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

Management's Discussion and Analysis

For the three and nine months ended September 30, 2017

November 27, 2017

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") outlines the financial position and results of operations of European Commercial Real Estate Investment Trust ("EC-REIT", the "REIT") and should be read in conjunction with the REIT's unaudited condensed consolidated interim financial statements and accompanying notes for the three and nine months ended September 30, 2017. The information contained in this MD&A, including forward-looking information, is based on information available to management as of November 27, 2017.

Additional information about the REIT can be accessed at www.ecreit.com or www.sedar.com.

Forward Looking Statements

Certain statements contained in this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities laws which reflect the REIT's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the REIT to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect.

Except as specifically required by applicable Canadian securities law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. These forward-looking statements should not be relied upon as representing the REIT's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the REIT. For more information, please see "Forward Looking Statements" and "Risk Factors" in European Commercial Real Estate Limited's management information circular dated March 20, 2017.

This MD&A is based on financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The REIT's unaudited condensed consolidated interim financial statements for the three and nine-month period ended September 30, 2017, have been prepared in accordance with International Financial Reporting Standard 34, Interim Financial Reporting. The REIT's functional currency is the Canadian dollar. The unaudited condensed consolidated financial statements, are presented in Canadian dollars. The functional currency of the REIT's operating subsidiaries is the Euro, reflecting the currency of the primary economic environment in which the subsidiaries operate. 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 recognised in the consolidated statement of loss and comprehensive loss. Unless otherwise stated, amounts expressed in this MD&A are in Canadian dollars.

Non-IFRS Financial Measures

Funds from operations ("FFO"), adjusted funds from operations ("AFFO") and net operating income ("NOI") are not measures recognized under IFRS and do not have standardized meanings prescribed by IFRS. FFO, AFFO and NOI are supplemental measures of performance for real estate businesses.

The REIT believes that AFFO is an important measure of economic performance and is indicative of the REIT's ability to pay distributions, while FFO is an important measure of operating performance and the performance of real estate properties. The IFRS measurement most directly comparable to FFO and AFFO is net income. See “Non-IFRS Reconciliation” for a reconciliation of FFO and AFFO to net income.

“FFO” is defined as net income in accordance with IFRS, excluding: (i) fair value adjustments on investment properties; (ii) gains (or losses) from sales of investment properties; (iii) amortization of leasing costs and tenant incentives; (iv) fair value adjustments and other effects of redeemable units classified as liabilities; (v) certain acquisition and structuring costs; (vi) distributions on exchangeable units in interest expense; (vii) non-recurring finance costs and expenses, and (viii) deferred income tax expense, after adjustments for equity accounted entities, joint ventures and non-controlling interests calculated to reflect FFO on the same basis as consolidated properties.

“AFFO” is defined as FFO subject to certain adjustments, including: (i) amortization of fair value mark-to-market adjustments on mortgages acquired, and amortization of deferred financing; (ii) adjusting for any differences resulting from recognizing property revenues on a straight-line basis; (iii) deferred unit compensation expense and (iv) deducting a reserve for normalized maintenance capital expenditures and leasing costs, as determined by the REIT. Other adjustments may be made to AFFO as determined by the Trustees in their discretion.

“NOI” is defined as investment properties revenue, less property operating expenses. NOI is a widely used operating performance indicator in the real estate industry, and is presented in the consolidated statements of income and comprehensive income as net rental income. Management has chosen to refer to net rental income as NOI in all instances in its MD&A.

FFO, AFFO and NOI should not be construed as alternatives to net income or cash flow from operating activities, determined in accordance with IFRS, as indicators of the REIT’s performance. The REIT’s method of calculating FFO, AFFO and NOI may differ from other issuers’ methods and accordingly may not be comparable to measures used by other issuers. See “Non-IFRS Reconciliation”.

Business Overview and Strategy

The REIT is an unincorporated, open-ended real estate investment trust established under the laws of the Province of Ontario pursuant to a declaration of trust dated February 15, 2017, and as amended and restated on May 3, 2017.

Prior to its reorganisation as a real estate investment trust, the REIT was known as European Commercial Real Estate Limited (the “Company”) a capital pool company (“CPC”), as defined in Policy 2.4 of the TSX Venture Exchange (the “TSXV”), the principal business of which was the identification and evaluation of assets or businesses for the purpose of completing a qualifying transaction. The Company was incorporated under the Business Corporations Act (Ontario) on July 25, 2016. On October 7, 2016, the Company’s common shares (the “Common Shares”) were listed for trading on the TSXV as a CPC. The Company ceased to be a CPC upon the completion of its qualifying transaction, as defined in Policy 2.4 of the TSXV (the “Qualifying Transaction”) on January 31, 2017.

On May 1, 2017, holders of Common Shares of the Company voted to approve a plan of arrangement (the “Arrangement”) providing for the conversion of the Company into the REIT as further described below.

