

2019 FIRST QUARTER REPORT



# Consolidating Canada's Automotive Dealership Properties





# Automotive Properties Real Estate Investment Trust

## Management's Discussion and Analysis

March 31, 2019

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## SECTION 1 – GENERAL INFORMATION AND CAUTIONARY STATEMENTS

### Basis of Presentation

The following Management's Discussion and Analysis ("MD&A") of the financial position and results of operations of Automotive Properties Real Estate Investment Trust (the "REIT") is intended to provide readers with an assessment of the performance of the REIT for the three-month period ended March 31, 2019. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. This MD&A should be read in conjunction with the condensed consolidated interim financial statements of the REIT and accompanying notes for the three months ended March 31, 2019. Further information about the REIT can be found in the REIT's annual information form dated March 21, 2019 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the REIT's website at: [www.automotivepropertiesreit.ca](http://www.automotivepropertiesreit.ca).

All dollar amounts in this MD&A are presented in thousands of Canadian dollars, except unit and per unit amounts. All comparisons of results for the three-month period ended March 31, 2019 ("Q1 2019") are against results for the three-month period ended March 31, 2018 ("Q1 2018"), unless otherwise noted.

### The REIT

The REIT was formed primarily to own income producing automotive dealership properties located in Canada. The REIT commenced operations on July 22, 2015 following completion of its initial public offering of units (the "IPO"). In connection with the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (as defined below) (the "Initial Properties"), and leased the Initial Properties to the applicable member of the Dilawri Group (collectively, and including members of the Dilawri Group that became tenants of a property owned by the REIT subsequent to the IPO, the "Dilawri Tenants").

As at the date of this MD&A, the REIT owns a portfolio of 57 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.1 million square feet of gross leasable area ("GLA").

893353 Alberta Inc. ("Dilawri") is a privately held corporation, which, together with certain of its affiliates, holds an approximate 32.8% effective interest in the REIT as at March 31, 2019, through the ownership, direction or control of all of the Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership") and 480,552 REIT Units (as defined below). The Class B LP Units are economically equivalent to REIT Units, and are exchangeable generally on a one-for-one basis for REIT Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the "Dilawri Group".

On March 29, 2019, the REIT acquired from Auto Canada Inc. the underlying real estate consisting of two automotive dealership properties located in Winnipeg, Manitoba (the "St. James VW" and the "McNaught Cadillac Buick GMC") for approximately \$23,950 plus acquisition costs of \$685. The acquisition consists of two full-service automotive dealership properties totaling 96,135 square feet of GLA.

As at March 31, 2019, the total number of issued and outstanding trust units of the REIT ("REIT Units") and Class B LP Units issued and outstanding was 21,796,552 and 9,933,253, respectively, for a total of 31,729,805 units. The REIT Units are listed on the Toronto Stock Exchange under the symbol "APR.UN".

In Q1 2019, the REIT's former development property in Kitchener-Waterloo, Ontario is classified as an income producing property. The tenant, Tesla Motors Canada ULC ("Tesla KW"), has opened a service centre at the premises.

The REIT announced monthly cash distributions of \$0.067 per REIT Unit, resulting in total distributions declared and paid of \$6,378 for Q1 2019 (Q1 2018 declared and paid - \$5,256).

This MD&A is dated May 14, 2019.

## Forward-Looking Statements

Certain statements contained in this MD&A constitute forward-looking information within the meaning of securities laws. Forward-looking information may relate to the REIT's future outlook and anticipated events or results and may include statements regarding the financial position, business strategy, budgets, litigation, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. Particularly, statements regarding future results, performance, achievements, prospects or opportunities for the REIT or the real estate or automotive dealership industry are forward-looking statements. In some cases, forward-looking information can be identified by terms such as "may", "might", "will", "could", "should", "would", "occur", "expect", "plan", "anticipate", "believe", "intend", "estimate", "predict", "potential", "continue", "likely", "schedule", "objectives", or the negative thereof or other similar expressions concerning matters that are not historical facts. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to the following:

- the REIT's relationship with the Dilawri Group, Dilawri's shareholders and certain other related persons and entities (collectively, the "Dilawri Organization"), including in respect of (i) the Dilawri Organization's retained interest in the REIT and its current intention with respect thereto, (ii) the services to be provided to the REIT (whether directly or indirectly) by Dilawri pursuant to the Administration Agreement, and (iii) expected transactions to be entered into between Dilawri and the REIT (including pursuant to the Strategic Alliance Agreement);
- the expenditures related to the Tesla KW property;
- the REIT's intention with respect to, and ability to execute, its external and internal growth strategies;
- the maintenance by the REIT of a strong balance sheet and prudent financial management and associated minimization of financial risk;
- the REIT representing a unique alternative for automotive dealership operators considering a sale or recapitalization of their business;
- the REIT's capital expenditure requirements and capital expenditures to be made by the REIT and the Dilawri Group;
- the REIT's distribution policy and the distributions to be paid to Unitholders (as defined below);
- the REIT's debt strategy;
- the REIT's access to available sources of debt and/or equity financing;
- the expected tax treatment of the REIT and its distributions to Unitholders;
- potential trade tariff policies and their impact on future retail automotive sales;
- the REIT's ability to meet its stated objectives;
- the REIT's ability to expand its asset base and make accretive acquisitions;
- the ability of the REIT to qualify as a "Mutual Fund Trust" as defined in the *Income Tax Act* (Canada) (the "Tax Act"), and as a "Real Estate Investment Trust", as defined in the SIFT Rules (as defined below); and
- the REIT's ability to consolidate automotive dealership properties.

The REIT has based these forward-looking statements on factors and assumptions about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs, including that the Canadian economy will remain stable over the next 12 months, that inflation will remain relatively low, that interest rates will remain stable, that tax laws remain unchanged, that conditions within the automotive dealership real estate industry and the automotive dealership industry generally, including competition for acquisitions, will be consistent with the current climate, that the Canadian capital markets will provide the REIT with access to equity and/or debt at reasonable rates when required and that the Dilawri Organization will continue its involvement with the REIT.

Although the forward-looking statements contained in this MD&A are based upon assumptions that management believes are reasonable based on information currently available to management, there can be no assurance that actual results will be consistent with these forward-looking statements. Forward-looking statements necessarily involve known and unknown risks and uncertainties, many of which are beyond the REIT's control, that may cause the REIT's or the industry's actual results, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking statements. These risks and uncertainties include, among other things, the factors contained in the REIT's filings with securities regulators, including the factors discussed under Section 12 "Risks & Uncertainties, Critical Judgments & Estimates" in this MD&A.

When relying on forward-looking statements to make decisions, the REIT cautions readers not to place undue reliance on these statements, as forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results and will not necessarily be accurate indications of whether or not the times at or by which such performance or results will be achieved. The forward-looking statements made in this MD&A relate only to events or information as of the date of this MD&A. Except as required by law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

All information regarding Dilawri contained in this MD&A (the "Dilawri Information") has been provided by, and is solely the responsibility of Dilawri and not of the REIT, the REIT's management nor the trustees of the REIT (the "Trustees"). Although the REIT has no reason to believe that the Dilawri Information contains a misrepresentation, Dilawri is a private company that is independent of, and operates entirely independently from, the REIT and, consequently, neither the REIT, its management nor its Trustees (in their capacities as such) have been involved in the preparation of the Dilawri Information, nor has the REIT approved such information. Readers are cautioned, therefore, not to place undue reliance on the Dilawri Information.

## **Non-IFRS Financial Measures**

The REIT prepares its financial statements according to International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). This MD&A contains certain financial measures which are not defined under IFRS and may not be comparable to similar measures presented by other real estate investment trusts or enterprises.

Funds from operations ("FFO"), adjusted funds from operations ("AFFO"), adjusted cash flow from operations ("ACFO"), FFO payout ratio, AFFO payout ratio, ACFO payout ratio, net operating income ("NOI"), cash net operating income ("Cash NOI"), Same Property cash net operating income ("Same Property Cash NOI"), and earnings before income tax, depreciation, and amortization ("EBITDA") are key measures of performance used by the REIT's management and real estate businesses.

Gross book value ("GBV"), indebtedness ("Indebtedness"), net asset value ("Net Asset Value"), debt to gross book value ("Debt to GBV"), debt service coverage ratio ("Debt Service Coverage Ratio"), interest coverage ratio ("Interest Coverage Ratio") and tangible net worth are measures of financial position defined by agreements to which the REIT is a party. These measures, as well as any associated "per Unit" amounts are not defined by IFRS and do not have standardized meanings prescribed by IFRS, and therefore should not be construed as alternatives to net income or cash flow from operating activities calculated in accordance with IFRS.

The REIT believes that AFFO is an important measure of economic earnings performance and is indicative of the REIT's ability to pay distributions from earnings, while FFO, NOI, Cash NOI, and EBITDA are important measures of operating performance of real estate businesses and properties. The IFRS measurement most directly comparable to FFO, AFFO, NOI, Cash NOI, Same Property Cash NOI and EBITDA is net income. ACFO is a supplementary measure used by management to improve the understanding of the operating cash flow of the REIT. The IFRS measurement most directly comparable to ACFO is cash flow from operating activities.

