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

Consolidated Financial Statements

For the year ended December 31, 2017

March 26, 2018

Independent Auditor's Report

To the Unitholders of
European Commercial Real Estate Investment Trust

We have audited the accompanying consolidated financial statements of European Commercial Real Estate Investment Trust and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016 and the consolidated statements of loss and comprehensive loss, unitholders' equity and cash flows for the year ended December 31, 2017 and the period from July 25, 2016 (date of incorporation) to December 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers LLP
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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of European Commercial Real Estate Investment Trust and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the year ended December 31, 2017 and the period from July 25, 2016 (date of incorporation) to December 31, 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

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

Consolidated Statement of Financial Position

As at December 31, 2017

	December 31, 2017 $	December 31, 2016 $
Non-current assets		
Investment properties (note 5)	130,404,507	-
Current assets		
Cash and cash equivalents	8,449,856	3,164,675
Accounts receivable	415,424	-
Prepaid expenses	104,431	-
Acquisition deposit (note 4)	-	1,582,158
Deferred financing fees	7,438	70,845
Deferred acquisition costs (note 4)	-	226,630
Deferred share issuance costs (note 10)	-	146,448
	8,977,149	5,190,756
Total assets	139,381,656	5,190,756
Non-current liabilities		
Mortgages payable (note 6)	72,843,371	-
Interest rate swaps	259,705	-
Unit option liability (note 11)	145,597	-
Class B LP Units (note 8)	2,829,618	-
Deferred income taxes (note 13)	249,662	-
	76,327,953	-
Current liabilities		
Current portion of mortgages payable (note 6)	1,800,230	-
Distributions payable (note 9)	1,345,375	-
Unit option liability (note 11)	180,621	-
Accounts payable and accrued liabilities (note 15)	1,195,727	449,856
Current income taxes payable (note 13)	3,611	-
Unearned revenue	453,715	-
	4,979,279	449,856
Total liabilities	81,307,232	449,856
Unitholders' equity		
Unit capital (note 9)	63,904,504	4,777,896
Contributed surplus	-	49,625
Deficit	(6,772,464)	(86,621)
Accumulated other comprehensive income	942,384	-
Total unitholders' equity	58,074,424	4,740,900
Total liabilities and unitholders' equity	139,381,656	5,190,756

Approved on Behalf of the Board

_______________________Trustee _______________________ Trustee

The accompanying notes are an integral part of these consolidated financial statements.

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

Consolidated Statement of Loss and Comprehensive Loss

For the Year Ended December 31, 2017

	For the Year Ended	
	December 31, 2017	**December 31, 2016[a]**
	$	**$**
Net rental income		
Property revenue	6,451,143	-
Property expenses	(1,790,784)	-
Net rental income	4,660,359	-
General & administrative expenses (note 14)	(2,731,918)	(36,996)
Foreign exchange gain	572,813	-
Fair value adjustment of investment properties	(4,226,910)	-
Fair value adjustment of Class B LP Units	1,181,058	-
Unit-based compensation (note 11)	(191,746)	(49,625)
Loss before finance expenses	(736,344)	(86,621)
Finance expenses		
Interest expense	(925,559)	-
Fair value adjustment of interest rate swap	(252,761)	-
Loss before income tax	(1,914,664)	(86,621)
Current income tax expense (note 13)	(3,611)	-
Deferred income tax expense (note 13)	(249,662)	-
Net loss for the year	(2,167,937)	(86,621)
Other comprehensive income		
Items that may be reclassified subsequently to net loss		
Foreign currency translation	942,384	-
Net loss and comprehensive loss for the year	(1,225,553)	(86,621)

(a) From July 25, 2016 (date of formation) to December 31, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

