



# **European Commercial Real Estate Investment Trust**

Management's Discussion and Analysis

**For the three and six months ended June 30, 2018**

August 28, 2018

## 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 (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 six months ended June 30, 2018. The information contained in this MD&A, including forward-looking information, is based on information available to management as of August 28, 2018.

Additional information about the REIT can be accessed at [www.ecreit.com](http://www.ecreit.com) or [www.sedar.com](http://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 the REIT'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 functional currency is the Canadian dollar, and the REIT's unaudited condensed consolidated interim 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 income (loss) and comprehensive income (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 by the REIT as net income (loss) in accordance with IFRS, excluding: (i) fair value adjustments on Investment Properties (as defined herein); (ii) gains (or losses) from sales of Investment Properties (as defined herein); (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; and (vii) 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 by the REIT as FFO subject to the following adjustments: (i) amortization of fair value mark-to-market adjustments on mortgages acquired; (ii) amortization of deferred financing fees; (iii) differences resulting from recognizing property revenues on a straight-line basis; (iv) deferred unit compensation expense and (v) 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 of the REIT in their discretion.

“NOI” is defined as property 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 (loss) and comprehensive income (loss) 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.”

## Organization

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 (the “Declaration of Trust”).

Prior to its reorganization 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 on January 31, 2017.

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

The unaudited condensed consolidated interim financial statements of the REIT for the three and six months ended June 30, 2018 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.

## Strategy

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 (as defined herein) basis, to the earnings of the REIT.

## Second Quarter Highlights

- Generated property revenue of \$3.0 million, consistent with prior quarter, reflecting the stability of the REIT's operating platform.
- Financial results exceeded the forecast contained within the REIT's short form prospectus dated July 18, 2017:
  - Net Income was \$3.7 million, and includes a fair value gain on the Investment Properties of \$3.0 million;
  - FFO was \$1.7 million; and
  - AFFO was \$1.5 million.
- The REIT's occupancy rate remains steady at 99%, with a weighted average lease term of 6.5 years at Q2 2018.
- The REIT's leverage decreased to 51.7% at Q2 2018 from 52.7% at Q1 2018, driven by scheduled loan amortization and the fair value gain noted above.
- Distributions of \$0.0875 (\$0.35 annualized) per unit of the REIT ("Unit") and class B limited partnership unit ("Class B LP Unit") of ECRE Limited Partnership, a subsidiary of the REIT, were declared payable to eligible Unitholders and holders of Class B LP Units, respectively, as at June 29, 2018 and paid on July 16, 2018.
- Management further confirmed that it expects to continue to exceed the forecast as reported in the Brussels prospectus, complemented by a robust acquisition pipeline consistent with the REIT's strategy to grow AFFO on an accretive basis.

## Financial Results

	Three Months Ended			Six Months Ended	
	June 30, 2018 \$	March 31, 2018 \$	June 30, 2017 \$	June 30, 2018 \$	June 30, 2017 \$
Property revenue	3,007,979	2,980,539	855,623	5,988,518	1,061,631
Property expenses	(742,836)	(538,905)	(221,807)	(1,281,741)	(301,292)
<b>Net operating income</b>	<b>2,265,143</b>	<b>2,441,634</b>	<b>633,816</b>	<b>4,706,777</b>	<b>760,339</b>
General & administrative expenses	(521,710)	(529,552)	(756,456)	(1,051,261)	(1,374,131)
Fair value adjustment of Investment Properties	3,037,183	-	(831,070)	3,037,183	(49,518)
Fair Value adjustment of Class B LP Units	(125,761)	(110,040)	342,720	(235,802)	342,720
Fair value adjustment of interest rate swaps	(330,104)	140,379	65,612	(189,725)	(171,394)
Unit-based compensation	(151,770)	(140,191)	(24,786)	(291,961)	(99,098)
Other	(499,633)	(341,987)	(268,911)	(841,619)	(384,717)
<b>Net income (loss)</b>	<b>3,673,348</b>	<b>1,460,243</b>	<b>(839,075)</b>	<b>5,133,592</b>	<b>(975,799)</b>

## Summary of Financial and Operational Results

NOI is composed of property revenue, offset by property operating expenses, and is 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.

