

# Consolidating Canada's Automotive Dealership Properties

2018 THIRD QUARTER REPORT





# Automotive Properties Real Estate Investment Trust

## Management's Discussion and Analysis

September 30, 2018

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## SECTION 1 – GENERAL INFORMATION AND CAUTIONARY STATEMENTS

### Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Automotive Properties Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three- and nine-month periods ended September 30, 2018. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the REIT and accompanying notes for the three- and nine-month periods ended September 30, 2018. Further information about the REIT can be found in the REIT's annual information form dated March 20, 2018 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the REIT's website at: [www.automotivepropertiesreit.ca](http://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, 2018 ("Q3 2018") are against results for the three months ended September 30, 2017 ("Q3 2017") and comparisons of results for the nine months ended September 30, 2018 ("YTD 2018") are against results for the nine months ended September 30, 2017 ("YTD 2017").

### 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, 2018, the REIT owned a portfolio of 42 income-producing commercial properties, and one development property. The properties are located in Ontario, Saskatchewan, Alberta, British Columbia and Québec, totaling approximately 1.7 million square feet of gross leasable area ("GLA").

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, holds an approximate 39.1% effective interest in the REIT as at September 30, 2018, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership") and 480,552 REIT Units (as defined below). The Class B LP Units are economically equivalent to REIT Units, 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". Upon closing of the October 2018 Equity Offering (as defined below), Dilawri's effective interest in the REIT was reduced from approximately 39.1% to approximately 32.8%.

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

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

On June 19, 2018, the REIT acquired the real estate underlying the Country Hills Volkswagen automotive dealership property located in Calgary, Alberta (the "Country Hills") from the Dilawri Group for approximately \$18,000 plus



acquisition costs of \$69. The Country Hills property is a 34,650 square foot full-service automotive dealership property. On closing of the transaction, the applicable Dilawri Tenant entered into an 18-year triple-net lease with the REIT. The REIT paid for the transaction through cash on hand, draws on its credit facilities, and the issuance of 480,552 REIT Units valued at approximately \$5,000.

On September 28, 2018, the REIT acquired from AutoCanada Inc. a real estate portfolio consisting of two automotive dealership properties located in Laval, Québec (the “BMW Laval”) and Sherwood Park, Alberta (the “Sherwood Park VW”) for approximately \$55,500 plus acquisition costs of \$1,009. The affiliates of AutoCanada Inc. will be the operating tenants of the properties and have entered into 18-year, triple-net leases with the REIT. The portfolio consists of two full-service automotive dealership properties, including basement space, totaling 197,892 square feet of GLA.

As at September 30, 2018, the total number of issued and outstanding trust units of the REIT (“REIT Units”) and Class B LP Units issued and outstanding was 16,696,552 and 9,933,253, respectively, for a total of 26,629,805 Units (as defined below). The REIT Units are listed on the Toronto Stock Exchange under the symbol “APR.UN”. REIT Units and Class B LP Units are collectively referred to in this MD&A as “Units.”

On October 16, 2018, the REIT issued an aggregate of 5,100,000 REIT Units at a price of \$10.80 per REIT Unit in connection with a public offering of REIT Units for gross proceeds of \$55,080 (the “October 2018 Equity Offering”). Issuance costs of \$2,654 were netted against the gross proceeds. The Dilawri Group waived its pre-emptive right to acquire REIT Units in connection with the October 2018 Equity Offering. Upon closing of the October 2018 Equity Offering, Dilawri’s effective interest in the REIT was reduced from 39.1% to approximately 32.8%.

The REIT announced monthly cash distributions of \$0.067 per Unit, resulting in total distributions declared and paid of \$5,353 for Q3 2018 (Q3 2017 - \$5,256 declared and paid). For YTD 2018, the REIT declared distributions of \$15,898 and paid \$15,866 (YTD 2017 - \$15,484 declared and \$15,198 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 13, 2018.

## Forward-Looking Statements

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

- the REIT’s relationship with the Dilawri Group, Dilawri’s shareholders and certain other related persons and entities (collectively, the “Dilawri Organization”), including in respect of (i) the Dilawri Organization’s retained interest in the REIT and its current intention with respect thereto, (ii) the services to be provided to the REIT (whether directly or indirectly) by Dilawri pursuant to the Administration Agreement, and (iii) expected transactions to be entered into between Dilawri and the REIT (including pursuant to the Strategic Alliance Agreement);
- the REIT’s intention with respect to, and ability to execute, its external and internal growth strategies;
- the maintenance by the REIT of a strong balance sheet and prudent financial management and associated minimization of financial risk;
- the expected increase in Same Property Cash NOI (as defined below);

- the REIT representing a unique alternative for automotive dealership operators considering a sale or recapitalization of their business;
- the REIT's capital expenditure requirements and capital expenditures to be made by the REIT and the Dilawri Group;
- the REIT's distribution policy and the distributions to be paid to Unitholders (as defined below);
- the REIT's debt strategy;
- the REIT's access to available sources of debt and/or equity financing;
- the expected tax treatment of the REIT and its distributions to Unitholders;
- potential trade tariff policies and their impact on future retail automotive sales;
- the REIT's ability to meet its stated objectives;
- the REIT's ability to expand its asset base and make accretive acquisitions; and
- the ability of the REIT to qualify as a "Mutual Fund Trust" as defined in the *Income Tax Act* (Canada) (the "Tax Act"), and as a "Real Estate Investment Trust", as defined in the SIFT Rules (as defined below).

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

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

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

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

## Non-IFRS Financial Measures

The REIT prepares its financial statements according to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains certain financial measures

which are not defined under IFRS and may not be comparable to similar measures presented by other real estate investment trusts or enterprises.

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

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

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

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

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

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

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

"ACFO" is a non-IFRS financial measure. The REIT calculates ACFO in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cash Flow from Operations for IFRS* issued in February 2018. ACFO is calculated as cash flow from operating activities subject to certain adjustments, to (a) remove the impact of: (i) changes in non-cash working capital that are not sustainable in nature; (ii) amortization of financing costs and indemnity payable in respect of the third party tenant portfolio sublease structure; and (iii) capital expenditures, and (b) deduct interest expense. To date, the REIT has not incurred any capital expenditure costs. The REIT's leases



specifically state that the tenant is fully responsible for all maintenance capital costs and the REIT has no obligation and hence no maintenance capital reserve or amount is required to be deducted in arriving at ACFO.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## SECTION 2 – OVERVIEW, STRATEGY AND OBJECTIVES

### Overview

Canada’s automotive retail industry is characterized by strong industry fundamentals. According to Statistics Canada, the automotive retail industry sales totaled a record \$156 billion in 2017 (up 9% from \$143 billion in 2016), representing approximately 27% of Canada’s overall retail sales of products and merchandise. Over the last 20 years, retail automotive sales grew at a compound annual rate of 4.6%. The tables below contain new automobile sales by units in Canada for the eight months ended August 31, 2018 and August 31, 2017, and for the 2017 and 2016 calendar years (the latest available information from Statistics Canada):

	Eight Months Ended August 31 (units)			2017
	2018	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	164,004	(6,297)	(3.7%)	170,301
British Columbia and the Territories	156,289	(6,101)	(3.8%)	162,390
Manitoba	48,782	6,608	15.7%	42,174
New Brunswick	29,343	(1,974)	(6.3%)	31,317
Newfoundland and Labrador	21,679	(1,867)	(7.9%)	23,546
Nova Scotia	38,244	(3,410)	(8.2%)	41,654
Ontario	602,744	14,778	2.5%	587,966
Prince Edward Island	5,507	(470)	(7.9%)	5,977
Québec	322,815	(2,265)	(0.7%)	325,080
Saskatchewan	34,290	(4,130)	(10.7%)	38,420
<b>Total Canada</b>	<b>1,423,697</b>	<b>(5,128)</b>	<b>(0.4%)</b>	<b>1,428,825</b>

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

(Source: Statistics Canada)

The REIT's portfolio of dealership properties, 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.

## Strategy and Objectives

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

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

Management intends to grow the value of the REIT's real estate portfolio while also increasing AFFO per Unit through accretive acquisitions and steady growth in rental rates. The REIT expects to be well-positioned to capitalize on acquisition opportunities presented by others 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.

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 other vendors due to certain features of the Canadian automotive dealership industry:

- *Fragmented ownership* – Management estimates that the top 10 automotive dealership groups in Canada own less than 10% of the approximately 3,500 automotive dealerships in Canada;

- *Capital redeployment needs* – Monetizing the real estate underlying automotive dealership properties 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.

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

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

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

Management believes that its relationship with the Dilawri Group provides the REIT with additional opportunities to add quality automotive dealership properties to its portfolio in an accretive manner. Pursuant to the Strategic Alliance Agreement, which is further described under Section 8 “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.

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

#### **Internal Growth**

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

- Each of the Dilawri Leases contains annual contractual basic rent escalators in the amount of 1.5% per annum. These leases are structured as triple-net leases under which the tenant is responsible for all costs relating to repair and maintenance, realty taxes, property insurance, utilities and non-structural capital improvements so that rent escalators are expected to flow directly to NOI; and
- Contractual rent escalators that are expected, wherever possible, to be negotiated into new leases entered into by the REIT.

## **SECTION 3 - PROPERTY PORTFOLIO**

### **Portfolio Overview**

At September 30, 2018, the REIT's portfolio consisted of 42 income-producing commercial properties, and one development property. Out of the 42 properties, 32 are exclusively occupied by the Dilawri Group for use as automotive dealerships or, in one case, an automotive repair facility, while two of the other ten properties are jointly occupied by the Dilawri Group (for use as automotive dealerships) and one or more third parties (for use as automotive dealerships or complementary uses, including restaurants), and the remaining eight properties are exclusively occupied by other third party tenants for use as automotive dealerships, or in one case, a vehicle service compound facility. Consequently, the Dilawri Group is the REIT's most significant tenant and accounts for approximately 86.9% of the REIT's base rent, including rent from properties subleased to third parties as at September 30, 2018 (90.4% as at September 30, 2017).

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

Overall, at September 30, 2018, the REIT's properties had a weighted average rental rate of \$24.70 per square foot.

