European Commercial Real Estate Investment Trust

Consolidated Financial Statements
For the year ended
December 31, 2018

Independent auditor's report

To the Unitholders of European Commercial Real Estate Investment Trust

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of European Commercial Real Estate Investment Trust and its subsidiaries (together, the REIT) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited
The REIT's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of operations and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in unitholders' equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

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

Independence
We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Daniel D'Archivio.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
March 26, 2019

European Commercial Real Estate Investment Trust
Consolidated Statement of Financial Position
As at December 31, 2018

	December 31, 2018	December 31, 2017
	$	$
Non-current assets		
Investment properties (notes 5 and 6)	141,422,554	130,404,507
Current assets		
Cash and cash equivalents	7,923,374	8,449,856
Accounts receivable	1,825,930	415,424
Prepaid expenses	126,309	104,431
Deferred financing fees	7,438	7,438
	9,883,051	8,977,149
Total assets	151,305,605	139,381,656
Non-current liabilities		
Mortgages payable (note 7)	73,821,260	72,843,371
Interest rate swaps	754,300	259,705
Unit option liability (note 12)	195,327	145,597
Class B LP Units (note 9)	2,605,594	2,829,618
Deferred income taxes (note 14)	786,697	249,662
	78,163,178	76,327,953
Current liabilities		
Current portion of mortgages payable (note 7)	1,899,376	1,800,230
Distribution payable (note 10)	1,366,060	1,345,375
Unit option liability (note 12)	554,845	180,621
Accounts payable and accrued liabilities	4,384,387	1,195,727
Current income taxes payable (note 14)	59,443	3,611
Deferred revenue	580,527	453,715
	8,844,638	4,979,279
Total liabilities	87,007,816	81,307,232
Unitholders' equity		
Unit capital (note 10)	65,042,884	63,904,504
Deficit	(3,961,750)	(6,772,464)
Accumulated other comprehensive income	3,216,655	942,384
Total unitholders' equity	64,297,789	58,074,424
Total liabilities and unitholders' equity	151,305,605	139,381,656

Approved on Behalf of the Board

"Phillip Burns" Director *" Jan Arie Breure" Director*

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

European Commercial Real Estate Investment Trust

Consolidated Statement of Operations and Comprehensive Income (loss)

For the Year Ended December 31, 2018

	For the Year Ended	
	December 31, 2018	**December 31, 2017**
	$	**$**
Net rental income		
Property revenue (note 13)	12,160,043	6,451,143
Property expenses	(2,729,488)	(1,790,784)
Net rental income	9,430,555	4,660,359
General & administrative expenses (note 15)	(3,985,880)	(2,731,918)
Foreign exchange gain	151,753	572,813
Fair value adjustment of investment properties (note 6)	5,885,398	(4,226,910)
Fair Value adjustment of Class B LP Units	(113,802)	1,181,058
Unit-based compensation (note 12)	(423,954)	(191,746)
Income (loss) before finance expenses	10,944,070	(736,344)
Finance expenses		
Interest expense	(1,640,251)	(925,559)
Fair value adjustment of interest rate swaps	(475,243)	(252,761)
Income (loss) before income tax	8,828,576	(1,914,664)
Current income tax expense (note 14)	(59,443)	(3,611)
Deferred income tax expense (note 14)	(537,035)	(249,662)
Net income (loss) for the year	8,232,098	(2,167,937)
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income (net of tax)		
Foreign currency translation	2,274,271	942,384
Net income (loss) and comprehensive income (loss) for the year	10,506,369	(1,225,553)

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

European Commercial Real Estate Investment Trust

Consolidated Statement of Changes in Unitholders' Equity

For the year ended December 31, 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 11)	700,288	-			**700,288**
Units issued under Unit Option plan (note 12)	146,550				**146,550**
Unit issuance costs	(46,283)				**(46,283)**
Class B LP Units exchanged for Units (note 9)	337,825				**337,825**
Net income for the year	-	-	8,232,098	-	**8,232,098**
Distributions declared	-	-	(5,421,384)	-	**(5,421,384)**
Foreign currency translation adjustment	-	-	-	2,274,271	**2,274,271**
Balance – December 31, 2018	**65,042,884**	**-**	**(3,961,750)**	**3,216,655**	**64,297,789**