Property revenue includes rental income from the Investment Properties as well as the recovery of operating costs and property taxes from tenants. Property revenue primarily fluctuates based on occupancy rates, contractual rent indexation clauses contained in tenant leases, operating cost reconciliations, and the acquisition or disposition of Investment Properties. Property revenue for the three and six months ended June 30, 2018 was \$3,007,979 and \$5,988,518, respectively, compared to property revenue for the three and six months ended June 30, 2017 of \$855,623 and \$1,061,631, respectively. The increase of \$2,152,356 and \$4,926,887, respectively, is primarily attributable to the acquisition of the Brussels Property, which was acquired during Q3 2017, holding the Landshut Property for an additional 41 days relative to the three and six months ended June 20, 2017, and holding the Dusseldorf Property for an additional 31 days relative to the six months ended June 30, 2017.

Property operating expenses include occupancy costs and property taxes as well as certain expenses that are not recoverable from tenants as defined in their contracts, including major repairs and maintenance costs. Property expenses for the three and six months ended June 30, 2018 were \$742,836 and \$1,281,741, respectively, compared to property expenses of \$221,807 and \$301,292 for the three and six months ended June 30, 2017, respectively. The increase of \$521,029 and \$980,449, respectively, is primarily attributable to the acquisition of the Brussels Property, which was acquired during Q3 2017, holding the Landshut Property for an additional 41 days relative to the three and six months ended June 20, 2017, and holding the Dusseldorf Property for an additional 31 days relative to the six months ended June 30, 2017. In addition, during Q2 2018 the REIT incurred non-recurring repairs and maintenance and structuring costs from which the REIT expects to generate efficiencies in the future (see "Non-IFRS Reconciliation").

Consequently, NOI for the three and six months ended June 30, 2018 of \$2,265,143 and \$4,706,777, respectively, increased by \$1,631,327 and \$3,946,438, respectively, relative to NOI of \$633,816 and \$760,339 for the three and six months ended June 30, 2017.

The REIT reported net income of \$3,673,348 and \$5,133,592 for the three and six months ended June 30, 2018, respectively, compared to a net loss of \$839,075 and \$975,799 for the three and six months ended June 30, 2017, respectively, reflecting the growth of the REIT's operating platform throughout 2017. During the three and six months ended June 30, 2018, the REIT recognized a fair value gain adjusting the value of the Investment Properties by \$3,037,183. The gain was primarily driven by the compression of capitalization rates and increases in market rents in the Brussels market.

Net income for the three and six months ended June 30, 2018 further included general and administrative expenses of \$521,710 and \$1,051,261, respectively, compared to general and administrative expenses of \$756,456 and \$1,374,131 for the three and six months ended June 30, 2017, respectively.

In connection with the offering completed on July 26, 2017 (the "Brussels Offering"), the Brussels prospectus (the "Prospectus") contained forecasted information covering the three months ended June 30, 2018 (the "Forecast"). The REIT's financial results for the three months ended June 30, 2018 are compared to the Forecast below.

	Three Months Ended June 30, 2018				Operating Variance \$
	Actual	Forecast	Variance	FX Impact <sup>a</sup>	
	\$	\$	\$	\$	\$
Property revenue	3,007,979	2,931,006	76,973	57,452	19,521
Property expense	(742,836)	(562,751)	(180,085)	(11,031)	(169,054)
<b>Net operating income</b>	<b>2,265,143</b>	<b>2,368,255</b>	<b>(103,112)</b>	<b>46,421</b>	<b>(149,533)</b>
<b>Other income and expenses</b>					
General & administrative expenses	(521,710)	(362,946)	(158,764)	(7,114)	(151,650)
Foreign exchange gain/(loss)	(73,578)	-	(73,578)	(73,578)	-
Fair value adjustment of Investment Properties	3,037,183	-	3,037,183	-	3,037,183
Fair value adjustment of Class B LP Units	(125,761)	-	(125,761)	-	(125,761)
Unit-based compensation	(151,770)	(135,515)	(16,255)	-	(16,255)
Interest expense	(412,678)	(384,419)	(28,259)	(7,535)	(20,724)
Fair value adjustment of interest rate swaps	(330,104)	-	(330,104)	-	(330,104)
Income before taxes	3,686,725	1,485,375	<b>2,201,350</b>	(41,806)	<b>2,243,156</b>
Current and deferred income tax expense	(13,377)	(65,280)	51,903	(1,280)	53,183
<b>Net Income</b>	<b>3,673,348</b>	<b>1,420,095</b>	<b>2,253,253</b>	<b>(43,086)</b>	<b>2,296,339</b>

(a) EUR/CAD exchange rate per the Forecast was 1.51. Average EUR/CAD exchange rate during Q2 2018 was 1.54.

