



**European Commercial  
Real Estate Investment Trust  
(Formerly European Commercial  
Real Estate Limited)**

Condensed Consolidated Interim Financial Statements  
**For the three and six months ended  
June 30, 2017**

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Condensed Consolidated Interim Statement of Financial Position  
(unaudited)

As at June 30, 2017

	June 30, 2017 \$	December 31, 2016 \$
<b>Non-current Assets</b>		
Investment properties (note 4)	63,844,030	-
<b>Current Assets</b>		
Cash	11,527,035	3,164,675
Accounts receivable	183,548	-
Prepaid expense	6,747	-
Acquisition deposit	-	1,582,158
Deferred financing fees	15,000	70,845
Deferred acquisition costs (note 15)	235,877	226,630
Deferred share issuance costs (note 15)	1,006,282	146,448
	<u>12,974,489</u>	<u>5,190,756</u>
<b>Total Assets</b>	<u>76,818,519</u>	<u>5,190,756</u>
<b>Non-current liabilities</b>		
Mortgages payable (note 5)	36,538,728	-
Interest rate swap	175,598	-
Unit option liability (note 11)	233,570	-
Class B LP Units (note 8)	3,941,280	-
Deferred income taxes (note 7)	130,551	-
	<u>41,019,727</u>	<u>-</u>
<b>Current liabilities</b>		
Current portion of mortgages payable (note 5)	841,635	-
Accounts payable and accrued liabilities	5,195,294	449,856
Unearned revenue	16,954	-
	<u>6,053,883</u>	<u>449,856</u>
<b>Total liabilities</b>	<u>47,073,610</u>	<u>449,856</u>
<b>Unitholders' Equity</b>		
Unit capital (note 9)	31,644,540	4,777,896
Contributed surplus	-	49,625
Deficit	(2,056,984)	(86,621)
Accumulated other comprehensive income	157,353	-
	<u>29,744,909</u>	<u>4,740,900</u>
<b>Total Unitholders' Equity</b>	<u>29,744,909</u>	<u>4,740,900</u>
<b>Total Liabilities and Unitholders' Equity</b>	<u>76,818,519</u>	<u>5,190,756</u>

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Condensed Consolidated Interim Statement of Loss and Comprehensive Loss  
(unaudited)

For the three and six months ended June 30, 2017

	Three Months Ended June 30, 2017 \$	Six Months Ended June 30, 2017 \$
<b>Net rental income</b>		
Property revenue	855,623	1,061,631
Property expenses	<u>(221,807)</u>	<u>(301,292)</u>
<b>Net rental income</b>	633,816	760,339
Professional fees	(756,456)	(1,374,131)
Foreign exchange gain/(loss)	(93,582)	(63,855)
Fair value adjustment of investment properties	(831,070)	(49,518)
Fair Value adjustment of Class B LP units	342,720	342,720
Unit-based compensation	<u>(24,786)</u>	<u>(99,098)</u>
<b>Loss before finance expenses</b>	(729,358)	(484,543)
<b>Finance expenses</b>		
Interest expense	(144,367)	(187,101)
Fair value adjustment of interest rate swap	<u>65,612</u>	<u>(171,394)</u>
<b>Loss before income tax</b>	(808,113)	(842,038)
Current income tax expense (note 7)	(3,210)	(3,210)
Deferred income tax expense (note 7)	<u>(27,752)</u>	<u>(130,551)</u>
<b>Net Loss</b>	(839,075)	(975,799)
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to net income		
Foreign currency translation	<u>191,008</u>	<u>157,353</u>
<b>Net loss and comprehensive loss for the period</b>	<u>(648,067)</u>	<u>(818,446)</u>

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Condensed Consolidated Interim Statement of Changes in Unitholders' Equity  
(unaudited)

For the six months ended June 30, 2017

	Unit Capital \$	Contributed surplus \$	Deficit \$	Accumulated other comprehensive income \$	Total \$
<b>Balance - December 31, 2016</b>	4,777,896	49,625	(86,621)	-	4,740,900
Capital issued (note 8)	33,800,000				33,800,000
Capital issuance cost	(3,559,073)				(3,559,073)
Share-based compensation		105,670			105,670
Common shares exchanged for Class B LP Units (note 7)	(3,374,283)		(909,717)		(4,284,000)
Conversion of share-based option plan to unit-based option plan (note 10)		(155,295)	(84,847)		(240,142)
Net loss for the period			(975,799)		(975,799)
Foreign currency translation adjustment				157,353	157,353
<b>Balance – June 30, 2017</b>	<b>31,644,540</b>	<b>-</b>	<b>(2,056,984)</b>	<b>157,353</b>	<b>29,744,909</b>