	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 10)	68,801,000	-	-	-	68,801,000
Capital issuance cost	(6,670,291)	-	-	-	(6,670,291)
Share-based compensation	-	105,670	-	-	105,670
Common shares exchanged for Class B LP Units (note 9)	(3,374,283)	-	(909,717)	-	(4,284,000)
Conversion of share-based option plan to unit-based option plan (note 12)	-	(155,295)	(84,847)	-	(240,142)
Class B LP Units exchanged for Units (note 9)	273,325	-	-	-	273,325
Units issued under distribution reinvestment plan (note 11)	96,857	-	-	-	96,857
Net loss for the year	-	-	(2,167,937)	-	(2,167,937)
Distributions declared	-	-	(3,523,342)	-	(3,523,342)
Foreign currency translation adjustment	-	-	-	942,384	942,384
Balance – December 31, 2017	**63,904,504**	**-**	**(6,772,464)**	**942,384**	**58,074,424**

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

European Commercial Real Estate Investment Trust

Consolidated Statement of Cash Flows

For the year ended December 31, 2018

	For the Year Ended	
	December 31, 2018	December 31, 2017
	$	$
Cash provided by (used in)		
Operating activities		
Net income (loss) for the year	8,232,098	(2,167,937)
Adjustments for items not involving cash:		
Deferred income taxes	537,035	249,662
Fair value adjustment of investment properties	(5,885,398)	4,226,910
Fair value adjustment of interest rate swaps	475,243	252,761
Fair value adjustment of Class B LP Units	113,802	(1,181,058)
Deferred financing fee amortization	160,796	84,150
Unit-based compensation	423,954	191,746
Foreign exchange	(151,753)	(572,813)
Changes in non-cash working capital:		
Accounts receivable	(1,476,114)	(291,284)
Prepaid expenses	(25,749)	(105,923)
Deferred revenue	147,669	460,197
Accounts payable and accrued liabilities	3,324,877	686,594
Total cash generated by operating activities	5,876,460	1,833,005
Financing activities		
Proceeds received from mortgages	-	75,179,700
Mortgage principal repayments	(1,850,356)	(922,335)
Expenditures on financing costs	-	(1,202,409)
Cash distributions to unitholders	(4,700,409)	(2,081,107)
Issuance of capital (net of issuance costs) (note 9)	100,267	62,359,834
Total cash generated by (used in) financing activities	(6,450,498)	133,333,683
Investing activities		
Acquisition of investment properties	-	(130,274,181)
Capital expenditures (note 5)	(152,584)	-
Total cash used in investing activities	(152,584)	(130,274,181)
Increase (decrease) in cash during the year	(726,623)	4,892,507
Effect of foreign exchange rate changes on cash	200,140	392,674
Cash and cash equivalents - beginning of year	8,449,856	3,164,675
Cash and cash equivalents - end of year	7,923,374	8,449,856

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

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 consolidated financial statements were authorized for issue on March 26, 2019 by the board of trustees of the REIT.

The REIT is listed on the TSX Venture Exchange under the symbol "ERE.UN", and the registered office address of the REIT is 11 Church Street, Suite 401, Toronto, Ontario.

2 Significant accounting policies

Statement of compliance

The consolidated financial statements of the REIT have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

Basis of presentation

The consolidated financial statements are prepared on a going concern basis and are presented in Canadian dollars, which is the functional currency of the REIT. The accounting policies set out below have been applied consistently in all material respect. Certain future accounting standards and guidelines relevant to the REIT that were not yet effective at the date of approval of the consolidated financial statements are described in note 3.

Basis of consolidation

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

Segment reporting

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

Revenue recognition

The REIT adopted IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), effective January 1, 2018. IFRS 15 establishes a uniform, comprehensive five-step revenue recognition model for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. These five steps are as follows:

1. Identify the contract(s) with the customer
2. Identify the performance obligations within the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when the entity satisfies a performance obligation

Revenue within the scope of IFRS 15 is measured at the best estimate of the consideration to which the REIT expects to receive in exchange for performing services to tenants. Revenue is recognized only to the extent that it is highly probable that a significant amount of the cumulative revenue recognized for a contract will not be reversed.

Operating cost recoveries incurred in connection with tenant services such as common area maintenance, security and other administrative services are recognized as the performance obligations are satisfied over time as they are provided during the period of occupancy. Revenues from these services are measured based on the actual cost incurred to fulfill the services during the period.

The adoption of the standard did not have a material impact on the amount and timing of revenue recognized. Additional disclosures have been included in note 13 to the consolidated financial statements.