"FFO" is a non-IFRS financial measure of operating performance widely used by the real estate industry, particularly by those publicly traded entities that own and operate income-producing properties. FFO should not be considered as an

alternative to net income or cash flows provided by operating activities determined in accordance with IFRS. The REIT calculates FFO in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019. FFO is calculated as net income in accordance with IFRS, adjusted by removing the impact of: (i) fair value adjustments on investment properties; (ii) other fair value adjustments including fair value adjustments on redeemable or exchangeable units; (iii) gains and losses on the sale of investment properties; (iv) amortization of tenant incentives; (v) distributions on redeemable or exchangeable units treated as interest expense; and (vi) operational revenue and expenses from the right-of-use assets for Q1 2019 (referred to as "ROU" assets).

"FFO payout ratio" is calculated as distributions per unit divided by the FFO per Unit diluted.

"AFFO" is a non-IFRS measure of economic earnings operating performance widely used in the real estate industry to assess an entity's distribution capacity from earnings. The REIT calculates AFFO in accordance with the Real Property Association of Canada's *White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS* issued in February 2019. AFFO is calculated as FFO subject to certain adjustments, to remove the impact of: (i) any adjustments resulting from recognizing property rental revenues or expenses (including ground lease rental payments for Q1 2019) on a straight-line basis; and (ii) capital expenditures. In Q1 2019 the REIT adopted a capital expenditure reserve of 0.5% of base rent in the AFFO calculation, which is used as a factor in evaluating the AFFO payout ratio. To date the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management's best estimate of cost that the REIT may incur, related to the sustaining/maintaining of the existing leased area.

"AFFO payout ratio" is a non-IFRS measure of the sustainability of the REIT's distribution payout capacity from earnings. The REIT uses this metric to provide clarity of the performance of earnings and the overall management of the current portfolio of assets. Management considers AFFO payout ratio as the key measure of the REIT's distribution capacity from earnings. AFFO payout ratio is calculated as distributions per Unit divided by AFFO per Unit diluted.

"ACFO" is a non-IFRS financial measure. The REIT calculates ACFO in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cash Flow from Operations for IFRS* issued in February 2019. ACFO is calculated as cash flow from operating activities subject to certain adjustments, to (a) remove the impact of: (i) changes in non-cash working capital that are not sustainable in nature; (ii) amortization of financing costs and indemnity payable in respect of the third party tenant portfolio sublease structure; and (iii) capital expenditures and (b) deduct interest expense. In Q1 2019 the REIT adopted a capital expenditure reserve of 0.5% of base rent in the AFFO calculation, which is used as a factor in evaluating the AFFO payout ratio. To date the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management's best estimate of cost that the REIT may incur, related to the sustaining/maintaining of the existing leased area.

"ACFO payout ratio" is calculated as distributions declared divided by ACFO.

"NOI" is a non-IFRS financial measure and is defined as rental revenue from properties less property operating expenses as presented in the statement of income prepared in accordance with IFRS. Accordingly, NOI excludes certain expenses included in the determination of net income such as interest, general and administrative expenses, fair value adjustments and amortization.

"Cash NOI" is defined as NOI prior to the effects of straight-line adjustments. Beginning in Q1 2019, Cash NOI also deducts land lease payments.

"Same Property Cash NOI" is a non-IFRS measure which reports the period-over-period performance of the same asset base having consistent GLA during both periods and is defined as same property base rental revenue less land lease payments. The REIT uses this measure to assess financial returns and changes in property value.

FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash NOI and Same Property Cash NOI should not be construed as alternatives to net income or cash flow from operating activities determined in accordance with IFRS as indicators of the REIT's performance. The REIT's method of calculating FFO, AFFO, FFO payout ratio, AFFO payout ratio, ACFO, ACFO payout ratio, NOI, Cash NOI and Same Property Cash NOI may differ from other issuers' methods and, accordingly, may not be comparable to measures used by other issuers. See Section 6 "Non-IFRS

Financial Measures” in this MD&A for a reconciliation of these measures to net income or cash flow from operating activities, as applicable.

“EBITDA” is defined as earnings before, income tax, depreciation, and amortization.

“GBV” means, at any time, the greater of: (A) the book value of the assets of the REIT and its consolidated subsidiaries, as shown on its then most recent consolidated balance sheet, less the amount of any receivable reflecting interest rate subsidies on any debt assumed by the REIT; and (B) the historical cost of the investment properties, plus (i) the carrying value of cash and cash equivalents, (ii) the carrying value of mortgages receivable; and (iii) the historical cost of other assets and investments used in operations.

“Indebtedness” of the REIT means (without duplication) (i) any obligation for borrowed money (including, for greater certainty, the full principal amount of convertible debt, notwithstanding its presentation under IFRS), (ii) any obligation incurred in connection with the acquisition of property, assets or businesses, (iii) any obligation issued or assumed as the deferred purchase price of property, (iv) any capital lease obligation (as defined under IFRS and in the Declaration of Trust), and (v) any obligations of the type referred to in clauses (i) through (iv) of another entity, the payment of which the REIT has guaranteed or for which the REIT is responsible or liable; provided that, (A) for the purpose of clauses (i) through (v) an obligation will constitute Indebtedness of the REIT only to the extent that it would appear as a liability on the consolidated balance sheet of the REIT in accordance with IFRS, (B) obligations referred to in clauses (i) through (iii) exclude trade accounts payable, distributions payable to Unitholders or holders of other securities excluded from the definition of Indebtedness pursuant to clause (C) below, accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith, deferred revenues, intangible liabilities, deferred income taxes, deferred financing costs, tenant deposits and indebtedness with respect to the unpaid balance of installment receipts where such indebtedness has a term not in excess of 12 months, and (D) REIT Units and Class B LP Units, exchangeable securities and other equity securities that constitute debt under IFRS do not constitute Indebtedness.

“Net Asset Value” means total assets less Indebtedness, accounts payable, accrued liabilities, credit facilities and interest rate swaps. The net balance is then divided by the total of Unitholders’ equity plus the market value of Class B LP Units at a particular time.

“Debt to GBV” means the ratio of Indebtedness to GBV at a particular time.

“Debt Service” means the total payments of principal and interest on debt.

“Debt Service Coverage Ratio” means the ratio of EBITDA divided by Debt Service at particular time.

“Interest Coverage Ratio” means the ratio of Cash NOI less general and administrative expenses divided by the total of the interest expense and other financing charges.

## SECTION 2 – OVERVIEW, STRATEGY AND OBJECTIVES

### Overview

Canada's automotive retail industry is characterized by strong industry fundamentals. According to Statistics Canada, the automotive retail industry sales totaled a record \$162 billion in 2018 (up 4% from \$156 billion in 2017), representing approximately 27% of Canada's overall retail sales of products and merchandise. Over the last 20 years, retail automotive sales grew at a compound annual rate of 4.7%. The tables below contain new automobile sales by units in Canada for the two months ended February 28, 2019 and February 28, 2018 (the latest available information from Statistics Canada) and for the 2018 and 2017 calendar years:

	2 Months Ended February 28			2018
	2019	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	28,453	(2,867)	(9.2%)	31,320
British Columbia and the Territories	28,626	(1,486)	(4.9%)	30,112
Manitoba	10,174	(270)	(2.6%)	10,444
New Brunswick	4,445	(94)	(2.1%)	4,539
Newfoundland and Labrador	3,329	68	2.1%	3,261
Nova Scotia	5,658	(159)	(2.7%)	5,817
Ontario	98,612	(5,615)	(5.4%)	104,227
Prince Edward Island	834	112	15.5%	722
Québec	49,443	(2,178)	(4.2%)	51,621
Saskatchewan	6,401	(28)	(0.4%)	6,429
<b>Total Canada</b>	<b>235,975</b>	<b>(12,517)</b>	<b>(5.0%)</b>	<b>248,492</b>

(Source: Statistics Canada)

	12 Months Ended December 31			2017
	2018	YoY unit increase/ (decrease)	YoY % increase/ (decrease)	
Alberta	236,769	(11,990)	(4.8%)	248,759
British Columbia and the Territories	225,539	(11,562)	(4.9%)	237,101
Manitoba	67,894	4,666	7.4%	63,228
New Brunswick	41,314	(3,508)	(7.8%)	44,822
Newfoundland and Labrador	30,254	(2,998)	(9.0%)	33,252
Nova Scotia	52,797	(6,154)	(10.4%)	58,951
Ontario	862,313	5,091	0.6%	857,222
Prince Edward Island	7,734	(853)	(9.9%)	8,587
Québec	460,994	(7,789)	(1.7%)	468,783
Saskatchewan	50,224	(6,041)	(10.7%)	56,265
<b>Total Canada</b>	<b>2,035,832</b>	<b>(41,138)</b>	<b>(2.0%)</b>	<b>2,076,970</b>

(Source: Statistics Canada)

The REIT's portfolio of diverse dealership properties, strong industry fundamentals and an attractive leasing profile support the stability of distributions to holders of REIT Units and Class B LP Units (collectively, "Unitholders"). The REIT is currently paying monthly cash distributions to Unitholders of \$0.067 per Unit, representing \$0.804 per Unit on an annualized basis.

