



European Commercial Real Estate Investment Trust

Condensed Consolidated Interim Financial Statements
**For the three and nine months ended
September 30, 2018**

European Commercial Real Estate Investment Trust
Condensed Consolidated Interim Statement of Financial Position
(unaudited)
As at September 30, 2018

	September 30, 2018 \$	December 31, 2017 \$
Non-current assets		
Investment properties (note 5)	135,900,960	130,404,507
Current assets		
Cash and cash equivalents	9,452,947	8,449,856
Accounts receivable	1,328,801	415,424
Prepaid expenses	148,523	104,431
Deferred financing fees	11,219	7,438
	<u>10,941,490</u>	<u>8,977,149</u>
Total assets	<u>146,842,450</u>	<u>139,381,656</u>
Non-current liabilities		
Mortgages payable (note 6)	71,431,292	72,843,371
Interest rate swaps	154,370	259,705
Unit option liability (note 11)	325,755	145,597
Class B LP Units (note 8)	2,894,098	2,829,618
Deferred income taxes (note 13)	788,289	249,662
	<u>75,593,804</u>	<u>76,327,953</u>
Current liabilities		
Current portion of mortgages payable (note 6)	1,824,485	1,800,230
Distribution payable (note 9)	1,360,093	1,345,375
Unit option liability (note 11)	410,668	180,621
Accounts payable and accrued liabilities	2,112,576	1,195,727
Current income taxes payable (note 13)	3,611	3,611
Deferred revenue	1,903,387	453,715
	<u>7,614,820</u>	<u>4,979,279</u>
Total liabilities	<u>83,208,624</u>	<u>81,307,232</u>
Unitholders' equity		
Unit capital (note 9)	64,766,599	63,904,504
Deficit	(1,727,756)	(6,772,464)
Accumulated other comprehensive income	594,983	942,384
Total unitholders' equity	<u>63,633,826</u>	<u>58,074,424</u>
Total liabilities and unitholders' equity	<u>146,842,450</u>	<u>139,381,656</u>

Approved on behalf of the Board

 "David Ehrlich" Trustee "Phillip Burns" Trustee

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

European Commercial Real Estate Investment Trust

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

For the three and nine months ended September 30, 2018

	Three Months Ended		Nine Months Ended	
	September 30, 2018 \$	September 30, 2017 \$	September 30, 2018 \$	September 30, 2017 \$
Net rental income				
Property revenue (note 12)	3,183,288	2,515,482	9,171,806	3,577,113
Property expenses	(775,128)	(890,205)	(2,056,868)	(1,191,497)
Net rental income	2,408,160	1,625,277	7,114,938	2,385,616
General & administrative expenses (note 14)	(399,675)	(804,887)	(1,450,936)	(2,179,018)
Foreign exchange gain	(32,896)	571,094	2,564	507,239
Fair value adjustment of investment properties	2,796,736	(7,411,299)	5,833,919	(7,460,817)
Fair Value adjustment of Class B LP Units	(86,097)	621,478	(321,899)	964,198
Unit-based compensation (note 11)	(118,244)	(56,802)	(410,205)	(155,900)
Income (loss) before finance expenses	4,567,984	(5,455,139)	10,768,381	(5,938,682)
Finance expenses				
Interest expense	(408,218)	(301,860)	(1,240,553)	(488,960)
Fair value adjustment of interest rate swaps	297,003	(171,222)	107,279	(342,616)
Gain (loss) before income tax	4,456,769	(5,928,221)	9,635,107	(6,770,258)
Current income tax expense (note 13)	-	(2,133)	-	(5,343)
Deferred income tax expense (note 13)	(493,883)	14,565	(538,627)	(115,986)
Net income (loss)	3,962,886	(5,915,789)	9,096,480	(6,891,587)
Other comprehensive income				
Items that may be reclassified subsequently to net income				
Foreign currency translation	(1,494,273)	(292,431)	(347,401)	(135,078)
Net income/(loss) and comprehensive income/(loss) for the period	2,468,613	(6,208,220)	8,749,079	(7,026,665)

