line rent adjustments	584	681	(97)	1,791	2,068	(277)
Property tax	1,197	1,066	131	3,461	2,762	699
Rental revenue from investment properties	8,634	8,503	131	25,091	24,392	699
Straight line land lease adjustments	(25)	(25)	-	(75)	(75)	-
Property tax	(1,197)	(1,066)	(131)	(3,461)	(2,762)	(699)
Land lease expense	(144)	(144)	-	(432)	(432)	-
Property costs	(1,366)	(1,235)	(131)	(3,968)	(3,269)	(699)
Same Property NOI	\$7,268	\$7,268	-	\$21,123	\$21,123	-
Straight line adjustments	(559)	(656)	97	(1,716)	(1,993)	277
Same Property Cash NOI	6,709	6,612	97	19,407	19,130	277

Same Property NOI consists of base rental revenue which for Q3 2017 and YTD 2017 increased by \$97 and \$277 compared to Q3 2016 and YTD 2016, respectively, due to the annual contractual rent increases of 1.5% per year in respect of the Dilawri Leases which were offset by a decrease in straight line rent adjustments of \$97 and \$277 for the same periods. Same Property Cash NOI increased by \$97 and \$277 in Q3 2017 and YTD 2017, compared to Q3 2016 and YTD 2016, respectively, due to the annual contractual rent increases of 1.5% per year in respect of the Dilawri Leases.

General and Administrative Expenses

The REIT's general and administrative expenses consisted of: (i) outsourced costs, (ii) public entity costs, and (iii) unit-based compensation expense, Deferred Units ("DUs") and Income Deferred Units ("IDUs"). The outsourced costs are largely related to the services provided by Dilawri pursuant to the Administration Agreement. The REIT will reimburse Dilawri for costs incurred in connection with the provision of such services so long as such costs are identified in the current annual budget of the REIT or are otherwise approved by the REIT. The REIT paid to Dilawri \$251 and \$739 in respect of services provided in Q3 2017 and YTD 2017, respectively (Q3 2016 - \$210 and YTD 2016 - \$560).

The Administration Agreement costs for Q3 2017 and YTD 2017 were \$41 and \$179 higher than Q3 2016 and YTD 2016, respectively, primarily due to the use of internal resources within Dilawri rather than external professional services as well as additional rent costs incurred as result of separating offices from Dilawri on August 1, 2017.

The public entity costs reflect the expenses related to ongoing operations of the REIT including professional fees for legal and audit services and fees payable to members of the REIT's Board of Trustees. For Q3 2017 and YTD 2017, public entity costs were \$64 and \$140 lower than Q3 2016 and YTD 2016, respectively. The changes were due to a decrease in external professional services being provided and all independent Trustees electing to receive board and committee fees in the form of DUs instead of cash payments. Public entity costs will fluctuate from quarter to quarter depending on when such expenses are incurred.

The non-cash unit based compensation expense related to the adoption and approval of an Equity Incentive Plan (the "Plan") on June 8, 2016. Each DU receives a distribution of additional IDUs equal to the amount of distributions paid per REIT Unit by the REIT. Under the Plan, the fair value of the DUs and IDUs is recognized as compensation expense over the vesting period. 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. Under the Plan, the Chief Executive Officer and the Chief Financial Officer will be eligible to receive a short-term incentive with a target of 50% and 40% of base salary up to a maximum of 75% and 60%, respectively, which will be payable in fully-vested DUs. In addition, the Chief Executive Officer and the Chief Financial Officer will be eligible to receive a long-term incentive grant of DUs of up to 50% and 40%, respectively, of base salary. For Q3 2017 and YTD 2017, the REIT accrued short-term incentive awards of \$67 and \$201, respectively, which will be settled by the granting of DUs.

As at September 30, 2017, all independent Trustees elected to receive board and committee fees in the form of DUs. The fair value of each DU granted is measured based on the volume-weighted average trading price of the REIT Units for the five trading days immediately preceding the grant date. The REIT incurred an expense of \$63 and \$149 reflecting the grant of 4,997 and 12,091 DUs and IDUs granted in Q3 2017 and YTD 2017, respectively.

The table below illustrates the breakdown of general and administrative expenses incurred in Q3 2017 and YTD 2017 as compared to Q3 2016 and YTD 2016:

	Q3 2017	Q3 2016	Variance	YTD 2017	YTD 2016	Variance
Administration Agreement	\$251	\$210	\$41	\$739	\$560	\$179
Public entity costs and other	195	259	(64)	594	734	(140)
Trustees, DUs and IDUs expense	63	38	25	149	38	111
Management short term compensation expense	67	-	67	201	186	15
General and administrative expenses	\$576	\$507	\$69	\$1,683	\$1,518	\$165

Interest Expense and Other Financing Charges

Interest expense includes amounts payable to lenders under the REIT's Credit Facilities and Mortgages (each as defined below), as well as amortization of upfront costs and costs to hedge the applicable Credit Facilities and Mortgages at fixed rates.

The interest expense and other financing charges were \$2,036 and \$5,699 for Q3 2017 and YTD 2017, a \$231 and \$295 increase from Q3 2016 and YTD 2016, respectively, primarily due to additional debt incurred to acquire properties subsequent to YTD 2016.

On June 26, 2017, the REIT placed a \$10,000 mortgage on one of its recently-acquired automotive dealership properties. The mortgage has a term of ten years, maturing June 2027, and a fixed interest rate of 3.72% with a 25-year amortization. In addition, the REIT increased the amount available to be drawn under Facility 2 (see Section 7 "Liquidity and Capital Resources" in this MD&A) from \$55,744 to \$68,744 and extended the term from July 2020 to June 2022. The interest rate of 3.37% in respect of the additional \$13,000 has been fixed through an interest rate swap for a seven-year period. The REIT also extended the maturity of two of its interest rate swaps: An interest rate swap in the amount of approximately \$14,600 in respect of Facility 2 was extended from July 2018 to July 2026 and an interest rate swap in the amount of approximately \$27,800 in respect of Facility 1 (see Section 7 "Liquidity and Capital Resources" in this MD&A) was extended from July 2018 to July 2023.

As a result of the above, the weighted average effective interest rate on the REIT's debt was fixed at 3.35% as at September 30, 2017 (September 30, 2016 - 3.15%).

Changes in Fair Values of Investment Properties

As at	September 30, 2017	December 31, 2016
Balance, beginning of period	\$461,809	\$389,650
Acquisitions during the period	40,713	64,129
Fair value adjustment on investment properties	5,600	5,316
Straight-line rent	2,217	2,714
Balance, end of period	\$510,339	\$461,809

The REIT valued the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which indicate a decrease in capitalization rates in the Vancouver and Calgary markets which were partially offset by a capitalization rate increase for the Regina market in Q3 2017. The overall implied capitalization rate applicable to the entire portfolio remained at 6.5%, which is equivalent to the REIT's overall assessment as at September 30, 2017.

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

A 25 basis point decrease or increase in capitalization rates would result in an increase or decrease in the fair value of investment properties of approximately \$20,468 or (\$18,948), respectively.

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

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

The REIT entered into interest rate swaps on August 7, 2015, December 30, 2015 and June 26, 2017 to limit its exposure to fluctuations in the interest rates on variable rate financings for Facility 1 and Facility 2. 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).

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 interest expense and other financing charges. Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

The contribution to net income for Q3 2017 and YTD 2017 is primarily attributable to an increase of interest rate levels in Q3 2017 which resulted in a fair value adjustment for interest rate swaps of \$3,135 (Q3 2016 increase of \$354) and \$4,444 (YTD 2016 decrease of \$2,588), respectively.

SECTION 6 – NON-IFRS FINANCIAL MEASURES

FFO, AFFO and ACFO

In Q3 2017, FFO increased 28.4% to \$6,405, compared to \$4,990 in Q3 2016, primarily due to the properties acquired subsequent to Q3 2016. FFO per Unit was \$0.244 in Q3 2017, compared to \$0.269 per Unit in Q3 2016. The per Unit decline was attributable to the dilutive effect of the Equity Offering, which resulted in a lower Debt to GBV of 45.8%, which provides the REIT with enhanced capacity to acquire approximately \$100,000 of additional properties in the future, thereby creating enhanced accretion on a per Unit basis.

FFO for YTD 2017 increased 26.9% to \$18,882, compared to \$14,881 in YTD 2016, primarily due to the properties acquired subsequent to YTD 2016. FFO per Unit was \$0.737 in YTD 2017, compared to \$0.817 in YTD 2016. The per Unit decline was attributable to the Equity Offering as described above.

AFFO increased 32.8% to \$5,811 in Q3 2017, compared to \$4,375 in Q3 2016. AFFO for YTD 2017 increased 30.6% to \$17,015, compared to \$13,031 in YTD 2016. The increased AFFO in both Q3 2017 and YTD 2017 was primarily attributable to the properties acquired subsequent to Q3 2016 and YTD 2016. AFFO per Unit was \$0.222 and \$0.664 in Q3 2017 and YTD 2017, respectively, compared to \$0.236 and \$0.715 in Q3 2016 and YTD 2016, respectively. The decline in AFFO per Unit in both Q3 2017 and YTD 2017 was attributable to the Equity Offering as described above.