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

Consolidated Statement of Changes in Unitholders' Equity

For the year ended December 31, 2017

	Unit Capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	$	$	$	$	$
Balance - December 31, 2016	4,777,896	49,625	(86,621)	-	4,740,900
Capital issued (note 9)	68,801,000	-	-	-	68,801,000
Capital issuance cost	(6,670,291)	-	-	-	(6,670,291)
Unit-based compensation	-	105,670	-	-	105,670
Common shares exchanged for Class B LP Units (note 9)	(3,374,283)	-	(909,717)	-	(4,284,000)
Conversion of share-based option plan to unit-based option plan (note 11)	-	(155,295)	(84,847)	-	(240,142)
Class B LP Units exchanged for Units (note 9)	273,325	-	-	-	273,325
Units issued under distribution reinvestment plan (note 10)	96,857	-	-	-	96,857
Net loss for the year	-	-	(2,167,937)	-	(2,167,937)
Distributions paid and payable	-	-	(3,523,342)	-	(3,523,342)
Foreign currency translation adjustment	-	-	-	942,384	942,384
Balance – December 31, 2017	**63,904,504**	**-**	**(6,772,464)**	**942,384**	**58,074,424**

	Share capital[a]	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	$	$	$	$	$
Balance - July 25, 2016	**-**	-	-	-	-
Capital issued (note 9)	5,000,000	-	-	-	5,000,000
Capital issuance cost	(222,104)	-	-	-	(222,104)
Share-based compensation	-	49,625	-	-	49,625
Net loss for the period	-	-	(86,621)	-	(86,621)
Balance – December 31, 2016	**4,777,896**	**49,625**	**(86,621)**	**-**	**4,740,900**

(a) The REIT is the successor to European Commercial Real Estate Limited, which issued and recorded equity as share capital prior to conversion to a REIT. Refer to note 1.

The accompanying notes are an integral part of these consolidated financial statements.

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

Consolidated Statement of Cash Flows

For the year ended December 31, 2017

	For the Year Ended December 31, 2017 $	December 31, 2016[a] $
Cash provided by (used in)		
Operating activities		
Net loss for the period	(2,167,937)	(86,621)
Adjustment items not involving cash:		
Deferred income taxes	249,662	-
Fair value adjustment of investment properties	4,226,910	-
Fair value adjustment of interest rate swap	252,761	-
Fair value adjustment of Class B LP units	(1,181,058)	-
Deferred financing fee amortization	84,150	-
Unit-based compensation	191,746	49,625
Foreign exchange	(572,813)	-
Changes in non-cash working capital:		
Accounts receivable	(291,284)	-
Prepaid expenses	(105,923)	-
Unearned revenue	460,197	-
Accounts payable and accrued liabilities	686,594	5,933
Total cash generated by operating activities	1,833,005	(31,063)
Financing activities		
Proceeds received from mortgages	75,179,700	-
Mortgage principal repayments	(922,335)	-
Expenditures on financing costs	(1,202,409)	-
Distributions to unitholders	(2,081,107)	-
Issuance of capital (net of issuance costs) (note 9)	62,359,834	4,777,896
Total cash generated by financing activities	133,333,683	4,777,896
Investing activities		
Acquisition of investment properties	(130,274,181)	(1,582,158)
Total cash used in investing activities	(130,274,181)	(1,582,158)
Increase in cash and cash equivalents during the period	4,892,507	3,164,675
Effect of foreign exchange rate changes on cash and cash equivalents	392,674	-
Cash and cash equivalents - beginning of period	3,164,675	-
Cash and cash equivalents - end of period	8,449,856	3,164,675

(a) From July 25, 2016 (date of incorporation) to December 31, 2016.

The accompanying notes are an integral part of these consolidated financial statements.

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 consolidated 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.

On January 31, 2017, the Company completed the purchase of a property in Dusseldorf, Germany (note 4). 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.

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 (the "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 each initially will entitle the holder to one vote at meetings of holders of Units of the REIT. The registered office address of the REIT is 11 Church Street, Suite 401, Toronto, Ontario.

2 Significant accounting policies

Basis of presentation

The consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The consolidated financial statements are prepared on a going concern basis and are presented in Canadian dollars, which is the functional currency of the REIT. The consolidated financial statements were authorized for issue on March 26, 2018 by the board of trustees of the REIT.

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 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 inter-entity balances, income and expenses, and unrealized gains and losses resulting from inter-entity transactions are eliminated in full.

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.

Revenue recognition

The REIT accounts for leases with tenants as operating leases, as it has retained substantially all of the risks and benefits of ownership of its investment properties. Revenue includes base rents earned from tenants under lease agreements, recoveries of operating expenses including realty taxes, lease termination fees, parking revenue and other incidental income.