## **Strategy and Objectives**

The primary strategy of the REIT is to create long-term value for Unitholders by generating sustainable tax-efficient cash flow and capital appreciation, while maintaining a strong balance sheet and practicing prudent financial management. The objectives of the REIT are to:

- provide Unitholders with stable, predictable and growing monthly cash distributions on a tax-efficient basis;
- enhance the value of the REIT's assets in order to maximize long-term Unitholder value; and
- expand the REIT's asset base while also increasing the REIT's AFFO per Unit, including through accretive acquisitions.

Management intends to grow the value of the REIT's real estate portfolio while also increasing AFFO per Unit through accretive acquisitions and steady growth in rental rates. The REIT expects to be well-positioned to capitalize on acquisition opportunities presented by third parties due to the fragmented nature of the automotive dealership market. The REIT also expects to leverage its strategic arrangement with the Dilawri Group to acquire properties from the Dilawri Group that meet the REIT's investment criteria. Management intends to focus on obtaining new properties which have the potential to contribute to the REIT's ability to generate stable, predictable and growing monthly cash distributions to Unitholders.

The REIT has a well-defined, long-term growth strategy which includes both external and internal elements.

## **External Growth**

### ***Accretive Acquisitions of Third Party Properties***

Management believes that the REIT is well-positioned to capitalize on opportunities for accretive acquisitions from third party vendors due to certain features of the Canadian automotive dealership industry:

- *Fragmented ownership* – Management estimates that the top 10 automotive dealership groups in Canada own less than 10% of the approximately 3,500 automotive dealerships in Canada;
- *Capital redeployment needs* – Monetizing the real estate underlying automotive properties allows dealers to retain control of their dealership while redeploying capital into other areas of their business; and
- *Succession planning issues* – Management believes that for the majority of independent dealers, the dealership and its underlying real estate together represent the single largest proportion of their wealth. Selling the underlying real estate to the REIT can help such dealers address succession planning issues, particularly if the transaction can be effected on a tax efficient basis.

Management believes that the REIT represents a unique alternative for automotive dealership operators considering a sale or recapitalization of their business, as the REIT is at present the only publicly listed vehicle in Canada exclusively focused on owning and acquiring automotive dealership properties.

The REIT evaluates acquisition opportunities on a number of factors, including valuation, expected financial performance, stability of cash flows, physical features, existing leases, functionality of design, geographic market, location, automotive brand representation and opportunity for future value enhancement.

### ***Right of First Offer to Acquire REIT-Suitable Properties from the Dilawri Group***

Management believes that its relationship with the Dilawri Group provides the REIT with additional opportunities to add quality automotive dealership properties to its portfolio in an accretive manner. Pursuant to the Strategic Alliance Agreement, the REIT has the right of first offer on properties that are suitable for use as an automotive dealership that are acquired, developed, redeveloped, refurbished, repositioned or held for sale by the Dilawri Group.

Since completion of the IPO, the REIT has acquired eight automotive dealership properties from the Dilawri Group under the Strategic Alliance Agreement.

### Internal Growth

Management believes that the REIT is well-positioned to achieve organic increases in cash flow and, as a result, increase the values of its properties over time. These increases are expected to come from the following sources:

- Each of the leases with a member of the Dilawri Group (“Dilawri Lease”) contains annual contractual basic rent escalators in the amount of 1.5% per annum. The leases are structured as triple-net leases under which the tenant is responsible for all costs relating to repair and maintenance, realty taxes, property insurance, utilities and non-structural capital improvements so that rent escalators are expected to flow directly to NOI; and
- Contractual fixed rent escalators or consumer price index adjustments are expected, wherever possible, to be negotiated into new leases entered into by the REIT.

## SECTION 3 - PROPERTY PORTFOLIO

### Portfolio Overview

At March 31, 2019, the REIT’s portfolio consisted of 57 income-producing commercial properties. Out of the 57 income-producing commercial properties, 32 are exclusively occupied by the Dilawri Group for use as automotive dealerships or, in one case, an automotive repair facility, while two of the other 25 properties are jointly occupied by the Dilawri Group (for use as automotive dealerships) and one or more third parties (for use as automotive dealerships or complementary uses, including restaurants), and the remaining 23 properties are exclusively occupied by other dealership groups for use as automotive dealerships or for automotive dealership ancillary services, such as a vehicle service compound facility or a repair facility. Consequently, the Dilawri Group is the REIT’s most significant tenant and accounts for approximately 64.1% of the REIT’s base rent, including rent from properties subleased to third parties (86.7% as at Q1 2018).

The applicable Dilawri Tenant is the lead tenant for Dixie Auto Mall until July 2030. A Dixie Auto Mall sub-tenant that operates the Hyundai dealership provided a notice to the applicable Dilawri Tenant, stating that they will move from the premises by the end of June 2019. This change does not affect the term of the applicable Dilawri Lease.

Overall, at March 31, 2019, the REIT’s properties had a weighted average rental rate of \$24.61 per square foot.

### Income Producing Property Portfolio Summary

<b>As at March 31, 2019</b>	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) <sup>(1)</sup>	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$33.70	13.6
Calgary	6	271,350	\$25.22	13.2
Edmonton	6	174,350	\$29.78	14.3
Regina	8	183,941	\$20.52	10.2
Winnipeg	2	96,135	\$17.31	19.0
Kitchener-Waterloo	1	18,500	\$30.37	9.8
Greater Toronto Area (GTA)	12	619,861	\$26.37	10.7
Ottawa/Kingston	11	303,817	\$23.71	18.2
Greater Montréal Area (GMA)	5	317,608	\$18.52	15.9
<b>Total Portfolio</b>	<b>57</b>	<b>2,139,512</b>	<b>\$24.61</b>	<b>13.7</b>

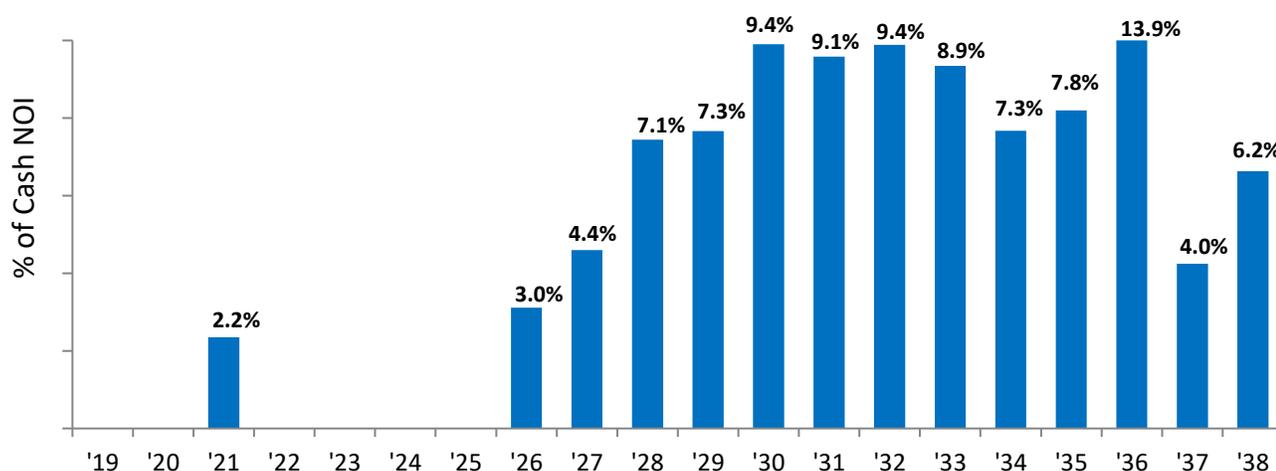
As at March 31, 2018	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) <sup>(1)</sup>	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA)	6	153,950	\$33.20	14.6
Calgary	5	236,700	23.41	13.6
Edmonton	5	104,073	35.23	13.2
Regina	8	183,941	20.21	11.2
Greater Toronto Area (GTA)	11	556,555	25.67	11.0
Greater Montréal Area (GMA)	4	189,993	18.68	15.8
<b>Total Portfolio</b>	<b>39</b>	<b>1,425,212</b>	<b>\$25.17</b>	<b>12.6</b>

(1) Based on 12-month rolling average.

## Profile of Overall Lease Maturity

With the exception of one property, the lease portfolio matures between 2026 and 2038 as set out in the chart below.

### Lease Maturity Profile <sup>(\*)</sup>



(\*) Based on a 12-month rolling average as at March 31, 2019.