## Income Producing Property Portfolio Summary

As at September 30, 2018	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) <sup>(1)</sup>	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$33.45	14.1
Calgary	6	271,350	25.03	13.7
Regina	8	183,941	20.36	10.7
Greater Montréal Area (GMA)	5	317,608	18.44	16.4
Edmonton	6	174,350	29.76	12.7
Greater Toronto Area (GTA)	11	564,261	25.54	10.8
<b>Total Portfolio</b>	<b>42</b>	<b>1,665,460</b>	<b>\$24.70</b>	<b>12.8</b>

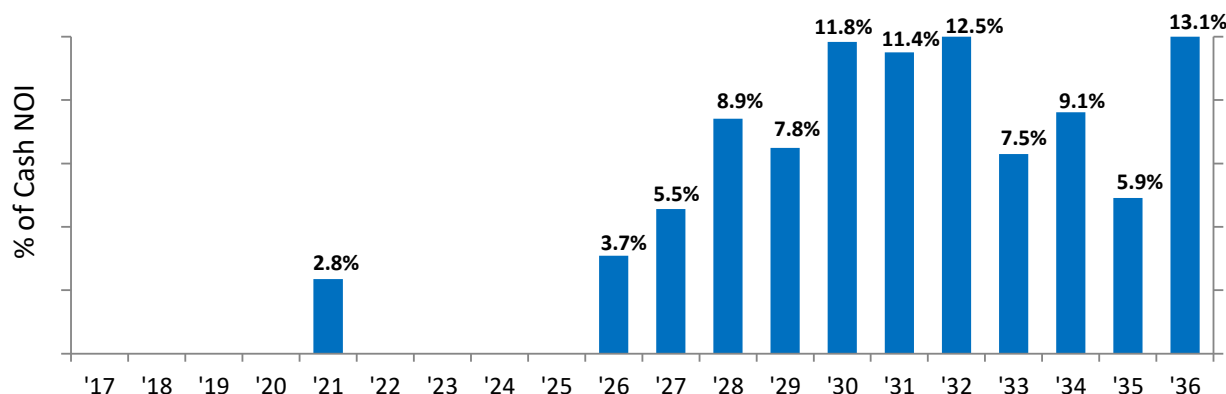
As at September 30, 2017	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) <sup>(1)</sup>	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$32.95	15.1
Calgary	5	236,700	23.23	14.1
Regina	8	183,941	20.06	11.7
Greater Montréal Area (GMA)	3	173,292	17.17	15.9
Edmonton	2	61,929	33.67	15.6
Greater Toronto Area (GTA)	11	556,555	25.30	11.5
<b>Total Portfolio</b>	<b>35</b>	<b>1,366,367</b>	<b>\$24.45</b>	<b>13.1</b>

(1) Based on 12-month rolling average net of land lease costs.

## Profile of Overall Lease Maturity

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

### Lease Maturity Profile (\*)



(\*) Based on a 12-month rolling average as at September 30, 2018.

## Property Use and Brand Diversification

Sales for an individual automotive dealership are heavily influenced by the popularity of the automotive brands being marketed, and these, in turn, are often cyclical for each brand as new models are introduced and existing models are updated and refreshed. In addition, prospects for both mass market and luxury brands can vary with economic cycles. Management believes that the portfolio's broad automotive brand diversification contributes to the quality and stability of the REIT's cash flows. The table below sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of September 30, 2018:



Manufacturer / Brand	REIT Auto Dealership GLA (Sq. Feet)	% of REIT Auto Dealership GLA	% of REIT Auto Dealership Rent	No. of REIT Locations
Honda <sup>(1)</sup>	252,124	15.3%	16.6%	7
Audi	160,215	9.7%	9.9%	4
Volkswagen	189,884	11.5%	8.3%	5
Porsche <sup>(2)</sup>	84,569	5.1%	8.2%	2
Acura <sup>(1)</sup>	93,829	5.7%	7.9%	4
BMW <sup>(3)</sup>	227,795	13.9%	6.8%	3
Mazda	81,352	4.9%	6.3%	4
Nissan	85,411	5.2%	5.9%	3
Other <sup>(4)</sup>	73,597	4.5%	5.7%	5
Infiniti	44,905	2.7%	4.5%	4
Hyundai	62,288	3.8%	4.3%	4
Mercedes Benz	60,850	3.7%	3.7%	1
Toyota	72,478	4.4%	3.0%	2
General Motors	43,210	2.6%	2.7%	1
Ford	39,287	2.4%	2.4%	1
Chrysler <sup>(5)</sup>	40,957	2.5%	1.5%	1
Kia	17,735	1.1%	1.2%	1
Mitsubishi	14,750	1.0%	1.1%	2
<b>Total</b>	<b>1,645,236</b>	<b>100.0%</b>	<b>100.0%</b>	<b>54</b>

**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 1<sup>st</sup> Avenue which is being used for ancillary dealership purposes by both the Dilawri BMW and the Triple 7 Chrysler dealerships. It continues to be leased by a Dilawri Tenant under the same lease as Dilawri BMW. Also, includes the former Toyota dealership which has vacated its premises located in Dixie Auto Mall; and the applicable Dilawri Tenant will continue to be the lead tenant for Dixie Auto Mall until July 2030. Includes the former Infiniti Vancouver property at 1718 West 3<sup>rd</sup> Avenue which is being used as a service centre for Infiniti and Audi vehicles.

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

## Description of the REIT's Key Tenant

The following chart summarizes certain relevant financial information of the Dilawri Group for the twelve months ended September 30, 2018 with comparative figures for the twelve months ended September 30, 2017 as provided to the REIT by Dilawri (all figures are approximations):

<b>Dilawri Group's Financial Information (approximations, not in thousands)</b>		
	<b>September 30, 2018</b> <b>LTM<sup>(3)</sup></b>	<b>September 30, 2017</b> <b>LTM<sup>(3)</sup></b>
Combined Revenues (not audited or reviewed)	\$3.0 billion	\$2.7 billion
EBITDA (not audited or reviewed)	\$84.0 million	\$93.3 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	2.9 <sup>(1)</sup>	3.4 <sup>(2)</sup>
Term Debt (not audited or reviewed)	\$122.3 million <sup>(1)</sup>	\$148.3 million <sup>(2)</sup>
Term Debt to EBITDA Ratio (not audited or reviewed)	1.5 <sup>(1)</sup>	1.6 <sup>(2)</sup>

Notes:

- (1) As at September 30, 2018.
- (2) As at September 30, 2017.
- (3) "LTM" means the last twelve months.

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

## **Dilawri Additional and Non-ASPE Measures**

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

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

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

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

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

## SECTION 4 –KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

### Key Performance Indicators

Acquisitions were the main contributing factors to the increase in rental revenue, NOI, Cash NOI, total assets, total liabilities, FFO, and AFFO in Q3 2018 relative to Q3 2017. The REIT's performance is measured by management's selection of these and other key indicators. For further information on the REIT's operating measures and non-IFRS measures, please refer to Sections 5 and 6 of this MD&A.

<b>Operating Results</b>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Rental Revenue	<b>\$11,834</b>	\$10,599	<b>\$34,513</b>	\$30,947
NOI	<b>9,993</b>	9,017	<b>29,252</b>	26,264
Cash NOI	<b>9,278</b>	8,293	<b>27,030</b>	24,047
Same Property Cash NOI	<b>8,410</b>	8,294	<b>23,006</b>	22,690
Net Income	<b>5,675</b>	12,729	<b>25,484</b>	19,655
FFO	<b>6,666</b>	6,405	<b>19,973</b>	18,882
AFFO	<b>6,117</b>	5,811	<b>18,232</b>	17,015
Fair value adjustment to investment properties	<b>1,455</b>	4,286	<b>6,360</b>	5,600
Distributions per Unit	<b>\$0.201</b>	\$0.201	<b>\$0.603</b>	\$0.603
Net Income per Unit - basic <sup>(1)</sup>	<b>0.213</b>	0.487	<b>0.968</b>	0.769
Net Income per Unit - diluted <sup>(2)</sup>	<b>0.212</b>	0.485	<b>0.963</b>	0.767
FFO per Unit - basic <sup>(3)</sup>	<b>0.250</b>	0.245	<b>0.758</b>	0.738
FFO per Unit - diluted <sup>(4)</sup>	<b>0.249</b>	0.244	<b>0.755</b>	0.737
AFFO per Unit - basic <sup>(3)</sup>	<b>0.230</b>	0.222	<b>0.692</b>	0.665
AFFO per Unit - diluted <sup>(4)</sup>	<b>0.228</b>	0.222	<b>0.689</b>	0.664
Weighted average Units - basic <sup>(5)</sup>	<b>26,629,805</b>	26,149,053	<b>26,332,320</b>	25,572,368
Weighted average Units - diluted <sup>(6)</sup>	<b>26,780,847</b>	26,220,165	<b>26,458,391</b>	25,621,401
<b>Payout ratio (%)</b>				
FFO	<b>80.7%</b>	82.4%	<b>79.9%</b>	81.8%
AFFO	<b>88.2%</b>	90.5%	<b>87.5%</b>	90.8%

### Balance Sheet Metrics

As at	September 30, 2018	December 31, 2017	September 30, 2017
Total assets	<b>\$641,630</b>	\$547,606	\$514,618
Total liabilities	<b>\$450,857</b>	\$377,395	\$347,742
Number of Units outstanding (includes Class B LP Units)	<b>26,629,805</b>	26,149,253	26,149,253
Market capitalization (includes Class B LP Units)	<b>\$284,406</b>	\$285,288	\$287,903
Overall capitalization rate	<b>6.5%</b>	6.5%	6.5%
Fixed weighted average effective interest rate on debt (excludes revolving credit facilities) <sup>(7)</sup>	<b>3.48%</b>	3.35%	3.35%
Proportion of total debt at fixed interest rates through swaps and mortgages	<b>76%</b>	83%	94%
Weighted average interest rate swap term remaining (years)	<b>5.6</b>	5.3	5.6
Weighted average term to maturity of debt	<b>4.3</b>	3.6	3.6
Interest Coverage Ratio	<b>3.4X</b>	3.8X	3.9X
Debt Service Coverage Ratio	<b>2.0X</b>	2.0X	2.1X
Debt to GBV	<b>53.1%</b>	48.5%	45.8%

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

(2) Net Income per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs (each as defined below) granted to certain Trustees and management.