Property revenue was higher than the Forecast by \$76,973. After adjusting for the effects of foreign exchange, property revenue was higher than the Forecast by \$19,521, primarily due to higher rental revenue as a result of contractual rental indexation. Property operating expenses were higher than the Forecast by \$169,054 after adjusting for the effects of foreign exchange, primarily due to non-recurring repairs and maintenance and structuring expenses from which the REIT expects to generate efficiencies from in the future (and which are removed from FFO (see "Non-IFRS Reconciliation")). As a result, NOI for the three months ended June 30, 2018 was lower than the Forecast by \$149,533 after adjusting for the effects of foreign exchange.

General & administrative expenses for the three months ended June 30, 2018 were \$151,650 higher than the Forecast after adjusting for the effects of foreign exchange. The variance was driven by the timing of expenses as well as one-time expenses associated with structuring the REIT's operations from which the REIT expects to generate future efficiencies (and which are removed from FFO (see "Non-IFRS Reconciliation")).

Unit-based compensation for the three months ended June 30, 2018 was \$16,255 higher than the Forecast. The variance was driven by differences in the inputs used in the REIT's Black-Scholes option valuation model (see "Unit-Based Compensation").

Interest expense on property debt was in-line with the Forecast. After adjusting for the effects of foreign exchange, interest expense as reported in accordance with IFRS was \$20,724 higher than the Forecast. This variance also considers other items included in interest expense as required by IFRS, including the amortization of deferred financing costs, which were classified as acquisition costs in the Prospectus.

Current and deferred income tax expense for the three months ended June 30, 2018 was \$53,183 lower than the Forecast after adjusting for the effects of foreign exchange. The variance is due to the timing of recognition of deferred taxes.

During the three months ended June 30, 2018, the REIT recognized a number of items related to fair value adjustments and foreign exchange that were not considered as part of the Forecast, including:

- A fair value gain on the Investment Properties of \$3,037,183;
- A fair value loss on Class B LP Units of \$125,761;
- A fair value loss on interest rate swaps of \$330,104; and
- A foreign exchange loss of \$73,578.

As a result, net income for the three months ended June 30, 2018 was \$2,296,339 higher than the Forecast after adjusting for the effects of foreign exchange.

### Select Balance Sheet Data

	June 30, 2018	December 31, 2017
	\$	\$
Investment Properties at fair market value	136,089,600	130,404,507
Cash	8,573,270	8,449,856
Mortgages payable	75,333,741	74,643,601
Class B LP Units	3,065,419	2,829,618
Unitholders' equity	61,973,626	58,074,424

### Summary of Quarterly Results

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
	\$	\$	\$	\$	\$
Property revenue	3,007,979	2,980,539	2,874,030	2,515,482	855,623
Property expenses	(742,836)	(538,905)	(599,288)	(890,205)	(221,807)
<b>Net operating income</b>	<b>2,265,143</b>	<b>2,441,634</b>	<b>2,274,742</b>	<b>1,625,277</b>	<b>633,816</b>
<b>Net income (loss)</b>	<b>3,673,348</b>	<b>1,460,243</b>	<b>4,723,649</b>	<b>(5,915,789)</b>	<b>(839,075)</b>

### Non-IFRS Reconciliation

#### 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.

The REIT's FFO and AFFO are presented in the table below.