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

European Commercial Real Estate Investment Trust

Condensed Consolidated Interim Statement of Changes in Unitholders' Equity

(unaudited)

For the nine months ended September 30, 2018

	Unit Capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	\$	\$	\$	\$	\$
Balance - December 31, 2017	63,904,504	-	(6,772,464)	942,384	58,074,424
Units issued under distribution reinvestment plan (note 10)	504,410	-	-	-	504,410
Units issued under Unit Option plan (note 11)	146,550	-	-	-	146,550
Unit issuance costs	(46,283)	-	-	-	(46,283)
Class B LP Units exchanged for Units (note 9)	257,418	-	-	-	257,418
Net income for the period	-	-	9,096,480	-	9,096,480
Distribution paid and payable	-	-	(4,051,772)	-	(4,051,772)
Foreign currency translation adjustment	-	-	-	(347,401)	(347,401)
Balance - September 30, 2018	64,766,599	-	(1,727,756)	594,983	63,633,826

	Unit Capital	Contributed surplus	Deficit	Accumulated other comprehensive income	Total
	\$	\$	\$	\$	\$
Balance - December 31, 2016	4,777,896	49,625	(86,621)	-	4,740,900
Capital issued (note 9)	68,801,000	-	-	-	68,801,000
Capital issuance cost	(6,583,565)	-	-	-	(6,583,565)
Share-based compensation	-	105,670	-	-	105,670
Common shares exchanged for Class B LP Units (note 8)	(3,374,283)	-	(909,717)	-	(4,284,000)
Conversion of share-based option plan to unit-based option plan (note 11)	-	(155,295)	(84,847)	-	(240,142)
Class B LP Units exchanged for Units (note 9)	21,518	-	-	-	21,518
Net loss for the period	-	-	(6,891,587)	-	(6,891,587)
Distribution paid and payable	-	-	(2,177,966)	-	(2,177,966)
Foreign currency translation adjustment	-	-	-	(135,078)	(135,078)
Balance - September 30, 2017	63,642,566	-	(10,150,738)	(135,078)	53,356,750

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

European Commercial Real Estate Investment Trust

Condensed Consolidated Interim Statement of Cash Flows

(unaudited)

For the nine months ended September 30, 2018

	For the Nine Months Ended	
	September 30, 2018	September 30, 2017
	\$	\$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the period	9,096,480	(6,891,587)
Adjustments for items not involving cash:		
Deferred income taxes	538,627	115,986
Fair value adjustment of investment properties	(5,833,919)	7,460,817
Fair value adjustment of interest rate swaps	(107,279)	342,616
Fair value adjustment of Class B LP Units	321,899	(964,198)
Deferred financing fee amortization	129,944	29,133
Unit-based compensation	410,205	155,900
Foreign exchange	(2,564)	(173,393)
Changes in non-cash working capital:		
Accounts receivable	(910,546)	(1,055,571)
Prepaid expenses	(43,828)	(218,030)
Deferred revenue	1,445,614	1,979,503
Accounts payable and accrued liabilities	912,780	1,683,002
Total cash generated by operating activities	5,957,413	2,464,178
Financing activities		
Proceeds received from mortgages	-	74,066,108
Mortgage principal repayments	(1,361,214)	(451,530)
Expenditures on financing costs	-	(15,000)
Cash distributions to unitholders	(3,532,640)	-
Issuance of capital (net of issuance costs) (note 9)	100,267	62,398,536
Total cash generated by (used in) financing activities	(4,793,587)	135,998,114
Investing activities		
Acquisition of investment properties	-	(129,905,345)
Capital expenditures (note 5)	(91,574)	-
Total cash used in investing activities	(91,574)	(129,905,345)
Increase in cash during the period	1,072,252	8,556,947
Effect of foreign exchange rate changes on cash	(69,161)	(78,115)
Cash and cash equivalents - beginning of period	8,449,856	3,164,675
Cash and cash equivalents - end of period	9,452,947	11,643,507