The strategy of the REIT is to aggregate a bespoke portfolio of high-quality, non-prime core assets in key European markets, and is designed primarily to deliver long-term, secure income with additional potential for capital appreciation. The REIT intends to grow by acquiring commercial real estate assets in Europe where opportunities exist to purchase assets on terms such that the acquisitions are expected to be accretive, on a per Unit basis, to the earnings of the REIT.

The consolidated financial statements of the REIT include the accounts of the REIT and its consolidated subsidiaries. The registered office address of the REIT is 11 Church Street, Suite 401, Toronto, Ontario.

Third Quarter Highlights

- Raised approximately $35 million by way of the Brussels Offering and Brussels Private Placement (each defined herein), which closed on July 26th, 2017;
- Completed a highly accretive acquisition in the central business district of Brussels, Belgium (the "Brussels Property"), for $60.3 million (€40.7 million) (excluding transaction costs). Highlights of the acquisition include:
  - The building is 100% occupied by Federation Wallonie-Bruxelles, a Belgian government agency with an investment grade credit rating;
  - Remaining lease term of 7.3 years with annual indexation;
  - The acquisition increased the fair value of total Investment Properties (as defined herein) by 95%, from $63.8 million (€43.1 million) at Q2 2017 to $124.7 million (€84.6 million) at Q3 2017; and
  - The acquisition increased normalized annual base rent by 123%, from $4.3 million (€2.9 million) to $9.5 million (€6.5 million);
- FFO and AFFO for the quarter were $997,664 and $859,799, respectively. This represents a 177% and 175% increase, respectively over Q2 2017, reflecting the impact of the acquisition of the Brussels Property and the effect of a full quarter of contribution from the Landshut Property (as defined herein); and
- Distributions of $0.14389 per Unit and Class B LP Unit (each defined herein) declared payable to eligible Unitholders and holders of Class B LP Units, respectively, as at September 30, 2017.

Summary of Financial and Operational Results for the Nine-Months Ended September 30, 2017

On January 31, 2017, the Company completed the purchase of a commercial office property in Dusseldorf, Germany (the "Dusseldorf Property"), from an arm's length party, for an aggregate purchase price of $15,458,300 (€11,000,000), subject to certain post-closing adjustments and excluding transaction costs. The acquisition was funded by an acquisition deposit provided by the Company upon execution of the acquisition agreement and a new $10,539,750 (€7,500,000) mortgage provided by a German bank, with the remainder of the purchase price settled in cash, including funds raised pursuant to the QT Private Placement (as defined herein), net of closing adjustments. The acquisition of the Dusseldorf Property was approved by the TSXV as the Company's Qualifying Transaction and was the subject of a Business Acquisition Report dated March 21, 2017 available under the REIT's SEDAR profile at www.sedar.com.

On January 31, 2017, in connection with the closing of the Qualifying Transaction, the Company issued an aggregate of 31,000,000 Common Shares to directors and officers of the Company as well as additional accredited investors on a private placement basis at a price of $0.10 per Common Share for total proceeds of $3,100,000 (the "QT Private Placement"). Common Share issuance costs of $298,626 were incurred in connection with the QT Private Placement. The proceeds of the QT Private Placement were used to fund a portion of the purchase price for the Dusseldorf Property.

The Company also granted options to purchase Common Shares ("Stock Options") to directors and officers of the Company to purchase 3,100,000 Common Shares at $0.11 per Common 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 grant date of the Stock Options.

On May 3, 2017, ECRE completed a prospectus offering (the "Landshut Offering") of 6,000,000 Class B Shares at a price of $5.00 per Class B Share. Concurrently with the Landshut Offering, ECRE also issued, on a private placement basis, an additional 140,000 Class B Shares at a price of $5.00 per Class B Share to certain exempt purchasers (the "Landshut Private Placement"). Total proceeds of the Landshut Offering were $27,439,553, net of share issuance costs of $3,260,447.

On the same date, the Arrangement was effected, providing for the conversion of the Company into the REIT. In accordance with the Arrangement, (i) all Common Shares were consolidated based on a ratio of one Common Share for every 31.25 Common Shares held and (ii) all outstanding Common Shares and class B common shares of the Company (the "Class B Shares") 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. The REIT became the continuing reporting issuer under Canadian securities laws and its Units remained listed on the TSXV under the symbol ERE.UN.

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 approximately $44,944,056 (€30,180,000) 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 Landshut Offering and the Landshut Private Placement as well as an approximately $26,805,600 (€18,000,000) seven-year secured mortgage from a German bank.

In connection with the Landshut Offering and Arrangement, the REIT granted options to purchase Units ("Unit Options") to officers of the REIT and certain members of the REIT's asset manager to purchase 189,440 Units at $5.00 per Unit. The Unit Options vest in one third instalments annually on May 3, 2018, 2019, and 2020, respectively, and will expire ten years from the grant date of the Unit Options.

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 September 30, 2017, no amount had been drawn on the facility.