Cash NOI in Q3 2017 was \$8,293 on \$10,599 of revenue (Q3 2016 - Cash NOI of \$6,649 on revenue of \$8,538), and Cash NOI in YTD 2017 was \$24,047 on \$30,947 of revenue (YTD 2016 - Cash NOI of \$19,729 on revenue of \$25,147). The increase in Cash NOI in both Q3 2017 and YTD 2017 was primarily attributable to the properties acquired subsequent to Q3 2016 and YTD 2016.

ACFO in Q3 2017 and YTD 2017 increased by \$1,170 and \$3,909, respectively, over the corresponding periods in 2016, primarily due to the impact of the properties acquired subsequent to Q3 2016 and YTD 2016.

For Q3 2017 and YTD 2017, the REIT declared distributions to Unitholders of \$5,256, or \$0.201 per Unit, and \$15,484, or \$0.603 per Unit, respectively, which resulted in an AFFO payout ratio of 90.5% in Q3 2017 (Q3 2016 – 85.2%) and 90.8% in YTD 2017 (YTD 2016 – 84.3%). The AFFO payout ratios for Q3 2017 and YTD 2017 were higher as a result of the financial deleveraging resulting from the Equity Offering as described above.

Reconciliation of NOI, Cash NOI, FFO and AFFO

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 Measures” in this MD&A). The Q3 2016 and YTD 2016 FFO and AFFO figures have been adjusted to conform to current period presentation.

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

(\$000s, except per Unit amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Variance	2017	2016	Variance
Calculation of NOI						
Property revenue	\$10,599	\$8,538	\$2,061	\$30,947	\$25,147	\$5,800
Property costs	(1,582)	(1,236)	(346)	(4,683)	(3,344)	(1,339)
NOI (including straight-line adjustments)	9,017	7,302	1,715	26,264	21,803	4,461
Adjustments:						
Straight-line adjustment (rent and land lease)	(724)	(653)	(71)	(2,217)	(2,074)	(143)
Cash NOI	\$8,293	\$6,649	\$1,644	\$24,047	\$19,729	\$4,318
Reconciliation of net income to FFO and AFFO						
Net income (loss) and comprehensive income (loss)	12,729	1,171	11,558	19,655	(11,030)	30,685
Adjustments:						
Change in fair value – Interest rate swaps	(3,135)	(354)	(2,781)	(4,444)	2,588	(7,032)
Distributions on Class B LP Units	1,997	1,997	-	5,991	5,991	-
Change in fair value – Class B LP Units and Deferred Units	(900)	5,066	(5,966)	3,280	22,549	(19,269)
Change in fair value – investment properties	(4,286)	(2,890)	(1,396)	(5,600)	(5,217)	(383)
FFO	6,405	4,990	1,415	18,882	14,881	4,001
Adjustments:						
Straight-line adjustment (rent and land lease)	(724)	(653)	(71)	(2,217)	(2,074)	(143)
Non-cash unit-based compensation expense ⁽¹⁾	130	38	92	350	224	126
AFFO	5,811	4,375	1,436	17,015	13,031	3,984
Number of Units outstanding (including Class B LP Units)	26,149,253	21,894,253	4,255,000	26,149,253	21,894,253	4,255,000
Weighted average Units Outstanding – basic	26,149,053	18,554,253	7,594,800	25,572,368	18,221,472	7,350,896
Weighted average Units Outstanding – diluted	26,220,165	18,554,293	7,665,872	25,621,401	18,221,485	7,399,916
FFO per Unit - basic⁽²⁾	\$0.245	\$0.269	\$(0.024)	\$0.738	\$0.817	\$(0.079)
FFO per Unit - diluted⁽³⁾	\$0.244	\$0.269	\$(0.025)	\$0.737	\$0.817	\$(0.080)
AFFO per Unit - basic⁽²⁾	\$0.222	\$0.236	\$(0.014)	\$0.665	\$0.715	\$(0.050)
AFFO per Unit - diluted⁽³⁾	\$0.222	\$0.236	\$(0.014)	\$0.664	\$0.715	\$(0.051)
Distributions per Unit	\$0.201	\$0.201	\$-	\$0.603	\$0.603	\$-
FFO payout ratio	82.4%	74.7%	7.7%	81.8%	73.8%	8.0%
AFFO payout ratio	90.5%	85.2%	5.3%	90.8%	84.3%	6.5%

(1) The REIT incurred an expense of \$63 and \$149 relating to 5,612 and 13,291 DUs and IDUs granted during Q3 2017 and YTD 2017, respectively, as well as \$67 and \$201 accrued for non-cash unit-based management compensation expense as part of the Plan. The DUs and IDUs granted were included in the weighted average number of outstanding REIT Units and Class B LP Units.

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

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

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 2017. 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 Measures" in this MD&A). The calculation of ACFO and the reconciliation to cash flow from operating activities are set out in the table below:

For periods ended September 30, (\$000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Variance	2017	2016	Variance
Cash flow from operating activities	\$7,550	\$5,916	\$1,634	\$21,007	\$16,339	\$ 4,668
Change in non-cash working capital	171	404	(233)	1,597	2,061	(464)
Interest paid	(1,897)	(1,723)	(174)	(5,215)	(5,013)	(202)
Amortization of financing fees	(65)	(56)	(9)	(188)	(129)	(59)
Amortization of indemnification fees	(18)	(18)	-	(55)	(55)	-
Net interest expense and other financing charges in excess of interest paid	(74)	(26)	(48)	(296)	(262)	(34)
Adjusted cash flow from operations	\$5,667	4,497	\$1,170	\$16,850	\$12,941	3,909
ACFO payout ratio	92.7%	80.7%	12.0%	90.2%	84.1%	6.1%

The ACFO payout ratio of 92.7% in Q3 2017 (Q3 2016 – 80.7%) and 90.2% in YTD 2017 (YTD 2016 – 84.1%). The ACFO payout ratios in respect of Q3 2017 and YTD 2017 compared to Q3 2016 and YTD 2016 were higher as a result of the Equity Offering as describe above.

SECTION 7 – LIQUIDITY AND CAPITAL RESOURCES

Capital Structure

Debt ⁽⁶⁾	Key Terms					Outstanding as at September 30, 2017	Outstanding as at December 31, 2016
	Term (yrs)	Hedged Term (yrs)	Interest Rate	Payments & Interest/Amortization	Effective Interest Rate (fixed)		
Facility 1	(1)	2.8 to 7.8	BA + 150 bps, Prime +25 bps	(1)	3.29%	\$ 137,799	\$ 141,485
Facility 2	4.7 ⁽²⁾	2.8 to 8.7	BA + 150 bps, Prime +25 bps	(2)	3.35%	68,097	64,436
Facility 3	1.9	n/a	BA + 150 bps, Prime +50 bps	n/a	n/a	-	12,950
Mortgages	1.3 to 9.7	n/a	Fixed 3.22% to 3.72 %	P&I, 20 yrs and 25yrs	3.51%	29,701	20,328
						\$ 235,597	\$ 239,199
Financing fees						(778)	(658)
Weighted Average /Total	3.6	5.6			3.35%	\$ 234,819	\$ 238,541

Cash Balance	\$161	\$257
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Key Financing Metrics and Debt Covenants ^{(3),(6)}	Debt Covenant	Declaration of Trust ⁽⁴⁾	As at September 30, 2017	As at December 31, 2016
Interest coverage	-	-	3.9	3.4
Debt to GBV	<65% ⁽⁵⁾	<65% ⁽⁵⁾	45.8%	51.5%
Unitholders' Equity (including Class B LP Units, DUs and IDUs)	>\$120,000	-	\$276,832	218,947
Debt Service Coverage	>1.35	-	2.1	1.8
AFFO payout ratio	<100%	-	90.8%	87.4%

(1) \$109,949 of this facility matures July 2020, \$13,950 of this facility matures December 2020 and the revolving facility matures July 2018.

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

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

(4) 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.

- (5) Including convertible debentures. Excluding convertible debentures, the maximum ratio is 60%.
- (6) The debt agreements for Facility 1 and Facility 2 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 3 and the Mortgages.

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

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

Principal repayments are as follows:

Remainder of 2017	2,298
2018.....	23,196
2019.....	21,147
2020.....	115,381
2021.....	9,169
2022.....	55,584
Thereafter.....	<u>8,822</u>
Total.....	<u>\$235,597</u>

See details below regarding the Credit Facilities, Mortgages and remaining expected terms to maturity of the interest rate swaps.

Management believes that the REIT's liquidity position as at September 30, 2017, which includes approximately \$30,700 of undrawn revolving credit facilities and cash on hand of \$161, is sufficient to carry out its obligations, discharge liabilities as they come due and fund distributions to Unitholders.

Capital requirements in the next two years are low, given that there is only one mortgage for the amount of \$13,000 maturing in February 2019 and capital expenditure requirements are expected to be insignificant. Capital required for investing activities will be addressed through additional borrowings or issuances of equity as acquisition and development opportunities arise.