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Condensed Consolidated Interim Statement of Cash Flows  
(unaudited)

For the six months ended June 30, 2017

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\$

## Cash provided by (used in)

### Operating activities

Net loss for the period	(975,799)
Adjustment items not involving cash:	
Amortization of deferred financing costs	8,003
Fair value adjustment of investment properties	49,518
Unit-based compensation	99,098
Fair value adjustment of Class B LP units	(342,720)
Foreign exchange	(200,933)
Fair value adjustment of interest rate swap	171,394
Deferred income taxes	130,551
Changes in non-cash working capital:	
Accounts receivable	(191,318)
Prepaid expenses	(6,747)
Accounts payable and accrued liabilities	957,386

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Total cash used in operating activities	(301,567)
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### Financing activities

Issuance of capital (net of issuance costs) (note 7)	31,494,792
Deferred issuance costs	(33,307)
Proceeds received from mortgages	37,227,142
Mortgage principal repayments	(135,547)

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Total cash generated by financing activities	68,553,080
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### Investing activities

Acquisition of investment properties	(59,842,641)
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Total cash used in investing activities	(59,842,641)
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<b>Increase in cash during the period</b>	<b>8,408,872</b>
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<b>Effect of foreign exchange rate changes on cash</b>	<b>(46,512)</b>
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<b>Cash - Beginning of period</b>	<b>3,164,675</b>
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<b>Cash - End of period</b>	<b>11,527,035</b>
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# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Notes to Condensed Consolidated Interim Financial Statements  
(unaudited)

For the three and six months ended June 30, 2017

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## 1 Organization

European Commercial Real Estate Investment Trust (the “REIT”) is the successor to European Commercial Real Estate Limited (the “Company”) following the conversion of the Company to a real estate investment trust. The Company was incorporated under the *Business Corporations Act* (Ontario) on July 25, 2016. On May 1, 2017, shareholders of the Company voted to approve a plan of arrangement (the Arrangement) providing for the conversion of the Company into the REIT. The Arrangement became effective May 3, 2017. The conversion was accounted for as a continuity of interest, and accordingly, these condensed consolidated interim financial statements are reflective as if the REIT had always carried on the business formerly carried on by the Company. Further details of the Arrangement are contained in the management information circular dated April 3, 2017 which can be found at [www.sedar.com](http://www.sedar.com).

On January 31, 2017, the Company completed the purchase of a property in Dusseldorf, Germany (note 3). The purchase was approved by the TSX Venture Exchange as the Company’s qualifying transaction as defined in Policy 2.4 of the TSX Venture Exchange (the qualifying transaction).

The Company ceased to be a capital pool company (CPC) upon the completion of its qualifying transaction on January 31, 2017.

On February 15, 2017, the REIT, an unincorporated, open-ended real estate investment trust governed by the laws of the province of Ontario, was established pursuant to the declaration of trust then dated, and the company acquired 1 trust unit of the REIT for cash of \$10. The registered office address of the REIT is 199 Bay Street, Suite 5300, Toronto, Ontario.

In accordance with the Arrangement, (i) all common shares of the Company (the Common Shares) were consolidated based on a ratio of one Common Share for every 31.25 Common Shares held, (ii) all outstanding Common Shares and class B common shares of the Company were transferred to ECRE Limited Partnership (ECRE LP), a subsidiary of the REIT, for units of the REIT (the Units) and/or, in the case of certain eligible holders of Common Shares, for class B limited partnership units of ECRE LP (Class B LP Units), in each case, at an exchange ratio of one to one. Holders of Class B LP Units also received special voting units of the REIT that will each initially entitle the holder to one vote at meetings of holders of Units of the REIT.

## 2 Summary of significant accounting policies

These condensed consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting. They do not include all the information and disclosures required by IFRS applicable for annual consolidated financial statements, and therefore, they should be read in conjunction with the annual audited consolidated financial statements. These condensed consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT. The condensed consolidated financial statements were authorized for issue on August 25, 2017 by the board of trustees of the REIT.