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 15, 2017, the REIT sadly announced the passing of its Chairman and Trustee, Thomas Schwartz. In connection with Mr. Schwartz's passing, the Board of Trustees appointed Frederic Waks as its new Chairman. Mr. Waks has been involved with the REIT as a member of the Board of Trustees and an investor since the REIT's inception. He has over 35 years of Canadian real estate experience and more than 20 years of capital markets experience. In addition to his role with the REIT, Mr. Waks is President and Chief Executive Officer of Trinity Development Group, Inc., and previously held various senior positions including President and Chief Operating Officer of RioCan REIT, Canada's largest retail landlord.

On August 17, 2017, the REIT completed the purchase of 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.

On August 21, 2017, the REIT announced that Ira Gluskin was appointed to the Board of Trustees. Mr. Gluskin is a co-founder of Gluskin Sheff + Associates Inc., one of Canada's pre-eminent wealth management firms. Mr. Gluskin is also a director of Tricon Capital Group Inc., an investor and asset manager focused on the North American real estate industry listed on the Toronto Stock Exchange.

Summary of Quarterly Results for the Nine Months Ended September 30, 2017

	Q3 2017	Q2 2017	Q1 2017
	$	$	$
Property income	2,515,482	855,623	206,008
Property expenses	(890,205)	(221,807)	(79,485)
Net operating income	1,625,277	633,816	126,523
Net loss	(5,915,789)	(839,075)	(170,379)

Select Operating Results

	Three Months Ended			Nine Months Ended	
	September 30, 2017	**June 30, 2017**	**September 30, 2016[1]**	**September 30, 2017**	**September 30, 2016[1]**
	$	**$**	**$**	**$**	**$**
Property revenue	2,515,482	855,623	-	3,577,113	-
Property expenses	(890,205)	(221,807)	-	(1,191,497)	-
Net operating income	1,625,277	633,816	-	2,385,616	-
General & administrative expenses	(804,887)	(756,456)	(25,000)	(2,179,018)	(25,000)
Fair value adjustment of Investment Properties	(7,411,299)	(831,070)	-	(7,460,817)	-
Fair Value adjustment of Class B LP Units	621,478	342,720	-	964,198	-
Fair value adjustment of interest rate swaps	(171,222)	65,612	-	(342,616)	-
Unit-based compensation	(56,802)	(24,786)	-	(155,900)	-
Other	281,666	(268,911)	-	(103,050)	-
Net Loss	(5,915,789)	(839,075)	(25,000)	(6,891,587)	(25,000)

Notes:
1. From July 25, 2016 (date of incorporation) to September 30, 2016.

Select Balance Sheet Data

	September 30, 2017	**December 31, 2016**
	$	**$**
Investment Properties at fair market value	124,670,146	-
Cash	11,643,507	3,164,675
Mortgages payable	73,510,357	-
Unitholders' equity	53,356,750	4,740,900

Summary of Results

NOI was $1,625,277 and $2,385,616 for the three and nine months ended September 30, 2017, respectively, and was generated by the Dusseldorf Property, the Landshut Property, and the Brussels Property (collectively, the "Investment Properties") acquired on January 31, 2017, May 11, 2017, and August 17, 2017, respectively. NOI for the three months ended September 30, 2017 increased by $991,461 relative to NOI of $633,816 for the three months ended June 30, 2017, a 156% increase. This increase is attributable to the acquisition of the Brussels Property, as well as holding the Landshut Property for an additional 41 days relative to Q2 2017. NOI is comprised of property revenue of $2,515,482 offset by operating expenses of $890,205 for the three months ended September 30, 2017, and property revenue of $3,577,113 offset by operating expenses of $1,191,497 for the nine months ended September 30, 2017. Property revenue for the three months ended September 30, 2017 increased by $1,659,858 relative to property revenue of $855,623 for the three months ended June 30, 2017, a 194% increase. This increase is attributable to the acquisition of the Brussels Property, as well as holding the Landshut Property for an additional 41 days relative to Q2. During the three and nine months ended September 30, 2017, the REIT recognized extraordinary recovery revenue of $384,951, offset by recoverable property expenses in the same amount due to a tax assessment that is recoverable from the associated tenant. Excluding the effect of this assessment, property revenue was $2,130,531 and $3,192,162, respectively, and property expenses were $505,254 and $806,546, respectively. The impact to NOI was $nil. Following the acquisition of the Investment Properties, there were no material changes to the occupancy rate or tenancy profile of the properties. Both the rental income and operating expenses materially reflect the expected performance for the period following the acquisition of the properties, after adjusting for ownership of the Brussels Property for only 44 out of 92 days during the third quarter and for the recoverable tax assessment noted above. All tenants of the Investment Properties are aware of the change of ownership and are actively engaged with the new asset managers.

The REIT reported a net loss of $5,915,789 and $6,891,587 for the three and nine months ended September 30, 2017. The reported net loss includes a fair value loss adjusting the value of the Investment Properties from the date of acquisition by $7,411,299 for the three months ended September 30, 2017, and by $7,460,817 for the nine months ended September 30, 2017, as a result of transaction costs associated with the acquisition of the Investment Properties. As at September 30, 2017, the fair value of the Investment Properties were determined by management to be $124,670,146 (€84,568,000), based on third-party independent appraisals previously performed on each of the Investment Properties and updated for market inputs at September 30, 2017.