The REIT follows the straight-line method of recognizing rental revenue, whereby the total amount of rental revenue to be received from leases is accounted for on a straight-line basis over the term of the lease. Accordingly, an accrued rent receivable is recorded for the difference, if any, between the straight-line rent recorded as rental revenue and the rent that is contractually due from the tenant, and included as a component of investment properties on the consolidated statement of financial position. Other revenue is recognized at the time the service is provided.

Cash and cash equivalents

Cash and cash equivalents includes cash and guaranteed investment certificates held in banks with a maturity date less than one year, and redeemable on demand.

Financial instruments

The REIT adopted IFRS 9, "Financial Instruments" ("IFRS 9"), effective January 1, 2018, which replaced IAS 39. 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
Financial assets		
Cash and cash equivalents	Loans and receivables	Amortized cost
Accounts receivables	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Distributions payable	Other liabilities	Amortized cost
Mortgages payable	Other liabilities	Amortized cost
Class B LP Units	Other liabilities	Fair value through profit and loss
Interest rate swaps	Other liabilities	Fair value through profit and loss

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 and comparative figures were not restated. 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 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 adoption of IFRS 9 did not impact the carrying value of its accounts receivable given consideration of past default rates and the nature of receivable balances.

Fair value measurements recognized in the consolidated statements of financial position or disclosed in the REIT's consolidated financial statements for financial or non-financial assets and liabilities are categorized by level in accordance with the significance of the observable market inputs used in making the measurements, as follows:

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

As at December 31, 2018, the fair values of Unit option liability, Class B LP Units, the fair value of interest rate swaps are considered Level 2, and the fair values recorded or disclosed relating to investment properties, and mortgages payable are considered Level 3. There have been no transfers in or out of Level 3 during the year.

Investment Properties

The REIT has selected the fair value method to account for real estate classified as investment properties. A property is determined to be an investment property when it is principally held to earn rental income or for capital appreciation, or both. Investment properties are initially recognized at the purchase price, including directly attributable costs. Subsequent to initial recognition, investment properties are carried at fair value. Fair value is determined with reference to external valuations using the discounted cash flow ("DCF") method, with any changes in fair value recognized in the consolidated statement of operations and comprehensive income (loss) in the period in which they arise.

The application of the DCF method results in these measurements being classified as Level 3 in the fair value hierarchy. Refer to notes 4 and 6 for a detailed discussion of the significant assumptions, estimates, and valuation method used.

Unit capital

The REIT is an open-ended real estate investment trust, and units of the REIT are redeemable at the option of the REIT's unitholders. IAS 32 requires redeemable instruments to be accounted for as financial liabilities, except where certain conditions are met, known as the Puttable Instrument Exemption. The Units meet the Puttable Instrument Exemption criteria and are therefore presented as equity in the consolidated statement of financial position. In addition to the Units, certain shareholders elected to have their Common Shares converted to Class B LP Units upon the Company's conversion to a REIT. These Class B LP Units do not qualify for the Puttable Instrument Exemption and are classified as liabilities on the consolidated statement of financial position. They are remeasured at each reporting date at fair value.

Unit-based compensation

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

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

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

Group entities

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

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

Income taxes

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

3 Future Accounting Policy Changes

The following are future accounting policy changes to be implemented by the REIT in future years:

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 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 does not expect the adoption of IFRS 16 to have a material impact on its consolidated financial statements.

IFRIC 23, Uncertainty over Income Tax Treatments ("IFRIC 23")

IFRIC 23 clarifies the application of the recognition and measurement requirements in IAS 12, Income Taxes ("IAS 12"), for situations where there is uncertainty over income tax treatments. IFRIC 23 specifically addresses whether an entity considers income tax treatments separately; assumptions that an entity makes regarding the examination of tax treatments by taxation authorities; how an entity determines taxable income or loss, tax bases, unused tax losses or credits and tax rates; and how an entity considers changes in facts and circumstances. IFRIC 23 does not apply to taxes or levies outside the scope of IAS 12. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The REIT does not currently expect the adoption of IFRIC 23 to have a material impact on its consolidated financial statements.

4 Critical accounting estimates, assumptions, and judgements

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

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

Valuation of investment properties

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

The appraisals are performed by applying the DCF method. The critical assumptions used include (all considered Level 3 inputs), among other things, stabilized cash flows, discount rates, capitalization rates, and indexation rates. If there is a change in these assumptions, the fair value of investment properties could change materially. Refer to note 6 for a detailed discussion on the valuation method used.