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

European Commercial Real Estate Investment Trust

Notes to Condensed Consolidated Interim Financial Statements (unaudited) For the three and nine months ended September 30, 2018

1 Organization

European Commercial Real Estate Investment Trust (the "REIT") owns and operates a portfolio of non-prime core commercial properties in Europe and is the successor to European Commercial Real Estate Limited (the "Company") following the conversion of the Company to a real estate investment trust. The Company was incorporated under the *Business Corporations Act* (Ontario) on July 25, 2016. On May 1, 2017, shareholders of the Company voted to approve a plan of arrangement (the "Arrangement") providing for the conversion of the Company into the REIT. The Arrangement became effective May 3, 2017. The conversion was accounted for as a continuity of interest and, accordingly, these consolidated financial statements are reflective as if the REIT had always carried on the business formerly carried on by the Company. Further details of the Arrangement are contained in the management information circular dated March 20, 2017, which can be found at www.sedar.com. The condensed consolidated interim financial statements were authorized for issue on November 27, 2018 by the board of trustees of the REIT.

The registered office address of the REIT is 11 Church Street, Suite 401, Toronto, Ontario.

2 Significant accounting policies and basis of presentation

Basis of presentation

The condensed consolidated interim financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including International Accounting Standard 34, Interim Financial Reporting, on a going concern basis. They do not include all of the information and disclosures required by IFRS applicable for annual consolidated financial statements, and therefore, they should be read in conjunction with the REIT's most recent annual audited consolidated financial statements for the year ended December 31, 2017.

Functional and presentation currency

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

Transactions and balances

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

Group entities

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

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

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

- exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- all resulting exchange differences are recognized in other comprehensive income (loss) ("OCI").

Accounting policies

The accounting policies followed in these condensed consolidated interim financial statements are consistent with those of the REIT's audited consolidated annual financial statements for the year ended December 31, 2017, other than as described below.

The REIT has adopted the following new and revised standards, effective January 1, 2018. These changes were made in accordance with the applicable transitional provisions.

IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15")

IFRS 15 was issued in May 2014 and replaces IAS 11, Construction Contracts, and IAS 18, Revenue and Related Interpretations. IFRS 15 establishes a comprehensive five-step revenue recognition model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. The REIT adopted IFRS 15 on January 1, 2018 and applied the requirements of the standard using the modified retrospective method. Revenue from contracts with the REIT's tenants primarily includes recoveries of operating expenses in accordance with their leases. Base rental revenue, property tax, and insurance recoveries earned from these leases is outside the scope of IFRS 15 and is therefore not impacted by the new standard. The implementation of IFRS 15 did not have an impact on the amount and timing of revenue recognized. Additional disclosure requirements detailing the main components of revenue according to their nature are included in note 12.

IFRS 9, "Financial Instruments" ("IFRS 9")

In July 2014, IFRS 9 was issued to replace IAS 39, Financial Instruments – Recognition and Measurement. IFRS 9 uses a single, simplified approach to determine if a financial asset is measured at amortized cost or fair value and establishes three measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and fair value through profit and loss. The classification in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets.

The following table summarizes the classification impact of the adoption of IFRS 9:

Financial instrument	Classification under IAS 39	Classification under IFRS 9
<i>Financial assets</i>		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivables	Loans and receivables	Amortized cost
<i>Financial liabilities</i>		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost
Class B LP Units	Other liabilities	Fair value through profit and loss
Interest rate swaps	Other liabilities	Fair value through profit and loss

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

The adoption of the new classification requirements in IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities. Financial assets and liabilities are not reclassified subsequent to their initial recognition, unless the REIT identifies changes in its business model in managing financial assets and liabilities and would reassess the associated classification at such a time.