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

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

## SECTION 5 – RESULTS OF OPERATIONS

### Net Income and Comprehensive Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
<b>Net Property Income</b>						
Base Rent	\$9,452	\$8,437	\$1,015	\$27,492	\$24,479	\$3,013
Property tax recoveries	1,642	1,413	229	4,723	4,176	547
Straight line rent adjustment	740	749	(9)	2,298	2,292	6
<b>Rental Revenue</b>	<b>11,834</b>	<b>10,599</b>	<b>1,235</b>	<b>34,513</b>	<b>30,947</b>	<b>3,566</b>
Property tax expense	(1,672)	(1,413)	(259)	(4,753)	(4,176)	(577)
Land leases	(144)	(144)	-	(432)	(432)	-
Straight line land lease adjustment	(25)	(25)	-	(76)	(75)	(1)
<b>Property Costs</b>	<b>(1,841)</b>	<b>(1,582)</b>	<b>(259)</b>	<b>(5,261)</b>	<b>(4,683)</b>	<b>(578)</b>
<b>NOI</b>	<b>9,993</b>	<b>9,017</b>	<b>976</b>	<b>29,252</b>	<b>26,264</b>	<b>2,988</b>
<b>Other Income (Expenses)</b>						
General and administrative expenses	(676)	(576)	(100)	(1,945)	(1,683)	(262)
Interest expense and other financing charges	(2,651)	(2,036)	(615)	(7,334)	(5,699)	(1,635)
Fair value adjustment on interest rate swaps	2,004	3,135	(1,131)	2,881	4,444	(1,563)
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	(2,453)	900	(3,353)	2,261	(3,280)	5,541
Fair value adjustment on investment properties	1,455	4,286	(2,831)	6,360	5,600	760
<b>Net Income and Comprehensive Income</b>	<b>\$5,675</b>	<b>\$12,729</b>	<b>\$(7,054)</b>	<b>\$25,484</b>	<b>\$19,655</b>	<b>\$5,829</b>

### Net Income and Comprehensive Income

For Q3 2018, net income was \$5,675 compared to \$12,729 in Q3 2017. The decrease was primarily due to the change in the fair value adjustments for interest rate swaps, Class B LP Units, and investment properties, partially offset by the growth in NOI.

### 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 2018, rental revenue of \$11,834 was \$1,235, or 11.7%, higher than Q3 2017, primarily due to the properties acquired subsequent to Q3 2017 and contractual annual rent increases.

For YTD 2018, rental revenue of \$34,513 was \$3,566, or 11.5%, higher than YTD 2017, primarily due to the properties acquired subsequent to YTD 2017 and contractual annual rent increases.

Property costs for Q3 2018 and YTD 2018 were \$259 and \$578 higher than Q3 2017 and YTD 2017, respectively. The increases are attributable to the properties acquired subsequent to Q3 2017 and YTD 2017. In Q3 2018, the REIT paid Dilawri a one-time adjustment of \$30 for all land lease costs ensuring that all such future costs are a flow through to the REIT.

### General and Administrative Expenses

The REIT's general and administrative expenses consisted of: (i) outsourced costs, (ii) public entity costs, and (iii) unit-based compensation expense, Deferred Units ("DUs") and Income Deferred Units ("IDUs"). The outsourced costs are largely related to the services provided by Dilawri pursuant to the Administration Agreement. The REIT will reimburse Dilawri for costs incurred in connection with the provision of such services so long as such costs are

identified in the then current annual budget of the REIT or are otherwise approved by the REIT. The REIT paid to Dilawri \$247 and \$781 in respect of services provided in Q3 2018 and YTD 2018, respectively (Q3 2017 - \$251 and YTD 2017 - \$739). The increase of \$42 in YTD 2018 is due to the additional allocation of resources to manage the REIT.

The public entity and other costs reflect the expenses related to ongoing operations of the REIT including professional fees for legal and audit services and fees payable to members of the REIT's Board of Trustees (the "Board"). For Q3 2018 and YTD 2018, public entity and other costs were \$68 and \$89 higher than Q3 2017 and YTD 2017, respectively, primarily due to lease rental costs incurred by the REIT to maintain separate office premises from the Dilawri Group. Public entity and other costs will fluctuate from quarter to quarter depending on when such expenses are incurred.

The non-cash unit-based compensation expense relates to DUs and IDUs granted in accordance with the REIT's Equity Incentive Plan (the "Plan"). As at September 30, 2018, all independent Trustees elected to receive board and committee fees in the form of DUs. The fair value of each DU granted is measured based on the volume-weighted average trading price of the REIT Units for the five trading days immediately preceding the grant date. For Q3 2018 and YTD 2018, the REIT incurred an expense of \$86 and \$264, respectively, related to the granting of DUs, IDUs, and the vesting of long-term DUs.

For Q3 2018 and YTD 2018, the REIT accrued management short-term incentive awards of \$80 and \$217, respectively, which will be settled by the granting of DUs.

The table below illustrates the breakdown of general and administrative expenses incurred in Q3 2018 and YTD 2018 as compared to Q3 2017 and YTD 2017:

	Q3 2018	Q3 2017	Variance	YTD 2018	YTD 2017	Variance
Administration Agreement	<b>\$247</b>	\$251	\$(4)	<b>\$781</b>	\$739	\$42
Public entity and other costs	<b>263</b>	195	68	<b>683</b>	594	89
Trustees DUs and IDUs expense	<b>86</b>	63	23	<b>264</b>	149	115
Management short term compensation expense	<b>80</b>	67	13	<b>217</b>	201	16
General and administrative expenses	<b>\$676</b>	\$576	\$100	<b>\$1,945</b>	\$1,683	\$262

## Interest Expense and Other Financing Charges

Interest expenses include amounts payable to lenders under the REIT's Credit Facilities and Mortgages (each as defined in Section 7 "Liquidity and Capital Resources" below), as well as amortization of upfront costs and costs to hedge the applicable Credit Facilities and Mortgages at fixed rates. For Q3 2018 and YTD 2018, the interest expense and other financing charges were \$2,651 and \$7,334, respectively, a \$615 and \$1,635 increase from Q3 2017 and YTD 2017, respectively, primarily due to additional debt incurred to acquire properties subsequent to Q3 2017 and a higher cost of borrowing.

On June 18, 2018, the REIT increased the amount available to be drawn under Facility 1 (see Section 7 "Liquidity and Capital Resources" in this MD&A) from \$121,209 to \$151,209, extended the term from June 2018 to June 2023, and fixed the interest on \$15,000 of the \$30,000 new debt through an interest rate swap. The REIT also increased the amount available under the revolving component of Facility 1 from \$15,000 to \$20,000 and extended the maturity to June 2023 (see Section 7 "Liquidity and Capital Resources" in this MD&A).

On September 26, 2018, the REIT increased the amount available under the revolving portion of Facility 3 to \$43,900 (see Section 7 "Liquidity and Capital Resources" in this MD&A).

As a result of the above, the weighted average effective interest rate on the REIT's debt was fixed at 3.48% as at September 30, 2018 (September 30, 2017 - 3.35%).



## Changes in Fair Values of Investment Properties

	Income producing properties	Property under development <sup>(1)</sup>	September 30, 2018	December 31, 2017
Balance, beginning of period	\$543,135	\$-	\$543,135	\$461,809
Acquisitions <sup>(2)</sup>	76,585	5,541	82,126	72,192
Capitalized costs and interest	-	576	576	-
Fair value adjustment on investment properties	6,360	-	6,360	6,204
Straight-line rent	2,222	-	2,222	2,930
<b>Balance, end of period</b>	<b>\$628,302</b>	<b>\$6,117</b>	<b>\$634,419</b>	<b>\$543,135</b>

(1) KW property to be redeveloped for a luxury, high-end car company.

(2) Includes acquisition costs.

On February 13, 2018, the REIT acquired the KW Development Property, which is to be redeveloped for a luxury high-end car company that will occupy the premises. As at September 30, 2018, \$6,117 in direct development, borrowing and acquisition costs have been incurred in respect of the KW Development Property. The REIT estimates that the total expenditures, including the purchase price, redevelopment costs and other related expenses will be approximately \$7,500. The REIT has completed its redevelopment commitments and the tenant has commenced its construction requirements.

The REIT valued the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which indicate no significant change in the capitalization rates for the markets the REIT is in, except for a decrease in the Vancouver and Calgary markets from December 31, 2017. For Q3 2018 and YTD 2018, the fair value adjustment in investment properties were \$1,455 and \$6,360, respectively, compared to \$4,286 for Q3 2017 and \$5,600 for YTD 2017. The increases were due to capitalization rate decreases and NOI increases due to rental escalations. The assessment by the REIT of the entire portfolio (excluding the KW Development Property) results in an overall implied capitalization rate of 6.5%, which is consistent with December 31, 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 \$25,455 or \$(23,564), respectively.

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

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

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

The contribution to net income for Q3 2018 and YTD 2018 is attributable to an increase of interest rate levels in Q3 2018 which resulted in a fair value adjustment for interest rate swaps of \$2,004 (Q3 2017 – increase of \$3,135) and \$2,881 (YTD 2017 – increase of \$4,444), respectively.

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

The impact of the movement in the traded value of the REIT Units resulted in a decrease in the fair value adjustment for Class B LP Units in Q3 2018 of \$2,453 (Q3 2017 – increase of \$900) and an increase of \$2,261 for YTD 2018 (YTD 2017 – decrease of \$3,280), respectively.

## SECTION 6 – NON-IFRS FINANCIAL MEASURES

### FFO, AFFO, Cash NOI and ACFO

In Q3 2018, FFO increased 4.1% to \$6,666, or \$0.249 per Unit, from \$6,405, or \$0.244 per Unit, in Q3 2017. The increase was primarily due to the properties acquired subsequent to Q3 2017.

FFO for YTD 2018 increased 5.8% to \$19,973, or \$0.755 per Unit, from \$18,882, or \$0.737 per Unit, in YTD 2017. The increase was primarily due to the properties acquired subsequent to Q3 2017.

AFFO increased 5.3% to \$6,117, or increased 2.7% to \$0.228 per Unit, from \$5,811, or \$0.222 per Unit, in Q3 2017; and Cash NOI was \$9,278 on \$11,834 of revenue (compared to Cash NOI of \$8,293 on revenue of \$10,599 for Q3 2017), the increases were primarily due to the properties acquired subsequent to Q3 2017.

AFFO for YTD 2018 increased 7.2% to \$18,232, or increased 3.8% to \$0.689 per Unit, from \$17,015, or \$0.664 per Unit, in YTD 2017; and Cash NOI was \$27,030 on \$34,513 of revenue (compared to Cash NOI of \$24,047 on revenue of \$30,947 for YTD 2017), the increases were primarily due to the properties acquired subsequent to Q3 2017.