Investment property acquisitions

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

Unit-based compensation

The fair value of Unit-based compensation liabilities are based on assumptions that involve significant estimates. The fair value as at the reporting date may differ from how they are ultimately recognized if there is volatility in Unit prices, interest rates, settlement dates or other key assumptions between the valuation date and settlement date. The basis for valuation of the REIT's Unit-based compensation, including market assumptions, estimates and valuation methodology is described in note 12.

Functional currency

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

5 Acquisitions

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

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

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

6 Investment properties

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

	Year Ended December 31, 2018 $	Year Ended December 31, 2017 $
Balance, beginning of year	130,404,507	-
Acquisitions (note 5)	-	131,948,136
Capital expenditures	152,584	-
Fair value adjustment	5,885,398	(4,226,910)
Foreign currency translation gain	4,980,065	2,683,281
Balance, end of year	**141,422,554**	**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 gains or losses arising from the change in fair value recognized in the consolidated statement of operations and comprehensive income (loss) in the period in which they arise.

The REIT's management is responsible for determining fair value measurements included in the consolidated financial statements and does so through the application of the DCF method. The REIT obtains third party appraisals to supplement internal management valuations in support of determination of the fair market value of investment properties. Investment properties with an aggregate value of $68,072,680 were valued by qualified external valuation professionals during the year ended December 31, 2018. The appraisers all hold recognized, relevant professional qualifications and have recent experience in the geography and type of property being appraised. For properties subject to an external valuation report, the REIT's management verified all major inputs into the valuation and reviewed the results with the independent appraisers.

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

A summary of significant unobservable (Level 3) inputs used to determine the fair value of investment properties as at December 31, 2018 are as follows:

	December 31, 2018		December 31, 2017	
Input	**Range**	**Weighted Average**	**Range**	**Weighted Average**
Discount rate	4.79%-5.65%	5.17%	4.40%5.65%	4.95%
Terminal capitalization rate	4.10%-6.00%	5.32%	4.40%-5.65%	5.35%

As at December 31, 2018, a 25 basis-point decrease in both the discount and terminal capitalization rates would increase the estimated fair value of the REIT's investment properties by $8,005,569. As at December 31, 2018, a 25 basis-point increase in both the discount and terminal capitalization rates would decrease the estimated fair value of the REIT's investment properties by $6,509,945.

7 Mortgages payable

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

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

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

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

	December 31, 2018	**December 31, 2017**
	$	**$**
Mortgages payable	76,783,347	75,844,577
Less deferred financing costs	(1,062,711)	(1,200,976)
	75,720,636	74,643,601
Less current portion	(1,899,376)	(1,800,230)
	73,821,260	**72,843,371**
Weighted average interest rate	**1.82%**	**1.82%**
Weighted average term to maturity	**5.6 years**	**6.6 years**

Future principal repayments for the year ending December 31 for the years indicated are as follows, and are based on the December 31, 2018 EUR/CAD FX rate of 1.5613:

	Principal Amount	% of Total Principal
2019	1,899,376	2.5%
2020	1,910,950	2.5%
2021	1,922,743	2.5%
2022	1,934,759	2.5%
2023	11,607,547	15.1%
Thereafter	57,507,972	74.9%
	76,783,347	**100.0%**

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

	December 31, 2018	December 31, 2017
	$	$
Balance, beginning of year	**74,643,601**	**-**
New borrowings on acquisitions	-	75,179,700
Principal repayments	(1,850,356)	(922,335)
Expenditures on financing costs	-	(1,258,254)
Amortization of financing costs	145,796	76,588
Foreign exchange adjustments	2,781,595	1,567,902
Balance, end of year	**75,720,636**	**74,643,601**

8 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, to 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 December 31, 2018 and December 31, 2017, no amount had been drawn against the Revolving Credit Facility.

9 Class B LP Units

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

The Class B LP Units are exchangeable, on a one for one basis, for Units of the REIT at the option of the holder, and have economic and voting rights equivalent, in all material respects, to REIT units. During the year ended December 31, 2018, 91,180 Class B LP Units were exchanged for Units. Distributions in the amount of $46,087 were declared payable to eligible holders of Class B LP Units for the year ended December 31, 2018. This amount has been recognized as interest expense in the consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2018. Of this amount, distributions on Class B LP Units of $7,037 were payable as at December 31, 2018. The following table summarizes the changes in Class B LP Units:

	December 31, 2018		December 31, 2017	
	Class B LP Units	**Amount $**	**Class B LP Units**	**Amount $**
Balance, beginning of year	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	(91,180)	(337,825)	(70,795)	(273,325)
Fair value adjustment during the year	-	113,802	-	(1,181,058)
Balance, end of year[a]	**694,825**	**2,605,594**	**786,005**	**2,829,618**