	<b>Three-Months Ended June 30, 2018</b>	<b>Three-Months Ended June 30, 2017</b>
<b>FFO</b>	<b>\$</b>	<b>\$</b>
Net income (loss)	3,673,348	(839,075)
Adjustments:		
Foreign exchange gain	73,578	93,582
Fair value adjustment of Investment Properties	(3,037,183)	831,070
Distributions on payable on Class B LP Units	15,015	-
Fair value adjustment of Class B LP Units	125,761	(342,720)
Unit-based compensation	151,770	24,786
Fair value adjustment of interest rate swaps	330,104	(65,612)
Deferred income taxes	13,377	27,752
Professional fees related to REIT structure and other non-recurring items	337,242	629,785
<b>Funds from Operations</b>	<b>1,683,012</b>	<b>359,568</b>
<b>FFO per Unit<sup>a</sup></b>	<b>\$0.10</b>	<b>\$0.05</b>
<b>AFFO</b>	<b>\$</b>	<b>\$</b>
FFO	1,683,012	359,568
Adjustments:		
Amortization of deferred financing fees	48,342	6,303
Capital expenditure reserve	(66,607)	(21,247)
Re-leasing reserve	(201,487)	(31,869)
<b>Adjusted Funds from Operations (AFFO)</b>	<b>1,463,260</b>	<b>312,755</b>
<b>AFFO per Unit<sup>a</sup></b>	<b>\$0.09</b>	<b>\$0.05</b>

(a) Per unit amounts include the effect of Class B LP Units, which are convertible to Units on a one-for-one basis. There were 16,770,686 and 6,732,879 weighted average Units and Class B LP Units outstanding during the three months ending June 30, 2018 and June 30, 2017, respectively. See "Unitholders' Equity."

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 repairs and maintenance and/or certain acquisition related costs in FFO. In total, this adjustment amounts to \$337,242 for the three months ended June 30, 2018 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 June 30, 2018 was \$1,683,012, an increase of \$1,323,444 compared to Q2 2017 FFO of \$359,568, reflecting the execution of the REIT's growth strategy over the past year.

The REIT's calculation of AFFO includes an estimated amount of \$66,607 for normalized, non-recoverable recurring capital expenditures and an estimated reserve of \$201,487 for initial direct leasing costs and lease incentives determined by the REIT based upon the 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 June 30, 2018 was \$1,463,260 an increase of \$1,150,505 compared to Q2 2017 AFFO of \$312,755.

The REIT's FFO and AFFO for the three months ended June 30, 2018 are compared to the Forecast below.

	Three-Months Ended June 30, 2018				Operating Variance \$
	Actual	Forecast	Variance	FX Impact <sup>a</sup>	
	\$	\$	\$	\$	
<b>FFO</b>					
Net income	3,673,348	1,420,095	2,253,253	(43,086)	2,296,339
Adjustments:					
Amortization of leasing costs and tenant incentives	-	4,813	(4,813)	94	(4,907)
Foreign exchange gain/(loss)	73,578	-	73,578	73,578	-
Fair value adjustment of Investment Properties	(3,037,183)	-	(3,037,183)	-	(3,037,183)
Distributions on exchangeable units in interest expense	15,015	30,345	(15,330)	-	(15,330)
Fair value adjustment of Class B LP Units	125,761	-	125,761	-	125,761
Unit-based compensation <sup>b</sup>	151,770	135,515	16,255	-	16,255
Fair value adjustment of interest rate swaps	330,104	-	330,104	-	330,104
Deferred income taxes	13,377	56,690	(43,313)	1,111	(44,424)
Professional fees and other non-recurring items related to corporate structure	337,242	-	337,242	-	337,242
<b>FFO</b>	<b>1,683,012</b>	<b>1,647,458</b>	<b>35,554</b>	<b>31,698</b>	<b>3,856</b>
<b>AFFO</b>					
FFO	1,683,012	1,647,458	35,554	31,698	3,856
Adjustments:					
Amortization of deferred financing costs	48,342	2,358	45,984	46	45,938
Capital expenditure reserve	(66,607)	(63,519)	(3,088)	(1,245)	(1,843)
Leasing costs reserve	(201,487)	(192,146)	(9,341)	(3,766)	(5,575)
<b>AFFO</b>	<b>1,463,260</b>	<b>1,394,151</b>	<b>69,109</b>	<b>26,732</b>	<b>42,377</b>
<b>AFFO per Unit<sup>c</sup></b>	<b>\$0.09</b>	<b>\$0.09</b>			

(a) EUR/CAD exchange rate per the Forecast was 1.51. Average EUR/CAD exchange rate during Q2 2018 was 1.54.

(b) Note that the Forecast included Unit-based compensation as an adjustment to AFFO. The REIT has since adjusted its presentation of FFO in order to remove the effects of Unit-based compensation. As such, information from the Forecast has been adjusted to conform with the ongoing disclosure practices of the REIT.