## Property Use and Brand Diversification

Sales for an individual automotive dealership are heavily influenced by the popularity of the automotive brands being marketed, and these, in turn, are often cyclical for each brand as new models are introduced and existing models are updated and refreshed. In addition, prospects for both mass market and luxury brands can vary with economic cycles. Management believes that the portfolio's broad automotive brand diversification contributes to the quality and stability of the REIT's cash flows. The table below sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of March 31, 2019:

Manufacturer / Brand	REIT Auto Dealership GLA (Sq. Feet)	% of REIT Auto Dealership GLA	% of REIT Auto Dealership Rent	No. of REIT Locations
BMW <sup>(1)</sup>	313,661	14.8%	11.9%	7
Honda <sup>(2)</sup>	306,655	14.5%	14.6%	9
Volkswagen	229,378	10.8%	10.3%	6
Toyota	210,360	9.9%	9.2%	5
Audi	160,215	7.6%	7.3%	4
Acura <sup>(2)</sup>	139,708	6.6%	6.7%	5
General Motors	99,851	4.7%	3.4%	2
Other <sup>(3)</sup>	92,097	4.4%	6.2%	7
Nissan <sup>(4)</sup>	85,411	4.0%	4.3%	3
Porsche <sup>(5)</sup>	84,569	4.0%	6.0%	2
Mazda	81,352	3.8%	4.7%	4
Hyundai	62,288	2.9%	3.2%	4
Mercedes Benz	60,850	2.9%	2.7%	1
Infiniti	44,904	2.1%	3.4%	4
Chrysler <sup>(6)</sup>	40,957	1.9%	1.1%	1
Ford	39,287	1.9%	1.8%	1
Subaru	19,033	0.9%	0.8%	2
Kia	17,735	0.8%	0.9%	1
Lexus	16,226	0.8%	0.7%	1
Mitsubishi	14,750	0.7%	0.8%	2
<b>Total</b>	<b>2,119,287</b>	<b>100.0%</b>	<b>100.0%</b>	<b>71</b>

Notes:

(1) Includes MINI.

(2) Includes Honda Used Car and Regina Collision Centre. Regina Honda/Acura split 75% and 25% of 30,863 sq. ft.

(3) Includes the Dilawri Distinctive Collection property in Calgary, which currently has franchise agreements with Aston Martin and Bentley. In addition, the Dilawri Distinctive Collection sells a variety of used vehicles, including Audi, BMW, Lamborghini, Maserati, McLaren and Mercedes-Benz. Also includes the former Dilawri Acura property in Regina at 1921 1<sup>st</sup> Avenue which is being used for ancillary dealership purposes by both the Dilawri BMW and the Triple 7 Chrysler dealerships. It continues to be leased by a Dilawri Tenant under the same lease as Dilawri BMW. Also, includes the former Toyota dealership which has vacated its premises located in Dixie Auto Mall; and the applicable Dilawri Tenant will continue to be the lead tenant for Dixie Auto Mall until July 2030. Includes the former Infiniti Vancouver property at 1718 West 3<sup>rd</sup> Avenue which is being used as a service centre for Infiniti and Audi vehicles. Includes 3 vehicle compound facilities that were acquired as part of the Mierins Auto Group Portfolio. Also includes the Tesla KW service centre

- (4) Includes the new Nissan Truck expansion in to the former KIA dealership.  
(5) Includes Porsche JLR Edmonton.  
(6) Includes Dodge, FIAT, Jeep and RAM.

## Description of the REIT's Key Tenant

The following chart summarizes certain relevant financial information of the Dilawri Group for the twelve months ended March 31, 2019 with comparative figures for the twelve months ended March 31, 2018 as provided to the REIT by Dilawri (all figures are approximations):

<b>Dilawri Group's Financial Information (approximations)</b>		
	<b>March 31, 2019 LTM<sup>(3)</sup></b>	<b>March 31, 2018 LTM<sup>(3)</sup></b>
Combined Revenues (not audited or reviewed)	\$ 3.2 billion	\$ 2.9 billion
EBITDA (not audited or reviewed)	\$94.1 million	\$ 91.8 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	3.1 <sup>(1)</sup>	3.2 <sup>(2)</sup>
Term Debt (not audited or reviewed)	\$ 471.0 million <sup>(1)</sup>	\$ 142.2 million <sup>(2)</sup>
Term Debt to EBITDA Ratio (not audited or reviewed)	5.0 <sup>(1)</sup>	1.5 <sup>(2)</sup>

Notes:

- (1) As at March 31, 2019.  
(2) As at March 31, 2018.  
(3) "LTM" means the last twelve months.

Although the REIT has no reason to believe that the above financial information of the Dilawri Group contains a misrepresentation, Dilawri is a private company that is independent of, and operates entirely independently from, the REIT and, consequently, neither the REIT, its management nor its Trustees in their capacities as such have been involved in the preparation of this financial information. Readers are cautioned, therefore, not to place undue reliance on that financial information.

## Dilawri Additional and Non-ASPE Measures

Dilawri uses "EBITDA" in its financial statements which is an additional ASPE (as defined below) measure. "EBITDA" is defined as the earnings of the Dilawri Group before interest, taxes, depreciation and amortization, all as reflected in the non-consolidated combined financial statements of the Dilawri Group prepared in accordance with the recognition, measurement and disclosure principles of ASPE. Dilawri believes that EBITDA is an important measure of operating performance as it shows Dilawri's earnings before interest, taxes, depreciation and amortization. Dilawri's method of calculating EBITDA may differ from other issuers' calculations and, accordingly, may not be comparable to measures used by other issuers.

References to "Pro Forma Adjusted Rent Coverage Ratio", "Term Debt" and "Term Debt to EBITDA Ratio", which are key measures of performance used by automotive dealership businesses, refer to the Pro Forma Adjusted Rent Coverage Ratio, Term Debt and Term Debt to EBITDA Ratio of the Dilawri Group on a non-consolidated combined basis. Pro Forma Adjusted Rent Coverage Ratio, Term Debt and Term Debt to EBITDA Ratio are not defined by Canadian accounting standards for private enterprises ("ASPE") or IFRS and do not have standardized meanings prescribed by ASPE or IFRS.

"Pro Forma Adjusted Rent Coverage Ratio" is calculated by Dilawri as EBITDA for the LTM plus rent paid by the Dilawri Group for the LTM to third parties and the REIT, less rent received from third parties. The resultant figure is divided by rent paid by the Dilawri Group for the LTM to third parties and the REIT, less rent received from third parties.

“Term Debt” is calculated by Dilawri as the Dilawri Group’s total debt reflected in its non-consolidated combined financial statements prepared in accordance with the recognition, measurement and disclosure principles of ASPE.

“Term Debt to EBITDA Ratio” is defined as the ratio of Term Debt to EBITDA.

## SECTION 4 –KEY PERFORMANCE INDICATORS AND SELECTED FINANCIAL INFORMATION

### Key Performance Indicators

Acquisitions were the main contributing factors to the increase in rental revenue, NOI, Cash NOI, total assets, total liabilities, FFO, and AFFO in Q1 2019 relative to Q1 2018. The REIT’s performance is measured by management’s selection of these and other key indicators. For further information on the REIT’s operating measures and non-IFRS measures, please refer to Sections 5 and 6 of this MD&A.

<b>Operating Results</b>	<b>Three Months</b>	
	<b>2019</b>	<b>2018</b>
For the periods ended March 31,		
Rental revenue	<b>\$15,684</b>	\$11,306
NOI	<b>13,571</b>	9,600
Cash NOI	<b>12,653</b>	8,846
Same Property Cash NOI	<b>8,994</b>	8,846
Net Income	<b>(17,882)</b>	14,492
FFO	<b>8,581</b>	6,667
AFFO <sup>(1)</sup>	<b>7,758</b>	5,868
Fair value adjustment to investment properties	<b>339</b>	807
Distributions per Unit	<b>0.201</b>	0.201
Net Income (Loss) per Unit – basic <sup>(2)</sup>	<b>(0.564)</b>	0.554
Net Income (Loss) per Unit – diluted <sup>(3)</sup>	<b>(0.561)</b>	0.552
FFO per Unit - basic <sup>(4)</sup>	<b>0.270</b>	0.255
FFO per Unit - diluted <sup>(5)</sup>	<b>0.269</b>	0.254
AFFO per Unit - basic <sup>(1)(4)</sup>	<b>0.245</b>	0.224
AFFO per Unit - diluted <sup>(1)(5)</sup>	<b>0.243</b>	0.224
Weighted average Units – basic <sup>(6)</sup>	<b>31,729,805</b>	26,149,253
Weighted average Units – diluted <sup>(7)</sup>	<b>31,898,661</b>	26,232,967
<b>Payout ratio (%)</b>		
FFO	<b>74.7%</b>	79.1%
AFFO	<b>82.7%</b>	89.7%

### Balance Sheet and Other Metrics

As at March 31,	<b>2019</b>	<b>2018</b>
Total assets	<b>\$800,014</b>	\$555,301
Total liabilities (excluding Class B Units)	<b>\$462,723</b>	\$273,630
Number of units outstanding (includes Class B LP Units)	<b>31,729,805</b>	26,149,253
Market capitalization (includes Class B LP Units)	<b>\$342,047</b>	\$263,846
Overall capitalization rate	<b>6.6%</b>	6.5%
Fixed weighted average effective interest rate on debt (excludes revolving credit facilities) <sup>(7)</sup>	<b>3.79%</b>	3.43%
Proportion of total debt at fixed interest rates through swaps and mortgages	<b>89%</b>	91%

Weighted average interest rate swap term remaining (years)	<b>6.4</b>	5.8
Weighted average term to maturity of debt (excludes revolving credit facilities)	<b>4.1</b>	3.3
Interest Coverage Ratio	<b>2.8X</b>	3.6X
Debt Service Coverage Ratio	<b>1.6X</b>	1.9X
Debt to GBV	<b>56.3%</b>	48.7%

- (1) Comparative has been adjusted to reflect the change in the definition of the calculation of AFFO (inclusion of capital expenditures reserve and the elimination of the addback of non-cash unit based compensation expenses).
- (2) Net Income (Loss) per Unit – basic is calculated in accordance with IFRS by dividing the Net Income (Loss) by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.
- (3) Net Income (Loss) per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income (Loss) by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs (as defined below) granted to certain Trustees and management.
- (4) FFO per Unit and AFFO per Unit – basic is calculated by dividing the total FFO and AFFO by the amount of the total weighted average number of outstanding REIT Units and Class B LP Units.
- (5) FFO per Unit and AFFO per Unit – diluted is calculated by dividing the total FFO and AFFO by the amount of the total weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs (as defined below) granted to certain Trustees and management.
- (6) The weighted average number of outstanding Units basic - includes the Class B LP Units.
- (7) The weighted average number of outstanding Units - diluted includes the Class B LP Units, DUs and IDUs.
- (8) The fixed weighted average effective interest rate on debt is calculated on an annualized basis.