The reported net loss for the three and nine months ended September 30, 2017 further included general and administrative expenses of $804,877 and $2,179,018, respectively, fair value gain on Class B LP Units of $621,478, and $964,198, respectively, Unit-based compensation of $56,802 and $155,900, respectively, and fair value loss on interest rate swaps of $171,222 and $342,616, respectively.

Funds from Operations and Adjusted Funds from Operations

Funds from operations

The REIT believes that FFO is an important measure of operating performance and the performance of real estate properties. This non-IFRS measurement is a commonly used measure of performance of real estate operations; however, it does not represent net income or cash flow from operating activities as defined by IFRS and is not necessarily indicative of cash available to fund the REIT’s needs. As it is not defined by IFRS, it does not have standardized meaning and may not be comparable with similar measures presented by other income trusts.

Adjusted funds from operations

The REIT believes that AFFO is an important measure of economic performance and is indicative of the REIT’s ability to pay distributions. This non-IFRS measurement is commonly used for assessing real estate performance; however, it does not represent cash generated from or used in connection with operating activities as defined by IFRS and is not necessarily indicative of cash available to fund the REIT’s needs. As it is not defined by IFRS, it does not have standardized meaning and may not be comparable with similar measures presented by other income trusts.

	Three-Months Ended September 30, 2017	**Three-Months Ended June 30, 2017**
FFO	$	$
Net loss	(5,915,789)	(839,075)
Adjustments:		
Fair value adjustment of Investment Properties	7,411,299	831,070
Fair value adjustment of Class B LP Units	(621,478)	(342,720)
Distributions payable on Class B LP Units	34,227	-
Unit-based compensation	56,802	24,786
Fair value adjustment of interest rate swap	171,222	(65,612)
Deferred taxes	(14,565)	27,752
Foreign exchange gain / loss	(571,094)	93,582
Professional fees and other non-recurring items related to corporate structure	447,040	629,785
Funds from Operations (FFO)	997,664	359,567

AFFO	$	$
FFO	997,664	359,567
Adjustments:		
Amortization of deferred financing fees	21,211	6,303
Capital expenditure reserve	(43,081)	(21,247)
Re-leasing reserve	(115,995)	(31,869)
Adjusted Funds from Operations (AFFO)	859,799	312,753

Given the current phase of development of the REIT, the REIT believes that it is appropriate to complete certain adjustments when compiling and reporting FFO and, consequentially, AFFO. The REIT, therefore, has included certain one-time adjustments associated with structuring, set-up and/or certain acquisition costs. In total, this adjustment amounts to $447,040 for the three months ended September 30, 2017, and consists of non-recurring expenses which are recorded in the financial statements of the REIT. These items reflect costs directly associated with the implementation of the REIT's structure and the acquisition of the Investment Properties and typically comprise payments to third-party professional advisors mandated to provide specific assistance with an acquisition or the REIT's structure. FFO for the three months ended September 30, 2017 was $997,664, a 177% increase over Q2 2017.

The REIT's calculation of AFFO includes an estimated amount of $43,081 for normalized, non-recoverable recurring capital expenditures and an estimated reserve of $115,995 for initial direct leasing costs and lease incentives determined by the REIT based upon our current property portfolio and leasing profile. These estimates may differ from actual amounts incurred due to the timing of expenditures and the related leasing activities. AFFO for the three months ended September 30, 2017 was $859,799, a 175% increase over Q2 2017.

Key Performance Indicators and Other Non-IFRS Measures

The REIT measures success using a number of key performance indicators (KPIs), which are outlined below. The following KPIs are non-IFRS measures, which are not defined under IFRS. They should not be considered as an alternative to or comparable with any measure under IFRS. Non-IFRS measures may not be comparable with similar measures presented by other companies. As the primary operating currency of the REIT's subsidiaries is the Euro, certain KPIs reflected below are denominated in Euros.

Selected KPIs

	Q3 2017	**Q2 2017**	**Q1 2017**
Occupancy rate	99.9%	99.8%	99.3%
Weighted-average lease term (WALT)	7.2	7.4	5.7
Gross leasable area (m^2) (GLA)	37,015	21,315	5,261
Normalized annual base rent (€)	6,472,882	2,901,708	678,730
Debt term to maturity	6.9	6.7	6.8
Mortgage debt to fair market value	60.0%	59.1%	60.0%
Interest rate on property debt	1.82%	1.78%	1.55%
Number of buildings	6	5	1
Number of tenants	10	9	8

Occupancy rate

Occupancy rate is defined as the percentage of GLA that is occupied by tenants, and is used by management as a measure of the REIT's ability to generate revenue. Occupancy rate increased to 99.9% at Q3 2017 from 99.8% at Q2 2017, as a result of the acquisition of the Brussels Property, which is 100% occupied.