IFRS 9 also introduces a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9 also relaxes the requirements for hedge effectiveness by replacing the bright lines hedge effectiveness tests and allowing for better alignment with management's risk management activities. The standard is effective for accounting periods beginning on or after January 1, 2018. The REIT implemented IFRS 9 on January 1, 2018. The adoption of IFRS 9 did not impact the carrying value of its trade receivables given consideration of past default rates and the nature of receivable balances.

Future accounting changes

IFRS 16, Leases ("IFRS 16")

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

3 Critical accounting estimates, assumptions, and judgements

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires management to make critical estimates, assumptions, and judgements that affect the application of accounting policies and reported amounts of assets, liabilities and contingent liabilities at the date of the condensed consolidated interim financial statements and the reported amount of expenses during the reporting period. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the condensed consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions. In preparing these condensed consolidated interim financial statements, the critical accounting estimates, assumptions, and judgements made by management were the same as those set out in detail in note 3 of the REIT's audited consolidated financial statements for the year ended December 31, 2017.

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

- i) Valuation of investment properties
- ii) Investment property acquisitions
- iii) Unit-based compensation
- iv) Functional currency

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

4 Acquisitions

There were no property acquisitions for the three and nine months ended September 30, 2018.

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

On May 11, 2017, the REIT completed the purchase of a commercial office property in Landshut, Germany (the "Landshut property"), part of the greater Munich metropolitan region, for a purchase price of \$46,285,164 (€31,080,556), including acquisition costs of \$2,488,151. The acquisition was funded by a \$26,805,600 (€18,000,000) seven-year secured mortgage from a German bank with the balance financed by cash.

On August 17, 2017, the REIT completed the purchase of a commercial office property in Brussels, Belgium (the "Brussels property") for a purchase price of \$68,904,651 (€46,441,094), including acquisition costs of \$8,513,610. The acquisition was financed by an approximately \$37,834,350 (€25,500,000) seven-and-a-half-year secured mortgage from a German bank with the balance financed by cash.

5 Investment properties

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

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
	\$	\$
Balance, beginning of period	130,404,507	-
Acquisitions (note 4)	-	131,948,136
Capital expenditures	91,574	-
Fair value adjustment	5,833,919	(4,226,910)
Foreign currency translation gain (loss)	(429,040)	2,683,281
Balance, end of period	135,900,960	130,404,507

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

The valuation of investment properties for the period ended September 30, 2018 was completed by management utilizing a discounted cash flow model. In applying the DCF method, discount rates are applied to stabilized cash flows as well as assumptions about future renewal activity, indexation rates and associated market rents. The most significant assumptions are the stabilized cash flows, the discount rate applied over the term of the cash flows, and the capitalization rate used to determine the terminal value of the investment properties. In general, an increase in forecasted cash flows will result in an increase in the fair value of an investment property. An increase in the discount rate will result in a decrease in the fair value of an investment property.

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

A summary of the significant unobservable (Level 3) inputs used to determine the fair value of investment properties as at September 30, 2018 are as follows:

Input	September 30, 2018		December 31, 2017	
	Range	Weighted Average	Range	Weighted Average
Discount rate	4.42%-5.65%	4.99%	4.40%-5.65%	4.98%
Terminal capitalization rate	4.10%-5.40%	5.03%	4.40%-5.65%	5.35%

6 Mortgages payable

There were no new or refinanced mortgages during the three and nine months ended September 30, 2018. The following table presents a summary of the REIT's mortgage indebtedness:

	September 30, 2018	December 31, 2017
	\$	\$
Mortgages payable	74,322,119	75,844,577
Less deferred financing costs	(1,066,342)	(1,200,976)
	<u>73,255,777</u>	<u>74,643,601</u>
Less current portion	(1,824,485)	(1,800,230)
	<u>71,431,292</u>	<u>72,843,371</u>
Weighted average interest rate	1.82%	1.82%
Weighted average term to maturity	5.7 years	6.6 years

Future principal repayments are indicated as follows, and are based on the September 30, 2018 EUR/CAD FX rate of 1.5020:

	Principal Amount	Total Principal
	\$	%
Remainder of 2018	455,094	0.6%
2019	1,827,236	2.5%
2020	1,838,370	2.5%
2021	1,849,715	2.5%
2022	1,861,275	2.5%
Thereafter	66,490,429	89.4%
	<u>74,322,119</u>	<u>100.0%</u>

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

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

	Nine Months Ended September 30, 2018	Year Ended December 31, 2017
	\$	\$
Balance, beginning of period	74,643,601	-
New borrowings on acquisitions	-	75,179,700
Principal repayments	(1,361,214)	(922,335)
Expenditures on financing costs	-	(1,258,254)
Amortization of financing costs	129,944	76,588
Foreign exchange adjustments	(156,554)	1,567,902
Balance, end of period	73,255,777	74,643,601

7 Other debt

On June 30, 2017, the REIT entered into an unsecured credit agreement with a Canadian chartered bank (the "Revolving Credit Facility"). The Revolving Credit Facility has a maximum principal amount of \$3.0 million, bearing interest at a rate equal to the bank's prime rate plus 1.0% per annum or Bankers' Acceptances plus 2.5% per annum on the drawn amount, with a term of 12 months, and will be used by the REIT for working capital purposes and future acquisitions.

On June 30, 2018, the REIT and the same Canadian chartered bank renewed the Revolving Credit Facility for a 12-month period with the same terms. As at September 30, 2018, no amount had been drawn against the Revolving Credit Facility.

8 Class B LP Units

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

The Class B LP Units are exchangeable, on a one for one basis, for Units of the REIT at the option of the holder, and have economic and voting rights equivalent, in all material respects, to REIT units. During the three and nine months ended September 30, 2018, 68,530 Class B LP Units were exchanged for Units. Distributions in the amount of \$9,019 and \$39,050 were declared payable to eligible holders of Class B LP Units for the three and nine months ended September 30, 2018. This amount has been recognized as interest expense. The following table summarizes the changes in Class B LP Units:

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017	
	Class B LP Units	\$	Class B LP Units	\$
Balance, beginning of period	786,005	2,829,618	-	-
Issuance of Class B LP Units	-	-	856,800	3,374,283
Fair value adjustment on initial recognition	-	-	-	909,717
Class B LP Units exchanged for Units	(68,530)	(257,418)	(70,795)	(273,325)
Fair value adjustment during the period	-	321,899	-	(1,181,058)
Balance, end of period^a	717,475	2,894,098	786,005	2,829,618

(a) Class B LP Units are exchangeable on a 1:1 basis and should be included when considering the total number of Units outstanding. See note 9.

9 Unitholders' equity

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

The following table presents the changes in Units for the nine months ended September 30, 2018:

	Units	\$
Unit Capital, December 31, 2017	15,908,232	63,904,504
Units issued under distribution reinvestment plan	132,396	504,410
Unit issuance costs	-	(46,283)
Units issued in exchange for Class B LP Units	68,530	257,418
Units issued under Unit Option plan (note 11)	44,960	146,550
Unit Capital, September 30, 2018^a	16,154,118	64,766,599

(a) Including the effect of Class B LP Units, which are convertible to Units on a one-for-one basis, total Units and Class B LP Units outstanding as at September 30, 2018 were 16,871,593. See note 8.

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

The following table presents the changes in common shares and Units for the year ended December 31, 2017:

	Shares	Units	\$
Share Capital, December 31, 2016	55,000,000	-	4,777,896
Common Shares issued, less issuance costs of \$298,626	31,000,000	-	2,801,374
Common Shares consolidated on the basis of 1 Common Share per 31.25 Common Shares	(83,248,000)	-	-
Class B common shares issued, less issuance costs of \$3,260,447	6,140,000	-	27,439,553
Common Shares and Class B Common Shares exchanged for REIT Units (1 Unit for every 1 Common Share or Class B Common Share)	(8,035,200)	8,035,200	-
Common shares exchanged for Class B LP Units (1 Class B LP Unit for every 1 Common Share)	(856,800)	-	(3,374,283)
Units issued in exchange for Class B LP Units	-	70,795	273,325
Units issued, less issuance costs of \$3,111,191	-	7,778,000	31,889,781
Units issued under distribution reinvestment plan	-	24,237	96,858
Unit Capital, December 31, 2017^a	-	15,908,232	63,904,504