## SECTION 5 – RESULTS OF OPERATIONS

### Net Income and Comprehensive Income

Three Months Ended March 31,	2019	2018	Variance
Base rent	<b>\$12,812</b>	\$8,990	\$3,822
Property tax recoveries	<b>2,113</b>	1,537	576
Straight line rent adjustment	<b>759</b>	779	(20)
<b>Rental Revenue</b>	<b>15,684</b>	11,306	4,378
Property tax expense	<b>(2,113)</b>	(1,537)	(576)
Land leases	-	(144)	144
Straight line land lease adjustment	-	(25)	25
<b>Property Costs</b>	<b>(2,113)</b>	(1,706)	(407)
<b>NOI</b>	<b>13,571</b>	9,600	3,971
<b>Other Income (Expenses)</b>			
General and administrative expenses	<b>(715)</b>	(628)	(87)
Interest expense and other financing charges	<b>(4,206)</b>	(2,305)	(1,901)
Fair value adjustment on interest rate swaps	<b>(6,689)</b>	814	(7,503)
Distribution expense on Class B LP Units	<b>(1,997)</b>	(1,997)	-
Fair value adjustment on Class B LP Units, Deferred Units and Income Deferred Units	<b>(18,185)</b>	8,201	(26,386)
Fair value adjustment on investment properties	<b>339</b>	807	(468)
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>	<b>\$(17,882)</b>	\$14,492	\$(32,374)

For Q1 2019, net loss was \$17,882 compared to net income of \$14,492 in Q1 2018. The decrease was primarily due to the fair value adjustments for Class B LP Units, interest rate swaps, and higher interest expense and other financing charges netted with the growth in NOI.

### Rental Revenue and Property Costs

Rental revenue is based on rents from leases entered into with tenants on closing of the applicable acquisitions, all of which are triple-net leases and, as such, include recoverable realty taxes and straight line adjustments.

For Q1 2019, rental revenue was \$15,684 compared to \$11,306 in Q1 2018, the increase of was primarily due to the properties acquired subsequent to Q1 2018 and contractual rent increases.

Property costs for Q1 2019 were \$407 higher than Q1 2018. The increase was primarily attributable to the properties acquired subsequent to Q1 2018.

## General and Administrative Expenses

The REIT's general and administrative expenses consisted of: (i) outsourced costs, (ii) public entity costs, and (iii) unit-based compensation expense, Deferred Units ("DUs") and Income Deferred Units ("IDUs"). The outsourced costs are largely related to the services provided by Dilawri pursuant to the Administration Agreement. The REIT will reimburse Dilawri for costs incurred in connection with the provision of such services so long as such costs are identified in the then current annual budget of the REIT or are otherwise approved by the REIT. The REIT expensed \$295 in respect of services provided by Dilawri in Q1 2019 (Q1 2018 – \$291).

The public entity costs reflect the expenses related to ongoing operations of the REIT, including professional fees for legal and audit services and depreciation expense for office lease ROU asset, which were \$48 higher than Q1 2018. Public entity costs will fluctuate from quarter to quarter depending on when such expenses are incurred.

The non-cash unit-based compensation expense relates to DUs and IDUs granted in accordance with the REIT's Equity Incentive Plan (the "Plan"). As at March 31, 2019, all independent Trustees of REIT's elected to receive board and committee fees in the form of DUs. The fair value of each DU granted is measured based on the volume-weighted average trading price of the REIT Units for the five trading days immediately preceding the grant date. For Q1 2019, the REIT incurred an expense of \$118 related to the granting of DUs, IDUs, and the vesting of long-term DUs.

For Q1 2019, the REIT accrued management short-term incentive awards of \$71, which are expected to be settled by the granting of DUs.

The table below illustrates the breakdown of general and administrative expenses incurred in Q1 2019 as compared to Q1 2018:

	<b>Q1 2019</b>	<b>Q1 2018</b>	<b>Variance</b>
Administration Agreement	\$ (295)	\$ (291)	\$ (4)
Public entity costs and other	(231)	(183)	(48)
Trustees, DUs and IDUs expense	(118)	(85)	(33)
Management short term compensation expense	(71)	(69)	(2)
General and administrative expenses	<b>\$ (715)</b>	<b>\$ (628)</b>	<b>\$ (87)</b>

## Interest Expense and Other Financing Charges

Interest expenses include amounts payable to lenders under the REIT's Credit Facilities and Mortgages (each as defined in Section 7 "Liquidity and Capital Resources" below), as well as amortization of upfront costs and costs to hedge the applicable Credit Facilities and Mortgages at fixed rates. For Q1 2019, the interest expense and other financing charges was \$4,206, an increase of \$1,901 from Q1 2018, primarily due to additional debt incurred to acquire properties subsequent to Q1 2018, due to a higher cost of borrowing, as a result of the extension of the maturities on the interest rate swaps. Also included in 2019 is \$96 of interest expense on lease liabilities due to the adoption of IFRS 16.

## Changes in Fair Values of Investment Properties

The REIT valued the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. Property under development is measured using both a comparable sales method and a discounted cash flow method, net of costs to complete. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which indicate no change in capitalization rates for the markets the REIT is in from December 31, 2018. For Q1 2019, the fair value adjustment in investment properties was \$339, compared to \$807 for Q1 2018. The fair value gain adjustment for Q1 2019 was due to NOI increases and the write off of straight line lease liability balance partially offset by the transactions costs related to the St. James VW and McNaught Cadillac Buick GMC property acquisitions and adjustment

of ROU assets (two land leases). The overall capitalization rate applicable to the entire portfolio remained at 6.6% (December 31, 2018 – 6.6%), which is equivalent to the REIT’s overall assessment as at March 31, 2019.

In accordance with the REIT’s valuation policy, an independent appraiser is engaged to prepare valuations on a portion of the portfolio annually, such that the entire portfolio is appraised at least once every three years. In addition, any investment property which represents greater than 15% of the overall portfolio value is appraised annually.

A 25 basis point decrease or increase in capitalization rates would result in an increase or decrease in the fair value of investment properties of approximately \$31,200 or (\$29,000), respectively.

## Changes in Fair Values of Class B LP Units, DUs, IDUs and Interest Rate Swaps

The Class B LP Units, DUs, IDUs and the interest rate hedges (see Section 7 “Liquidity and Capital Resources” in this MD&A) are required to be presented under relevant accounting standards at fair value on the balance sheet. The resulting changes in these items are recorded in net income and comprehensive income.

Under IFRS, the Class B LP Units, DUs and IDUs are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units, DUs and IDUs will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in the net income and comprehensive income. Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

The impact of the movement in the traded value of the REIT Units resulted in a decrease in the fair value adjustments for Class B LP Units, DUs and IDUs in Q1 2019 of \$18,185 in the aggregate (Q1 2018 - increase of \$8,201 in the aggregate).

The REIT entered into interest rate swaps to limit its exposure to fluctuations in the interest rates on variable rate financings for certain credit facilities. Gains or losses arising from the change in the fair value of the interest rate derivative contracts are recognized in the consolidated statements of income and comprehensive income.

The fair value adjustments for interest rate swaps for Q1 2019 was \$(6,689) (Q1 2018 - increase of \$814), the result of a decline in interest rates in the derivative market as at March 31, 2019.