# **European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)**

Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

**For the three and six months ended June 30, 2017**

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## **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries. Subsidiaries are fully consolidated from the date of acquisition, which is the date on which the REIT obtains control, and continue to be consolidated until the date that such control ceases. Control exists when the REIT has the power over the entity, has exposure to variable returns from its involvement with the entity and has the ability to use its power over the investee to affect its returns. All intercompany balances, income and expenses, and unrealized gains and losses resulting from intercompany transactions are eliminated in full.

## **Significant accounting judgments, estimates and assumptions**

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and the reported amount of expenses during the period. Actual results may differ from these estimates. The estimates and judgements used in determining the recorded amount for asset, liabilities and equity in the financial statements include the following:

### *Investment properties*

The critical assumptions and estimates used when determining the fair value of investment properties are discounted cash flows and discount rates. Management determines fair value by utilizing a fair value appraisal performed by an independent valuator.

The REIT also applies judgement in determining whether the properties it has acquired are considered to be an asset acquisition or a business combination. The REIT considers the properties it has acquired to be asset acquisitions.

## **Cash**

Cash includes cash held in trust by the REIT's legal counsel and cash held in banks.

## **Investment Properties**

The REIT has selected the fair value method to account for real estate classified as investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value, with gains or losses in the fair value of the investment properties recognized in the consolidated statement of loss and comprehensive loss in the period in which they arise.

## **Revenue recognition**

Revenue includes base rents earned from tenants under lease agreements, realty tax and operating cost recoveries, lease termination fees, parking revenue and other incidental income. Lease related revenue is recognized as revenue over the term of the underlying leases. Other revenue is recognized at the time the

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

For the three and six months ended June 30, 2017

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service is provided.

The REIT follows the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable is recorded for the difference, if any, between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant.

## Deferred acquisition costs

Deferred acquisition costs include transaction costs directly attributable to asset acquisition of investment properties, where it is probable that the acquisition will be completed.

## Financial instruments

The REIT's financial instruments consist of cash, accounts receivable, accounts payable, interest rate swap, mortgages payable, unit option liability and Class B LP units. All financial instruments are initially recognized at fair value. Subsequent measurement depends on the nature and classification adopted for the financial instrument as follows:

Financial instrument	Classification	Measurement
Cash	Loans and receivable	Amortized cost
Accounts receivables	Loans and receivable	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost
Interest rate swap	Other liabilities	Fair value
Unit option liability	Other liabilities	Fair value
Class B LP units	Other liabilities	Amortized cost

Financial assets are derecognized when contractual rights to the cash flows from the assets expire.

The REIT determines the fair value measurement based on the following hierarchy:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data

As at June 30, 2017, interest rate swaps are considered Level 2, and the fair values recorded or disclosed relating to investment properties, and mortgages payable are considered Level 3. There have been no transfers in or out of Level 3 during the reporting period.

## Unit capital

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable at the option of the REIT's unitholders. IAS 32 requires redeemable instruments to be accounted for as financial liabilities,

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except where certain conditions are met, known as the Puttable Instrument Exemption. The Units meet the Puttable Instrument Exemption criteria, and are therefore classified and presented as equity in the condensed consolidated interim statement of financial position. In addition to the Units, certain shareholders elected to have their Common Shares converted to Class B LP Units upon the Company's conversion to a REIT. These Class B LP Units do not qualify for the Puttable Instrument Exemption, are classified as liabilities on the condensed consolidated interim statement of financial position. They are remeasured at each reporting date at their amortized cost which approximates fair value.

## **Unit-based compensation**

The fair value method is used to account for all options issued under the REIT's Unit based plans. Fair value at the reporting date is established through the application of the Black-Scholes option valuation model. The fair value of options issued to employees, trustees, officers and consultants of the REIT is credited to Unit option liability and expensed over the vesting period of the options. On exercise of the Unit options, consideration received is recorded to Unit capital.

## **Foreign currency translation**

### **(i) Functional and presentation currency**

Items included in the financial statements of each of the REIT's subsidiaries are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the REIT's operating subsidiaries is the Euro.

### **(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency of the trust using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at period-end of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statement of loss and comprehensive loss.

### **(iii) Group entities**

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings are taken to other comprehensive income.

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## **Income taxes**

The REIT follows the asset and liability method of accounting for income taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in equity, in which case the income tax is also recognized in equity. Current tax assets and liabilities are recognized at the amount expected to be paid or received from tax authorities using rates enacted or substantively enacted at the consolidated balance sheet date. Deferred tax assets and liabilities are recognized at the tax rates enacted or substantively enacted at the consolidated balance sheet date for the period that an asset is expected to be realized or a liability is expected to be settled. Deferred tax assets are recognized only to the extent that it is probable that future taxable profit will be generated and available for the asset to be utilized against.