For Q3 2018, the REIT declared and paid distributions to Unitholders of \$5,353 or \$0.201 per Unit (Q3 2017 – declared and paid of \$5,256), and for YTD 2018 the REIT declared distributions of \$15,898 and paid distributions of \$15,866, or \$0.603 per Unit (YTD 2017 – declared \$15,484 and paid of \$15,198). This resulted in an AFFO payout ratio of 88.2% in Q3 2018 (Q3 2017 – 90.5%) and 87.5% in YTD 2018 (YTD 2017 – 90.8%). The payout ratios for Q3 2018 and YTD 2018 were lower primarily due to the properties acquired subsequent to Q3 2017.

ACFO in Q3 2018 increased to \$7,491 and \$19,626 in YTD 2018 compared to \$5,667 in Q3 2017 and \$16,850 in YTD 2017, which resulted in an ACFO payout ratio of 71.5% in Q3 2018 and 81.0% in YTD 2018 (Q3 2017 – 92.7% and YTD 2017 – 90.2%). The variance was due to the adjustment for the timing of the non-cash working capital related to non-sustainable cash flow activities, which was primarily a result of the payable for the acquisitions costs related to the purchase of the BMW Laval and Sherwood Park VW dealership properties.

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

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

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

(\$000s, except per Unit amounts)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
<b>Calculation of NOI</b>						
Property revenue	<b>\$11,834</b>	\$10,599	\$1,235	<b>\$34,513</b>	\$30,947	\$3,566
Property costs	<b>(1,841)</b>	(1,582)	(259)	<b>(5,261)</b>	(4,683)	(578)

<b>NOI (including straight-line adjustments)</b>	<b>\$9,993</b>	<b>\$9,017</b>	<b>\$976</b>	<b>\$29,252</b>	<b>\$26,264</b>	<b>\$2,988</b>
Adjustments:						
Straight-line adjustment (rent and land lease)	(715)	(724)	9	(2,222)	(2,217)	(5)
<b>Cash NOI</b>	<b>\$9,278</b>	<b>\$8,293</b>	<b>\$985</b>	<b>\$27,030</b>	<b>\$24,047</b>	<b>\$2,983</b>
<b>Reconciliation of net income to FFO and AFFO</b>						
Net income (loss) and comprehensive income (loss)	<b>\$5,675</b>	<b>\$12,729</b>	<b>\$(7,054)</b>	<b>\$25,484</b>	<b>\$19,655</b>	<b>\$5,829</b>
Adjustments:						
Change in fair value – Interest rate swaps	(2,004)	(3,135)	1,131	(2,881)	(4,444)	1,563
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	2,453	(900)	3,353	(2,261)	3,280	(5,541)
Change in fair value – investment properties	(1,455)	(4,286)	2,831	(6,360)	(5,600)	(760)
<b>FFO</b>	<b>\$6,666</b>	<b>\$6,405</b>	<b>\$261</b>	<b>\$19,973</b>	<b>\$18,882</b>	<b>\$1,091</b>
Adjustments:						
Straight-line adjustment (rent and land lease)	(715)	(724)	9	(2,222)	(2,217)	(5)
Non-cash unit-based compensation expense <sup>(1)</sup>	166	130	36	481	350	131
<b>AFFO</b>	<b>\$6,117</b>	<b>\$5,811</b>	<b>\$306</b>	<b>\$18,232</b>	<b>\$17,015</b>	<b>\$1,217</b>
<b>NOI (including straight-line adjustments)</b>	<b>\$9,993</b>	<b>\$9,017</b>	<b>\$976</b>	<b>\$29,252</b>	<b>\$26,264</b>	<b>\$2,988</b>
Adjustments:						
Straight-line adjustment (rent and land lease)	(715)	(724)	9	(2,222)	(2,217)	(5)
<b>Cash NOI</b>	<b>\$9,278</b>	<b>\$8,293</b>	<b>\$985</b>	<b>\$27,030</b>	<b>\$24,047</b>	<b>\$2,983</b>
Number of Units outstanding (including Class B LP Units)	<b>26,629,805</b>	<b>26,149,253</b>	<b>480,552</b>	<b>26,629,805</b>	<b>26,149,253</b>	<b>480,552</b>
Weighted average Units outstanding – basic	<b>26,629,805</b>	<b>26,149,053</b>	<b>480,752</b>	<b>26,332,320</b>	<b>25,572,368</b>	<b>759,952</b>
Weighted average Units outstanding – diluted	<b>26,780,847</b>	<b>26,220,165</b>	<b>560,682</b>	<b>26,458,391</b>	<b>25,621,401</b>	<b>836,990</b>
<b>FFO per Unit - basic<sup>(2)</sup></b>	<b>\$0.250</b>	<b>\$0.245</b>	<b>\$0.005</b>	<b>\$0.758</b>	<b>\$0.738</b>	<b>\$0.020</b>
<b>FFO per Unit - diluted<sup>(3)</sup></b>	<b>\$0.249</b>	<b>\$0.244</b>	<b>\$0.005</b>	<b>\$0.755</b>	<b>\$0.737</b>	<b>\$0.018</b>
<b>AFFO per Unit - basic<sup>(2)</sup></b>	<b>\$0.230</b>	<b>\$0.222</b>	<b>\$0.008</b>	<b>\$0.692</b>	<b>\$0.665</b>	<b>\$0.027</b>
<b>AFFO per Unit - diluted<sup>(3)</sup></b>	<b>\$0.228</b>	<b>\$0.222</b>	<b>\$0.006</b>	<b>\$0.689</b>	<b>\$0.664</b>	<b>\$0.025</b>
<b>Distributions per Unit</b>	<b>\$0.201</b>	<b>\$0.201</b>	<b>\$-</b>	<b>\$0.603</b>	<b>\$0.603</b>	<b>\$-</b>
<b>FFO payout ratio</b>	<b>80.7%</b>	<b>82.4%</b>	<b>(1.7)%</b>	<b>79.9%</b>	<b>81.8%</b>	<b>(1.9)%</b>
<b>AFFO payout ratio</b>	<b>88.2%</b>	<b>90.5%</b>	<b>(2.3)%</b>	<b>87.5%</b>	<b>90.8%</b>	<b>(3.3)%</b>

(1) The REIT incurred an expense of \$86 and \$264 relating to 5,167 and 16,860 DUs and IDUs granted during Q3 2018 and YTD 2018, respectively, as well as \$80 and \$217 accrued for non-cash unit-based management compensation expense as part of the Plan. The DUs and IDUs granted were included in the weighted average number of outstanding REIT Units and Class B LP Units.

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

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

## Same Property Net Operating Income and Cash Net Operating Income

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
Base rental revenue	\$8,554	\$8,438	\$116	\$23,438	\$23,122	\$316
Straight line rent adjustments	634	750	(116)	1,794	2,110	(316)
Property tax	1,455	1,310	145	2,360	2,493	(133)
<b>Rental revenue</b>	<b>10,643</b>	<b>10,498</b>	<b>145</b>	<b>27,592</b>	<b>27,725</b>	<b>(133)</b>
Straight line land lease adjustments	(25)	(25)	-	(76)	(76)	-
Property tax	(1,455)	(1,310)	(145)	(2,360)	(2,493)	133
Land lease expense	(144)	(144)	-	(432)	(432)	-
<b>Property costs</b>	<b>(1,624)</b>	<b>(1,479)</b>	<b>(145)</b>	<b>(2,868)</b>	<b>(3,001)</b>	<b>133</b>
<b>Same Property NOI</b>	<b>9,019</b>	<b>9,019</b>	<b>-</b>	<b>\$24,724</b>	<b>\$24,724</b>	<b>-</b>
Straight line adjustments	(609)	(725)	116	(1,718)	(2,034)	316
<b>Same Property Cash NOI</b>	<b>\$8,410</b>	<b>\$8,294</b>	<b>\$116</b>	<b>\$23,006</b>	<b>\$22,690</b>	<b>\$316</b>

Same Property NOI consists of base rental revenue, which for Q3 2018 and YTD 2018 increased 1.4% to \$116 and 1.4% to \$316 compared to Q3 2017 and YTD 2017, respectively, primarily due to annual contractual rent increases

which were offset by a decrease in straight-line rent adjustments of \$116 and \$316 for the same periods. Same Property Cash NOI increased by \$116 and \$316 in Q3 2018 and YTD 2018, compared to Q3 2017 and YTD 2017, respectively, primarily due to annual contractual rent increases.

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

(\$000s)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
<b>Cash flow from operating activities</b>	<b>\$9,234</b>	<b>\$7,550</b>	<b>\$1,684</b>	<b>\$26,574</b>	<b>\$21,007</b>	<b>\$5,567</b>
Change in non-cash working capital	926	171	755	441	1,597	(1,156)
Interest paid	(2,503)	(1,897)	(606)	(6,996)	(5,215)	(1,781)
Amortization of financing fees	(120)	(65)	(55)	(298)	(188)	(110)
Amortization of indemnification fees	(18)	(18)	-	(55)	(55)	-
Net interest expense and other financing charges in excess of interest paid	(28)	(74)	46	(40)	(296)	256
<b>ACFO</b>	<b>\$7,491</b>	<b>\$5,667</b>	<b>\$1,824</b>	<b>\$19,626</b>	<b>\$16,850</b>	<b>\$2,776</b>
<b>ACFO payout ratio</b>	<b>71.5%</b>	<b>92.7%</b>	<b>(21.2)%</b>	<b>81.0%</b>	<b>90.2%</b>	<b>(9.2)%</b>

The ACFO payout ratio was 71.5% and 81.0% in Q3 2018 and YTD 2018, respectively (Q3 2017 – 92.7% and YTD 2017 – 90.2%). The decrease from Q3 2017 and YTD 2017, due to the adjustment for the timing of the non-cash working capital related to non-sustainable cash flow activities, which was primarily a result of the payable for the acquisitions costs related to the purchase of the BMW Laval and Sherwood Park VW dealership properties.