Weighted-average lease term (WALT)

WALT is defined as the average remaining lease term of tenants weighted across GLA, and is used by management to gauge the sustainability of the REIT's ability to generate revenue. WALT decreased to 7.2 years at Q3 2017 compared to 7.4 years at Q2 2017, a decrease of 0.2 years (2% decrease). The decrease is due to the WALT of the Landshut and Dusseldorf Properties decreasing by 0.3 years during the quarter, offset by the acquisition of the Brussels Property, which has a WALT of 7.3 years at Q3 2017.

Gross leasable area (GLA)

GLA is defined as the total area that is available to be leased to existing or prospective tenants, and is used by management as measure of the REIT's ability to generate revenue. GLA increased to 37,015 square metres at Q3 2017 compared to 21,315 square metres at Q2 2017 (74% increase) as a result of the acquisition of the Brussels Property, which contains 15,700 square metres of GLA.

Normalized annual base rent

Normalized annual base rent is defined as the amount of rent due from tenants (in Euros) on an annualized basis, as defined in their lease agreements, and is used by management as a measure of the REIT's ability to generate revenue over the next 12 months. Normalized annual base rent was €6,472,882 at Q3 2017 compared to €2,901,708 at Q2 2017, an increase of €3,571,174 (123% increase), which is the result of the acquisition of the Brussels Property.

Debt term to maturity

Debt term to maturity is defined as the average remaining term on outstanding mortgage debt weighted across the value of total mortgage debt outstanding, and is used by management to forecast the REIT's interest and principal repayments due. Debt term to maturity was 6.9 years at Q3 2017 compared to 6.7 years at Q2 2017, an increase of 0.2 years. During the quarter, the REIT entered into a new mortgage in connection with the acquisition of the Brussels Property, which matures on January 14, 2025, and the term to maturity on the mortgages associated with the Landshut and Dusseldorf Properties decreased by 0.3 years.

Mortgage debt to fair market value

Mortgage debt to fair market value is defined as the total unamortized portion of mortgage debt, divided by the total fair market value of investment properties, and is used by management as a measure of the REIT's leverage. Mortgage debt to fair market value was 60.0% at Q3 2017 compared to 59.1% at Q2 2017. The increase was the result of the acquisition of the Brussels Property, which was partially financed by a mortgage which had a loan to value of 61.3% as at Q3 2017. The mortgage debt to fair market value on the Dusseldorf and Landshut Properties, which were both owned at the end of Q2 2017, declined from 59.1% at Q2 2017 to 58.7% at Q3 2017 as a result of mortgage principal repayments.

Interest rate on property debt

The interest rate on property debt is defined as the all-in interest, including amounts owed on interest rate swaps, associated with property-related debt and is used by management as a measure of the REIT's cost of financing acquisitions. The interest rate on property debt was 1.82% at Q3 2017 compared to 1.78% at Q2 2017, an increase of 0.04%. The increase was the result of the acquisition of the Brussels Property, which was partially financed by a mortgage with an all-in interest rate of 1.87%.

Number of buildings

The number of buildings is defined as the total number of building structures owned by the REIT that make up the combined Investment Property portfolio. The REIT owned 6 buildings at the end of Q3 2017 compared to 5 buildings at the end of Q2 2017, an increase of 1. The increase was the result of the acquisition of the Brussels Property.

Number of tenants

The number of tenants is defined as the total number of tenants currently leasing space in the REIT's Investment Properties, and is used by management as a measure of the REIT's revenue diversification and risk concentration. At the end of Q3 2017, there were ten tenants compared to nine tenants at the end of Q2 2017, an increase of one tenant. The increase is due to the acquisition of the Brussels Property, which is 100% occupied by a single tenant. This tenant represents 55% of total normal annualized base rent at Q3. This tenant concentration risk is mitigated by the characteristics of the building, and the fact that the tenant is a Belgian government entity with an investment grade credit rating.

Financial Condition, Liquidity and Capital Resources

The REIT's principal source of liquidity is cash. As at September 30 30, 2017, the REIT, including its subsidiaries, had cash of $11,643,507 and net current assets of $4,350,466. Accounts payable and accrued liabilities of $2,522,479 is comprised mainly of the payables associated with the operation of the Investment Properties, as well as acquisition costs. Until January 31, 2017, when the Company completed its Qualifying Transaction, it did not have a source of significant revenue and was expected to incur losses. Following the completion of the Qualifying Transaction, the REIT has sufficient resources to meet its current obligations, to identify and investigate potential acquisitions, and to fund further expenditures as required to continue as a going concern.

During the period from January 1, 2017 to September 30, 2017, financing activities, including private placements, increased cash by $135,998,114. The REIT used $129,905,345 to purchase the Investment Properties (including professional fees and related transaction taxes). The main sources of funds for the REIT during this period included capital offerings (gross proceeds $68,801,000), and proceeds from borrowing ($74,066,108).

Significant Accounting Policies and Accounting Estimates

A summary of significant accounting policies and accounting estimates can be found in note 2 to the REIT's financial statements for the three and nine months ended September 30, 2017.