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. Recoveries from tenants are recognized as revenues in the period in which the corresponding costs are incurred and collectability is reasonably assured. Other revenue is recognized at the time the service is provided.

Cash and cash equivalents

Cash and cash equivalents includes cash and guaranteed investment certificates held in banks, redeemable on demand, as well as cash held in trust by the REIT's legal counsel.

Deferred acquisition costs

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

Financial instruments

The following summarizes the REIT's classification and measurement of financial assets and liabilities:

Financial instrument	**Classification**	**Measurement**
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivables	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost
Unit option liability	Other liabilities	Fair value
Class B LP Units	Other liabilities	Fair value
Interest rate swaps	Other liabilities	Fair value

The REIT classifies its financial assets on initial recognition as loans and receivables. All financial assets are initially measured at fair value, less any related transaction costs. Subsequently, financial assets are measured at amortized cost.

Accounts receivable are initially measured at fair value and are subsequently measured at amortized cost less provision for impairment. A provision for impairment is established when there is objective evidence that collection of all principal and interest due under the original terms of the contract is unlikely. Indicators of impairment include delinquency of payment and significant financial difficulty of the tenant. The carrying amount of the asset is reduced through an allowance account and the amount of the loss is recognized in the consolidated statement of net loss within property expenses.

Financial assets are derecognized only when the contractual rights to the cash flows from the financial asset expire or the REIT transfers substantially all risks and rewards of ownership.

The REIT classifies its financial liabilities on initial recognition as other liabilities. All financial liabilities are initially recognized at fair value (net of transaction costs). Accounts payable and accrued liabilities, distributions payable, and mortgages payable are subsequently measured at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs, discounts and premiums directly related to financial liabilities are recognized in the consolidated statement of net loss over the expected life of the debt.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or expired.

Unit option liability, Class B LP Units, and interest rate swaps are initially recognized at fair value on the date the contract is entered into and are subsequently remeasured in the statement of financial position at their fair value, with any changes in fair value recognized in the consolidated statement of net loss in the period in which they arise.

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 December 31, 2017, the fair values of Unit option liability and Class B LP Units are considered level 1, the fair value of 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 year.

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. Fair value is determined with reference to external valuations using the discounted cash flow ("DCF") method, with any changes in fair value recognized in the consolidated statement of net loss and comprehensive loss in the period in which they arise.

The application of the DCF method results in these measurements being classified as Level 3 in the fair value hierarchy. Refer to notes 3, 4, and 5 for a detailed discussion of the significant assumptions, estimates, and valuation method used.

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, 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 consolidated 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 and are classified as liabilities on the consolidated statement of financial position. They are remeasured at each reporting date at fair value.

Unit-based compensation

The fair value method is used to account for all options issued under the REIT's Unit-based plan. 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

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. The functional currency of the REIT is the Canadian dollar.

Transactions and balances

Foreign currency transactions are translated into the functional currency of the REIT 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.

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 statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each statement of comprehensive loss 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 loss ("OCI").

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 statement of financial position date. Deferred tax assets and liabilities are recognized at the tax rates enacted or substantively enacted at the consolidated statement of financial position 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.

Changes in accounting policies

Several 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:

New Standards Implemented in Current Year

i) IAS 12, "Income Taxes – Deferred Tax" ("IAS 12"), is an amendment that clarifies the requirements for recognizing deferred tax assets on unrealized losses, deferred tax where an asset is measured at a fair value below the asset's tax base, and certain other aspects of accounting for deferred tax assets. This amendment came into effect for years beginning on or after January 1, 2017, and did not have a material impact on the REIT's consolidated financial statements.

ii) IAS 7 "Statement of Cash Flows – Disclosure Initiative" ("IAS 7"), is an amendment that requires disclosures that enable the evaluation of changes in liabilities arising from financing activities, including both changes arising from cash and non-cash changes. This amendment came into effect on January 1, 2017. The REIT has applied this standard, which discloses the changes in mortgages payable (note 8).

Future Accounting Changes

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 a comprehensive five-step revenue recognition model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. Management is responsible for overseeing the REIT's transition to IFRS 15 and has performed an in-depth assessment of IFRS 15 and the impact the adoption of the standard will have on the REIT's consolidated financial statements. Management has reviewed contracts with its tenants and has determined that IFRS 15 will not have a material impact on the amount and timing of revenue recognized. However, additional disclosures relating to revenue will be required in the consolidated financial statements to comply with the disclosure requirements of IFRS 15.