## SECTION 7 – LIQUIDITY AND CAPITAL RESOURCES

### Capital Structure

<b>Debt</b>	<b>Key Terms</b>					<b>Outstanding as at September 30, 2018</b>	<b>Outstanding as at December 31, 2017</b>
	<b>Term (yrs)</b>	<b>Hedged Term (yrs)</b>	<b>Interest Rate</b>	<b>Payments &amp; Interest/Amortization</b>	<b>Effective Interest Rate (fixed)</b>		
Facility 1	4.7 <sup>(1)</sup>	1.8 to 9.7	BA + 150 bps, Prime +25 bps	(1)	3.41%	<b>\$164,394</b>	\$135,804
Facility 2	3.7 <sup>(2)</sup>	1.8 to 9.3	BA + 150 bps, Prime +25 bps	(2)	3.44%	<b>84,689</b>	80,086
Facility 3	4.1 <sup>(3)</sup>	9.2	BA + 150 bps, Prime +50 bps	(3)	4.02%	<b>63,150</b>	20,000
Mortgages	0.4 to 8.6	n/a	Fixed 3.22% to 3.72 %	P&I, 20 yrs and 25yrs	3.51%	<b>28,646</b>	29,441
						<b>\$340,879</b>	\$265,331
Financing fees						<b>(1,712)</b>	(1,013)
<b>Weighted Average /Total</b>	<b>4.3</b>	<b>5.6</b>			<b>3.48%</b>	<b>\$339,167</b>	<b>\$264,318</b>
<b>Cash Balance</b>						<b>\$312</b>	\$227

<b>Key Financing Metrics and Debt Covenants<sup>(4),(7)</sup></b>	<b>Debt Covenant</b>	<b>Declaration of Trust<sup>(5)</sup></b>	<b>YTD 2018</b>	<b>As at December 31, 2017</b>
Interest coverage	-	-	<b>3.4</b>	3.8
Debt to GBV	<65% <sup>(6)</sup>	<65% <sup>(6)</sup>	<b>53.1%</b>	48.5%
Unitholders' Equity (including Class B LP Units, DUs and IDUs)	>\$120,000	-	<b>\$298,062</b>	\$279,228
Debt Service Coverage	>1.35	-	<b>2.0</b>	2.0
AFFO payout ratio	<100%	-	<b>87.5%</b>	91.5%

(1) Facility 1 and the associated revolving facility matures June 2023.

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

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

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

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

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

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

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

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



Principal repayments are as follows:

Remainder of 2018.....	\$2,830
2019.....	23,212
2020.....	10,984
2021.....	16,582
2022.....	140,030
Thereafter.....	<u>147,241</u>
Total.....	<u>\$340,879</u>

Management believes that the REIT's liquidity position as at September 30, 2018, which includes \$9,562 of undrawn credit facilities and cash on hand of \$312, is sufficient to carry out its obligations, discharge liabilities as they come due and fund distributions to Unitholders.

Capital requirements in the next two years are low, and capital expenditure requirements are expected to be insignificant. 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, 2018, the REIT's Debt to GBV ratio was 53.1% (September 30, 2017 – 45.8%). The increase is due to the acquisitions subsequent to Q3 2017. The net proceeds from the October 2018 Equity Offering were used to repay debt incurred to the fund the purchase price of the BMW Laval and Sherwood Park VW dealership properties, reducing the REIT's overall debt by \$52,400. Management expects that the ratio of Debt to GBV may increase, at least temporarily, following an acquisition by the REIT of one or more additional properties. Interest rates and loan maturities will be reviewed on a regular basis to ensure appropriate debt management strategies are implemented.

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

## Secured Credit Facilities and Mortgages

All the Credit Facilities and mortgages are with Canadian Schedule 1 banks and are secured by all but two of the REIT's investment properties. As at September 30, 2018, the BMW Laval property and the Sherwood Park VW property are unencumbered and are able to be used as security for future financing requirements.

As at September 30, 2018, the REIT had total revolving credit facilities of \$78,900, of which \$9,562 was undrawn (\$4,462 in Facility 1, \$5,100 in Facility 2, and \$nil in Facility 3).

## Financing Fees

During YTD 2018, the REIT incurred financing fees of \$996 (December 31, 2017 - \$636). The amounts are accounted for using the effective interest method, and \$1,712 remains unamortized as at September 30, 2018 (December 31, 2017 - \$1,013).

## Interest Rate Swaps

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on its variable rate financings under Facility 1, Facility 2 and Facility 3. Gains or losses arising from changes

in the fair value of the interest rate derivative contracts are recognized in the consolidated statements of income and comprehensive income. On June 18, 2018, the REIT increased the amount available to be drawn under Facility 1 from \$121,209 to \$151,209, and extended the term from June 2018 to June 2023. The REIT entered into a \$15,000 10 year interest rate swap.

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

Remaining Term (yrs)	Amount (\$000s)	Total Swapped Fixed Rate Debt (%)
1.8	37,702	16.5
3.8	40,467	17.7
4.6	40,091	17.5
6.6	52,992	23.1
7.8	13,912	6.1
9.4	43,588	19.1
<b>5.6</b>	<b>228,752</b>	<b>100.0</b>

As at September 30, 2018, the notional principal amount of the interest rate swaps was \$229,000 (December 31, 2017 - \$190,000) and the fair value adjustment of the interest rate swaps was \$2,004 and \$2,881 for the three- and nine-month periods ended September 30, 2018, respectively, compared to \$3,135 and \$4,444 for the three- and nine-month periods ended September 30, 2017, respectively. This resulted in an asset balance of \$5,436 as at September 30, 2018 (December 31, 2017 - \$2,555).

## Unitholders' Equity (including Class B LP Units)

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

### **REIT Units**

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

Each REIT Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT. All REIT Units rank equally among themselves without discrimination, preference or priority and entitle the holder thereof to receive notice of, to attend and to one vote at all meetings of holders of REIT Units and holders of Special Voting Units (as defined below) or in respect of any written resolution thereof.

Holders of REIT Units are entitled to receive distributions from the REIT if, as and when declared by the Board. Upon the termination or winding-up of the REIT, holders of REIT Units will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine. REIT Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any REIT Units, except for Dilawri as set out in the Exchange Agreement entered into on closing of the IPO between the REIT and certain members of the Dilawri Group, pursuant to which such members of the Dilawri Group have been granted, among other things, certain rights to participate in future offerings of the REIT.

On June 19, 2018, in connection with the acquisition of the Country Hills property, the REIT funded a portion of the \$18,000 purchase price through the issuance of 480,552 REIT Units to the applicable member of the Dilawri Group valued at approximately \$5,000.

On October 16, 2018, the REIT issued an aggregate of 5,100,000 REIT Units at a price of \$10.80 per REIT Unit in connection with the October 2018 Equity Offering for gross proceeds of \$55,080. Issuance costs of \$2,654 were netted against the gross proceeds. The Dilawri Group waived its pre-emptive right to acquire REIT Units in connection with the offering.

As at September 30, 2018, the total number of REIT Units outstanding was 16,696,552 (21,796,552 as of the date of this MD&A).

### ***Class B LP Units***

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

As at September 30, 2018, the total number of Class B LP Units outstanding was 9,933,253.

### ***Deferred Units***

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

A total of 74,545 DUs and IDUs were granted in YTD 2018, of which 28,524 will be accounted for in accordance with their vesting schedule. As at September 30, 2018, the total number of DUs and IDUs granted was 156,819 of which 51,710 were outstanding and fully vested.

### ***Distributions***

Holders of REIT Units are entitled to receive distributions from the REIT (whether of net income, net realized capital gains or other amounts) if, as and when declared by the Board. Upon the termination or winding-up of the REIT, holders of REIT Units will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine. REIT Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any REIT Units, except for Dilawri as set out in the Exchange Agreement, or as otherwise agreed to by the REIT pursuant to a binding written agreement.

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

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

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

## Financing Metrics and Debt Covenants

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

Calculations of financial metrics and debt covenants		As at September 30, 2018	As at December 31, 2017		
<b>Net Asset Value</b>					
Investment properties, IFRS value		\$634,419	\$543,135		
Cash, prepaid and other assets		7,211	4,471		
Accounts payable and accrued liabilities		(4,401)	(4,060)		
Credit Facilities, Mortgages and interest rate swaps		<u>(339,167)</u>	<u>(264,318)</u>		
Total Net Asset Value		<b>\$298,062</b>	<b>\$279,228</b>		
REIT Units, Class B LP Units, DUs & IDUs outstanding		<b>26,780,847</b>	<b>25,773,940</b>		
<b>Debt to GBV</b>					
<i>Indebtedness outstanding :</i>					
Credit Facilities & Mortgages (excludes deferred financing costs)	<b>A</b>	\$340,879	\$265,331		
<i>Gross Book Value</i>					
Total assets	<b>B</b>	641,630	547,606		
Debt to GBV	<b>(A/B) X 100</b>	<b>53.1%</b>	<b>48.5%</b>		
<b>Unitholders' Equity &amp; Class B LP Units &amp; DUs &amp; IDUs</b>					
Unitholders' Equity		\$190,773	\$170,211		
Value of DUs & IDUs		1,202	645		
Value of Class B LP Units		<u>106,087</u>	<u>108,372</u>		
Total Unitholders' Equity & Class B LP Units & DUs & IDUs		<b>298,062</b>	<b>279,228</b>		
<b>Calculations of financial metrics and debt covenants</b>					
<b>Interest coverage</b>		<b>Q3 2018</b>	<b>Q3 2017</b>	<b>YTD 2018</b>	<b>YTD 2017</b>
Cash NOI		\$9,278	\$8,293	\$27,030	\$24,047
General and administrative expenses		<u>(676)</u>	<u>(576)</u>	<u>(1,945)</u>	<u>(1,683)</u>
Income before interest expense and fair value adjustments	<b>C</b>	8,602	7,717	25,085	22,364
Interest expense and other financing charges	<b>D</b>	2,651	2,036	7,334	5,699
Interest Coverage Ratio <sup>(1)</sup>	<b>C/D</b>	<b>3.2X</b>	<b>3.8X</b>	<b>3.4X</b>	<b>3.9X</b>
<b>Debt Service Coverage</b>					
Consolidated net income (loss)		\$5,675	\$12,729	\$25,484	\$19,655
Interest expense and other financing charges		2,651	2,036	7,334	5,699
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>(1,006)</u>	<u>(8,321)</u>	<u>(11,502)</u>	<u>(6,764)</u>
EBITDA	<b>E</b>	9,335	8,459	27,362	24,636
Principal payments on debt		2,821	2,228	6,703	6,500
Interest payments on debt		<u>2,503</u>	<u>1,897</u>	<u>6,996</u>	<u>5,215</u>
Debt Service	<b>F</b>	5,324	4,125	13,699	11,715
Debt Service Ratio <sup>(2)</sup>	<b>E/F</b>	<b>1.8X</b>	<b>2.1X</b>	<b>2.0X</b>	<b>2.1X</b>

**AFFO payout ratio**

AFFO	<u>6,117</u>	<u>5,811</u>	<u>18,232</u>	<u>17,015</u>
Distributions on REIT Units	3,356	3,259	9,907	9,493
Distributions on Class B LP Units	<u>1,997</u>	<u>1,997</u>	<u>5,991</u>	<u>5,991</u>
<b>AFFO payout ratio<sup>(3)</sup></b>	<b>88.2%</b>	<b>90.5%</b>	<b>87.5%</b>	<b>90.8%</b>

- (1) The Interest Coverage Ratio for Q3 2018 and YTD 2018 decreased from the same periods in the previous year due to the increase in interest expense and other financing charges.
- (2) The Debt Service Ratio for Q3 2018 and YTD 2018 decreased compared to the same periods in the previous year, mainly due to increases in interest payments.
- (3) 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, 2018, held an approximate 39.1% effective interest in the REIT on a fully diluted basis, through its ownership of all of the issued and outstanding Class B LP Units and 480,552 REIT Units. The Dilawri Group's effective interest in the REIT was reduced from approximately 39.1% to approximately 32.8% as a result of the October 2018 Equity Offering.