Debt Financing

The REIT's overall borrowing policy is to obtain secured credit facilities, principally on a fixed rate or effectively fixed rate basis, which will allow the REIT to (i) achieve and maintain staggered maturities to lessen exposure to re-financing risk in any particular period; (ii) achieve and maintain fixed rates to lessen exposure to interest rate fluctuations; and (iii) extend loan terms and fixed rate periods as long as possible when borrowing conditions are favourable. Subject to market conditions and the growth of the REIT, management currently intends to target Indebtedness of approximately 55%-60% of GBV. As at September 30, 2017, the REIT's Debt to GBV ratio was 45.8% (September 30, 2016 – 48.2%). The reduction is attributable to the repayment of outstanding debt under the REIT's revolving credit facilities from the net proceeds of the Equity Offering. Management expects that the ratio of Debt to GBV may increase, at least temporarily, following an acquisition by the REIT of one or more additional properties. Interest rates and loan maturities will be reviewed on a regular basis to ensure appropriate debt management strategies are implemented.

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

Secured Credit Facilities and Mortgages

The credit facilities described below (the “Credit Facilities”) and mortgages described below (the “Mortgages”) with Canadian Schedule 1 banks are secured by the REIT’s investment properties, excluding the VW Barrie Property and the Heritage Honda Property.

Facility 1

A non-revolving loan in the amount \$109,949 (December 31, 2016 - \$113,535) bearing interest at the bankers’ acceptance (“BA”) rate plus 150 basis points (bps) or Canadian prime rate (“Prime”) plus 25 bps, maturing in July 2020, repayable in equal quarterly principal payments, based on a 25 year amortization. The REIT entered into floating-to-fixed interest rate swaps on August 7, 2015 for terms of 3 to 10 years. On June 26, 2017, the REIT extended the maturity of one of its interest rate swaps in the amount of approximately \$27,800 from July 2018 to July 2023, which resulted in a weighted average effective interest rate of 3.31%. All other terms of the interest rate swaps remain unchanged.

An additional non-revolving loan in the amount of \$13,950 (December 31, 2016 - \$14,400) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in December 2020, repayable in equal quarterly principal payments based on a 25 year amortization. The REIT entered into a floating-to-fixed interest rate swap on December 30, 2015 for a term of 7 years which resulted in a weighted average effective interest rate of 3.17%.

A \$15,000 revolving credit facility bearing interest at Prime plus 25 bps or CDOR plus 1.00%, maturing in July 2018, of which \$13,900 was drawn as at September 30, 2017 (December 31, 2016 - \$13,550).

Facility 2

A non-revolving loan in the amount of \$68,097 (December 31, 2016 - \$56,936) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps on August 7, 2015 for terms of 3 to 10 years. On June 26, 2017, the REIT extended the maturity of Facility 2 from July 2020 to June 2022 and one of its interest rate swaps in the amount of approximately \$14,600 from July 2018 to July 2026. In addition, the REIT entered into a new floating-to-fixed interest rate swap in the amount of \$13,000 for a term of 7 years. All of which resulted in a weighted average effective interest rate of 3.35%. All other terms of the interest rate swaps remain unchanged.

A \$15,000 revolving credit facility bearing interest at Prime plus 25 bps maturing in June 2022. As at September 30, 2017, this credit facility has a balance of \$nil (December 31, 2016 – \$7,500).

Facility 3

A \$14,600 revolving credit facility bearing interest at the BA rate plus 150 bps or Prime plus 50 bps maturing in October 2019. As at September 30, 2017, this credit facility had a balance of \$nil (December 31, 2016 - \$12,950).

Mortgages

The Mortgages have interest rates that range from 3.22% to 3.72% and have maturity dates that range from February 2019 to June 2027. As at September 30, 2017, the weighted average interest rate of the Mortgages was 3.51% (December 31, 2016 – 3.40%).

Financing Fees

During YTD 2017, the REIT incurred financing fees of \$310 (December 31, 2016 - \$273) which have been paid. The amounts are accounted for using the effective interest method, and \$778 remains unamortized as at September 30, 2017 (December 31, 2016 - \$658).

Hedging Arrangements

The REIT entered into interest rate derivative contracts on August 7, 2015 and December 30, 2015 to limit its exposure to fluctuations in the interest rates payable on its variable rate financings under Facility 1 and Facility 2. 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). On June 26, 2017, the REIT extended the maturity of two of its interest rate swaps: an interest rate swap in the amount of approximately \$14,600 in respect of Facility 2 has been extended from July 2018 to July 2026 and an interest rate swap in the amount of approximately \$27,800 in respect of Facility 1 has been extended from July 2018 to July 2023, and the REIT entered into a new interest rate swap for a seven-year period on the amount of \$13,000 in respect of Facility 2.

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

Remaining Term (yrs)	Amount (\$000s)	Total Swapped Fixed Rate Debt (%)
2.8	39,214	20.4
4.8	41,972	21.9
5.2	13,950	7.3
5.8	27,487	14.3
6.7	12,924	6.7
7.8	42,020	21.8
8.7	14,430	7.6
5.6	191,997	100.0

As at September 30, 2017, the notional principal amount of the interest rate swaps was \$191,997 (December 31, 2016 - \$184,871) and the fair value adjustment of the interest rate swaps was \$3,135 and \$4,444 for the three and nine month periods ended September 30, 2017, respectively, compared to \$354 and \$(2,588) for the three and nine month periods ended September 30, 2016, respectively. The fair value adjustment resulted in an asset balance of \$1,794 (December 31, 2016 – liability balance of \$2,650).

Unitholders' Equity (including Class B LP Units)

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

REIT Units

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

Each REIT Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT, whether of net income, net realized capital gains (other than such gains allocated and distributed to redeeming holders of REIT Units) or other amounts and, in the event of the termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. All 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 (whether of net income, net realized capital gains or other amounts) if, as and when declared by the Board. Upon the termination or winding-up of the REIT, holders of REIT Units will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine.

REIT Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any REIT Units, except for Dilawri as set out in the Exchange Agreement 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.

On February 7, 2017, the REIT issued an aggregate of 4,255,000 REIT Units at a price of \$10.85 per REIT Unit in connection with a public offering of REIT Units for gross proceeds of \$46,167, which included the exercise in full of the over-allotment option granted to the underwriters, whereby an additional 555,000 REIT Units were issued at a price of \$10.85 per REIT Unit. Issuance costs of \$2,234 were netted against the gross proceeds. The Dilawri Group waived its pre-emptive right to acquire REIT Units in connection with the Equity Offering.

As at September 30, 2017, the total number of REIT Units outstanding was 16,216,000.

Class B LP Units

In conjunction with the IPO, and as partial consideration for the Initial Properties, the REIT, through the Partnership, issued Class B LP Units to certain members of the Dilawri Group. The Class B LP Units are economically equivalent to REIT Units, and are exchangeable at the option of the holder for REIT Units on a one-for-one basis (subject to certain anti-dilution adjustments), are accompanied by a special voting unit (a "Special Voting Unit") (which provides the holder with that number of votes at any meeting of holders of REIT Units to which a holder of the number of REIT Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled), and will receive distributions of cash from the Partnership equal to the distributions to which a holder of the number of REIT Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled. Under IFRS, the Class B LP Units are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in interest expense and other financing charges. 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 September 30, 2017, the total number of Class B LP Units outstanding was 9,933,253.

Deferred Units

On June 8, 2016, the Unitholders approved the adoption of the Plan. Under the Plan, DUs may be granted to Trustees, officers and employees of the REIT on a discretionary basis by the Governance, Compensation and Nominating Committee. The maximum number of REIT Units available for issuance under the Plan is 500,000. Each DU is economically equivalent to one REIT Unit, however, under no circumstances shall DUs be considered REIT Units nor entitle a participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU shall receive a distribution of additional IDUs equal to the amount of distributions paid per REIT Unit by the REIT on its REIT Units. Upon vesting of the DUs and IDUs, a participant may elect, prior to the expiry of such DU or IDU, to exchange such vested DUs and IDUs (subject to satisfaction of any applicable withholding taxes) whereby the REIT will issue to the participant an equal number of REIT Units in exchange for the DUs and IDUs. The holder of such DUs and IDUs cannot settle such DUs and IDUs for cash.

For YTD 2017 a total of 69,023 DUs and IDUs were granted, of which 22,772 DUs and IDUs will accounted for in accordance with the vesting schedule. As at September 30, 2017, the total number of DUs and IDUs granted was 76,451 of which 53,679 were outstanding and fully vested.

Distributions

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

REIT Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any REIT Units, except for Dilawri as set out in the Exchange Agreement, or as otherwise agreed to by the REIT pursuant to a binding written agreement.