## SECTION 6 – NON-IFRS FINANCIAL MEASURES

### Reconciliation of NOI, Cash NOI, FFO and AFFO to Net Income and Comprehensive Income

The REIT uses the following non-IFRS key performance indicators: NOI, Cash NOI, FFO, AFFO, FFO payout ratio and AFFO payout ratio. The REIT believes these non-IFRS measures and ratios provide useful supplemental information to both management and investors in measuring the financial performance and financial condition of the REIT. These measures and ratios do not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures and ratios presented by other publicly traded real estate investment trusts, and should not be construed as an alternative to other financial measures determined in accordance with IFRS (see “Non-IFRS Financial Measures” in this section of the MD&A). In Q1 2019 the REIT adopted a capital expenditure reserve of 0.5% of base rent in the AFFO calculation, which is used as a factor in evaluating the AFFO payout ratio. To date the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on the length of the lease terms, renewal retention rates, triple-net lease structure and management’s best estimate of cost that the REIT may incur, related to the sustaining/maintaining of the existing leased area. Comparatives have been adjusted to reflect the change in the definition of the calculation of AFFO (inclusion of a capital expenditures reserve and the elimination of the addback of non-cash unit based compensation expenses). The calculations of these measures and the reconciliation to net income and comprehensive income are set out in the following table:

Three months ended March 31, (\$000s, except per Unit amounts)	2019	2018	Variance
<b>Calculation of NOI</b>			
Property revenue	<b>\$15,684</b>	\$11,306	\$4,378
Property costs	<b>(2,113)</b>	(1,706)	(407)

<b>NOI (including straight-line adjustments)</b>	<b>\$13,571</b>	\$9,600	\$3,971
Adjustments:			
Land lease payments <sup>(1)</sup>	(159)	-	(159)
Straight-line adjustment (rent and land lease) <sup>(2)</sup>	(759)	(754)	(5)
<b>Cash NOI</b>	<b>12,653</b>	8,846	3,807
<b>Reconciliation of net income to FFO and AFFO</b>			
Net income (loss) and comprehensive income (loss)	<b>\$(17,882)</b>	\$14,492	\$(32,374)
Adjustments:			
Change in fair value – Interest rate swaps	<b>6,689</b>	(814)	7,503
Distributions on Class B LP Units	<b>1,997</b>	1,997	-
Change in fair value – Class B LP Units and Deferred Units	<b>18,185</b>	(8,201)	26,386
Change in fair value – investment properties	<b>(339)</b>	(807)	353
ROU asset net balance of depreciation/interest and lease payments <sup>(3)</sup>	<b>(69)</b>	-	46
<b>FFO</b>	<b>\$8,581</b>	\$6,667	\$1,914
Adjustments:			
Straight-line adjustment (rent and land leases) <sup>(2)</sup>	<b>\$(759)</b>	\$(754)	\$(5)
Capital expenditure reserve	<b>(64)</b>	(45)	(19)
<b>AFFO</b>	<b>\$7,758</b>	\$5,868	\$1,890
Number of Units outstanding (including Class B LP Units)	<b>31,729,805</b>	26,149,253	5,580,552
Weighted average Units Outstanding – basic	<b>31,729,805</b>	26,149,253	5,580,552
Weighted average Units Outstanding – diluted	<b>31,898,661</b>	26,232,967	5,664,694
<b>FFO per Unit - basic<sup>(4)</sup></b>	<b>\$0.270</b>	\$0.255	\$0.015
<b>FFO per Unit - diluted<sup>(5)</sup></b>	<b>\$0.269</b>	\$0.254	\$0.015
<b>AFFO per Unit - basic<sup>(4)</sup></b>	<b>\$0.245</b>	\$0.224	\$0.021
<b>AFFO per Unit - diluted<sup>(5)</sup></b>	<b>\$0.243</b>	\$0.224	\$0.019
<b>Distributions per Unit</b>	<b>\$0.201</b>	\$0.201	-
<b>FFO payout ratio</b>	<b>74.7%</b>	79.1%	(4.4%)
<b>AFFO payout ratio</b>	<b>82.7%</b>	89.7%	(7.0%)

(1) In Q1 2019 the REIT adopted IFRS 16, land lease payments applied to lease liability. For Q1 2018 land lease payments included in property costs.

(2) For Q1 2019 the REIT did not include straight line adjustment for land lease since the REIT reclassified land leases in accordance with IFRS 16 as ROU assets.

(3) In Q1 2019 the REIT adopted IFRS 16, resulting in the classification of one office lease as a ROU asset.

(4) The FFO and AFFO per Unit – basic is calculated by dividing the total FFO and AFFO by the amount of the total weighted-average number of outstanding REIT Units and Class B LP Units.

(5) The FFO and AFFO per Unit – diluted is calculated by dividing the total FFO and AFFO by the amount of the total weighted-average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted to certain independent Trustees and management.

## FFO, AFFO, Cash NOI and ACFO

In Q1 2019, FFO increased 28.7% to \$8,581, or \$0.269 per Unit, from \$6,667, or \$0.254 per Unit, in Q1 2018. The increase was primarily due to the properties acquired subsequent to Q1 2018.

AFFO was \$7,758 in Q1 2019 (Q1 2018 - \$5,868), or \$0.243 per Unit (Q1 2018 - \$0.224); and Cash NOI was \$12,653 on \$15,684 of revenue (compared to Cash NOI of \$8,846 on revenue of \$11,306 for Q1 2018). The increases were primarily due to the properties acquired subsequent to Q1 2018.

The REIT declared and paid distributions of \$6,378 for Q1 2019 (Q1 2018 - \$5,256), or \$0.201 per Unit, to Unitholders, which resulted in an AFFO payout ratio of 82.7% in Q1 2019 (Q1 2018 – 89.7%). The Q1 2019 payout ratio was lower primarily due to the properties acquired subsequent to Q1 2018.

ACFO in Q1 2019 increased to \$7,846 compared to \$5,864 in Q1 2018, which resulted in an ACFO payout ratio of 81.3% in Q1 2019 (Q1 2018 – 89.6%) which was lower due to the properties acquired subsequent to Q1 2018.

### Same Property Cash Net Operating Income

Three months ended March 31,	2019	2018	Variance - \$	Variance - %
Same property base rental revenue	<b>\$9,153</b>	\$ 8,990	\$ 164	1.8%
Land lease payments	<b>(159)</b>	(144)	(15)	(10.4%)
<b>Same Property Cash NOI</b>	<b>8,994</b>	8,846	<b>148</b>	<b>1.7%</b>

Same Property Cash NOI increased 1.7% to \$8,994 from \$8,846 in Q1 2018. This increase is primarily a result of contractual rent increases and a rent escalation of 10% which occurred in August 2018 on three investment properties in Edmonton, Alberta. The next rent escalations for these Edmonton, Alberta properties will be August 2023.

### Reconciliation of ACFO to Cash Flow from Operating Activities

The REIT calculates its ACFO in accordance with the Real Property Association of Canada's *White Paper on Adjusted Cash Flow from Operations (ACFO) for IFRS* issued in February 2019. The REIT believes that ACFO provides useful supplemental information to both management and investors in measuring the financial performance and financial condition of the REIT. ACFO does not have a standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled measures utilized by other publicly traded real estate investment trusts, and should not be considered as an alternative to other financial measures determined in accordance with IFRS (see "Non-IFRS Financial Measures" in this section of the MD&A). To date the REIT has not incurred capital expenditure costs. The capital expenditure reserve of 0.5% of base rent is based on the lease terms, renewal retention rates, triple-net lease structure and management's best estimate of cost on a per square foot basis related to sustaining/maintaining existing space that the REIT may incur. Comparatives have been adjusted to reflect the change in the definition of the calculation of ACFO (inclusion of a capital expenditures reserve and the elimination of the addback of non-cash unit based compensation expenses). The calculation of ACFO and the reconciliation to cash flow from operating activities is set out in the table below:

Three months ended March 31, (\$000s)	2019	2018	Variance
<b>Cash flow from operating activities</b>	<b>\$ 12,335</b>	\$ 8,383	\$ 3,952
Change in non-cash working capital	<b>(189)</b>	(149)	(40)
Interest paid	<b>(3,971)</b>	(2,211)	(1,760)
Amortization of financing fees	<b>(186)</b>	(89)	(97)
Amortization of other assets	<b>(30)</b>	(19)	(11)
Net interest expense and other financing charges in excess of interest paid	<b>(49)</b>	(6)	(43)
Capital expenditure reserve	<b>(64)</b>	(45)	(19)
<b>ACFO</b>	<b>\$ 7,846</b>	\$ 5,864	\$ 1,982
<b>ACFO payout ratio</b>	<b>81.3%</b>	89.6%	(8.2%)

The ACFO payout ratio was 81.3% in Q1 2019 (Q1 2018 – 89.6%). The decrease from Q1 2018 was due to the properties acquired subsequent to Q1 2018.