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 if 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 management's risk management activities. The standard is effective for accounting periods beginning on or after January 1,

2018. Currently, the REIT does not expect there to be a material impact to the carrying value of its trade receivables given past default rates and receivable balances, and the REIT does not currently expect changes to the measurement of its financial assets or liabilities.

iii) In January 2016, IFRS 16, Leases ("IFRS 16"), was issued. The standard sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for entities who apply IFRS 15. The REIT is currently assessing the impact that IFRS 16 could have on its consolidated financial statements.

3 Critical accounting estimates, assumptions, and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, assumptions, and judgements 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 reporting period. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated annual financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

The estimates, assumptions and judgements deemed to be more significant, due to subjectivity and the potential risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

Valuation of investment properties

Investment properties are measured at fair value as at the consolidated statement of financial position dates. Any changes in the fair value of investment properties are recognized in the statement of loss and comprehensive loss in the period in which they arise. Management determines fair value by utilizing a fair value appraisal performed by an independent valuator, and investment properties are valued on a highest-and-best-use basis. For all of the REIT's investment properties, the current use is considered the highest and best use.

The appraisals are performed by applying the DCF method. The critical assumptions used include (all considered Level 3 inputs), among other things, stabilized cash flows, discount rates, capitalization rates, and indexation rates. If there is a change in these assumptions, the fair value of investment properties could change materially. Refer to note 5 for a detailed discussion on the valuation method used.

Investment property acquisitions

The REIT applies judgement in determining whether properties acquired are considered to be asset acquisitions or business combinations. IFRS 3, Business Combinations ("IFRS 3"), is only applicable if it is considered that a business has been acquired. IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors. The REIT applies judgement in determining whether an integrated set of activities is acquired in addition to the properties acquired. Activities can include whether employees were assumed in the acquisition or an operating platform has been acquired. When an acquisition does not represent a business as defined under IFRS 3, the REIT classifies the properties as an asset acquisition. The assets and liabilities acquired are measured at their fair values upon acquisition, with any acquisition-related transaction costs capitalized to the value of the property.

Unit-based compensation

The fair value of Unit-based compensation liabilities are based on assumptions that involve significant estimates. The fair value as at the reporting date may differ from how they are ultimately recognized if there is volatility in Unit prices, interest rates, settlement dates or other key assumptions between the valuation date and settlement date. The basis for valuation of the REIT's Unit-based compensation, including market assumptions, estimates and valuation methodology is described in note 11.

Functional currency

The REIT applies judgment in determining its functional currency, which is the Canadian dollar. Management has determined that this is appropriate based the fact that the REIT's equity financing is transacted in Canadian dollars.

4 Acquisitions

On January 31, 2017, the REIT completed the purchase of a commercial office property in Dusseldorf, Germany (the "Dusseldorf property") for a purchase price of $16,758,321 (€11,925,084), including acquisition costs of $1,300,021. The acquisition was financed by a $10,539,750 (€7,500,000) seven-year secured mortgage from a German bank, with the balance financed by cash, including an acquisition deposit previously provided by the REIT.

On May 11, 2017, the REIT completed the purchase of a commercial office property in Landshut, Germany (the "Landshut property"), part of the greater Munich metropolitan region, for a purchase price of $46,285,164 (€31,080,556), including acquisition costs of $2,488,151. 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.

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 $68,904,651 (€46,441,094), including acquisition costs of $8,513,610. The acquisition was financed by an approximately $37,834,350 (€25,500,000) seven-and-a-half-year secured mortgage from a German bank with the balance financed by cash.

5 Investment properties

The following table presents a reconciliation of the REIT's investment properties:

	December 31, 2017 $	December 31, 2016 $
Balance, beginning of year	-	-
Acquisitions (note 4)	131,948,136	-
Fair value adjustment	(4,226,910)	-
Foreign currency translation gain	2,683,281	-
Balance, end of year	**130,404,507**	**-**

Investment properties are carried at fair value, which is the amount for which the investment properties could be exchanged between knowledgeable, willing parties in an arm's length transaction, with any gains or losses arising from the change in fair value recognized in the consolidated statement of loss and comprehensive loss in the period in which they arise.