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

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

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

Financing Metrics and Debt Covenants

The calculations management's financial metrics and debt covenants are set out in the table below:

<i>Calculations of financial metrics and debt covenants</i>		As at September 30, 2017	As at December 31, 2016
Net Asset Value			
Investment properties, IFRS value		\$510,339	\$461,809
Cash, prepaid and other assets		4,279	2,529
Accounts payable and accrued liabilities		(2,967)	(4,200)
Credit Facilities, Mortgages and interest rate swaps		<u>(234,819)</u>	<u>(241,191)</u>
Total Net Asset Value		\$276,832	\$218,947
REIT Units and Class B LP Units outstanding (thousands)		26,149	21,894
Debt to GBV			
<i>Indebtedness outstanding :</i>			
Credit Facilities (excludes deferred financing costs)	A	\$235,597	\$239,199
<i>Gross Book Value</i>			
Total assets	B	514,618	464,338
Debt to GBV ⁽¹⁾	(A/B) X 100	45.8%	51.5%
Unitholders' Equity & Class B LP Units & DUs & IDUs			
Unitholders' Equity		\$166,876	\$112,781
Value of DUs & IDUs		591	79
Value of Class B LP Units		<u>109,365</u>	<u>106,087</u>
Total Unitholders' Equity & Class B LP Units & DUs & IDUs		276,832	218,947

Calculations of financial metrics and debt covenants					
Interest coverage		Q3 2017	Q3 2016	YTD 2017	YTD 2016
Cash NOI		\$8,293	\$6,649	\$24,047	\$19,729
General and administrative expenses		<u>(576)</u>	<u>(507)</u>	<u>(1,683)</u>	<u>(1,518)</u>
Income before interest expense and fair value adjustments	C	7,717	6,142	22,364	18,211
Interest expense and other financing charges	D	2,036	1,805	5,699	5,404
Interest Coverage Ratio ⁽²⁾	C/D	3.8X	3.4X	3.9X	3.4X
Debt Service Coverage					
Consolidated net income (loss)		\$12,729	\$1,171	\$19,655	\$(11,030)
Interest expense and other financing charges		2,036	1,805	5,699	5,404
Distribution expense on Class B LP Units		1,997	1,997	5,991	5,991
Amortization of indemnity fee		18	18	55	55
Fair value adjustments, net		<u>(8,321)</u>	<u>1,822</u>	<u>(6,764)</u>	<u>19,920</u>
EBITDA	E	8,459	6,813	24,636	20,340
Principal payments on fixed debt		2,228	2,339	6,500	6,308
Interest payments on debt (excludes bank charges)		<u>1,944</u>	<u>1,748</u>	<u>5,463</u>	<u>5,274</u>
Debt Service	F	4,172	4,087	11,963	11,582
Debt Service Ratio ⁽³⁾	E/F	2.0 X	1.7 X	2.1 X	1.8 X
AFFO payout ratio					
AFFO		<u>5,811</u>	<u>4,375</u>	<u>17,015</u>	<u>13,031</u>
Distributions on REIT Units		3,259	1,889	9,493	5,154
Distributions on Class B LP Units		<u>1,997</u>	<u>1,997</u>	<u>5,991</u>	<u>5,991</u>
AFFO payout ratio ⁽⁴⁾		90.5%	85.2%	90.8%	84.3%

(1) The Debt to GBV ratio as at September 30, 2017 decreased compared to December 31, 2016 primarily due to the net proceeds from the Equity Offering which were used to pay down the revolving credit facilities.

(2) The Interest Coverage Ratio for Q3 2017 and YTD 2017 increased from the same periods in the previous year due to the increase in the Cash NOI from the properties acquired subsequent to Q3 2016.

(3) The Debt Service Ratio for Q3 2017 and YTD 2017 is higher than the same periods in the previous year, mainly due to the repayment of outstanding indebtedness under the revolving credit facilities.

(4) The AFFO payout ratio is calculated as distributions per 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 September 30, 2017, held an approximate 38% effective interest in the REIT on a fully diluted basis, through its ownership of all of the issued and outstanding Class B LP Units.

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

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

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

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. If the Dilawri Group continues to hold all of the 9,933,253 issued and outstanding Class B LP Units for 3 years subsequent to the IPO, the letters of credit are expected to be released.

Administration Agreement

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

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

Effective July 1, 2016, subject to the provisions above, Dilawri provided these services to the REIT on a cost-recovery basis, reflecting Dilawri's actual costs in providing such services. The REIT will reimburse Dilawri for costs incurred in connection with the provision of the above services so long as such costs are identified in the then current annual budget of the REIT or are otherwise approved by the REIT.

The term of the Administration Agreement is for five years commencing on closing of the IPO and will be automatically renewed for further one-year terms, provided that the Administration Agreement or any of the services thereunder may be terminated by the REIT at any time during the term upon 90 days' prior written notice to Dilawri, or in the event of a material breach or material default of Dilawri's obligations under the Administration Agreement or insolvency of Dilawri, in all cases without payment of any termination fees. Dilawri has the right to terminate the Administration Agreement upon not less than 180 days' prior written notice to the REIT once the REIT's fully-diluted market capitalization based on the volume weighted average price of the REIT Units on the principal exchange or market on which the REIT Units are listed or quoted for trading over a 20 business day period exceeds \$500,000 or

in the event of a material breach or material default of the REIT's obligations under the Administration Agreement or insolvency of the REIT, in all cases without payment of any termination fees.

For clarity, the REIT's independent Trustees may terminate the Administration Agreement in part in respect of one or more particular services, in each case, upon 90 days' prior written notice, without payment of any termination fees. As part of any termination of the Administration Agreement, the REIT will be permitted to solicit employees of the Dilawri Group who provide services to the REIT under the Administration Agreement.

Management expects the scope of the services to be provided pursuant to the Administration Agreement to decrease over time as the REIT develops the capacity and financial wherewithal to undertake more of the services internally and transitions to directly employing its President and Chief Executive Officer, Chief Financial Officer and Corporate Secretary and other senior management.

General and administrative expenses include \$251 and \$739 for Q3 2017 and YTD 2017, respectively, (Q3 2016 - \$210, YTD 2016 - \$560) 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. The Strategic Alliance Agreement provides, among other things, that (i) subject to certain exceptions, the REIT has the right to purchase any property in Canada or the United States acquired by a member of the Dilawri Group that Dilawri determines, acting reasonably, to be a REIT-Suitable Property (as defined in the Strategic Alliance Agreement), and any property owned by a member of the Dilawri Group that a member of the Dilawri Group develops, redevelops, refurbishes, or repositions into a property that Dilawri determines, acting reasonably, is a REIT-Suitable Property, each on terms (including the terms of the lease pursuant to which the applicable member of the Dilawri Group will lease the relevant property from the REIT) and at prices to be agreed between the REIT and Dilawri, (ii) subject to certain exceptions, Dilawri has a right of first offer to purchase any property owned by the REIT in which a member of the Dilawri Group is a tenant or which the REIT acquired from a member of the Dilawri Group or pursuant to the Strategic Alliance Agreement that the REIT seeks to sell or otherwise dispose of on terms and at prices to be agreed between the REIT and Dilawri, (iii) without the prior written approval of a majority of the REIT's independent Trustees, subject to certain exceptions, Dilawri and its directors and executive officers will not be permitted during the term of the Strategic Alliance Agreement, directly or indirectly, to create another real estate investment trust or publicly-traded real estate business with investment criteria similar to that of the REIT or materially engage (contractually or otherwise) with another real estate investment trust or publicly-traded real estate business with investment criteria similar to that of the REIT, except in the normal course of business to lease or acquire property for use by Dilawri or its directors or executive officers, as applicable, and (iii) during the term of the Strategic Alliance Agreement, neither the REIT nor Dilawri will intentionally solicit any specific tenant of a property that is owned by the other to vacate that property in favour of a property in which it has an ownership or operating interest and that the Dilawri Group will not intentionally solicit any employee of the REIT.

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 2017:

- On March 31, 2017, the REIT acquired the VW Barrie Property for approximately \$8,850, from a member of the Dilawri Group and leased it to a Dilawri Tenant.
- On April 7, 2017, the REIT acquired the Heritage Honda Property for approximately \$23,600 from a member of the Dilawri Group and leased it to a Dilawri Tenant.

Refer to the AIF for additional information on related party agreements and arrangements with Dilawri.

SECTION 9 – OUTLOOK

The Canadian automotive retail industry is a large and stable business with a track record of long-term growth. At approximately 6.7% of Gross Domestic Product (“GDP”) in 2016, the automotive retail industry is the largest component of retail sales and merchandise in Canada. Over the last 20 years, Canadian automobile retail sales grew at a compound annual rate of 4.5%. For calendar year 2016, sales of new automobiles were up 2.3% to 1,983,745 units, compared to 1,939,517 units for 2015, which was itself a record year for automobile sales in Canada (*Source: Statistics Canada*). For the eight months ended August 31, 2017, this steady growth continued, with sales of new automobiles up 5.3% to 1,428,825 units, compared to 1,357,468 units for the eight months ended August 31, 2016 (*Source: Statistics Canada*). Management expects continued steady sales levels for 2017.

Management believes that the stable and growing sales levels within the Canadian automotive retail sector support the ability of the automobile dealership tenants within the REIT’s portfolio to meet their current lease obligations and the contractual annual rent escalations in place. Further, given the large size of the industry, there are opportunities for the REIT to acquire additional properties on an accretive basis. The Canadian automotive dealership industry is highly fragmented. The top 10 dealership groups in aggregate comprise less than 10% of the overall market. There are more than 3,100 automobile dealerships that fall outside this group of larger multi-location operators.