## SECTION 7 – LIQUIDITY AND CAPITAL RESOURCES

### Capital Structure

<i>Debt</i> <sup>(6)</sup>	Key Terms					Outstanding as at March 31, 2019	Outstanding as at December 31, 2018
	Term (yrs)	Hedged Term (yrs)	Interest Rate	Payments & Interest/Amortization	Effective Interest Rate (fixed)		
Facility 1	4.2 <sup>(1)</sup>	3.3 to 9.7	BA + 150 bps, Prime +25 bps	(1)	3.75%	\$226,300	\$210,347
Facility 2	3.3 <sup>(2)</sup>	3.3 to 8.8	BA + 150 bps, Prime +25 bps	(2)	3.55%	88,241	85,791
Facility 3	4.7 <sup>(3)</sup>	6.7 to 9.7	BA + 150 bps, Prime +50 bps	(3)	4.05%	99,913	95,000
Mortgages	0.2 to 8.3	n/a	Fixed 3.22% to 3.72 %	P&I, 20 yrs and 25yrs	3.51%	28,101	28,376
						<b>\$442,555</b>	<b>\$ 419,514</b>
Financing fees						<b>(2,625)</b>	<b>(2,642)</b>
<b>Weighted Average /Total</b>	<b>4.1</b>	<b>6.4</b>			<b>3.79%</b>	<b>\$ 439,929</b>	<b>\$ 416,872</b>
<b>Cash Balance</b>						<b>\$453</b>	<b>\$295</b>

<i>Key Financing Metrics and Debt Covenants</i> <sup>(4),(7)</sup>	Debt Covenant	Declaration of Trust <sup>(5)</sup>	As at March 31, 2019	As at December 31, 2018
Interest coverage	-	-	2.8	3.3
Debt to GBV	<60% <sup>(6)</sup>	<60% <sup>(6)</sup>	56.3%	54.7%
Unitholders' Equity (including Class B LP Units, DUs and IDUs)	>\$120,000	-	\$339,031	\$342,647
Debt Service Coverage	>1.35	-	1.6	1.9
AFFO payout ratio <sup>(8)</sup>	<100%	-	82.7%	95.6%

(1) Facility 1 and the associated revolving facility matures in June 2023.

(2) Facility 2 and the associated revolving facility matures in June 2022.

(3) Facility 3 and the associated revolving facility matures in December 2023.

(4) The calculations of these ratios, which are non-IFRS measures, are set out under "Financing Metrics and Debt Covenants" below.

(5) The Declaration of Trust contains other operating covenants that do not relate to leverage or debt service/coverage. The Declaration of Trust is available on [www.sedar.com](http://www.sedar.com) and is described in the AIF. Management believes that the REIT is in compliance with these operating covenants.

(6) Including convertible debentures, the maximum ratio is 65%.

(7) The debt agreements for Facility 1, Facility 2 and Facility 3 have other covenants that do not directly relate to the REIT's consolidated financial position. Management believes that the REIT is in compliance with all such covenants and with the debt agreement covenants for Facility 1, Facility 2, Facility 3 and the Mortgages.

(8) Comparative has been adjusted to reflect the change in the definition of the calculation of AFFO (inclusion of capital expenditures reserve and the elimination of the addback of non-cash unit based compensation expenses).

In order to maintain or adjust its capital structure, the REIT may increase or decrease the amount of distributions paid to Unitholders, issue new REIT Units and debt, or repay debt. Factors affecting such decisions include:

- complying with the guidelines set out in the REIT's Declaration of Trust;
- complying with debt covenants;

- ensuring sufficient liquidity is available to support the REIT's financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future development; and
- minimizing the REIT's cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

Principal repayments are as follows:

Remainder of 2019 .....	\$26,399
2020 .....	19,020
2021 .....	24,641
2022 .....	95,138
2023 .....	118,459
Thereafter .....	<u>158,898</u>
Total .....	<u>\$442,555</u>

Management believes that the REIT's liquidity position as at March 31, 2019, which includes approximately \$27,562 of undrawn and uncommitted revolving credit facilities and cash on hand of \$453, is sufficient to carry out its obligations, discharge liabilities as they come due and fund distributions to Unitholders. The mortgage of \$12,172 which expires on May 2019 has been extended to September 2019. As at March 31, 2019, the Tesla KW and the Brimell Toyota properties are unencumbered and able to be used as security for future financing requirements.

Capital requirements in the next two years are low and capital expenditure requirements are expected to be insignificant. Capital required for investing activities will be addressed through additional borrowings or issuances of equity as acquisition and development opportunities arise.

## Debt Financing

The REIT's overall borrowing policy is to obtain secured credit facilities, principally on a fixed rate or effectively fixed rate basis, which will allow the REIT to (i) achieve and maintain staggered maturities to lessen exposure to re-financing risk in any particular period; (ii) achieve and maintain fixed rates to lessen exposure to interest rate fluctuations; and (iii) extend loan terms and fixed rate periods as long as possible when borrowing conditions are favourable. Subject to market conditions and the growth of the REIT, management currently intends to target Indebtedness of approximately 55%-60% of GBV. As at March 31, 2019, the REIT's Debt to GBV ratio was 56.3% (March 31, 2018 – 48.7%). The increase is due to the acquisition subsequent to Q1 2018. Management expects that the ratio of Debt to GBV may increase, at least temporarily, following an acquisition by the REIT of one or more additional properties. Interest rates and loan maturities will be reviewed on a regular basis to ensure appropriate debt management strategies are implemented.

Pursuant to the Declaration of Trust, the REIT may not incur or assume any Indebtedness, if after giving effect to the incurring or assumption of such Indebtedness, the total Indebtedness of the REIT to be 60% of GBV, to a maximum ratio of 65% of GBV including convertible debentures.

## ***Secured Credit Facilities, Mortgages and Interest Rate Swap Arrangements***

All the Credit Facilities and mortgages are with Canadian Schedule 1 banks and are secured by all but two of the REIT's investment properties. In March 2019, the REIT increased the amount available to be drawn under the non-revolving portion of Facility 1 by \$19,800.

As at March 31, 2019 the REIT had total revolving credit facilities of \$75,000, of which \$27,562 was undrawn (\$3,662 in Facility 1, \$nil in Facility 2, and \$23,900 in Facility 3).

## **Financing Fees**

During Q1 2019, the REIT incurred financing fees of \$169 (December 31, 2018 - \$2,117). The amounts are accounted for using the effective interest method, \$2,625 remains unamortized as at March 31, 2019 (December 31, 2018 - \$2,642).

## **Interest Rate Swaps**

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on its variable rate financings under Facility 1, Facility 2 and Facility 3. Gains or losses arising from changes in the fair value of the interest rate derivative contracts are recognized in the consolidated statements of income and comprehensive income.

The following table sets out the combined borrowings under Facility 1, Facility 2 and Facility 3 and the remaining expected term to maturity of the related interest rate swaps as at March 31, 2019.

<b>Remaining Term (yrs)</b>	<b>Amount (\$000s)</b>	<b>Total Swapped Fixed Rate Debt (%)</b>
3.8	90,480	26.0
5.9	91,984	26.4
6.8	79,257	22.8
9.3	86,373	24.8
<b>6.4</b>	<b>348,094</b>	<b>100.0</b>

As at March 31, 2019, the notional principal amount of the interest rate swaps was \$348,000 (December 31, 2018 – approximately \$352,000) and the fair value adjustment of the interest rate swaps was \$(6,689) (December 31, 2018 - \$(3,669)) resulting in a liability balance of \$7,803 (December 31, 2018 - \$1,114).

The weighted average fixed rate of interest on the REIT's debt was 3.79% as at March 31, 2019 (March 31, 2018 - 3.43%). The weighted average term to maturity on the interest rate swaps as at March 31, 2019 was 6.4 years (March 31, 2018 - 5.8 years).

## **Unitholders' Equity (including Class B LP Units)**

Unitholders' equity consists of two classes of Units described below:

### **REIT Units**

The REIT is authorized to issue an unlimited number of REIT Units.

Each REIT Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT. All REIT Units rank equally among themselves without discrimination, preference or priority and entitle the holder thereof to receive notice of, to attend and to one vote at all meetings of holders of REIT Units and holders of Special Voting Units (as defined below) or in respect of any written resolution thereof.

Holders of REIT Units are entitled to receive distributions from the REIT if, as and when declared by the Board of Trustees (the "Board"). Upon the termination or winding-up of the REIT, holders of REIT Units will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine. REIT Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any REIT Units, except for Dilawri as set out in the Exchange Agreement entered into on closing of the IPO between the REIT and certain members of the Dilawri Group, pursuant to which such members of the Dilawri Group have been granted, among other things, certain rights to participate in future offerings of the REIT.

As at March 31, 2019, the total number of the REIT Units outstanding was 21,796,552.

## ***Class B LP Units***

In conjunction with the IPO, and as partial consideration for the Initial Properties, the REIT, through the Partnership, issued Class B LP Units to certain members of the Dilawri Group. The Class B LP Units are economically equivalent to REIT Units, and are exchangeable at the option of the holder for REIT Units on a one-for-one basis (subject to certain anti-dilution adjustments), are accompanied by a special voting unit (a "Special Voting Unit") (which provides the holder with that number of votes at any meeting of holders of REIT Units to which a holder of the number of REIT Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled), and will receive distributions of cash from the Partnership equal to the distributions to which a holder of the number of REIT Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled. Under IFRS, the Class B LP Units are classified as financial liabilities and measured at fair value through profit and loss (FVTPL). The fair value of the Class B LP Units will be measured every period by reference to the traded value of the REIT Units, with changes in measurement recorded in net income and comprehensive income. Distributions on the Class B LP Units will be recorded in interest expense and other financing charges in the period in which they become payable.

As at March 31, 2019, the total number of Class B LP Units outstanding was 9,933,253.