(c) Per Unit amounts include the effect of Class B LP Units, which are convertible to Units on a one-for-one basis. There were 16,770,686 weighted average Units and Class B LP Units outstanding during the three months ended June 30, 2018. See "Unitholders' Equity."

FFO for the three months ended June 30, 2018 was \$35,554 higher than the Forecast. After adjusting for the effects of foreign exchange, FFO was \$3,856 higher than the Forecast. Net income of \$3,673,348 was \$2,296,339 higher than the Forecast as discussed above (see "Summary of Financial Results"). Included in the calculation of FFO are a number of items related to fair value adjustments and foreign exchange that were not considered as part of the Forecast, including:

- A fair value gain on the Investment Properties of \$3,037,183;
- A fair value loss on Class B LP Units of \$125,761;
- A fair value loss on interest rate swaps of \$330,104; and
- A foreign exchange loss of \$73,578.

Distributions on exchangeable units classified as interest expense for the three months ended June 30, 2018 were

\$15,330 lower than the Forecast due to fewer holders of Class B LP Units compared to the Forecast.

Additionally, during the three months ended June 30, 2018, the REIT recognized certain non-recurring repairs and maintenance and other costs related to the REIT's structure in the amount of \$337,242. These items were not included in the Forecast and were included as an adjustment to FFO.

AFFO was higher than the Forecast by \$69,109. After adjusting for the effects of foreign exchange, AFFO was higher than the Forecast by \$42,377. The variance is driven by FFO, which was higher than the Forecast, as described above, coupled with an adjustment related to amortization of deferred financing costs, which were higher than the Forecast due to the classification of financing costs associated with the Brussels Property.

#### *FFO and AFFO per Unit*

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
	\$	\$	\$	\$	\$
<b>FFO per Unit</b>	0.10	0.10	0.10	0.07	0.05
<b>AFFO per Unit</b>	0.09	0.09	0.08	0.05	0.04

#### **Cash Generated by Operating Activities and AFFO Reconciliation**

In compliance with Canadian Securities Administrators Staff Notice 52-306 (Revised), "Non-GAAP Financial Measures", the table below reconciles AFFO to cash generated from operating activities of the REIT.

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017
	\$	\$
<b>Cash generated by (used in) operating activities</b>	<b>(29,211)</b>	<b>(204,868)</b>
Adjustments:		
Change in non-cash working capital <sup>a</sup>	1,408,308	(59,046)
Distributions on Class B LP Units recognized as interest expense	15,015	-
Professional fees and other non-recurring items related to corporate structure	337,242	629,785
Capital expenditure reserve	(66,607)	(21,247)
Re-leasing reserve	(201,487)	(31,869)
<b>AFFO</b>	<b>1,463,260</b>	<b>312,755</b>

(a) Q2 2018 change in non-cash working capital includes the effect of \$1.6 million in prepaid rent from the Brussels Property, which occurred in Q1 2018.

#### **Net Income, Cash Generated by Operating Activities and Distributions Declared**

As required by National Policy 41-201 *Income Trusts and Other Indirect Offerings*, the table below outlines the differences between net income of the REIT and total distributions declared by the REIT, in accordance with such guidelines.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income (loss) for the period	3,673,348	(839,075)	5,133,592	(975,799)
Total declared distributions <sup>a</sup>	1,370,676	\$Nil	2,736,408	\$Nil
<b>Surplus of net income over total distributions</b>	<b>2,302,672</b>	<b>N/A</b>	<b>2,397,184</b>	<b>N/A</b>

(a) Note that the REIT's management and the Board of Trustees have agreed to initially waive receipt of cash distributions for a period of up to three years, subject to certain conditions. Total declared distributions include distributions on REIT Units and Class B LP Units.

For the three and six months ended June 30, 2018 there was a surplus of \$2,302,672 and \$2,397,184, respectively, of net income over total declared distributions. In any given period, the REIT anticipates that actual distributions declared could vary from net income as net income includes non-cash items that do not impact cash flows, and accordingly, the REIT does not use net income as a proxy for distributions to determine its distribution policy.