Industry consolidation is now gaining momentum. According to Desrosiers Automotive Consultants, from 2009 to 2013, the number of groups with five or more automobile dealerships increased by 24%. This consolidation trend is being driven by the increasing sophistication of the auto dealership business, growing capital requirements and economies of scale. The REIT has been actively expanding its automotive dealer and industry relationships to build its acquisition pipeline.

As the only publicly traded Canadian real estate entity focused on owning automotive dealership properties, the REIT provides a unique opportunity for automotive dealership owners to monetize the real estate underlying their dealerships while retaining ownership and control of their core automotive dealership businesses. This provides them with liquidity to advance their individual strategic objectives, whether it be succession planning, directly investing in upgrading their dealerships, or facilitating acquisitions in this period of industry consolidation. Finally, the REIT has a right of first offer to acquire any REIT-suitable properties that Dilawri acquires or develops. The REIT’s Debt to GBV of 45.8%, provides the REIT with the capacity to acquire approximately \$100,000 of additional properties in the future.

As previously disclosed by the REIT, at the beginning of 2017 the Dilawri Group had two remaining properties under development which represented an aggregate of approximately 79,000 square feet of GLA, consisting of the VW Barrie Property and the Heritage Honda Property. These properties were acquired by the REIT on March 31, 2017 and April 7, 2017, respectively, and leased to members of the Dilawri Group.

SECTION 10 – OTHER DISCLOSURES

Commitments and Contingencies

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

The REIT, as lessee, is committed under long-term land leases that are classified as operating leases with expiry dates to 2033 with minimum annual rentals as follows:

Within 1 year.....	\$576
After 1 year, but not more than 5 years.....	2,524
More than 5 years.....	<u>8,515</u>
Total.....	<u>\$11,615</u>

Disclosure Controls and Internal Controls over Financial Reporting

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

There have been no changes to the REIT's ICFR during Q3 2017 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR. Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the REIT intends to take whatever steps are necessary to minimize the consequences thereof.

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

SECTION 11 – QUARTERLY RESULTS OF OPERATIONS

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

Selected Quarterly Information

(\$ thousands except where otherwise indicated)	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016	Third Quarter 2016	Second Quarter 2016	First Quarter 2016	Fourth Quarter 2015
Number of Properties	35	35	34	32	30	29	29	28
GLA (sq. ft.)	1,366,367	1,366,367	1,307,454	1,270,202	1,146,684	1,077,773	1,077,773	1,052,828
Rental revenue	10,599	10,467	9,881	9,127	8,538	8,302	8,308	7,498
Net Operating Income	9,017	8,988	8,259	7,683	7,302	7,266	7,235	6,518
Net Income (loss)	12,729	5,793	1,132	5,643	1,171	(2,530)	(9,673)	15,653
FFO per unit – basic ⁽ⁱ⁾	0.245	0.250	0.244	0.229	0.269	0.269	0.279	0.247
FFO per unit – diluted ⁽ⁱⁱ⁾	0.244	0.249	0.244	0.229	0.269	-	-	-
AFFO per unit – basic ⁽ⁱ⁾	0.222	0.224	0.219	0.210	0.236	0.240	0.239	0.211
AFFO per unit – diluted ⁽ⁱⁱ⁾	0.222	0.223	0.219	0.210	0.236	-	-	-
AFFO payout ratio	90.5%	90.1%	91.8%	95.7%	85.2%	83.8%	84.1%	95.3%
Distribution declared per unit	0.201	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Units outstanding (including Class B LP Units)	26,149,253	26,149,253	26,149,253	21,894,253	21,894,253	18,053,253	18,053,253	18,053,253
Total assets	514,618	507,814	482,625	464,338	430,294	407,366	407,201	393,839
Debt to total assets	45.8%	46.5%	43.9%	51.5%	48.2%	55.6%	55.9%	55.0%
Debt service coverage	2.0x	2.1x	2.0x	1.8x	1.7x	1.8x	1.8x	1.8x

(i) 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 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 2017.

(ii) 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 September 30, 2017. The 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 2017.

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

SECTION 12 – RISKS & UNCERTAINTIES, CRITICAL JUDGEMENTS & ESTIMATES

The risks inherent in the REIT's business are identified in the REIT's Management's Discussion and Analysis for the year ended December 31, 2016 and in its current AIF, all of which remain unchanged at the date of this MD&A and are available at www.sedar.com.

APPENDIX

Property List as at September 30, 2017

Name	Address	City/ Province	Year Built /Renov.	GLA
Properties (as at September 30, 2017)				
1. Dixie Auto Mall ⁽¹⁾				
Dilawri-Owned Auto				
Volkswagen	5500 Ambler Drive	Mississauga, ON	1988/2011	39,209
Nissan	5500 Dixie Road	Mississauga, ON	1988/2001	26,369
Mazda	5500 Ambler Drive	Mississauga, ON	1987/2014	16,713
Infiniti	5500 Ambler Drive	Mississauga, ON	1988/2014	14,592
Mitsubishi	5525 Ambler Drive	Mississauga, ON	1998	8,000
Third Party Auto				
Ancillary-other (formerly Toyota)	5500 Dixie Road	Mississauga, ON	1987	22,078
Ancillary-other (formerly Honda)	5500 Dixie Road	Mississauga, ON	1987	17,735
Kia	5505 Ambler Drive	Mississauga, ON	2002/2006	13,890
Hyundai	5515 Ambler Drive	Mississauga, ON	1998	9,345
Third Party Retail				
Montana's	1495 Aerowood Drive	Mississauga, ON	2017	5,150
Kelsey's	1485 Aerowood Drive	Mississauga, ON	2017	5,000
A&W	1465 Aerowood Drive	Mississauga, ON	2016	4,000
Subway/NY Fries	1475 Aerowood Drive	Mississauga, ON	1999/2011/2012	2,200
Enterprise Rent-a-Car	1475 Aerowood Drive	Mississauga, ON	1999/2011/2012	2,000
Made in Japan	1475 Aerowood Drive	Mississauga, ON	1999/2011/2012	1,875
Dixie Auto Mall Total				188,156
2. Markham Honda and Ford				
Dilawri-Owned Auto				
Markham Honda	8220 Kennedy Road	Markham, ON	2004	32,723
Third Party Auto				
Markville Ford Lincoln	8210 Kennedy Road	Markham, ON	1988/2010	39,287
Markham Honda and Ford Total				72,010
3. Calgary BMW	34 Heritage Meadows Road S.E.	Calgary, AB	2007	87,724
4. Calgary Honda	11700 Lake Fraser Dr S.E.	Calgary, AB	2005	43,511
5. Triple 7 Chrysler	700 Broad Street	Regina, SK	1959/2011	40,957
6. Porsche Centre Vancouver	688 Terminal Avenue	Vancouver, BC	2013	39,790
7. Frost Chevrolet Buick GMC Cadillac	150 Bovaird Drive West	Brampton, ON	2013	35,504
8. Honda Used Car and Regina Collision Centre	815 Broad Street	Regina, SK	2012/2015	32,457
9. Oakville Honda	500 Iroquois Shore Road	Oakville, ON	2003/2006	33,334
10. Markham Acura	5201 Highway 7 E	Markham, ON	2002	32,025
11. Regina Honda/Acura	789 Broad Street	Regina, SK	2003/2015	30,863
12. Agincourt Mazda	5500 Finch Avenue E	Toronto, ON	2005	30,788
13. Dilawri Nissan Infiniti	1775 5th Avenue	Regina, SK	1998/2015	30,864
14. Audi Sales Downtown Vancouver	1788 West 2nd Avenue	Vancouver, BC	2013	29,300
15. Meadowvale Honda	2210 Battleford Road	Mississauga, ON	2007	28,039
16. Burrard Acura ⁽²⁾	730 Terminal Avenue	Vancouver, BC	2015	27,640
17. Langley Acura ⁽²⁾	20257 Langley Bypass	Langley, BC	2015	26,448
18. Distinctive Collection	150 Glendeer Circle S.E.	Calgary, AB	1988/2008	24,367

19. Bolton Toyota	12050 Albion Vaughan Road	Bolton, ON	2004	22,741
20. Hyundai Gallery	11770 Lake Fraser Dr S.E.	Calgary, AB	2006	22,185
21. North Vancouver Nissan Infiniti	819 Automall Drive	N. Vancouver, BC	1992/2002	19,050
22. Regina Hyundai	444 Broad Street	Regina, SK	2005	18,204
23. Dilawri BMW	1919 1st Avenue	Regina, SK	1997	12,456
24. Infiniti Vancouver	1718 West 3rd Avenue	Vancouver, BC	1999	11,722
25. Ancillary-other 1921 1 st Avenue (formerly Dilawri Acura)	1921 1st Avenue	Regina, SK	1997	11,390
26. Dilawri Mitsubishi	1750 6th Avenue	Regina, SK	1993/2003	6,750
27. Toyota Woodland	1000-1009 Woodland Avenue	Montreal, QC	2007/2008	49,737
28. Porsche Centre Edmonton and Jaguar Land Rover Edmonton ⁽³⁾	17007 111th Avenue N.W.	Edmonton, AB	2014	44,779
29. Audi Barrie	2482 Doral Drive	Innisfil, ON	2015	24,982
30. Pfaff Audi ⁽³⁾	9088 Jane Street	Vaughan, ON	2006	68,874
31. St. Bruno Audi and Volkswagen	1905&1917 Boulevard Sir Wilfrid Laurier	St. Bruno, QC	1987/2014	62,705
32. Mercedes Benz West Island	4525 Boulevard Saint-Jean	Montreal, QC	2016	60,850
33. Go Mazda ⁽³⁾	9704 & 9710 35 Avenue N.W.	Edmonton, AB	2006/2017	17,150
34. Volkswagen Barrie	60 Fairview Road & 5 Little Avenue	Barrie, ON	2017	20,102
35. Heritage Honda	11609- 40 Street SE	Calgary, AB	2016	58,913
Portfolio Total				1,366,367

Notes:

- (1) Does not take into effect the tenant notice of termination and relocations described under Section 3 "Property Portfolio – Portfolio Overview" in this MD&A.
- (2) The REIT has a leasehold interest in this property.
- (3) The REIT has leased this property to a third party tenant unrelated to the Dilawri Group.