(a) Including the effect of Class B LP Units, which are convertible to Units on a one-for-one basis, total Units and Class B LP Units outstanding as at December 31, 2017 16,694,237. See note 8.

Distributions in the amount of \$1,360,093 were declared payable to eligible Unitholders as at September 30, 2018 and were paid on October 15, 2018.

10 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan (the “DRIP”) on September 14, 2017, pursuant to which eligible Unitholders or holders of Class B LP Units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the closing price for the units on the TSXV for the five trading days immediately preceding the relevant distribution date. Eligible Unitholders or holders of Class B LP Units who so elect will receive a bonus distribution of units up to 5% of each distribution that was reinvested by them under the DRIP. During the three and nine months ended September 30, 2018, 48,135 and 132,396 units were issued, respectively, under the DRIP for a total value of \$193,977 and \$504,410, respectively.

11 Unit-based compensation plan

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

Awards of options are fair valued applying the Black-Scholes option valuation method. The average expected volatility rate used in the valuation is estimated based on the historical volatility of the REIT’s units. The average risk-free interest rate

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

used is based on government of Canada bonds with terms consistent with the average expected unit option holding period. The average expected unit option life is estimated to be one half of the life of the options.

During the three and nine months ended September 30, 2018, no Unit options were granted, and 44,960 Unit options were exercised at a weighted average exercise price of \$3.26.

A summary of the REIT's Unit option plan activity is as follows:

	Nine Months Ended September 30, 2018		Year Ended December 31, 2017 ^a	
	# of Unit Options	Weighted average exercise price \$	# of Unit Options	Weighted average exercise price \$
Outstanding Unit options, beginning of period	779,307	3.87	176,000	3.13
Unit options granted	-	-	603,307	4.09
Unit options exercised	(44,960)	3.26	-	-
Outstanding Unit options, end of period	734,347	3.91	779,307	3.87
Exercisable Unit options, end of period	139,893	4.03	95,093	3.13

(a) In accordance with the Arrangement, upon conversion to a REIT, effective May 3, 2017, all outstanding share options were consolidated on the basis of 31.25:1 and converted to Unit options. The 2017 figures presented are on a post-consolidation basis.

The total fair value of Unit options outstanding as at September 30, 2018 is \$1,101,134, determined using the Black-Scholes option pricing model using a weighted average expected unit option life of 3.71 years, a weighted average exercise price of \$3.91, a volatility rate of 80%, a risk-free interest rate of 2.33% and an estimated distribution yield of 8.7% based on the trading price as at September 30, 2018. As at September 30, 2018, the total number of options outstanding represented 4.35% of the total Units and Class B LP Units outstanding. The compensation to officers and trustees in Unit options during the three and nine months ended September 30, 2018 was \$98,472 and \$289,760, respectively (three and nine months ended September 30, 2017 - \$41,845 and \$130,207, respectively).

12 Rental revenue

Rental revenue is comprised of the following:

	Three Months Ended		Nine months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Base rent	2,517,129	1,700,183	7,576,127	2,559,976
Property tax and insurance recoveries	337,208	577,427	764,557	577,427
Operating cost recoveries	328,951	237,872	831,122	439,710
Rental revenue	3,183,288	2,515,482	9,171,806	3,577,113

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

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

Amount to be received:	\$
Not later than 1 year	9,845,843
Later than 1 year and not later than 5 years	35,301,669
Later than 5 years	16,264,927
	<u>61,412,439</u>