Further, as required by National Policy 41-201 *Income Trusts and Other Indirect Offerings*, the table below outlines the differences between cash generated by operating activities of the REIT and total distributions declared by the REIT, in accordance with such guidelines.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Cash generated by operating activities	(29,211)	(301,567)	3,380,177	(301,567)
Total declared distributions <sup>a</sup>	1,370,676	\$Nil	2,736,408	\$Nil
<b>Surplus (deficit) of cash generated by operating activities over total distributions</b>	<b>(1,399,887)</b>	<b>N/A</b>	<b>643,769</b>	<b>N/A</b>

(a) Note that the REIT's management and the Board of Trustees have agreed to initially waive receipt of cash distributions for a period of up to three years, subject to certain conditions. Total declared distributions include distributions on REIT Units and Class B LP Units.

For the three and six months ended June 30, 2018, there was a deficit of \$1,399,887 and a surplus of \$643,769, respectively, of cash generated by operating activities over total declared distributions. The variability is due to the timing of rental payments at the Brussels Property.

The REIT believes that cash generated by operating activities does not take into consideration certain relevant factors, and therefore does not reflect its ability to pay distributions. The REIT believes that its distributions are not an economic return of capital, but a distribution of sustainable AFFO, a non-GAAP measure. In making this determination, the REIT has considered, among other things, a number of key factors, including:

- Changes in non-cash working capital fluctuate from period to period and are not considered by the REIT in determining its distribution policy. The REIT believes it is appropriate to exclude these changes in determining the sources of cash available to fund distributions.
- Professional fees and other non-recurring expenditures related to corporate structure are not representative of the ongoing ability of the REIT to generate funds for distribution to Unitholders and holders of Class B LP Units. The REIT therefore excludes these items when determining its distribution policy.
- Distributions on Class B LP Units recognized as interest expense represent actual distributions made to holders of Class B LP Units. The REIT determines its ability to fund these distributions prior to recognizing this expense.

The table below outlines the differences between AFFO and total distributions declared by the REIT.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
AFFO	1,463,260	312,755	2,959,293	317,446
Total declared distributions <sup>a</sup>	1,370,676	\$Nil	2,736,408	\$Nil
<b>Surplus of AFFO over total distributions</b>	<b>92,584</b>	<b>N/A</b>	<b>222,885</b>	<b>N/A</b>

(a) Note that the REIT's management and the Board of Trustees have agreed to initially waive receipt of cash distributions for a period of up to three years, subject to certain conditions. Total declared distributions include distributions on REIT Units and Class B LP Units.

For the three and six months ended June 30, 2018, there was a surplus of \$92,584 and \$222,885, respectively, of AFFO over total distributions.

As disclosed in note 10 of the REIT's unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2018, the REIT has adopted a distribution reinvestment plan (the "DRIP"). A portion of the REIT's declared distributions are therefore not paid in cash. The table below outlines the differences between AFFO and total cash distributions declared by the REIT.

	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
AFFO	1,463,260	312,755	2,959,293	317,446
Total cash distributions declared <sup>a</sup>	1,176,698	\$Nil	2,364,832	\$Nil
<b>Surplus of AFFO over total cash distributions</b>	<b>286,562</b>	<b>N/A</b>	<b>594,461</b>	<b>N/A</b>

(a) Note that the REIT's management and the Board of Trustees have agreed to initially waive receipt of cash distributions for a period of up to three years, subject to certain conditions. Total declared distributions include distributions on REIT Units and Class B LP Units.

After taking into consideration the DRIP, there was a surplus of \$286,562 and \$594,461 for the three and six months ended June 30, 2018, respectively, of AFFO over total cash distributions. Over time, reinvestments pursuant to the DRIP will increase the number of Units outstanding, which may result in upward pressure on the total amount of cash distributions. The Declaration of Trust provides the Board of Trustees with the discretion to determine the amount of distributions declared that would be in the best interest of the REIT, which allows for the variability in cash distributions as a result of additional Units issued pursuant to the DRIP.