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.

### Administration Agreement

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

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

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



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

General and administrative expenses include \$247 and \$781 for Q3 2018 and YTD 2018, respectively, (Q3 2017 - \$251, YTD 2017 - \$739) paid by the REIT to Dilawri pursuant to the Administration Agreement.

### **Strategic Alliance Agreement**

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

## **SECTION 9 – OUTLOOK**

The Canadian automotive retail industry is a large and stable business with a track record of long-term growth. Over the last 20 years, Canadian automobile retail sales grew at a compound annual rate of 4.6%. For calendar year 2017, this steady growth continued, with sales of new automobiles up 4.7% to 2,076,970 units, compared to 1,983,745 units for 2016 (*Source: Statistics Canada*). For the eight months ended August 31, 2018, sales of new automobiles remain close to 2017 record levels, down 0.4% to 1,423,697 units, compared to 1,428,825 units for the same period in 2017(*Source: Statistics Canada*). Also, certain industry analysts are projecting a modest decline in new vehicle sales for 2018. Diversification of brand and geography remain important as some brands continue to gain market share while certain brands are experiencing sales deterioration. The overall Canadian automotive retail fundamentals support the ability of the automobile dealership tenants within the REIT's portfolio to meet their current lease obligations and the contractual annual rent escalators in place. Potential trade tariff policies may result in a negative impact on future new retail automotive sales (see Section 12 "Risks & Uncertainties, Critical Judgements & Estimates").

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

The REIT is well positioned to acquire additional properties on an accretive basis given management's transaction experience, increasing awareness of the REIT in the automotive dealership community, the REIT's ability to access the capital markets for funding, and the REIT's current strong acquisition capacity. The REIT's Debt to GBV of 53.1% as at September 30, 2018 provides the REIT with the capacity to acquire additional properties in the future.

## SECTION 10 – OTHER DISCLOSURES

### Commitments and Contingencies

In conjunction with the IPO, the REIT and Dilawri entered into the Administration Agreement which covers various operational and administrative services to be provided to the REIT by Dilawri on a cost-recovery basis. The Administration Agreement has a term of 5 years from the closing of the IPO (expiring July 2020) 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 2036 with minimum annual rental commitments as follows:

Within 1 year.....	\$620
After 1 year, but not more than 5 years.....	2,539
More than 5 years.....	7,880
Total.....	<u>\$11,039</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 2018 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR. Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the REIT intends to take whatever steps are necessary to minimize the consequences thereof.

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

## SECTION 11 – QUARTERLY RESULTS OF OPERATIONS

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

(\$ thousands except where otherwise indicated)	Third Quarter 2018	Second Quarter 2018	First Quarter 2018	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017	First Quarter 2017	Fourth Quarter 2016
Number of Properties	42	40	39	39	35	35	34	32
GLA (sq. ft.)	1,665,460	1,467,568	1,425,212	1,425,212	1,366,367	1,366,367	1,307,454	1,270,202
Rental revenue	11,834	11,373	11,306	10,856	10,599	10,467	9,881	9,127
Net Operating Income	9,993	9,659	9,600	9,188	9,017	8,988	8,259	7,683
Net Income	5,675	5,317	14,492	6,594	12,729	5,793	1,132	5,643
Net Income per unit – basic <sup>(i)</sup>	0.213	0.203	0.554	0.252	0.487	0.222	0.046	0.258

Net Income per unit – diluted <sup>(i)</sup>	<b>0.212</b>	0.202	0.552	0.251	0.485	0.221	0.046	0.258
FFO per unit – basic <sup>(iii)</sup>	<b>0.250</b>	0.253	0.255	0.238	0.245	0.250	0.244	0.229
FFO per unit – diluted <sup>(iv)</sup>	<b>0.249</b>	0.252	0.254	0.237	0.244	0.249	0.244	0.229
AFFO per unit – basic <sup>(iii)</sup>	<b>0.230</b>	0.231	0.232	0.216	0.222	0.224	0.219	0.210
AFFO per unit – diluted <sup>(iv)</sup>	<b>0.228</b>	0.229	0.231	0.215	0.222	0.223	0.219	0.210
AFFO payout ratio	<b>88.2%</b>	87.8%	87.0%	93.5%	90.5%	90.1%	91.8%	95.7%
Distribution declared per unit	<b>0.201</b>	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Weighted average Units – basic	<b>26,629,805</b>	26,212,622	26,149,253	26,149,053	26,149,053	26,149,053	24,399,775	21,894,253
Weighted average Units – diluted	<b>26,780,847</b>	26,355,338	26,232,967	26,226,225	26,220,165	26,215,815	24,407,903	21,897,998
Total assets	<b>641,630</b>	580,865	555,301	547,606	514,618	507,814	482,625	464,338
Debt to GBV	<b>53.1%</b>	49.1%	48.7%	48.5%	45.8%	46.5%	43.9%	51.5%
Debt service coverage	<b>1.8X</b>	2.5X	1.9x	1.9x	2.1x	2.1x	2.0x	1.8x

- (i) Net Income (loss) per Unit – basic is calculated in accordance with IFRS by dividing the Net Income (loss) by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.
- (ii) Net Income (Loss) per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income (Loss) by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted as at September 30, 2018, to certain Trustees and management.
- (iii) The FFO and AFFO per Unit-basic is calculated by using the weighted average number of outstanding REIT Units and Class B LP Units. The FFO and AFFO per Unit basic comparable numbers were adjusted in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2018.
- (iv) The FFO and AFFO per Unit-diluted is calculated by using the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted as at September 30, 2018. The FFO and AFFO per Unit diluted comparable numbers were adjusted in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2018.

The increase in rental revenue and NOI is primarily attributable to the sixteen 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

Except as described below, the risks inherent in the REIT's business are identified in the REIT's Management's Discussion and Analysis for the year ended December 31, 2017 ("Annual MD&A") and in its current AIF, all of which remain unchanged at the date of this MD&A and are available at [www.sedar.com](http://www.sedar.com).

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

Furthermore, potential trade tariff policies may have a negative impact on future retail automotive sales through, among other things, increases to new automobile prices.



**Automotive Properties Real Estate Investment Trust**  
**Condensed Consolidated Interim Financial Statements**  
For the period ended September 30, 2018

# Automotive Properties REIT

## Condensed Consolidated Interim Balance Sheets (Unaudited)

<i>(in thousands of Canadian dollars)</i>	<b>Note</b>	<b>As at September 30, 2018</b>	<b>As at December 31, 2017</b>
<b>ASSETS</b>			
Cash and cash equivalents		\$312	\$227
Prepaid expenses and other assets	<b>5</b>	1,463	1,689
Interest rate swaps	<b>6</b>	5,436	2,555
Investment properties	<b>4</b>	634,419	543,135
<b>Total assets</b>		<b>\$641,630</b>	<b>\$547,606</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	<b>7</b>	\$4,401	\$4,060
Credit facilities and mortgages payable	<b>6</b>	339,167	264,318
Deferred Units and Income Deferred Units	<b>10</b>	1,202	645
Class B LP Units	<b>9</b>	106,087	108,372
<b>Total liabilities</b>		<b>450,857</b>	<b>377,395</b>
<b>Unitholders' equity</b>		<b>190,773</b>	<b>170,211</b>
<b>Total liabilities and unitholders' equity</b>		<b>\$641,630</b>	<b>\$547,606</b>

See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees

*"Louis Forbes"*

**Louis Forbes**  
Trustee, Audit Committee Chair

*"John Morrison"*

**John Morrison**  
Trustee, Lead Independent

# Automotive Properties REIT

## Condensed Consolidated Interim Statements of Income and Comprehensive Income (Unaudited)

<i>(in thousands of Canadian dollars)</i>		Three months ended September 30,		Nine months ended September 30,	
	Note	2018	2017	2018	2017
<b>Net Property Income</b>					
Rental revenue from investment properties	11	\$11,834	\$10,599	\$34,513	\$30,947
Property costs	11	(1,841)	(1,582)	(5,261)	(4,683)
Net Operating Income		9,993	9,017	29,252	26,264
<b>Other Income (Expenses)</b>					
General and administrative expenses		(676)	(576)	(1,945)	(1,683)
Interest expense and other financing charges		(2,651)	(2,036)	(7,334)	(5,699)
Fair value adjustment on interest rate swaps	6	2,004	3,135	2,881	4,444
Distribution expense on Class B LP Units	8	(1,997)	(1,997)	(5,991)	(5,991)
Fair value adjustment on Class B LP Units and Deferred Units	9, 10	(2,453)	900	2,261	(3,280)
Fair value adjustment on investment properties	4	1,455	4,286	6,360	5,600
Net Income and Comprehensive Income		\$5,675	\$12,729	\$25,484	\$19,655

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, 2018  
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
<b>Unitholders' Equity at December 31, 2017</b>		<b>\$154,933</b>	<b>\$38,487</b>	<b>\$(23,209)</b>	<b>\$170,211</b>
Issuance of Units	9	4,985			4,985
Net Income			25,484		25,484
Distributions	8			(9,907)	(9,907)
<b>Unitholders' Equity at September 30, 2018</b>		<b>\$159,918</b>	<b>\$63,971</b>	<b>\$(33,116)</b>	<b>\$190,773</b>

For the nine months ended September 30, 2017  
(in thousands of Canadian dollars)

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

See accompanying notes to the condensed consolidated interim financial statements.