13 Income Taxes

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

	Three Months Ended		Nine months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Income/(loss) before income tax	4,456,769	(5,928,221)	9,635,107	(6,770,258)
Income tax recovery/(expense) based on German statutory rate of 15.825%	(705,284)	943,510	(1,524,756)	1,071,393
Income tax recovery/(expense) based on Canadian statutory rate of 26.5%	-	(5,369)	-	-
Increase/(decrease) resulting from:				
Income distributed and taxable to unitholders	25,733	220,130	33,987	103,142
Foreign subsidiary gains not tax-effected	4,443	(5,593)	(2,337)	(18,988)
Fair value adjustment on investment property not tax-effected	(14,920)	(1,169,231)	465,714	(1,305,861)
Foreign subsidiary income not subject to local tax	201,970	28,985	506,774	-
German deductible items not included in accounting income	(5,825)	-	(18,009)	28,985
Canadian corporate losses not tax effected	-	-	-	-
Total income tax provision	<u>(493,883)</u>	<u>12,432</u>	<u>(538,627)</u>	<u>(121,329)</u>
Less: Current income tax expense	<u>-</u>	<u>(2,133)</u>	<u>-</u>	<u>(5,343)</u>
Deferred income tax expense	<u>(493,883)</u>	<u>14,565</u>	<u>(538,627)</u>	<u>(115,986)</u>

14 Related party transactions

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

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

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

- 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, 2018, the REIT recorded asset management fees to Maple Knoll of \$202,177 and \$598,818, respectively. 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.

15 **Capital management**

As at September 30, 2018, the REIT's capital consists of mortgages payable, Class B LP Units, and unitholders' equity. The primary objective of the REIT's capital management is to ensure that sufficient funds are available to fund distributions and to fund operations, including the identification and acquisition of a business or assets. Various ratios are used by management to monitor capital requirements. The primary ratios used for assessing capital management are the loan to-fair-value ratio, debt to-gross book value ratio, average term to maturity of debt, and weighted average interest rate. These indicators assist the REIT in assessing that the debt level maintained is sufficient to provide adequate cash flows for distributions and for evaluating the need to raise funds for further expansion.

16 **Financial instruments and risk management**

Credit risk

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

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.

European Commercial Real Estate Investment Trust
Notes to Condensed Consolidated Interim Financial Statements
(unaudited)
For the three and nine months ended September 30, 2018

Concentration risk

As at September 30, 2018, the REIT had three investment properties, where two tenants collectively represent 90% of the annualized rental revenue. This risk is mitigated due to the expected stability and security of the tenants (a government entity and a member of the Fortune Global 500, representing 55% and 35% of annualized rental revenue, respectively).

Liquidity risk

Liquidity risk is the risk the REIT will not have the financial resources required to meet its financial obligations as they come due. The REIT manages this risk by ensuring it has sufficient cash on hand to meet obligations as they come due by forecasting cash flows from operations, cash required for investing activities and cash from financing activities.

The contractual maturities and repayment obligations of the REIT's mortgages payable, and the related interest rate swap derivatives are as follows, based on the September 30, 2018 EUR/CAD FX rate of 1.5020:

	2018	2019-2020	2021-2022	2023 Onward	Total
	\$	\$	\$	\$	\$
Mortgage principal	455,094	3,665,606	3,710,990	66,490,430	74,322,120
Mortgage interest	279,726	2,182,289	2,069,290	1,564,362	6,095,667
Swap premium	62,172	484,493	457,608	382,147	1,386,420
Distribution payable	1,360,093				1,360,093
Accounts payable and accrued liabilities	1,966,595				1,966,595
Total	4,123,680	6,332,388	6,237,888	68,436,939	85,130,895

Currency exchange rate risk

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 following table outlines the exchange rates during the three and nine months ended September 30, 2018:

\$ / €	Three Months Ended		Nine months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Average exchange rate	1.52	1.47	1.54	1.46
Exchange rate at period end	1.50	1.47	1.50	1.47