### 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

	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Occupancy rate	99.9%	99.9%	99.9%	99.9%	99.8%
Weighted-average lease term (WALT)	6.5	6.8	7.0	7.2	7.4
Gross leasable area (m <sup>2</sup> ) (GLA)	37,015	37,015	37,015	37,015	21,315
Normalized annual base rent (€)	6,622,560	6,622,560	6,472,882	6,472,882	2,901,708
Debt term to maturity	6.1	6.4	6.6	6.9	6.7
Mortgage debt to fair market value (€)	56.2%	57.8%	58.2%	59.9%	58.9%
Total debt to gross book value (\$)	51.7%	52.7%	53.6%	53.4%	48.7%
Interest rate on property debt	1.82%	1.82%	1.82%	1.82%	1.78%
Number of buildings	6	6	6	6	5
Number of tenants	10	10	10	10	9

### 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 remained at 99.9% at Q2 2018 due to long term leases in place and the stability of the REIT's tenant base.

#### *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 longevity and predictability of the REIT's currently contracted income. WALT decreased to 6.5 years at Q2 2018 compared to 6.8 years at Q1 2018, a decrease of 0.3 years (4% decrease). The decrease is due to the passing of 3 months. Due to the long-term nature of tenant leases, there were no lease expiries or renewals during Q2 2018.

#### *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 a measure of the REIT's ability to generate revenue. GLA remained constant at 37,015 square metres at Q2 2018 compared to Q1 2018 as there were no property acquisitions or dispositions during Q2 2018.

#### *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 remained constant at €6,622,560 at Q2 2018 compared to Q1 2018, when indexation clauses contained in the leases of certain tenants led to a 2.3% increase in normalized annual base rent.

#### *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. The REIT's debt term to maturity broadly reflect the profile of the REIT's WALT, and was 6.1 years at Q2 2018 compared to 6.4 years at Q1 2018, a decrease of 0.3 years. The REIT did not enter into any new mortgages during Q2 2018.

#### *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, (in Euros) and is used by management as a measure of the REIT's property-level leverage. Mortgage debt to fair market value was 56.2% at Q2 2018 compared to 57.8% at Q1 2018. The improvement was the result of mortgage principal repayments, coupled with an increase in fair value of the Investment Properties (see "Summary of Financial Results").

#### *Total debt to gross book value*

Total debt to gross book value is defined as the total unamortized portion of mortgage debt, divided by the total assets of the REIT (in Canadian dollars), and is used by management as a measure of the REIT's consolidated leverage. Total debt to gross book value was 51.7% at Q2 2018 compared to 52.7% at Q1 2018. The decrease was the result of mortgage principal repayments, coupled with an increase in fair value of the Investment Properties (see "Summary of Financial Results").

#### *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 remained constant at 1.82% at Q2 2018 compared to Q1 2018 as the REIT did not make any changes to the terms of its debt outstanding during Q2 2018.

#### *Number of buildings*

The number of buildings is defined as the total number of buildings owned by the REIT that make up the combined Investment Property portfolio. The REIT owned six buildings at the end of Q2 2018, consistent with Q1 2018.

### 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 Q2 2018, there were ten tenants, consistent with Q1 2018.

### Financial Condition, Liquidity and Capital Resources

The REIT's principal source of liquidity is cash. As at June 30, 2018, the REIT, including its subsidiaries, had cash of \$8,573,270 and net current assets of \$3,414,568. Accounts payable and accrued liabilities of \$2,022,626 is comprised mainly of the payables associated with the operation of the Investment Properties.

During the three months ended June 30, 2018, financing activities decreased cash by \$1,607,135. The decrease included cash distributions paid to unitholders in the amount of \$1,158,420 on April 16, 2018 for the dividend declared payable to unitholders of record on March 29, 2018, as well as \$448,715 in mortgage principal repayments.

The contractual maturities and repayment obligations of the REIT's mortgages payable, and the related interest rate swap derivatives are as follows, and are based on the June 30, 2018 EUR/CAD FX rate of 1.5360:

	<b>Mortgage interest</b>	<b>Swap Premium</b>	<b>Mortgage Payable</b>	<b>Total</b>
	\$	\$	\$	\$
Remainder of 2018	573,841	127,570	930,095	1,631,506
2019	1,130,359	251,181	1,868,598	3,250,138
2020	1,101,329	244,279	1,879,984	3,225,593
2021	1,071,559	237,037	1,891,586	3,200,182
2022	1,044,572	230,930	1,903,408	3,178,909
2023	1,012,162	222,991	11,419,453	12,654,606
2024	569,239	161,336	24,622,962	25,353,537
2025	18,373	6,471	31,953,125	31,977,969
Total	<b>6,521,434</b>	<b>1,481,794</b>	<b>76,469,211</b>	<b>84,472,440</b>

### Significant Accounting Policies and Accounting Estimates

A summary of significant accounting policies and accounting estimates can be found in notes 2 and 3 to the REIT's condensed consolidated interim financial statements for the three and six months ended June 30, 2018.