# Automotive Properties REIT

## Condensed Consolidated Interim Statements of Cash Flow (Unaudited)

<i>(in thousands of Canadian dollars)</i>	Note	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
<b>OPERATING ACTIVITIES</b>					
Net income		\$5,675	\$12,729	\$25,484	\$19,655
Straight-line rent		(715)	(724)	(2,222)	(2,217)
Non-cash compensation expense		165	130	480	350
Fair value adjustment on interest rate swaps		(2,004)	(3,135)	(2,881)	(4,444)
Distributions expense on Class B LP Units		1,997	1,997	5,991	5,991
Fair value adjustment on Class B LP Units and Deferred Units		2,453	(900)	(2,261)	3,280
Fair value adjustment on investment properties		(1,455)	(4,286)	(6,360)	(5,600)
Interest expense and other charges		2,531	1,971	7,036	5,511
Financing fees		120	65	298	188
Amortization of other assets		18	18	55	55
Change in non-cash operating accounts	17	449	(315)	954	(1,762)
<b>Cash Flow from operating activities</b>		<b>9,234</b>	<b>7,550</b>	<b>26,574</b>	<b>21,007</b>
<b>INVESTING ACTIVITIES</b>					
Acquisitions of investment properties		(56,509)	-	(72,086)	(40,713)
Development activities		(66)	-	(6,117)	-
<b>Cash Flow used in investing activities</b>		<b>(56,575)</b>	<b>-</b>	<b>(78,203)</b>	<b>(40,713)</b>
<b>FINANCING ACTIVITIES</b>					
Proceeds from Credit Facilities and Mortgages - net		58,347	1,901	82,250	2,900
Principal repayment on Credit Facilities and Mortgages		(2,821)	(2,228)	(6,703)	(6,500)
Interest paid		(2,503)	(1,897)	(6,996)	(5,215)
Financing fees paid		(329)	(127)	(956)	(310)
Issuance of Units, net of costs		-	-	(15)	43,933
Distributions to REIT unitholders and Class B LP unitholders		(5,353)	(5,256)	(15,866)	(15,198)
<b>Cash Flow from/(used in) financing activities</b>		<b>47,341</b>	<b>(7,607)</b>	<b>51,714</b>	<b>19,610</b>
Net increase (decrease) in cash and cash equivalents during the period		-	(57)	85	(96)
Cash and cash equivalents, beginning of period		312	218	227	257
<b>Cash and cash equivalents, end of period</b>		<b>\$312</b>	<b>\$161</b>	<b>\$312</b>	<b>\$161</b>

### Supplemental cash flow information

Issuance of units on acquisition of investment property (Note 3)	\$-	\$-	\$5,000	\$-
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*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, 2018 and 2017  
(in thousands of Canadian dollars, except Unit and per Unit amounts)

## 1. NATURE OF OPERATIONS

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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 39.1% effective interest in the REIT as at September 30, 2018, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership") and 480,552 Units. The Class B LP Units are economically equivalent to, and exchangeable for, Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

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

As at September 30, 2018, the REIT owned a portfolio of 42 income producing commercial properties, and one development property. These properties are located in Ontario, Saskatchewan, Alberta, British Columbia and Quebec, totaling approximately 1.7 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 34 of the REIT's 42 income producing properties.

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

## 2. SIGNIFICANT ACCOUNTING POLICIES

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### (a) Statement of Compliance

The unaudited condensed consolidated interim financial statements of the REIT are prepared in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting", as issued by the International Accounting Standards Board ("IASB"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the REIT's audited annual consolidated financial statements and the accompanying notes thereto as at and for the year ended December 31, 2017. 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 13, 2018.

### (b) Basis of Presentation

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

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

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

### (c) Basis of Consolidation

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

### (d) Significant accounting policies

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

#### IFRS 9 — *Financial Instruments*:

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

#### IFRS 15 — *Revenue from Contracts with Customers*:

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

#### Future accounting standards:

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

#### Property under development:

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

## 3. ACQUISITIONS

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On February 13, 2018, the REIT acquired from a third party the real estate underlying an automotive dealership property located in the Kitchener-Waterloo, Ontario area (the "KW Development Property"), which is to be redeveloped for a luxury, high-end car company that will occupy the premises. As at September 30, 2018, \$6,117 in development, interest, and acquisition costs have been incurred with regards to the KW Development Property. The REIT has completed its development commitments and the tenant has commenced its construction requirements.

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

On June 19, 2018, the REIT acquired the real estate underlying the Country Hills Volkswagen automotive dealership located in Calgary, Alberta (the "Country Hills"), for approximately \$18,000 plus acquisition costs of \$69, from the Dilawri Group. The REIT funded a portion of the \$18,000 purchase price for the property through the issuance of

480,552 Units to the vendor, valued at approximately \$5,000. The remaining \$13,000 of the purchase price was funded through draws on the REIT's credit facilities and cash on hand. The Country Hills property is a 34,650 square foot full-service automotive dealership property.

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

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

Property	Location	Date of Acquisition	Total Investment Properties <sup>(1)</sup>	Consideration		
				Debt Financing	Payables	Cash
Go Mazda	Edmonton, AB	22-Mar	\$8,040	\$-	\$-	\$8,040
VW Barrie	Barrie, ON	31-Mar	9,063	8,120	150	793
Heritage Honda	Calgary, AB	7-Apr	23,610	23,556	-	54
Edmonton Portfolio	Edmonton, AB	1-Dec	23,331	23,331	-	-
Mazda Des Sources	Dorval, QC	15-Dec	8,148	7,529	619	-
<b>Total Acquisitions</b>			<b>\$72,192</b>	<b>\$62,536</b>	<b>\$769</b>	<b>\$8,887</b>

(1) Includes acquisition costs.

#### 4. INVESTMENT PROPERTIES

	Income producing properties	Property under development <sup>(1)</sup>	September 30, 2018	December 31, 2017
Balance, beginning of period	\$543,135	\$-	\$543,135	\$461,809
Acquisitions <sup>(2)</sup>	76,585	5,541	82,126	72,192
Capitalized costs and interest	-	576	576	-
Fair value adjustment on investment properties	6,360	-	6,360	6,204
Straight-line rent	2,222	-	2,222	2,930
<b>Balance, end of period</b>	<b>\$628,302</b>	<b>\$6,117</b>	<b>\$634,419</b>	<b>\$543,135</b>

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

(2) Includes acquisition costs.

#### Valuation of Investment Properties

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

A 25 basis point decrease or increase in capitalization rates would result in an increase or decrease in the fair value of the investment properties of approximately \$25,455 or \$(23,564), respectively.

#### Rental Commitments

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

Within 1 year	\$41,743
After 1 year, but not more than 5 years	169,436
More than 5 years	384,944
	<b>\$596,123</b>

## 5. PREPAID EXPENSES AND OTHER

As at	September 30, 2018	December 31, 2017
Prepaid indemnity fee	\$765	\$819
Prepaid other	698	870
	<b>\$1,463</b>	<b>\$1,689</b>

## 6. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit facilities and mortgages consist of:

As at	September 30, 2018	December 31, 2017
Facility 1 <sup>(i)</sup>	<b>\$164,394</b>	\$135,804
Facility 2 <sup>(ii)</sup>	<b>84,689</b>	80,086
Facility 3 <sup>(iii)</sup>	<b>63,150</b>	20,000
Mortgages <sup>(iv)</sup>	<b>28,646</b>	29,441
Total	<b>\$340,879</b>	\$265,331
Financing fees <sup>(v)</sup>	<b>(1,712)</b>	(1,013)
	<b>\$339,167</b>	<b>\$264,318</b>

(i) Facility 1 includes:

A non-revolving loan in the amount of \$149,694 (December 31, 2017 - \$122,554) bearing interest at the Canadian Prime rate ("Prime") plus 25 basis points ("bps") or the bankers' acceptance ("BA") rate plus 150 bps. The principal is repayable in equal quarterly payments based on a 25 year amortization. On June 18, 2018, the REIT combined its non-revolving outstanding loans in respect of Facility 1, increased the amount by \$30,000 and extended the maturity to June 2023. The REIT entered into floating-to-fixed interest rate swaps, with remaining terms of 2 to 10 years and which have resulted in a weighted average effective interest rate of 3.41% and of which \$15,000 of the non-revolving balance remains at floating rates.

On June 18, 2018, the REIT increased the amount available under the revolving credit facility to \$20,000 (December 31, 2017 - \$15,000), bearing interest at Prime plus 25 bps or BA rate plus 150 bps and maturing in June 2023. \$14,700 was drawn as at September 30, 2018 (December 31, 2017 - \$13,250) and of which \$838 was secured for the issuance of irrevocable letters of credit (the "LCs") on October 24, 2017.

(ii) Facility 2 includes:

A non-revolving loan in the amount of \$74,789 (December 31, 2017 - \$77,086) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in June 2022, at which point it will become a demand loan. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps, with remaining terms of 2 to 10 years and which have resulted in a weighted average effective interest rate of 3.44%.

A revolving credit facility in the amount of \$15,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2022, of which \$9,900 was drawn as at September 30, 2018 (December 31, 2017 - \$3,000).

(iii) Facility 3 includes:

A non-revolving loan in the amount of \$19,250 (December 31, 2017 - \$20,000) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps, maturing in December 2022, at which point it will become a demand loan. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into a floating-to-fixed interest rate swap, with a remaining term of 10 years, and which resulted in a weighted average effective interest rate of 4.02%.



On September 26, 2018, the REIT increased the amount available under the revolving credit facility to \$43,900 (December 31, 2017 - \$14,000), bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2022, of which \$43,900 was drawn as at September 30, 2018 (December 31, 2017 - \$nil).

(iv) **Mortgages:**

The REIT has entered into certain mortgages with Canadian Schedule 1 banks that have interest rates that range from 3.22% to 3.72% and have maturity dates that range from February 2019 to June 2027. As at September 30, 2018, the weighted average interest rate of the mortgages was 3.51% (December 31, 2017 - 3.51%).

(v) During the nine-month period ended September 30, 2018, the REIT incurred financing fees of \$996 (December 31, 2017 - \$636). The amounts are accounted for using the effective interest method, and \$1,712 remains unamortized at September 30, 2018 (December 31, 2017 - \$1,013).