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

10 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 year ended December 31, 2018:

	Units	**$**
Unit Capital, December 31, 2017	**15,908,232**	**63,904,504**
Units issued under distribution reinvestment plan (note 11)	182,846	700,288
Unit issuance costs	-	(46,283)
Units issued in exchange for Class B LP Units (note 9)	91,180	337,825
Units issued under Unit Option plan (note 12)	44,960	146,550
Unit Capital, December 31, 2018[a]	**16,227,218**	**65,042,884**

(a) Including the effect of Class B LP Units, which are convertible to Units on a one-for-one basis, total Units and Class B LP Units outstanding are 16,922,043 as at December 31, 208. See note 9.

Distributions in the amount of $5,421,384 were declared payable to eligible Unitholders for the year ended December 31, 2018. Of this amount, distributions in the amount of $1,366,060 were payable as at December 31, 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 were 16,694,237 as at December 31, 2017. See note 9.

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

11 Distribution reinvestment plan

The REIT adopted a distribution reinvestment plan (the "DRIP") on September 14, 2017, pursuant to which eligible Unitholders or holders of Class B LP Units are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional units at a price per unit calculated by reference to the weighted average of the closing price for the units on the TSXV for the five trading days immediately preceding the relevant distribution date. Eligible Unitholders or holders of Class B LP Units who so elect will receive a bonus distribution of units up to 5% of each distribution that was reinvested by them under the DRIP. During the year ended December 31, 2018, 182,846 units were issued under the DRIP for a total value of $700,288.

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

On November 27, 2018, the REIT granted 408,667 Unit options to officers and employees of the REIT and certain members of the REIT's asset manager to purchase 408,667 Units. Due to the fact that the REIT was in a blackout period (refer to note 18), the Unit options have not been assigned an exercise price. The exercise price of the Unit options granted will be assigned once the blackout period is concluded. For the purposes of the consolidated financial statements, the Unit options granted have an assumed exercise price of $3.75 per Unit, which was the closing price of the REIT's Units on December 31, 2018. The Unit options vest in one-third instalments annually on November 27, 2019, 2020, and 2021 respectively, and will expire ten years from the date the options were granted, and were determined to have a fair value as at December 31, 2018 of $537,916.

During the year ended December 31, 2018, 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:

	Year Ended December 31, 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 year	779,307	3.87	176,000	3.13
Unit options granted	408,667	3.75	603,307	4.09
Unit options exercised	(44,960)	3.26	-	-
Outstanding Unit options, end of year	**1,143,014**	**3.85**	**779,307**	**3.87**
Exercisable Unit options, end of year	**294,916**	**3.78**	**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 December 31, 2018 is $1,489,911, determined using the Black-Scholes option pricing model using a weighted average expected unit option life of 3.98 years, a weighted average exercise price of $3.85, a volatility rate of 80%, a risk-free interest rate of 1.88% and an estimated distribution yield of 9.3% based on the trading price as at December 31, 2018. As at December 31, 2018, the total number of options outstanding represented 6.75% of the total Units and Class B LP Units outstanding, and 294,916 options were available for exercise (December 31, 2017 – 95,093).

The compensation to officers and trustees in Unit options during the year ended December 31, 2018 was $293,874 (year ended December 31, 2017 -$159,383).

13 Property revenue

Property revenue is comprised of the following:

	Year Ended	
	December 31, 2018	**December 31, 2017**
Base rent	10,064,443	4,948,973
Property tax and insurance recoveries	1,031,525	775,430
Operating cost recoveries	1,064,075	726,741
Rental revenue	**12,160,043**	**6,451,143**

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	10,318,983
Later than 1 year and not later than 5 years	37,301,502
Later than 5 years	14,871,983
	62,492,468

14 Income Taxes

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

	December 31, 2018	**December 31, 2017**
	$	**$**
Income/(loss) before income tax	8,828,576	(1,914,664)
Income tax recovery/(expense) based on German statutory rate of 15.825%	(1,397,122)	302,996
Income tax recovery/(expense) based on Canadian statutory rate of 26.5%	-	-
Increase/(decrease) resulting from:		
Income distributed and taxable to unitholders	(196,591)	201,146
Foreign subsidiary losses not tax-effected	(12,042)	(29,142)
Fair value adjustment on investment property not tax-effected	476,127	(1,151,643)
Foreign subsidiary income not subject to local tax	533,831	187,879
German deductible items not included in accounting income	(681)	235,491
Total income tax provision	**(596,478)**	**(253,273)**
Less: Current income tax expense	**(59,443)**	**(3,611)**
Deferred income tax expense	**(537,035)**	**(249,662)**