The fair value of 100% of the REIT's investment properties were determined by qualified external appraisers as at December 31, 2017 through the application of the DCF method. The appraisers all hold recognized, relevant professional qualifications and have recent experience in the geography and type of property being appraised.

In applying the DCF method, discount rates are applied to stabilized cash flows as well as assumptions about future renewal activity, indexation rates and associated market rents. The most significant assumptions are the stabilized cash flows, discount rate applied over the term of the cash flows and the capitalization rate used to determine the terminal value of the investment properties. In general, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property.

A summary of significant unobservable (Level 3) inputs used to determine the fair value of investment properties as at December 31, 2017 are as follows:

	December 31, 2017	
Input	**Range**	**Weighted Average**
Discount rate	4.40%-5.65%	4.98%
Terminal capitalization rate	4.40%-5.65%	5.35%

As at December 31, 2017, a 25 basis-point decrease in both the discount and terminal capitalization rates would increase the estimated fair value of the REIT's investment properties by $6,824,512. As at December 31, 2017, a 25 basis-point increase in both the discount and terminal capitalization rates would decrease the estimated fair value of the REIT's investment properties by $6,159,163.

6 Mortgages payable

On January 31, 2017, the REIT drew on a $10,539,750 (€7,500,000) mortgage in connection with the purchase of the Dusseldorf property. The mortgage payable is denominated in Euro and is secured by a charge against the Dusseldorf property. The mortgage bears interest at the 3-month Euribor rate plus a fixed margin of 0.95% and matures December 31, 2023. In connection with the mortgage, the REIT entered into an interest rate swap maturing on December 31, 2023, for which hedge accounting is not applied, fixing the 3-month Euribor rate at 0.60%, resulting in a fixed effective interest rate of 1.55%.

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.

On August 17, 2017, the REIT drew on a $37,834,350 (€25,500,000) mortgage in connection with the purchase the Brussels property. The mortgage payable is denominated in Euro and is secured by a charge against the Brussels property. The mortgage bears interest at the 3-month Euribor rate plus a fixed margin of 1.38% and matures January 14, 2025. In connection with the mortgage, the REIT entered into an interest rate swap maturing on January 13, 2025, for which hedge accounting is not applied, fixing the 3-month Euribor rate at 0.49%, resulting in a fixed effective interest rate of 1.87%

The carrying amount of the mortgages payable approximate their fair value. The following table presents a summary of the REIT's mortgage indebtedness:

	December 31, 2017	December 31, 2016[a]
	$	$
Mortgages payable	75,844,577	-
Less deferred financing costs	(1,200,976)	-
	74,643,601	-
Less current portion	(1,800,230)	-
	72,843,371	**-**
Weighted average interest rate	**1.82%**	**-**
Weighted average term to maturity	**6.6 years**	**-**

(a) From July 25, 2016 (date of incorporation) to December 31, 2016.

Future principal repayments for the year ending December 31 for the years indicated are as follows, and are based on the December 31, 2017 EUR/CAD FX rate of 1.5052:

	Principal Amount	% of Total Principal
2018	1,820,178	2.4%
2019	1,831,129	2.4%
2020	1,842,287	2.4%
2021	1,853,656	2.4%
2022	1,865,240	2.5%
Thereafter	66,632,087	87.9%
	75,844,577	**100.0%**

The following table presents a reconciliation of the REIT's mortgage liabilities arising from financing activities:

	December 31, 2017	December 31, 2017[a]
	$	$
Balance, beginning of year	**-**	**-**
New borrowings on acquisitions	75,179,700	-
Principal repayments	(922,335)	-
Expenditures on financing costs	(1,258,254)	-
Amortization of financing costs	76,588	-
Foreign exchange adjustments	1,567,902	-
Balance, end of year	**74,643,601**	**-**

(a) From July 25, 2016 (date of incorporation) to December 31, 2016.

7 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 at the time the loan was obtained, to fund the deposit to an escrow agent in relation to the acquisition of the Landshut property. The promissory notes bore interest at an effective rate of 12.3% and was set to mature on March 22, 2020. On May 11, 2017, the loan and accrued interest was fully repaid by the REIT. During the year ended December 31, 2017, the REIT recorded interest expense of $42,191 related to the promissory note.