Financial Instruments and Risks and Uncertainties

Fair Value

The REIT's financial instruments consist of cash, accounts receivables, accounts payable, interest rate swap, and mortgages payable. The amounts are initially recognised initially at fair value and are subsequently remeasured in accordance with the nature and classification adopted for the financial instrument as noted below.

Financial instrument	**Classification**	**Measurement**
Cash	Loans and receivable	Amortized cost
Accounts receivables	Loans and receivable	Amortized cost
Accounts payable	Other liabilities	Amortized cost
Distributions 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

Liquidity Risk

Liquidity risk is the risk that the REIT will not have the financial resources required to meet its financial obligations as they become due. The REIT manages this risk by ensuring it has sufficient cash on hand to meet obligations as they become due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities. As at September 30, 2017, the REIT had cash of $11,643,507, and accounts payable and accrued liabilities of $2,522,479. The REIT was not subject to significant liquidity risk as at September 30, 2017.

The REIT, through a wholly owned subsidiary, 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 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 bearing interest at the rate of 0.60%, which also matures December 31, 2023, resulting in a fixed all-in interest rate of 1.55% on debt associated with the Dusseldorf Property.

The REIT, through a wholly owned subsidiary, drew on a $26,805,600 (€18,000,000) mortgage in connection with the purchase of the Landshut Property on May 11, 2017. 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 REIT, through a wholly owned subsidiary, drew on a $37,834,350 (€25,500,000) mortgage in connection with the purchase of the Brussels Property on August 17, 2017. The mortgage payable is denominated in Euro and is secured by a charge against the Brussels Property. The mortgage bears interest at the rate of 1.38% and matures January 14, 2025. In connection with the mortgage, the REIT entered into an interest rate swap bearing interest at the rate of 0.49%, which also matures January 14, 2025, resulting in a fixed all-in interest rate of 1.87% on debt associated with the Brussels Property.

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The REIT is subject to credit risk with respect to its cash and accounts receivable.

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.

General business risks

The REIT is subject to general business risks and to risks inherent in the real estate industry. The underlying value of the Investment Properties as well as future investments or property acquisitions and the REIT's income and ability to generate stable positive returns from its operating activities will depend on the ability of the REIT to maintain revenues and to generate income in excess of operating expenses. Income and gains from current or future investments and property acquisitions may be adversely affected by changes in national or local economic conditions, changes in interest rates and in the availability, cost and terms of any mortgage or other financing, the ongoing need for capital improvements, particularly in older structures, changes in real estate assessed values and taxes payable on such values (including as a result of possible increased assessments caused by an acquisition by the REIT) and other operating expenses, changes in governmental laws, regulations, rules and fiscal policies, changes in zoning laws, the impact of present or future environmental legislation and compliance with environmental laws, acts of God, including natural disasters (which may result in uninsured losses). Any of the foregoing events could negatively impact the asset value of the REIT or its ability to generate positive cash flow.

When interest rates increase, the cost of acquiring, developing, expanding or renovating real property increases and real property values may decrease as the number of potential buyers decreases. Similarly, as financing becomes less available, it becomes more difficult to both acquire and to sell real property as well as to finance the investment and acquisition activities of the REIT. Finally, governments can, under eminent domain laws, expropriate or take real property for less compensation than an owner believes the property is worth. Almost all of these factors are beyond the REIT's control. Any one of, or a combination of, these factors may adversely affect the ability of the REIT to conduct its business and therefore negatively impact the financial position of the REIT.

While the REIT intends to acquire a portfolio of properties in order to achieve its investment objectives, the portfolio of the REIT will initially be concentrated. Until such time as the REIT acquires additional properties, the value of the Units, and the ability of the REIT to make distributions, will be dependent on the ability of the REIT to derive income from its invested portfolio.

Real property ownership

All real property investments are subject to elements of risk. Such investments are affected by general economic conditions (such as the availability, terms and cost of mortgage financings and other types of credit), local real estate markets and conditions (such as an oversupply of office and other commercial properties or a reduction in demand for real estate in the area), the attractiveness of the properties to residents or tenants, supply and demand for space, competition from other available space and various other factors.

The performance of the economy in areas in which properties are located affects occupancy, market rental rates, property sale prices and expenses. These factors consequently can have an impact on revenues generated from properties and their underlying values.

The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. The REIT's financial performance would be adversely affected if tenants at the REIT's portfolio properties were to become unable to meet their obligations under their leases. In the event of default by a tenant, delays or limitations in enforcing rights as lessor may be experienced and costs incurred in protecting the REIT's investment may be incurred. Furthermore, at any time, a tenant may seek the protection of bankruptcy, insolvency or similar laws which could result in the rejection and termination of the lease of the tenant and, thereby, cause a reduction in the cash flow available to the REIT.

Upon the expiry of any lease, there can be no assurance that the lease will be renewed or the tenant replaced. The terms of any subsequent lease may be less favourable to the REIT than the existing lease.