Automotive Properties Real Estate Investment Trust
Condensed Consolidated Interim Financial Statements
For the period ended September 30, 2017

Automotive Properties REIT

Condensed Consolidated Interim Balance Sheets (Unaudited)

<i>(in thousands of Canadian dollars)</i>		As at September 30, 2017	As at December 31, 2016
	Note		
ASSETS			
Cash and cash equivalents		\$161	\$257
Prepaid expenses and other assets	4	2,324	2,272
Interest rate swaps	5	1,794	-
Investment properties	3	510,339	461,809
Total assets		\$514,618	\$464,338
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	6	\$2,967	\$4,200
Credit facilities and Mortgages	5	234,819	238,541
Interest rate swaps	5	-	2,650
Deferred Units and Income Deferred Units	9	591	79
Class B LP Units	8	109,365	106,087
Total liabilities		347,742	351,557
Unitholders' equity		166,876	112,781
Total liabilities and unitholders' equity		\$514,618	\$464,338

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)

<i>(in thousands of Canadian dollars)</i>		Three months ended September 30,		Nine months ended September 30,	
	Note	2017	2016	2017	2016
Net Property Income					
Rental revenue from investment properties	10	\$10,599	\$8,538	\$30,947	\$25,147
Property costs	10	(1,582)	(1,236)	(4,683)	(3,344)
Net Operating Income		9,017	7,302	26,264	21,803
Other Income (Expenses)					
General and administrative expenses		(576)	(507)	(1,683)	(1,518)
Interest expense and other financing charges		(2,036)	(1,805)	(5,699)	(5,404)
Fair value adjustment on interest rate swaps	5	3,135	354	4,444	(2,588)
Distribution expense on Class B LP Units	7	(1,997)	(1,997)	(5,991)	(5,991)
Fair value adjustment on Class B LP Units and Deferred Units	8, 9	900	(5,066)	(3,280)	(22,549)
Fair value adjustment on investment properties	3	4,286	2,890	5,600	5,217
Net Income (Loss) and Comprehensive Income (Loss)		\$12,729	\$1,171	\$19,655	\$(11,030)

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 nine months ended September 30, 2017

(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2016		\$111,000	\$12,238	\$(10,457)	\$112,781
Issuance of Units	8	43,933	-	-	43,933
Net Income		-	19,655	-	19,655
Distributions	7	-	-	(9,493)	(9,493)
Unitholders' Equity at September 30, 2017		\$154,933	\$31,893	\$(19,950)	\$166,876

For the nine months ended September 30, 2016

(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income (loss)	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2015		\$72,794	\$17,625	\$(2,899)	\$87,520
Issuance of Units	8	38,206	-	-	38,206
Net Income		-	(11,030)	-	(11,030)
Distributions	7	-	-	(5,154)	(5,154)
Unitholders' Equity at September 30, 2016		\$111,000	\$6,595	\$(8,053)	\$109,542

See accompanying notes to the condensed consolidated interim financial statements.

Automotive Properties REIT

Condensed Consolidated Interim Statements of Cash Flow (Unaudited)

		Three months ended September 30,	Nine months ended September 30,
(in thousands of Canadian dollars)	Note	2017	2016
OPERATING ACTIVITIES			
Net income (loss)		\$12,729	\$1,171
Straight-line rent		(724)	(653)
Non-cash compensation expense		130	38
Fair value adjustment on interest rate swaps		(3,135)	(354)
Distributions expense on Class B LP Units		1,997	1,997
Fair value adjustment on Class B LP Units and Deferred Units		(900)	5,066
Fair value adjustment on investment properties		(4,286)	(2,890)
Interest expense and other charges		1,971	1,749
Amortization of financing fees		65	56
Amortization of other assets		18	18
Change in non-cash operating accounts	16	(315)	(282)
Cash Flow from operating activities		7,550	5,916
INVESTING ACTIVITIES			
Acquisitions of investment properties		-	(17,473)
Cash Flow used in investing activities		-	(17,473)
FINANCING ACTIVITIES			
Proceeds from Credit Facilities and Mortgages		2,800	-
Principal repayment on Credit Facilities and Mortgages		(3,127)	(19,389)
Interest paid	16	(1,897)	(1,723)
Financing fees paid		(127)	(13)
Issuance of Units		-	40,330
Issuance costs		-	(2,124)
Distributions to REIT unitholders and Class B LP unitholders		(5,256)	(3,629)
Cash Flow from/(used in) financing activities		(7,607)	13,452
Net increase (decrease) in cash and cash equivalents during the period		(57)	1,895
Cash and cash equivalents, beginning of period		218	173
Cash and cash equivalents, end of period		161	2,068

See accompanying notes to the condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three and nine months ended September 30, 2017 and 2016
(in thousands of Canadian dollars, except Unit and per Unit amounts)

1. NATURE OF OPERATIONS

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

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, held an approximate 38% effective interest in the REIT as at September 30, 2017, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"). The Class B LP Units are economically equivalent to, and exchangeable for, Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

The REIT commenced operations on July 22, 2015 following completion of an initial public offering of Units (the "IPO"). In connection with the 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 September 30, 2017, the REIT owned a portfolio of 35 income-producing commercial properties, including the Initial Properties, located in Ontario, Saskatchewan, Alberta, British Columbia and Quebec, totaling approximately 1.4 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 32 of the REIT's 35 investment properties.

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

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of Compliance

The 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 2016 audited annual consolidated financial statements and the accompanying notes thereto. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Trustees of the REIT (the "Board") on November 9, 2017.

(b) Basis of Presentation

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

- investment properties as described in note 3;
- interest rate swaps as described in note 5;
- Class B LP Units which are exchangeable for Units at the option of the holder as described in note 8; and
- Deferred Units ("DUs") and Income Deferred Units ("IDUs") which are exchangeable for Units in accordance with their terms as described in note 9.

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

(c) Changes in Accounting Standards

The REIT implemented the amendments to IAS 7, “Statement of Cash Flows”, in the first quarter of 2017 to provide disclosure on changes arising from financing activities, including both cash and non-cash flows changes.

(d) Basis of Consolidation

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

(e) Future accounting standards

In July 2014, the IASB issued the final version of IFRS 9 — *Financial Instruments* (“IFRS 9”) which brings together the classification and measurement, impairment and hedge accounting phases of the IASB’s project to replace IAS 39 — *Financial Instruments: Recognition and Measurement*. The key elements of the final standard are as follows: *Classification and measurement* — introduces a logical approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held. *Impairment* — introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. IFRS 9 also includes new disclosure requirements relating to expected credit losses and credit risk. *Hedge accounting* — introduces a substantially reformed model for hedge accounting that more closely aligns with risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. *Own credit* — removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity’s own credit risk on such liabilities are no longer recognized in profit or loss and are instead recognized in other comprehensive income (loss). IFRS 9 will be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT has determined that there will be no significant changes to its consolidated financial statements except for note disclosures as a result of adopting this standard.

In May 2014, the IASB issued IFRS 15 — *Revenue from Contracts with Customers* (“IFRS 15”), which replaces IAS 11 — *Construction Contracts* and IAS 18 — *Revenue*, as well as various other interpretations regarding revenue. IFRS 15 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers, except for contracts that are within the scope of the standards on leases, insurance contracts and financial instruments. IFRS 15 also contains enhanced disclosure requirements. IFRS 15 will be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted. The REIT has determined that there will be no significant changes to its consolidated financial statements as a result of adopting this standard.

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

3. INVESTMENT PROPERTIES

As at	September 30, 2017	December 31, 2016
Balance, beginning of period	\$461,809	\$389,650
Acquisitions during the period	40,713	64,129
Fair value adjustment on investment properties	5,600	5,316
Straight-line rent	2,217	2,714
Balance, end of period	\$510,339	\$461,809

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. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which indicate a decrease in capitalization rates in the Vancouver and Calgary markets which were partially offset by a capitalization rate increase for the Regina market for the three month period ended September 30, 2017. The overall implied capitalization rate applicable to the entire portfolio remained at 6.5%, which is equivalent to the REIT's overall assessment as at September 30, 2017.