The credit facilities described above (the "Credit Facilities") and the mortgages (the "Mortgages") are secured by the REIT's investment properties, except for the BMW Laval property and the Sherwood Park VW property.

Principal repayments are as follows:

Remainder of 2018 .....	\$2,830
2019 .....	23,212
2020 .....	10,984
2021 .....	16,582
2022 .....	140,030
Thereafter .....	<u>147,241</u>
Total .....	<u>\$340,879</u>

(b) **Interest Rate Swaps**

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

As at September 30, 2018, the notional principal amount of the interest rate swaps was approximately \$229,000 (December 31, 2017 - approximately \$190,000) and the fair value adjustment of the interest rate swaps was \$2,004 and \$2,881 for the three- and nine-month periods ended September 30, 2018, respectively, compared to \$3,135 and \$4,444 for the three- and nine-month periods ended September 30, 2017, respectively. This resulted in an asset balance of \$5,436 (December 31, 2017 - \$2,555).

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

<b>As at</b>	<b>September 30, 2018</b>	<b>December 31, 2017</b>
Accounts payable and accrued liabilities	<b>\$2,261</b>	\$1,993
Accrued interest	<b>355</b>	315
Distributions payable (Note 8)	<b>1,785</b>	1,752
	<b>\$4,401</b>	\$4,060

## 8. DISTRIBUTIONS

Three months ended September 30, 2018							Three months ended September 30, 2017						
	Units	Class B LP Units	Total		Units	Class B LP Units	Total		Units	Class B LP Units	Total		Units
Paid in Cash	\$3,356	\$1,997	\$5,353		\$3,259	\$1,997	\$5,256		\$3,259	\$1,997	\$5,256		\$3,259
Declared	3,356	1,997	5,353		3,259	1,997	5,256		3,259	1,997	5,256		3,259
Payable as at period end	1,119	666	1,785		1,086	666	1,752		1,086	666	1,752		1,086

Nine months ended September 30, 2018							Nine months ended September 30, 2017						
	Units	Class B LP Units	Total		Units	Class B LP Units	Total		Units	Class B LP Units	Total		Units
Paid in Cash	\$9,875	\$5,991	\$15,866		\$9,207	\$5,991	\$15,198		\$9,207	\$5,991	\$15,198		\$9,207
Declared	9,907	5,991	15,898		9,493	5,991	15,484		9,493	5,991	15,484		9,493
Payable as at period end	1,119	666	1,785		1,086	666	1,752		1,086	666	1,752		1,086

## 9. UNITHOLDERS' EQUITY AND CLASS B LP UNITS

### Units

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

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

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

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

### Class B LP Units

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

**For the nine months ended September 30, 2018**

	<b>Units</b>	<b>Amount</b>
Units, beginning of period	16,216,000	\$154,933
Units issued, net of costs	480,552	4,985
<b>Total Units, end of period</b>	<b>16,696,552</b>	<b>159,918</b>
Class B LP Units, beginning of period	9,933,253	\$108,372
Fair value adjustment on Class B LP Units	-	(2,285)
<b>Total Class B LP Units, end of period</b>	<b>9,933,253</b>	<b>\$106,087</b>
<b>Total Units and Class B LP Units, end of period</b>	<b>26,629,805</b>	<b>\$266,005</b>

**For the year ended December 31, 2017**

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

## **10. UNIT BASED-COMPENSATION**

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

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

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

During the nine months ended September 30, 2018, the REIT accrued for short-term incentive awards in the amount of \$217 which will be settled by the granting of DUs (September 30, 2017 - \$201).

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

	As at September 30, 2018		As at December 31, 2017	
	Units	Amount	Units	Amount
Outstanding DUs and IDUs, beginning of period	59,088	\$645	7,428	\$ 79
DUs	45,573	475	48,959	539
IDUs	5,266	58	2,701	30
Fair value adjustments		24	-	(3)
<b>Outstanding DUs and IDUs, end of period <sup>(1)</sup></b>	<b>109,927</b>	<b>\$1,202</b>	<b>59,088</b>	<b>\$645</b>

(1) For the nine-month period ended September 30, 2018, a total of 74,545 DUs and IDUs were granted, of which 28,524 DUs and IDUs will be accounted for in accordance with the vesting schedule.

## 11. RENTAL REVENUE AND PROPERTY COSTS

### (a) Rental Revenue

<i>For the three months ended September 30,</i>	<b>2018</b>	<b>2017</b>
Base rent	\$9,452	\$8,437
Property tax recoveries	1,642	1,413
Straight line rent adjustment	740	749
<b>Rental revenue</b>	<b>\$11,834</b>	<b>\$10,599</b>

<i>For the nine months ended September 30,</i>	<b>2018</b>	<b>2017</b>
Base rent	\$27,492	\$24,479
Property tax recoveries	4,723	4,176
Straight line rent adjustment	2,298	2,292
<b>Rental revenue</b>	<b>\$34,513</b>	<b>\$30,947</b>

### (b) Property Costs

<i>For the three months ended September 30,</i>	<b>2018</b>	<b>2017</b>
Property tax expense	\$1,672	\$1,413
Land lease	144	144
Straight line land lease adjustment	25	25
<b>Property cost</b>	<b>\$1,841</b>	<b>\$1,582</b>

<i>For the nine months ended September 30,</i>	<b>2018</b>	<b>2017</b>
Property tax expense	\$4,753	\$4,176
Land lease	432	432
Straight line land lease adjustment	76	75
<b>Property cost</b>	<b>\$5,261</b>	<b>\$4,683</b>

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

## 12. SEGMENT INFORMATION

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

## 13. CAPITAL MANAGEMENT

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

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

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

The REIT has certain key financial covenants in its Credit Facilities and Mortgages, including debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the REIT on an ongoing basis to ensure compliance with the agreements. As at September 30, 2018, the REIT was in compliance with each of the covenants under these agreements.

## 14. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

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

The following table provides the classification and measurement of financial assets and liabilities as at September 30, 2018:

	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)
<b>Financial Assets/(Liabilities)</b>					
Credit Facilities and Mortgages	\$-	\$(339,167)	\$(340,879)	\$(339,167)	\$(340,879)
Interest rate swaps	5,436	-	-	5,436	5,436
Class B LP Units	(106,087)	-	-	(106,087)	(106,087)
DUs and IDUs	(1,202)	-	-	(1,202)	(1,202)
	<b>\$(101,853)</b>	<b>\$(339,167)</b>	<b>\$(340,879)</b>	<b>\$(441,020)</b>	<b>\$(442,732)</b>

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

	<b>Fair value through profit or loss</b>	<b>Loans and receivables / other financial liabilities</b>		<b>Total</b>	<b>Total</b>
Measurement basis	(Fair value)	(Amortized cost)	(Fair value)	(Carrying value)	(Fair value)
<b>Financial Assets/(Liabilities)</b>					
Credit Facilities and Mortgages	\$-	\$(264,318)	\$(265,331)	\$(264,318)	\$(265,331)
Interest rate swaps	2,555	-	-	2,555	2,555
Class B LP Units	(108,372)	-	-	(108,372)	(108,372)
DUs and IDUs	(645)	-	-	(645)	(645)
	<b>\$(106,462)</b>	<b>\$(264,318)</b>	<b>\$(265,331)</b>	<b>\$(370,780)</b>	<b>\$(371,793)</b>

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

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

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

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

(i) Investment Properties

The REIT assessed the valuation of the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. The fair value of investment properties as at September 30, 2018 is \$634,419 (December 31, 2017 - \$543,135) (Level 3).

(ii) Credit Facilities and Mortgages

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

(iii) Interest Rate Swaps

The fair value of the REIT's interest rate swaps, which represents an asset as at September 30, 2018, is \$5,436 (December 31, 2017 - \$2,555). The fair value of an interest rate swap is determined using rates observable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at September 30, 2018 is \$106,087 (December 31, 2017 - \$108,372). The fair value of the Class B LP Units is based on the traded value of the Units as at September 30, 2018 (Level 1).

(v) DUs and IDUs

The fair value of the DUs and IDUs as at September 30, 2018 is \$1,202 (December 31, 2017 - \$645). The fair value of the DUs and IDUs is based on the traded value of the Units as at September 30, 2018 (Level 1).



## Financial Risk Management

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

### Market Risk

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

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

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

### Liquidity Risk

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

## 15. COMMITMENTS AND CONTINGENCIES

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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 2036 with minimum annual rental commitments as follows:

Within 1 year .....	\$620
After 1 year, but not more than 5 years .....	2,539
More than 5 years .....	<u>7,880</u>
Total .....	<u>\$11,039</u>

## 16. RELATED PARTY TRANSACTIONS

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The REIT's independent trustees approve all related party transactions in accordance with the Related Party Transaction Policy adopted by the Board. The Dilawri Tenants are the REIT's major tenant and accounted for approximately 86.9% of the REIT's rental income for both the three- and nine-month periods ended September 30, 2018 (90.3% and 90.5% for the three- and nine-month periods ended September 30, 2017, 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 (expiring in July 2020) and will be automatically renewed for successive one year terms, subject to certain termination rights set out in the agreement. Services are provided under the Administration Agreement on a cost-recovery basis.

General and administrative expenses include \$781 for the nine-month period ended September 30, 2018 paid by the REIT to Dilawri pursuant to the Administration Agreement (September 30, 2017 - \$739).

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

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

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

## 17. 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,	
	2018	2017	2018	2017
Prepaid expenses and other assets	<b>\$(35)</b>	\$(75)	<b>\$172</b>	\$(107)
Accounts payable and accrued liabilities	<b>484</b>	(240)	<b>782</b>	(1,655)
Change in non-cash operating accounts	<b>\$449</b>	\$(315)	<b>\$954</b>	\$(1,762)

## 18. SUBSEQUENT EVENT

On October 16, 2018, the REIT issued an aggregate of 5,100,000 Units at a price of \$10.80 per Unit in connection with a public offering of Units for gross proceeds of \$55,080 (the "October 2018 Equity Offering"). Issuance costs of \$2,654 were netted against the gross proceeds. The Dilawri Group waived its pre-emptive right to acquire Units in connection with the October 2018 Equity Offering. Upon closing of the October 2018 Equity Offering, Dilawri's effective interest in the REIT was reduced from approximately 39.1% to approximately 32.8%.

## 19. COMPARATIVES

Certain comparatives have been recast to conform to the current reporting period presentation.