### Financial Instruments and Risks and Uncertainties

#### Fair Value

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

<b>Financial instrument</b>	<b>Classification</b>
Cash	Amortized cost
Accounts receivables	Amortized cost
Accounts payable	Amortized cost
Distributions payable	Amortized cost
Mortgages payable	Amortized cost
Interest rate swaps	Fair value through profit and loss
Class B LP Units	Fair value through profit and loss

### *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 June 30, 2018, the REIT had cash of \$8,573,270, and accounts payable and accrued liabilities of \$2,022,626. The REIT was not subject to significant liquidity risk as at June 30, 2018.

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's financial instruments that are potentially subject to credit risk consist of cash and accounts receivable. In order to mitigate the credit risk associated with cash, the REIT limits cash transactions to financial institutions and legal counsel with high quality credit ratings. In order to mitigate the credit risk associated with accounts receivable, the REIT seeks to acquire properties with long-term, stable tenant profiles, and performs an in-depth credit assessment on each in-place tenant as part of the acquisition process.

### *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. The REIT seeks to mitigate this risk by performing in-depth credit analysis of existing tenants in place prior to acquiring a property, and the REIT's current tenant base is primarily composed of businesses and institutions with high-quality credit ratings.

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 ability 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 Investment 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 REIT 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. The table below outlines the exchange rates during the three and six months ended June 30, 2018.

\$/€	Three Months Ended		Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Average exchange rate	1.54	1.48	1.55	1.45
Exchange rate at period end	1.54	1.48	1.54	1.48

## 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 for refinancing transactions plus HST/VAT.

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

During the three and six months ended June 30, 2018, the REIT recorded asset management fees to Maple Knoll of \$180,707 and \$396,641, respectively. During the three and six months ended June 30, 2017, the REIT recorded asset management fees to Maple Knoll of \$48,769 and \$83,824, respectively, and acquisition related costs of \$499,755 and \$499,755, respectively.

### Off-Balance Sheet Arrangements

As at June 30, 2018, the REIT does not have any off-balance sheet arrangements.

## Unitholders' equity

The following table presents the changes in Units for the six months ended June 30, 2018:

	Shares	Units	\$
<b>Unit Capital, December 31, 2017</b>	-	<b>15,908,232</b>	<b>63,904,504</b>
Units issued under distribution reinvestment plan	-	84,261	310,415
<b>Unit Capital, June 30, 2018</b>	-	<b>15,992,493</b>	<b>64,214,919</b>
Class B LP Units	-	786,005	3,065,419
<b>Total Unit Capital and Class B LP Units, June 30, 2018</b>	-	<b>16,778,498</b>	<b>67,280,338</b>
<i>2018 YTD Weighted Average Units and Class B LP Units</i>		<i>16,748,155</i>	

Including the effect of Class B LP Units, which are convertible to Units on a one-for-one basis, the total number of Units outstanding is 16,778,498 as at June 30, 2018. As at June 30, 2018, the trustees and officers of the REIT beneficially owned, directly or indirectly, or had control or direction over 2,141,080 Units, or approximately 12.8% 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 may from time to time, in its discretion, and in accordance with TSXV regulations, grant options to purchase Units ("Unit Options") to trustees, officers, and technical consultants of the REIT. 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 Units outstanding. As at June 30, 2018, 779,307 Unit Options had been granted and were outstanding, representing 4.64% 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 June 30, 2018 is \$1,071,073, determined using the Black-Scholes option pricing model with the following assumptions:

Weighted average exercise price	\$3.87
Weighted average expected option life	3.74 years
Risk-free interest rate	2.06%
Expected volatility	80%

For the three and six months ended June 30, 2018, Unit-based compensation expense was \$151,770 and \$291,961, respectively (three and six months ended June 30, 2017 - \$24,786 and \$99,098, respectively). The compensation to key management and trustees in Unit Options during the three and six months ended June 30, 2018 was \$100,103 and \$191,288, respectively (three and six months ended June 30, 2017 - \$14,565, and \$88,362, respectively).