A 25 basis point decrease or increase in capitalization rates would result in an increase or decrease in the fair value of investment properties of approximately \$20,468 or (\$18,948), respectively.

Rental Commitments

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

Within 1 year	\$33,998
After 1 year, but not more than 5 years	139,199
More than 5 years	328,945
	<u>\$502,142</u>

One of the Initial Properties includes an industrial property with approximately 53,000 square feet of gross leasable area which was not included as part of the REIT's Initial Properties as it is not an asset over which the REIT has control or beneficial interest. This property was acquired by the REIT for nominal consideration on July 22, 2015. This property has been leased to a Dilawri Tenant for nominal consideration. On September 22, 2017, the property was transferred back to the Dilawri Group for the same nominal consideration.

During the nine months ended September 30, 2017, the REIT completed the following acquisitions:

Property	Location	Date of Acquisition	Total Investment Properties ⁽¹⁾	Funding		
				Debt Financing	Payables	Cash
Go Mazda ⁽ⁱ⁾	Edmonton, AB	March 22	\$8,040	\$-	\$28	\$8,012
VW Barrie ⁽ⁱⁱ⁾	Barrie, ON	March 31	\$9,063	\$8,120	\$927	\$16
Heritage Honda ⁽ⁱⁱⁱ⁾	Calgary, AB	April 7	\$23,610	\$23,556	\$-	\$54
Total Acquisitions			\$40,713	\$31,676	\$955	\$8,082

⁽¹⁾ Includes acquisition costs.

(i) On March 22, 2017, the REIT acquired the real estate underlying the Go Mazda dealership located in Edmonton, Alberta (the "Go Mazda Property"), for approximately \$8,000 plus acquisition costs of \$40, from a third party. The Go Mazda Property is a 17,150 square foot full-service automotive dealership property.

- (ii) On March 31, 2017, the REIT acquired the real estate underlying the Volkswagen dealership located in Barrie, Ontario (the "VW Barrie Property"), for approximately \$8,850 plus acquisition costs of \$213, from the Dilawri Group. The VW Barrie Property is a 20,102 square foot full-service automotive dealership property.
- (iii) On April 7, 2017, the REIT acquired the real estate underlying the Heritage Honda dealership located in Calgary, Alberta (the "Heritage Honda Property"), for approximately \$23,556 plus acquisition costs of \$54, from a member of the Dilawri Group. The Heritage Honda Property is a 58,913 square foot full-service automotive dealership property.

During the year ended December 31, 2016, the REIT completed the following acquisitions:

Property	Location	Date of Acquisition	Total Investment Properties ⁽¹⁾	Consideration		
				Debt Financing	Payables	Cash
Audi Barrie	Barrie, ON	January 14	\$11,455	\$ -	\$ -	\$11,455
Pfaff Audi	Vaughan, ON	September 20	17,485	-	-	17,485
St. Bruno Audi & VW	St. Bruno, QC	December 8	14,573	11,250	273	3,050
MB West Island	West Island, QC	December 22	20,616	20,250	353	13
Total Acquisitions			\$64,129	\$31,500	\$626	\$32,003

⁽¹⁾ Includes acquisition costs.

4. PREPAID EXPENSES AND OTHER

As at	September 30, 2017	December 31, 2016
Prepaid indemnity fee	\$839	\$894
Recoverable land transfer taxes ⁽ⁱ⁾	896	896
Prepaid other	589	482
	\$2,324	\$2,272

(i) This amount was paid to Dilawri as part of the purchase price with respect to the recoverable land transfer taxes associated with the acquisition of the Initial Properties.

5. CREDIT FACILITIES AND MORTGAGES

(a) Credit Facilities and Mortgages consists of:

As at	September 30, 2017	December 31, 2016
Facility 1 ⁽ⁱ⁾	\$137,799	\$141,485
Facility 2 ⁽ⁱⁱ⁾	68,097	64,436
Facility 3 ⁽ⁱⁱⁱ⁾	-	12,950
Mortgages ^(iv)	29,701	20,328
Total	\$235,597	\$239,199
Financing fees ^(v)	(778)	(658)
	\$234,819	\$238,541

(i) Facility 1 includes:

A non-revolving loan in the amount \$109,949 (December 31, 2016 - \$113,535) bearing interest at the bankers' acceptance ("BA") rate plus 150 basis points (bps) or Canadian prime rate ("Prime") plus 25 bps, maturing in July 2020, repayable in equal quarterly principal payments, based on a 25 year amortization. The REIT entered into floating-to-fixed interest rate swaps on August 7, 2015 for terms of 3 to 10 years. On June 26, 2017, the REIT extended the maturity of one of its interest rate swaps in the amount of approximately \$27,800 from July 2018 to July 2023, which resulted in a weighted average effective interest rate of 3.31%. All other terms of the interest rate swaps remain unchanged.

A non-revolving loan in the amount of \$13,950 (December 31, 2016 - \$14,400) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in December 2020, repayable in equal quarterly principal payments based on a 25 year amortization. The REIT entered into a floating-to-fixed interest rate swap on December 30, 2015 for a term of 7 years which resulted in a weighted average effective interest rate of 3.17%.

A \$15,000 revolving credit facility bearing interest at Prime plus 25 bps or CDOR plus 1.00%, maturing in July 2018, of which \$13,900 was drawn as at September 30, 2017 (December 31, 2016 - \$13,550).

(ii) Facility 2 includes:

A non-revolving loan in the amount of \$68,097 (December 31, 2016 - \$56,936) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps on August 7, 2015 for terms of 3 to 10 years. On June 26, 2017, the REIT extended the maturity of Facility 2 from July 2020 to June 2022 and one of its interest rate swaps in the amount of approximately \$14,600 from July 2018 to July 2026. In addition, the REIT entered into a new floating-to-fixed interest rate swap in the amount of \$13,000 for a term of 7 years. All the above resulted in a weighted average effective interest rate of 3.35%. All other terms of the interest rate swaps remain unchanged.

A \$15,000 revolving credit facility bearing interest at Prime plus 25 bps maturing in June 2022. As at September 30, 2017, this credit facility had a balance of \$nil (December 31, 2016 - \$7,500).

(iii) Facility 3 includes:

A \$14,600 revolving credit facility bearing interest at the BA rate plus 150 bps or Prime plus 50 bps maturing in October 2019. As at September 30, 2017, this credit facility had a balance of \$nil (December 31, 2016 - \$12,950).

(iv) Mortgages:

The mortgages have interest rates that range from 3.22% to 3.72% and have maturity dates that range from February 2019 to June 2027. As at September 30, 2017, the weighted average interest rate of the mortgages was 3.51% (December 31, 2016 - 3.40%).

(v) During the nine month period ended September 30, 2017, the REIT incurred financing fees of \$310 (December 31, 2016 - \$273). The amounts are accounted for using the effective interest method, and \$778 remains unamortized as at September 30, 2017 (December 31, 2016 - \$658).

The credit facilities and mortgages described above are secured by the REIT's investment properties except for the VW Barrie Property and the Heritage Honda Property.

Principal repayments are as follows:

Remainder of 2017	2,298
2018	23,196
2019	21,147
2020	115,381
2021	9,169
2022	55,584
Thereafter	8,822
Total	<u>\$235,597</u>

(b) Interest Rate Swaps

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on variable rate financings for Facility 1 and Facility 2. 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 5(a)(i) and (ii) above).

As at September 30, 2017, the notional principal amount of the interest rate swaps was \$191,997 (December 31, 2016 - \$184,871) and the fair value adjustment of the interest rate swaps was \$3,135 and \$4,444 for the three and nine month periods ended September 30, 2017, respectively, compared to \$354 and \$(2,588) for the three and nine month periods ended September 30, 2016, respectively. The fair value adjustment resulted in an asset balance of \$1,794 (December 31, 2016 – liability balance of \$2,650).