Other factors may further adversely affect revenues from and values of the REIT's investment activities and owned properties. These factors include local conditions in the areas in which properties are located, the attractiveness of the properties to tenants or future purchasers, competition from other properties and the REIT's abilities to provide adequate facilities, maintenance, services and amenities. Operating costs, including real estate taxes, insurance and maintenance costs, and mortgage payments, if any, do not, in general, decline when circumstances cause a reduction in income from a property. The REIT could sustain a loss as a result of foreclosure on a property, if a property is mortgaged to secure payment of indebtedness and the REIT was unable to meet its payment obligations. In addition, applicable laws, including tax laws, interest rate levels and the availability of financing also affect revenues from properties and real estate values.

Lease renewals, rental increases, lease termination rights and other lease matters

Expiries of leases for the investments properties and other properties that the REIT may acquire will occur from time to time over the short and long-term. No assurance can be provided that the REIT will be able to renew any or all of the leases upon their expiration or that rental rate increases will occur or be achieved upon any such renewals. The failure to renew leases or achieve rental rate increases may adversely impact the REIT's financial condition and results of operations.

Although certain, but not all, leases contain a provision requiring tenants to maintain continuous occupancy of leased premises, there can be no assurance that such tenants will continue to occupy such premises. There can be no assurance that tenants will continue their activities and continue occupancy of the premises. Any cessation of occupancy by tenants may have an adverse effect on the REIT and could adversely impact the REIT's financial condition and results of operations and decrease the amount of cash available for distribution. In addition, certain leases contain a provision which gives tenants the right to terminate their leases upon payment of a penalty.

Investment concentration

The Investment Properties account for 100% of the REIT's total real property assets. Accordingly, the REIT will initially be susceptible to adverse developments in Germany and Belgium, the markets in which it operates, such as new developments, changing demographics and other factors. These factors may differ from those affecting the real estate markets in other regions or countries in Europe. If real estate conditions in Germany or Belgium decline relative to real estate conditions in other regions or countries in Europe, the REIT's cash flows, operating results and financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

The principal business of the REIT will be investing in properties in Europe. Any adverse economic or real estate developments in the areas in which the properties are located initially and in which the REIT's real estate investments reside going forward, or in the future in any of the other markets in which the REIT operates could adversely affect the REIT's rental revenues, which could impair its ability to satisfy its debt service obligations and generate stable positive cash flow from its operations.

Liquidity

Real estate investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. The costs of holding real estate are considerable and during an economic recession, the REIT may be faced with ongoing expenditures with a declining prospect of incoming receipts. In such circumstances, it may be necessary for the REIT to dispose of properties at lower prices in order to generate sufficient cash for operations and making distributions.

Uninsured losses

The REIT will carry comprehensive general liability, fire, flood, extended coverage and rental loss insurance with policy specifications, limits and deductibles customarily carried for similar properties. There are, however, certain types of risks (generally of a catastrophic nature such as from war or nuclear accident) which are uninsurable under any insurance policy. Should an uninsured or underinsured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, its property, but it would continue to be obligated to repay any recourse mortgage indebtedness on such property. Furthermore, there are other risks that are not economically viable to insure at this time. Should an uninsured or under-insured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from its investments or properties, and the REIT would continue to be obliged to repay any recourse indebtedness related to such investments or properties.

Competition

The REIT will compete with various owners, operators and developers in the European real estate industry, including other properties located within proximity to the REIT's properties. Some of these parties own, or may in the future own, properties that compete directly with the REIT's properties, and some of these parties may have greater capital resources than the REIT.

Numerous other developers, managers and owners of properties will compete with the REIT in seeking tenants. Some of the properties owned by the REIT's competitors are better located, of higher quality or less leveraged than the properties owned by the REIT. Some of the REIT's competitors are better capitalized and stronger financially and therefore more able to withstand an economic downturn. If the REIT's competitors build new properties that compete with the REIT's current or future properties, the REIT may lose potential tenants and it may be pressured to discount its rental rates below those it would otherwise charge in order to retain tenants. As a result, the REIT's rental revenues may decrease in the future, which could impair the REIT's ability to satisfy any debt service obligations and to generate stable positive cash flow from its operations. In addition, increased competition for tenants may require the REIT to make capital improvements to facilities that it would not have otherwise made. Any unbudgeted capital improvements the REIT undertakes could materially and adversely affect the REIT's cash flow, operating results and financial condition and the ability of the REIT to make distributions on the Units.

Environmental matters

Properties owned by the REIT may contain ground contamination, hazardous substances, wartime relics (including potentially unexploded ordnance) and/or other residual pollution and environmental risks. Buildings and their fixtures might contain asbestos or other hazardous substances such as polychlorinated biphenyl, dichlorodiphenyltrichloroethane, pentachlorophenol or lindane above the allowable or recommended thresholds, or the buildings could bear other environmental risks.