On June 30, 2017, the REIT entered into an unsecured 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 December 31, 2017, no amount had been drawn on the facility.

8 Class B LP Units

Pursuant to the Arrangement that was completed on May 3, 2017, 26,775,000 Common Shares were consolidated based 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 the 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. During the year ended December 31, 2017, 70,795 Class B LP Units were exchanged for Units. Distributions in the amount of $49,243 were declared payable to eligible holders of Class B LP Units for the year ended December 31, 2017. This amount has been recognized as interest expense in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017. Of this amount, distributions on Class B LP Units of $15,015 were payable as at December 31, 2017. The following table summarizes the changes in Class B LP Units for the year ended December 31, 2017:

	Class B LP Units	Amount $
December 31, 2016	**-**	**-**
Issuance of Class B LP Units	856,800	3,374,283
Fair value adjustment on initial recognition	-	909,717
Class B LP Units exchanged for Units	(70,795)	(273,325)
Fair value adjustment during the year	-	(1,181,058)
December 31, 2017[a]	**786,005**	**2,829,618**

(a) As Class B LP Units are exchangeable on a one-for-one basis, the outstanding balance should be included when considering the total number of Units outstanding. Refer to note 9.

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 year ended December 31, 2017:

	Shares	Units	$
Share Capital, December 31, 2016	**55,000,000**	-	**4,777,896**
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	(83,248,000)	-	-
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)
Units issued in exchanged from Class B LP Units	-	70,795	273,325
Units issued, less issuance costs of $3,111,191	-	7,778,000	31,889,781
Units issued under distribution reinvestment plan	-	24,372	96,858
Unit Capital, December 31, 2017[a]	**-**	**15,908,367**	**63,904,504**

(a) Including the effect of Class B LP Units, which are convertible to Units on a one-for-one basis, total Units and Class B LP Units outstanding are 16,694,237. See note 9.

The following table presents the changes in common shares and Units for the year ended December 31, 2016:

	Shares	Units	$
Share Capital, July 25, 2016 (date of formation)	**-**	-	**-**
Common shares issued, less issuance costs of $222,104	55,000,000	-	4,777,896
Share Capital, December 31, 2016	**55,000,000**	**-**	**4,777,896**

Distributions in the amount of $3,523,342 were declared payable to eligible Unitholders for the year ended December 31, 2017. Of this amount, distributions in the amount of $1,345,375 were payable as at December 31, 2017.

10 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan (the "DRIP") on September 14, 2017, pursuant to which eligible Unitholders or holders of Class B LP Units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the closing price for the units on the TSXV for the five trading days immediately preceding the relevant distribution date. Eligible Unitholders or holders of Class B LP Units who so elect will receive a bonus distribution of units up to 5% of each distribution that was reinvested by them under the DRIP. During the year ended, 24,372 units were issued under the DRIP for a total value of $96,858.

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. These Unit options were determined to have a fair value as at December 31, 2017 of $340,389.

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 December 31, 2017 of $204,008.

On August 15, 2017, the REIT sadly announced the passing of its Chairman and Trustee. In accordance with the unit option plan, options previously awarded to the former Chairman and Trustee under the plan vested immediately and expire one year after vesting. Accordingly, the REIT recognized a related expense of $4,180 for the year ended December 31, 2017.

On December 4, 2017, the REIT granted 314,667 Unit options to officers and employees of the REIT and certain members of the REIT's asset manager to purchase 314,667 Units at $3.75 per Unit. The Unit options vest in one-third instalments annually on December 4, 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 December 31, 2017 of $381,156.

For the year ended December 31, 2017, the number of Unit options outstanding changed as follows:

	Share Options	Conversion Factor	Unit Options	Post-Conversion Exercise Price $	Remaining Contract Life at December 31, 2017[a]
Balance, December 31, 2016	5,500,000	31.25	176,000	3.13	7.6
Stock options, granted January 31, 2017	3,100,000	31.25	99,200	3.44	7.4
Unit options, granted May 18, 2017	N/A	N/A	189,440	5.00	9.4
Unit options, granted December 4, 2017	N/A	N/A	314,667	3.75	9.9
Balance, December 31, 2017			**779,307**	**3.87**	**8.9**

(a) Options granted January 31, 2017 and May 18, 2017 include options granted to the former Chairman and Trustee, which had a remaining contract life of 0.62 years as at December 31, 2017. Excluding the impact of these options, the weighted average remaining contract life was 9.46 years as at December 31, 2017.