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	September 30, 2017	December 31, 2016
Accounts payable and accrued liabilities	\$919	\$2,508
Accrued interest	296	225
Distributions payable (Note 7)	1,752	1,467
	\$2,967	\$4,200

7. DISTRIBUTIONS

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Paid in Cash	\$3,259	\$1,997	\$5,256	\$1,632	\$1,997	\$3,629
Declared	\$3,259	\$1,997	\$5,256	\$1,889	\$1,997	\$3,886
Payable as at period end	\$1,086	\$666	\$1,752	\$801	\$666	\$1,467

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
Paid in Cash	\$9,207	\$5,991	\$15,198	\$4,895	\$5,991	\$10,886
Declared	\$9,493	\$5,991	\$15,484	\$5,154	\$5,991	\$11,145
Payable as at period end	\$1,086	\$666	\$1,752	\$801	\$666	\$1,467

8. UNITHOLDERS' EQUITY AND CLASS B LP UNITS

Units

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

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

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

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

Class B LP Units

In conjunction with the IPO, and as partial consideration for the Initial Properties, the REIT, through the Partnership, issued Class B LP Units to certain members of the Dilawri Group. Each Class B LP Unit is exchangeable at the option of the holder for one Unit (subject to certain anti-dilution adjustments), is accompanied by a special voting unit ("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 nine months ended September 30, 2017

	Units	Amount
Units, beginning of period	11,961,000	\$111,000
Units issued, net of costs	3,700,000	38,152
Over-allotment option, net of costs	555,000	5,781
Total Units, end of period	16,216,000	\$154,933
Class B LP Units, beginning of period	9,933,253	\$106,087
Fair value adjustment on Class B LP Units	-	3,278
Total Class B LP Units, end of period	9,933,253	\$109,365
Total Units and Class B LP Units, end of period	26,149,253	\$264,298

For the year ended December 31, 2016

	Units	Amount
Units, beginning of year	8,120,000	\$72,794
Units issued, net of costs	3,340,000	33,156
Overallotment, net of costs	501,000	5,050
Total Units, end of year	11,961,000	\$111,000
Class B LP Units, beginning of year	9,933,253	\$81,950
Fair value adjustment on Class B LP Units	-	24,137
Total Class B LP Units, end of year	9,933,253	\$106,087
Total Units and Class B LP Units, end of year	21,894,253	\$217,087

9. UNIT BASED-COMPENSATION

On June 8, 2016, the Unitholders approved the adoption of the Equity Incentive Plan (the “Plan”) whereby DUs may be granted to eligible participants under the Plan (each, a “Participant”) on a discretionary basis by the Governance, Compensation and Nominating Committee. The maximum number of Units available for issuance under the Plan is 500,000. Each DU is economically equivalent to one Unit, however, under no circumstances shall DUs be considered Units nor entitle a Participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU shall receive a distribution of 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 at the time of grant.

Units are redeemable at the option of the holder and are considered puttable instruments in accordance with IAS 32, “Financial instruments: presentation”. As the exemption under IAS 32, “Financial instruments: presentation”, 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 nine months ended September 30, 2017, the REIT accrued for short-term incentive awards in the amount of \$201 which will be settled by the granting of DUs (September 30, 2016 - \$186).

Certain independent trustees of the REIT elected to receive board and committee fees in the form of DUs. The 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 September 30, 2017		As at December 31, 2016	
	Units	Amount	Units	Amount
Outstanding DUs and IDUs, beginning of period	7,428	\$ 79	-	\$ -
DUs	44,495	490	7,359	78
IDUs	1,756	20	69	-
Fair value adjustments	-	2	-	1
Outstanding DUs and IDUs, end of period ⁽¹⁾	53,679	\$591	7,428	\$79

(1) For the nine month period ended September 30, 2017, a total of 69,023 DUs and IDUs were granted, of which 22,772 DUs and IDUs will be accounted for in accordance with the vesting schedule.

10. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue		
	For the three months ended September 30, 2017	For the three months ended September 30, 2016
Base rent	\$8,437	\$6,793
Property tax recoveries	1,413	1,067
Straight line rent adjustment	749	678
Rental revenue	\$10,599	\$8,538

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
Base rent	\$24,479	\$20,161
Property tax recoveries	4,176	2,837
Straight line rent adjustment	2,292	2,149
Rental revenue	\$30,947	\$25,147

(b) Property Costs		
	For the three months ended September 30, 2017	For the three months ended September 30, 2016
Property tax	\$1,413	\$1,067
Land lease	144	144
Straight line land lease adjustment	25	25
Property cost	\$1,582	\$1,236

	For the nine months ended September 30, 2017	For the nine months ended September 30, 2016
Property tax payments	\$4,176	\$2,837
Land lease	432	432
Straight line land lease adjustment	75	75
Property cost	\$4,683	\$3,344

Two of the Initial Properties are subject to land leases.

11. 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.

12. CAPITAL MANAGEMENT

The REIT defines its capital as the aggregate of Unitholders' equity, Class B LP Units and credit facilities. 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 September 30, 2017, the REIT was in compliance with each of the covenants under these agreements.

13. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

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

The following table provides the classification and measurement of financial assets and liabilities as at September 30, 2017:

	Fair value through profit or loss	Loans and receivables / other financial liabilities		Total	Total
Measurement basis	(Fair value)	(Amortized cost)	(Fair value)	(Carrying value)	(Fair value)
Financial Assets and (Liabilities)					
Credit Facilities and Mortgages	\$ -	\$(234,819)	\$(235,597)	\$(234,819)	\$(235,597)
Interest rate swaps	1,794	-	-	1,794	1,794
Class B LP Units	(109,365)	-	-	(109,365)	(109,365)
DUs and IDUs	(591)	-	-	(591)	(591)
	\$(108,162)	\$(234,819)	\$(235,597)	\$(342,981)	\$(343,759)

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2016:

	Fair value through profit or loss	Loans and receivables / other financial liabilities		Total	Total
Measurement basis	(Fair value)	(Amortized cost)	(Fair value)	(Carrying value)	(Fair value)
Financial Assets and (Liabilities)					
Credit Facilities and Mortgages	\$ -	\$(238,541)	\$(239,199)	\$(238,541)	\$(239,199)
Interest rate swaps	(2,650)	-	-	(2,650)	(2,650)
Class B LP Units	(106,087)	-	-	(106,087)	(106,087)
DUs and IDUs	(79)	-	-	(79)	(79)
	\$(108,816)	\$(238,541)	\$(239,199)	\$(347,357)	\$(348,015)

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 September 30, 2017 is \$510,339 (December 31, 2016 - \$461,809) (Level 3).

(ii) Credit Facilities and Mortgages

The fair value of the REIT's credit facilities and mortgages are determined based on the present value of future payments, using appropriate discount rates at the reporting date for a comparable loan (Level 2).

(iii) Interest Rate Swaps

The fair value of the REIT's interest rate swaps which represents an asset as at September 30, 2017 is \$1,794 (December 31, 2016 – liability of \$2,650). The fair value of an interest rate swap is determined using rates unobservable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at September 30, 2017 is \$109,365 (December 31, 2016 - \$106,087). The fair values of the Class B LP Units are based on the traded value of the Units as at June 30, 2017 (Level 1).

(v) DUs and IDUs

The fair value of the DUs and IDUs as at September 30, 2017 is \$591 (December 31, 2016 - \$79). The fair values of the DUs and IDUs are based on the traded value of the Units as at September 30, 2017 (Level 1).

Financial Risk Management

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

Market Risk

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

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

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

Liquidity Risk

Liquidity risk arises from the possibility of an inability to renew maturing debt or not having sufficient capital available to the REIT. Mitigation of liquidity risk is discussed above in Note 12 - Capital Management. A significant portion of the REIT's assets have been pledged as security under the REIT's credit facilities. Certain credit facilities allow for the extension of term in advance of expiration.

14. COMMITMENTS AND CONTINGENCIES

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

The REIT, as lessee, is committed under long-term land leases that are classified as operating leases with expiry dates to 2033 with minimum annual rentals as follows:

Within 1 year	\$576
After 1 year, but not more than 5 years	2,524
More than 5 years	<u>8,515</u>
Total	<u>\$11,615</u>

15. RELATED PARTY TRANSACTIONS

The REIT was formed primarily to own income-producing automotive dealership properties located in Canada. In connection with the closing of the IPO on July 22, 2015, the REIT indirectly acquired the Initial Properties from certain members of Dilawri Group, for use as automotive dealerships, an automotive repair facility, or complementary uses, including restaurants, and leased these properties to Dilawri Tenants. The REIT's independent trustees approve all related party transactions in accordance with the Related Party Transaction Policy adopted by the Board. The Dilawri Tenants are the REIT's major tenant and provide approximately 90.3% and 90.5% of the REIT's rental income for the three and nine month periods ended September 30, 2017, respectively (93.9% and 94.2% for the three and nine month periods ended September 30, 2016, respectively).

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

General and administrative expenses include \$739 for the nine month period ended September 30, 2017 paid by the REIT to Dilawri pursuant to the Administration Agreement (September 30, 2016 - \$560).

The REIT paid Dilawri \$896 in respect of recoverable land transfer taxes associated with the acquisition of the Initial Properties that may become payable by Dilawri over the 3 years following closing of the IPO.

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 VW Barrie Property on March 31, 2017 for approximately \$8,850 and the Heritage Honda Property on April 7, 2017 for approximately \$23,600, from members of the Dilawri Group.

16. SUPPLEMENTARY INFORMATION

Changes in non-cash operating accounts

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Prepaid expenses and other assets	\$(75)	\$(14)	\$(107)	\$5
Accounts payable and accrued liabilities	(240)	(268)	(1,655)	(2,156)
Change in non-cash operating accounts	\$(315)	\$(282)	\$(1,762)	\$(2,151)

Supplemental Cash Flow Information

<i>(in thousands of Canadian dollars)</i>	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Interest and other charges	\$2,036	\$1,805	\$5,699	\$5,404
Amortization of financing fees	(65)	(56)	(188)	(129)
Accrued interest	(74)	(26)	(296)	(262)
Interest paid on Credit Facilities and Mortgages	\$1,897	\$1,723	\$5,215	\$5,013

17. SUBSEQUENT EVENTS

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. If the Dilawri Group continues to hold all of the 9,933,253 issued and outstanding Class B LP Units for 3 years subsequent to the IPO, the letters of credit are expected to be released.