## **Segment reporting**

The REIT owns and operates investment properties in Europe. In measuring performance, the REIT does not distinguish its operations on a geographic or any other basis and accordingly, has a single reportable segment for disclosure purposes.

## **Changes in accounting policies**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2017. None of these is expected to have a significant impact on the REIT's financial statements, except for the following set out below:

i) IFRS 15, Revenue from Contracts with Customers ("IFRS 15") was issued in May 2014 and replaces IAS 11, Construction Contracts and IAS 18, Revenue and related interpretations. IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain benefits from the good or service. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The REIT is in the process of evaluating the potential impact of IFRS 15 on its consolidated financial statements.

ii) In July 2014, IFRS 9, Financial Instruments ("IFRS 9") was issued to replace IAS 39, Financial Instruments - Recognition and Measurement. IFRS 9 uses a single simplified approach to determine whether or not a financial asset is measured at amortized cost or fair value and establishes three measurement categories for financial assets: amortized cost, fair value through OCI and fair value through profit and loss. The classification in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. IFRS 9 introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright lines hedge effectiveness tests and allowing for better alignment with managements' risk management activities. The standard is effective for accounting periods beginning on or after January 1, 2018. The REIT is in the process of evaluating the potential impact of IFRS 9 on its consolidated financial statements.

iii) In January 2016, IFRS 16, Leases ("IFRS 16") was issued. The standard identifies a lease as a contract

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Notes to Condensed Consolidated Interim Financial Statements  
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For the three and six months ended June 30, 2017

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conveying the right to control the use of an asset for a period of time, in exchange for consideration. Control is defined as the right to direct the assets use and obtain substantially all the economic benefit from its use. Under IFRS 16 most leases on the financial statements of lessees are recorded on the balance sheet under a single model, eliminating the distinction between operating and finance leases. Lessees recognize a right-of-use asset and lease liability. The right of use asset is treated similarly to other non-financial assets and depreciated. The lease liability is measured as the present value of the lease payments payable over the lease term. Lessor accounting remains largely unchanged. The standard is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted. The REIT is in the process of evaluating the potential impact of IFRS 16 on its consolidated financial statements.

### 3 Acquisitions

On January 31, 2017, the REIT completed the purchase of a commercial office property in Dusseldorf, Germany for a purchase price of \$16,807,128, including acquisition costs of \$1,317,451. The purchase was funded by an acquisition deposit previously provided by the REIT and proceeds from mortgage of \$10,539,750 (€7,500,000) with the remainder of the purchase price settled in cash, net of closing adjustments.

On May 11, 2017, the REIT completed the purchase of a commercial office property in Landshut, Germany, part of the greater Munich metropolitan region, for a purchase price of \$46,458,819 (€31,197,166), including acquisition costs of \$2,616,819. The acquisition was funded by a \$26,805,600 (€18,000,000) seven-year secured mortgage from a German bank with the balance financed by cash.

### 4 Investment properties

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Balance, beginning of period	-	-
Acquisitions (note 3)	63,265,947	-
Fair value adjustment	(49,518)	-
Foreign currency translation gain	627,601	-
<b>Balance, end of period</b>	<b>63,844,030</b>	-

As at June 30, 2017, the fair value of investment properties were determined by management to be €43,100,000, based on third-party independent appraisals previously performed on each of the investment properties and updated for market inputs at June 30, 2017.

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Notes to Condensed Consolidated Interim Financial Statements  
(unaudited)

For the three and six months ended June 30, 2017

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## 5 Mortgages payable

The REIT drew on a \$10,539,750 (€7,500,000) mortgage in connection with the purchase of the Dusseldorf Property on January 31, 2017. The mortgage payable is denominated in Euro and is secured by a charge against the investment property. The mortgage bears interest at the 3-month Euribor rate plus a fixed margin of 0.95% and matures December 31, 2023.

On May 11, 2017, the REIT drew on a \$26,805,600 (€18,000,000) mortgage in connection with the purchase the Landshut Property. The mortgage payable is denominated in Euro and is secured by a charge against the Landshut Property. The mortgage bears interest at the rate of 1.88% and matures March 31, 2024.