The total fair value of Unit options outstanding as at December 31, 2017 is $925,553, determined using the Black-Scholes option pricing model using a weighted average expected unit option life of 4.24 years, a weighted average exercise price of $3.87, a volatility rate of 80%, a risk-free interest rate of 1.86% and an estimated distribution yield of 9.7% based on the trading price as at December 31, 2017. As at December 31, 2017, the total number of options outstanding represented 4.67% of the total Units and Class B LP Units outstanding, and 95,092 options were available for exercise (December 31, 2016 - $nil).

The compensation to officers and trustees in Unit options during the year ended December 31, 2017 was $159,383 (July 25, 2016 to December 31, 2016 - nil).

12 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	9,795,106
Later than 1 year and not later than 5 years	35,307,994
Later than 5 years	22,191,439
	67,294,539

13 Income Taxes

The following table presents a reconciliation of the REIT's income tax balances:

	December 31, 2017 $	December 31, 2016[a] $
Income/(loss) before income tax	(1,914,664)	(86,621)
Income tax recovery/(expense) based on German statutory rate of 15.825%	302,996	-
Income tax recovery/(expense) based on Canadian statutory rate of 26.5%	-	22,955
Increase/(decrease) resulting from:		
Income distributed and taxable to unitholders	201,146	-
Foreign subsidiary losses not tax-effected	(29,142)	-
Fair value adjustment on investment property not tax-effected	(1,151,643)	-
Foreign subsidiary income not subject to local tax	187,879	-
Share acquisition costs not tax effected	235,491	-
Canadian corporate losses not tax effected	-	(22,955)
Total income tax provision	**(253,273)**	**-**
Less: Current income tax expense	**(3,611)**	**-**
Deferred income tax expense	**(249,662)**	**-**

(a) From July 25, 2016 (date of incorporation) to December 31, 2016.

14 Related party transactions

Related party transactions not mentioned elsewhere in the consolidated financial statements are summarized below.

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:

a) 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;
b) 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 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 year ended December 31, 2017, the REIT recorded asset management fees to Maple Knoll of $616,382 and acquisition related costs of $1,193,397.

15 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 cash equivalents and accounts receivable. The REIT limits cash transactions to high credit quality financial institutions and lawyers.

Concentration risk

As at December 31, 2017, the REIT had 3 investment properties, where two tenants collectively represent 90% of the annualized rental revenue. This risk is mitigated due to the expected stability and security of the tenants (a government entity and a member of the Fortune Global 500, representing 55% and 35% of annualized rental revenue, respectively).

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.

The contractual maturities and repayment obligations of the REIT's mortgages payable, and the related interest rate swap derivatives are as follows, based on the December 31, 2017 EUR/CAD FX rate of 1.5052:

	2018	2019-2020	2021-2022	2023 Onward	Total
	$	$	$	$	$
Mortgage principal	1,820,178	3,673,415	3,718,896	66,632,088	75,844,577
Mortgage interest	1,130,534	2,186,938	2,073,698	1,567,695	6,958,865
Swap premium	251,083	485,526	458,583	382,961	1,578,153
Distribution payable	1,345,375	-	-	-	1,345,375
Accounts payable and accrued liabilities	1,195,727	-	-	-	1,195,727
Total	**5,742,897**	**6,345,879**	**6,251,177**	**68,582,744**	**86,922,697**

16 Capital management

As at December 31, 2017, the REIT's capital consists of mortgages payable, Class B LP Units, and unitholders' equity. The primary objective of the REIT's capital management is to ensure that sufficient funds are available to fund distributions and to fund operations, including the identification and acquisition of a business or assets. Various ratios are used by management to monitor capital requirements. The primary ratios used for assessing capital management are the loan to-fair-value ratio, average term to maturity of debt, and weighted average interest rate. These indicators assist the REIT in assessing that the debt level maintained is sufficient to provide adequate cash flows for distributions and for evaluating the need to raise funds for further expansion.