The REIT bears the risk of cost-intensive assessment, remediation or removal of such ground contamination, hazardous substances, wartime relics or other residual pollution. The discovery of any such residual pollution on the sites and/or in the buildings, particularly in connection with the lease or sale of properties or borrowing using the real estate as security, could trigger claims for rent reductions or termination of leases for cause, for damages and other breach of warranty claims against the REIT. The remediation of any pollution and the related additional measures the REIT would have to undertake could negatively affect it and could involve considerable additional costs that the REIT may have to bear. The REIT is also exposed to the risk that recourse against the polluter or the previous owners of the properties might not be possible, for example, because they cannot be identified, no longer exist or have become insolvent. Moreover, the existence or even the mere suspicion of the existence of ground contamination, hazardous materials, wartime relics or other residual pollution can negatively affect the value of a property and the ability of the REIT to lease or sell such a property.

As an owner of real estate property and its development, the REIT will be subject to various European federal, provincial, state and municipal laws relating to environmental matters which impose actual and contingent liabilities on the REIT to undertake remedial action on contaminated sites and in contaminated buildings. These obligations may relate to sites the REIT currently owns or operates or sites where waste from the REIT's operations has been deposited. The failure to remove or remediate such substances or locations, if any, could adversely affect the REIT's ability to sell such real estate or to borrow using such real estate as collateral and could potentially also result in claims against the REIT. Laws and regulations, as may be amended over time, may also impose liability for the release of certain materials into the air or water from a property, including asbestos, and such release could form the basis for liability to third persons for personal injury or other damages. In addition, if the REIT's officers or employees infringe or have infringed on environmental protection laws, the REIT could be exposed to civil or criminal damages. The REIT may be required to provide for additional reserves to sufficiently allocate toward its potential obligations to remove and dispose of any hazardous and toxic substances. Any such event could have a material and adverse effect on the REIT's cash flows, financial condition and results of operations and its ability to make distributions on the Units.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. There is a risk that the REIT may not be able to renegotiate its mortgage at maturity on terms as favourable as the existing mortgage payable. The Company mitigates interest rate risk by maintaining reasonable levels of debt to gross book value and aims to structure new debt to stagger the maturities to ensure that the majority of debt does not become due for repayment in any one particular year.

Currency exchange rates

Substantially all of the REIT's investments and operations will be conducted in currencies other than Canadian dollars. The REIT will also raise funds primarily in Canada from the sale of securities in Canadian dollars and invest such funds indirectly through its subsidiaries in currencies other than Canadian dollars. As a result, fluctuations in such foreign currencies against the Canadian dollar could have a material adverse effect on the REIT's financial results and ability to pay distributions, which will be denominated and reported in Canadian dollars. The REIT does not currently intend to implement active hedging programs in order to offset the risk of revenue losses if the Canadian dollar increases in value compared to foreign currencies. To the extent that the REIT fails to adequately manage these risks the REIT's financial results may be negatively impacted.

Related Party Transactions

Asset Management Agreement

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 three and nine months ended September 30, 2017, the REIT recorded asset management fees to Maple Knoll of $283,115 and $361,374, respectively, and acquisition related costs of $697,816 and $1,184,844, respectively.

Off-Balance Sheet Arrangements

As at September 30, 2017, the Company does not have any off-balance sheet arrangements.

Unitholders' equity

The following table presents the changes in Common Shares and Units for the nine months ended September 30, 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 exchange for Class B LP Units		4,530	21,518
Units issued, less issuance costs of $3,024,462		7,778,000	31,976,508
Unit Capital, September 30, 2017	**-**	**15,817,730**	**63,642,566**

As at September 30, 2017, the trustees and officers of the REIT beneficially owned, directly or indirectly, or had control or direction over 2,087,350 Units or approximately 12.52% of the issued and outstanding Units (assuming the conversion of all Class B LP Units into Units).

Unit-Based Compensation

The Company adopted a stock option plan (the "Stock Option Plan") on October 4, 2016 which was replaced by the unit option plan of the REIT (the "Unit Option Plan") on substantially similar terms to the Stock Option Plan as part of the Arrangement. Under the terms of the Unit Option Plan, the Board of Trustees of the REIT may from time to time, in its discretion, and in accordance with TSXV regulations, grant trustees, officers, and technical consultants of the REIT, options to purchase Units ("Unit Options"). 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 total number of Units reserved under option for issuance may not exceed 10% of the Common Shares outstanding. As at September 30, 2017, 464,640 Unit Options had been granted and were outstanding, representing 2.79% of Units issued.

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 companies over a period of time approximating the average expected option holding period. The average risk-free interest rate used is based on government of Canada bonds with terms consistent with the average expected option holding period. The average expected option life is estimated to be one half of the life of the options.

The total fair value of Unit Options as at September 30, 2017 is $634,450, determined using the Black-Scholes option pricing model with the following assumptions:

Weighted average exercise price	$3.96
Weighted average expected option life	4.02 years
Risk-free interest rate	1.80%
Expected volatility	80%
Estimated distribution yield	9.0%

For the three and nine-month periods ending September 30, 2017, Unit-based compensation expense was $56,802 and $155,900, respectively. In accordance with the Unit Option Plan, upon passing, 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 $18,605 for the three and nine months ended September 30, 2017. The compensation to key management and trustees in unit options during the 3 and 9 months ended September 30, 2017 is $41,845 and $130,207, respectively (July 25, 2016 to September 30, 2017 - $nil).