The carrying amount of the mortgages payable approximate their fair value.

	<b>June 30, 2017</b>	<b>December 31, 2016</b>
	<b>\$</b>	<b>\$</b>
Mortgages payable	37,634,278	-
Less deferred financing costs	(253,916)	-
	<hr/>	<hr/>
	37,380,363	-
Less current portion	(841,635)	-
	<hr/>	<hr/>
	<b>36,538,728</b>	-

## 6 Other debt

The REIT obtained a \$2,170,847 (€1,509,000) loan from Thomas Schwartz and Phillip Burns, each a trustee of the REIT as at June 30, to fund the deposit to an escrow agent in relation to the acquisition of the Landshut Property. The promissory note bore interest at an effective rate of 12.3% and was set to mature on March 22, 2020. The promissory note was repayable by the Company on or before March 22, 2020 including the face value and accrued interest. On May 11, 2017, the amount outstanding and any accrued interest was fully repaid by the REIT. During the three and six months ended June 30, 2017, the REIT recorded interest expenses of \$30,807, and \$11,384, respectively.

On June 30, 2017, the REIT entered into a credit agreement with a Canadian chartered bank (the "Revolving Credit Facility"). The Revolving Credit Facility has a maximum principal amount of \$3.0 million, bearing interest at a rate equal to the bank's prime rate plus 1.0% per annum or Bankers' Acceptances plus 2.5% per annum, with an initial term of 12 months, and will be used by the REIT for working capital purposes and future acquisitions. As at June 30, 2017, no amount had been drawn on the facility.

## 7 Income Taxes

The following table presents a reconciliation of the REIT's income tax balances for the three and six months ended June 30, 2017:

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Notes to Condensed Consolidated Interim Financial Statements  
(unaudited)

For the three and six months ended June 30, 2017

	3 Months Ended June 30, 2017	6 Months Ended June 30, 2017
Loss before income tax	(808,113)	(842,038)
Income tax provision based on German statutory rate of 15.825%	(127,884)	(133,253)
Increase resulting from:		
Income distributed and taxable to unitholders	21,346	116,989
Foreign subsidiary losses not tax-effected	870	13,395
Fair value adjustment on investment property not tax-effected	136,630	136,630
<b>Total income tax provision</b>	<b>30,962</b>	<b>133,761</b>

## 8 Class B LP units

Pursuant to the Arrangement that was completed on May 3, 2017, 26,775,000 Common Shares were on a ratio of one Common Share for every 31.25 Common Shares held and subsequently exchanged by certain eligible shareholders for Class B LP Units on the basis of one Class B LP Unit for every one Common Share, resulting in 856,800 Class B LP Units being issued at a value of \$3,374,283, which represented the carrying value of such Class B LP Units at the date of Arrangement.

The Class B LP Units are exchangeable, on a one for one basis, for Units of the REIT at the option of the holder, and have economic and voting rights equivalent, in all material respects, to REIT units. The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2017:

	Class B LP Units	Amount \$
<b>December 31, 2016</b>	-	-
Issuance of Class B LP units	856,800	3,374,283
Fair value adjustment on initial recognition	-	909,717
Fair value adjustment during the period	-	(342,720)
<b>June 30, 2017</b>	<b>856,800</b>	<b>3,941,280</b>

# European Commercial Real Estate Investment Trust (formerly European Commercial Real Estate Limited)

Notes to Condensed Consolidated Interim Financial Statements

(unaudited)

For the three and six months ended June 30, 2017

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## 9 Unitholders' equity

The REIT is authorized to issue an unlimited number of Units. Each Unit entitles the holder to a single vote at any meeting of unitholders and entitles the holder to receive a pro-rata share of all distributions and in the event of termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. The Units are redeemable at any time at the demand of the holders to receive a price per Unit as determined by the REIT's declaration of trust. Among other conditions for redemption, the total amount payable by the REIT in respect of Units surrendered for redemption shall not exceed \$50,000 in any one calendar month.