15 Related party transactions

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

On January 31, 2017, the Company, and certain of its subsidiaries, entered into an asset management agreement (the "Asset

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

a) An annual asset management fee in the amount of 0.50% of the historical gross acquisition price of the REIT's properties plus HST/VAT;
b) An acquisition fee in the amount of 1.0% of the total costs associated with any property acquired by the REIT or its subsidiaries payable on completion of each acquisition plus HST/VAT, provided that no such acquisition fee was or will be payable in respect of the Initial Property or the acquisition of properties managed by Maple Knoll;
c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project with costs in excess of €1,000,000, excluding work done on behalf of tenants or any maintenance expenditures, plus HST/VAT; and
d) A refinancing fee equal to 0.25% of the debt and equity of all refinancing transactions to a maximum of actual expenses incurred by Maple Knoll in supplying services relating to refinancing transactions plus HST/VAT.

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

During the year ended December 31, 2018, the REIT recorded asset management fees to Maple Knoll of $813,550 and acquisition related costs of $nil. During the year ended December 31, 2017, the REIT recorded asset management fees to Maple Knoll of $616,382 and acquisition related costs of $1,193,397.

16 Financial instruments

Credit risk

Credit risk is the risk one party to a financial instrument will cause a loss to another party by failing to pay for its obligations. The REIT is exposed to credit risk from its leasing activities and from its financing activities and derivatives. The REIT manages credit risk by requiring tenants to pay rents in advance and by monitoring the credit quality of the tenants on a regular basis. The REIT monitors tenant payment patterns and discusses potential tenant issues with property managers on a regular basis. Credit risk with respect to financing activities and derivatives is managed by entering into arrangements with highly reputable institutions.

Concentration risk

As at December 31, 2018, the REIT had 3 investment properties, where two tenants collectively represent 90% of the annualized rental revenue. This risk is mitigated due to the expected stability and security of the tenants (a government entity and a member of the Fortune Global 500, representing 55% and 35% of annualized rental revenue, respectively).

Liquidity risk

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

The contractual maturities and repayment obligations of the REIT's mortgages payable, and the related interest rate swap derivatives are as follows, based on the December 31, 2018 EUR/CAD FX rate of 1.5613:

	2019	2020-2021	2022-2023	2024 Onward	Total
	$	$	$	$	$
Mortgage principal	1,899,376	3,833,693	13,542,306	57,507,972	76,783,347
Mortgage interest	1,148,978	2,208,679	2,090,611	597,291	6,045,559
Swap premium	255,319	489,244	461,398	170,570	1,376,531
Distribution payable	1,366,060				1,366,060
Accounts payable and accrued liabilities	4,384,387				4,384,387
Total	**9,054,120**	**6,531,616**	**16,094,315**	**58,275,833**	**89,955,884**

17 Capital management

As at December 31, 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, 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.

18 Subsequent event

On December 11, 2018, the REIT announced that it had entered into an agreement (the "Acquisition Agreement") to acquire, indirectly, from Canadian Apartment Properties Real estate Investment Trust ("CAPREIT") a portfolio of multi-residential properties located in the Netherlands (the "Acquisition Properties"), comprising 2,091 suites in 41 properties for an aggregate purchase price of $633,588,660 subject to certain purchase price adjustments (the "Transaction"). The Transaction will be funded by a combination of:

a) The assumption of the aggregate principal amount of existing mortgage debt relating to the Acquisition Properties and all other liabilities associated with the entities (including subsidiaries) that hold the Acquisition Properties; and

b) $326,564,840, by the issuance of 81,641,210 Class B LP Units to CAPREIT at a deemed issue price of $4.00 per Class B LP Unit.

Unitholders voted to approve the Transaction on March 21, 2019. In connection with the closing of the Transaction (the "Closing"), which is expected to occur on March 29, 2019, Unitholders and holders of Class B LP Units will receive a one-time special distribution of $0.50 per Unit, funded by CAPREIT (the "Special Distribution"). The record date for the determining the Unitholders and holders of Class B LP Units that will be eligible to receive the Special Distribution is expected to be shortly after the Closing. As well, CAPREIT will act as the external asset and property manager for the REIT and certain of its subsidiaries.