The following table presents the changes in common shares and Units for the six months ended June 30, 2017:

	Shares	Units	\$
<b>Share Capital, December 31, 2016</b>	<b>55,000,000</b>		<b>4,777,896</b>
Common Shares issued, less issuance costs of \$298,626	31,000,000		2,801,374
Common Shares consolidated on the basis of 1 Common Share per 31.25 Common Shares	2,752,000		
Class B Common Shares issued, less issuance costs of \$3,260,447	6,140,000		27,439,553
Common Shares and Class B Common Shares exchanged for REIT Units (1 Unit for every 1 Common Share or Class B Common Share)	(8,035,200)	8,035,200	
Common Shares exchanged for Class B LP Units (1 Class B LP Unit for every 1 Common Share)	(856,800)	-	(3,374,283)
<b>Unit Capital, June 30, 2017</b>	<b>-</b>	<b>8,035,200</b>	<b>31,644,540</b>

## 10 Rental revenue

Future minimum lease payments, excluding recoverable property operating costs and taxes, under current operating leases with tenants are as follows:

Amount to be received:	\$
Not later than 1 year	4,284,708
Later than 1 year and not later than 5 years	13,951,128
Later than 5 years	12,432,526

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**30,668,362**

## 11 Unit-based compensation plan

The Company adopted a share-based compensation plan (the plan), effective October 4, 2016. Pursuant to the Arrangement, the plan was converted to a unit-based compensation plan upon the Company's conversion to a REIT, effective May 3, 2017. Under the terms of the plan, the board of trustees may from time to time, in its discretion, grant options to purchase units of the REIT to directors, officers, employees and technical consultants of the REIT and its affiliates. Unit options vest in one-third instalments annually on the anniversary of the grant date, and expire ten years from the date the options were granted. The maximum number of options that may be reserved under the plan is 10% of the outstanding units of the REIT.

Awards of options are fair valued applying the Black-Scholes option valuation method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of comparable entities over a period approximating the average expected unit option holding period. The average risk-free interest rate used is based on government of Canada bonds with terms consistent with the average expected unit option holding period. The average expected unit option life is estimated to be one half of the life of the options.

On January 31, 2017, the Company granted 3,100,000 stock options to directors and officers of the Company to purchase 3,100,000 common shares at \$0.11 per share. The stock options vest in one-third instalments annually on January 31, 2018, 2019 and 2020 respectively, and will expire ten years from the date the options were granted. The total fair value of the options on the grant date was \$216,690, determined using the Black-Scholes option pricing model using an expected stock option life of 5 years, a volatility rate of 80%, and a risk-free interest rate of 0.72%.

As at May 3, 2017, 8,600,000 Common Share options had been granted and were outstanding. Pursuant to the Arrangement, all share options previously granted were consolidated based on a ratio of one Unit option of the REIT for every 31.25 Common Share options of the Company, with the 8,600,000 Common Share options exchanged for 275,200 Unit options which have terms identical to the Common Share options. As part of this exchange of Common Share options for Unit options, the REIT recorded a fair value adjustment to deficit on conversion of \$84,847.

On May 18, 2017, the REIT granted 189,440 Unit options to officers of the REIT and certain members of the REIT's asset manager to purchase 189,400 Units at \$5.00 per Unit. The Unit options vest in one-third instalments annually on May 18, 2018, 2019 and 2020 respectively, and will expire ten years from the date the options were granted. These Unit options were determined to have a fair value as at June 30, of \$329,531.

For the period ended June 30, 2017, the number of Unit options outstanding changed as follows:

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(unaudited)

For the three and six months ended June 30, 2017

	Share Options	Conversion Factor	Unit Options	Post- Conversion Exercise Price \$	Remaining Contract Life at June 30, 2017 (Years)
<b>Balance, December 31, 2016</b>	5,500,000	31.25	176,000	3.13	9.3
Stock options, granted January 31, 2017	3,100,000	31.25	99,200	3.44	9.6
Unit options, granted May 18, 2017	N/A	N/A	189,440	5.00	9.9
<b>Balance, June 30, 2017</b>			<b>464,640</b>	<b>3.96</b>	<b>9.6</b>

The total fair value of Unit options outstanding as at June 30, 2017 is \$886,309, determined using the Black-Scholes option pricing model using a weighted average expected stock option life of 4.59 years, a weighted average exercise price of \$3.96, a volatility rate of 80%, a risk-free interest rate of 1.38% and an estimated distribution yield of 7.6% based on the trading price at that date. No unit options were eligible for exercise as at June 30, 2017.

The compensation to key management and trustees in Unit options during the three and six months ended June 30, 2017 is \$14,565 and \$88,362, respectively.

## 12 Related party transaction

On January 31, 2017, the Company, and certain of its subsidiaries, entered into an asset management agreement (the "Asset Management Agreement") with Maple Knoll Capital Ltd ("Maple Knoll") pursuant to which Maple Knoll acted as the asset manager of the Company and provided the strategic, advisory, asset management, project management, construction management and administrative services necessary to manage the operations of the Company. In connection with the transactions associated with the Arrangement and the REIT becoming the successor entity to the Company, the Asset Management Agreement was amended and restated on May 3, 2017 to include the REIT. The Asset Management Agreement provides for a broad range of asset management services for the following fees:

- An annual asset management fee in the amount of 0.50% of the historical gross acquisition price of the REIT's properties plus HST/VAT;
- An acquisition fee in the amount of 1.0% of the total costs associated with any property acquired by the REIT or its subsidiaries payable on completion of each acquisition plus HST/VAT, provided that no such

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acquisition fee was or will be payable in respect of the Initial Property or the acquisition of properties managed by Maple Knoll;

- c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project with costs in excess of €1,000,000, excluding work done on behalf of tenants or any maintenance expenditures, plus HST/VAT; and
- d) A refinancing fee equal to 0.25% of the debt and equity of all refinancing transactions to a maximum of actual expenses incurred by Maple Knoll in supplying services relating to refinancing transactions plus HST/VAT.

Phillip Burns (Chief Executive Officer and a trustee of the REIT) and Ian Dyke (Chief Financial Officer of the REIT) are principals of Maple Knoll.

During the three and six months ended June 30, 2017, the REIT recorded asset management fees to Maple Knoll of \$48,769 and \$83,824, respectively, and acquisition related costs of \$499,755 and \$499,755, respectively.

## **13 Financial instruments**

### **Credit risk**

Credit risk is the risk one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. Financial instruments that potentially subject the REIT to concentrations of credit risk consist of cash and accounts receivable. The REIT limits cash transactions to high credit quality financial institutions and lawyers.

### **Concentration risk**

As of June 30, 2017, the REIT had 2 investment properties, where one tenant represents 77% of the annualized rental revenue. This risk is mitigated due to the expected stability and security of the operating model of the tenant (an electric utility company), who is a member of the Fortune Global 500.

### **Liquidity risk**

Liquidity risk is the risk the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at June 30, 2017, the REIT had cash of \$11,527,035 and accounts payable and accrued liabilities of \$5,122,293. On July 26, 2017, the REIT completed the issuance and sale of 7,778,000 units of the REIT for gross proceeds of \$35,001,000 (note 13).

The contractual maturities and repayment obligations of the REIT's mortgages payable, and the related interest rate swap derivative is:

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Year	Mortgage interest	Swap Premium	Mortgage Payable	Total
	\$	\$	\$	\$
2017	303,079	33,370	419,495	755,945
2018	595,323	64,931	846,948	1,507,202
2019	581,871	63,250	857,725	1,502,845
2020	568,486	61,739	868,706	1,498,930
2021	554,351	59,887	879,894	1,494,132
2022	540,275	58,206	891,295	1,489,776
2023	525,984	56,525	10,068,455	10,650,963
2024	107,168	-	22,801,760	22,908,929
	<u>3,776,536</u>	<u>397,907</u>	<u>37,634,278</u>	<u>41,808,722</u>

## 14 Capital management

The REIT's capital consists of trust units net of deficit. The REIT manages its capital to ensure that sufficient funds are available to fund operations, including the identification and acquisition of a business or assets. Subsequent to the completion of the qualifying transaction, the REIT intends to maintain sufficient capital to fund the operations of the REIT as a going concern, and to identify, analyze, and finance further potential acquisitions.

## 15 Subsequent events

On July 26, 2017, the REIT completed a prospectus offering (the "Brussels Offering") of 7,430,500 Units at a price of \$4.50 per Unit. Concurrently with the Brussels Offering, the REIT also issued, on a private placement basis, an additional 347,500 Units at a price of \$4.50 per Unit to certain trustees and officers of the REIT (the "Brussels Private Placement"), resulting in total capital raised of \$35,001,000.

On August 17, 2017, the REIT completed the purchase of a commercial office property in Brussels, Belgium (the "Brussels Property") for a purchase price of \$60,391,041 (€40,703,000) from an arm's length party, subject to certain post-closing adjustments and excluding transaction costs. The acquisition was financed by the proceeds of the Brussels Offering and the Brussels Private Placement as well as an approximately \$37,834,350 (€25,500,000) seven-and-a-half-year secured mortgage from a German bank.