## ***Deferred Units***

The REIT offers an Equity Incentive Plan. Under the Plan, DUs may be granted to Trustees, officers and employees of the REIT on a discretionary basis by the Governance, Compensation and Nominating Committee of the Board. The maximum number of REIT Units available for issuance under the Plan is 500,000. Each DU is economically equivalent to one REIT Unit, however, under no circumstances shall DUs be considered REIT Units nor entitle a participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU shall receive a distribution of additional IDUs equal to the amount of distributions paid per REIT Unit by the REIT on its REIT Units. Upon vesting of the DUs and IDUs, a participant may elect, prior to the expiry of such DU or IDU, to exchange such vested DUs and IDUs (subject to satisfaction of any applicable withholding taxes) whereby the REIT will issue to the participant an equal number of REIT Units in exchange for the DUs and IDUs. The holder of such DUs and IDUs cannot settle such DUs and IDUs for cash.

A total of 72,094 DUs and IDUs were granted in Q1 2019, of which 32,912 will be accounted for in accordance with their vesting schedule. As at March 31, 2019, the total number of DUs and IDUs granted was 237,712, of which 162,348 were accounted as outstanding and vested.

## ***Distributions***

Holders of REIT Units are entitled to receive distributions from the REIT (whether of net income, net realized capital gains or other amounts) if, as and when declared by the Board. Upon the termination or winding-up of the REIT, holders of REIT Units will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine. REIT Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any REIT Units, except for Dilawri as set out in the Exchange Agreement, or as otherwise agreed to by the REIT pursuant to a binding written agreement.

In determining the amount of the monthly cash distributions paid to holders of REIT Units, the Board applies discretionary judgment to forward-looking cash flow information, which includes forecasts, budgets and many other factors including provisions in the Declaration of Trust, the macro-economic and industry-specific environment, debt maturities and covenants and taxable income.

The Board regularly reviews the REIT's rate of distributions to ensure an appropriate level of cash distributions.

Net income prepared in accordance with IFRS recognizes certain revenues and expenses at time intervals that do not match the receipt or payment of cash. Therefore, in applying judgment, consideration is given to AFFO (which is the product of the earnings performance) and other factors when establishing cash distributions to holders of REIT Units.

## Financing Metrics and Debt Covenants

The calculations of financial metrics and debt covenants are set out in the table below:

<i>Calculations of financial metrics and debt covenants</i>		<b>As at March 31, 2019</b>	<b>As at December 31, 2018</b>
<b>Net Asset Value</b>			
Investment properties, IFRS value		\$797,217	\$763,998
Cash, prepaid and other assets		2,797	2,241
Accounts payable and accrued liabilities		(13,251)	(5,606)
Credit Facilities, Mortgages and interest rate swaps		<u>(447,732)</u>	<u>(417,986)</u>
<b>Total Net Asset Value</b>		<b>\$339,031</b>	<b>\$342,647</b>
REIT Units and Class B LP Units outstanding		31,729,805	31,729,805
<b>Debt to GBV</b>			
<i>Indebtedness outstanding :</i>			
Credit Facilities and Mortgages (excludes deferred financing costs)	<b>A</b>	\$442,555	\$419,514
Lease Liability	<b>A1</b>	7,613	-
<i>Gross Book Value</i>			
Total assets	<b>B</b>	800,014	766,239
<b>Debt to GBV <sup>(1)</sup></b>	<b><math>\frac{(A+A1)}{B} \times 100</math></b>	<b>56.3%</b>	<b>54.7%</b>
<b>Unitholders' Equity &amp; Class B LP Units &amp; DUs &amp; IDUs</b>			
Unitholders' Equity		\$230,211	\$252,474
Value of DUs & IDUs		1,740	1,072
Value of Class B LP Units		<u>107,080</u>	<u>89,101</u>
<b>Total Unitholders' Equity &amp; Class B LP Units &amp; DUs &amp; IDUs</b>		<b>339,031</b>	<b>342,647</b>
<b>Calculations of financial metrics and debt covenants</b>			
<b>Interest coverage</b>			
Cash NOI		\$12,653	\$8,846
General and administrative expenses		<u>(715)</u>	<u>(628)</u>
Income before interest expense and fair value adjustments	<b>C</b>	11,938	8,218
Interest expense and other financing charges	<b>D</b>	4,206	2,305
<b>Interest Coverage Ratio <sup>(2)</sup></b>	<b>C/D</b>	<b>2.8X</b>	<b>3.6X</b>
<b>Debt Service Coverage</b>			
Consolidated net income (loss)		\$(17,882)	\$14,492
Interest expense and other financing charges		4,206	2,305
Distribution expense on Class B LP Units		1,997	1,997

Amortization of other assets		30	19
Fair value adjustments, net		<u>24,535</u>	<u>(9,822)</u>
EBITDA	<b>E</b>	12,886	8,991
Principal payments on debt		\$4,060	\$2,584
Interest payments on debt		<u>3,971</u>	<u>2,211</u>
Debt Service	<b>F</b>	8,031	4,795
Debt Service Ratio <sup>(3)</sup>	<b>E/F</b>	<b>1.6X</b>	<b>1.9X</b>
<hr/>			
<b><i>AFFO payout ratio</i></b>			
<hr/>			
AFFO		<u>\$7,758</u>	<u>\$5,868</u>
Distributions on REIT Units		4,381	3,259
Distributions on Class B LP Units		<u>1,997</u>	<u>1,997</u>
		6,378	5,256
<b>AFFO payout ratio <sup>(4)</sup></b>		<b>82.7%</b>	<b>89.7%</b>

- (1) The Debt to GBV ratio as at March 31, 2019 increased as compared to December 31, 2018, primarily due to the increased borrowings required to fund the Q1 2019 acquisitions.
- (2) The Interest Coverage Ratio for Q1 2019 decreased compared to the same period in the previous year due to the increase in interest expense and other financing charges.
- (3) The Debt Service Ratio for Q1 2019 decreased compared to the same period in the previous year, mainly due to the increase in interest payments.
- (4) The AFFO payout ratio is calculated as distributions per REIT Unit divided by the AFFO per Unit - diluted.

## SECTION 8 – RELATED PARTY TRANSACTIONS

The REIT's largest Unitholder and lead tenant is the Dilawri Group, which as at March 31, 2019 held an approximate 32.8% effective interest in the REIT on a fully diluted basis, through its ownership of all of the issued and outstanding Class B LP Units and 480,552 REIT Units.

In the normal course of its operations, the REIT enters into various transactions with related parties and the REIT's policy is to conduct all transactions and settle all balances with related parties on market terms and conditions and in accordance with the Related Party Transaction Policy adopted by the Board and the Declaration of Trust.

In consideration of the applicable Dilawri Tenants leasing the entirety of two of the Initial Properties with third party tenants (and thereby bearing occupancy, rental and other risks associated with the portions of those properties to be subleased to third party tenants for the initial lease terms of 12 and 15 years for those properties), the REIT paid to such Dilawri Tenants an indemnity fee in the aggregate amount of \$1,000 at the time of closing of the IPO (amortizable over the term of the leases).

In addition, on October 24, 2017, Dilawri paid the REIT \$896 in respect of the recoverable land transfer tax associated with the acquisition of the Initial Properties. The REIT subsequently issued letter of credits to the land transfer tax authority in the amount of approximately \$753 to defer the land transfer tax, on behalf of specific members of the Dilawri Group that

sold certain of the Initial Properties to the REIT in connection with the IPO. The Dilawri Group held all of the 9,933,253 issued and outstanding Class B LP Units for 3 years subsequent to the IPO, so the LCs are expected to be released. The REIT is working with the applicable tax authorities and Dilawri to secure the release of the LCs.

For additional information on related party agreements and arrangements with Dilawri, please refer to the REIT's Annual Information Form, which can be found on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the REIT's website [www.automotiveproperties.ca](http://www.automotiveproperties.ca).

## **Administration Agreement**

Pursuant to the Administration Agreement, Dilawri has agreed to provide, or cause to be provided, if and as requested by the REIT and, in each case, subject to the overriding supervision and direction of the Trustees, the REIT with:

- i. the REIT's President and Chief Executive Officer, Chief Financial Officer and Corporate Secretary, as approved by the REIT;
- ii. certain administrative and other support services, including assisting the President and Chief Executive Officer and the Chief Financial Officer and Corporate Secretary with the standard functions of a public company, including financial reporting, investor relations, quarterly conference calls, ongoing disclosure obligations, Unitholder correspondence, annual and special meetings of the Unitholders, compliance with the Declaration of Trust and providing office space for the REIT; and
- iii. such other services as may from time to time be agreed in writing by the REIT and Dilawri for which Dilawri will be compensated on terms to be agreed prior to the provision of such services.

Subject to certain exceptions, Dilawri provided these services to the REIT on a cost-recovery basis, reflecting Dilawri's actual costs in providing such services. The REIT will reimburse Dilawri for costs incurred in connection with the provision of the above services so long as such costs are identified in the then current annual budget of the REIT or are otherwise approved by the REIT.

The term of the Administration Agreement is for five years commencing on closing of the IPO and will be automatically renewed for further one-year terms. The REIT's independent Trustees may terminate the Administration Agreement in part in respect of one or more particular services, in each case, upon 90 days' prior written notice, without payment of any termination fees. As part of any termination of the Administration Agreement, the REIT will be permitted to solicit employees of the Dilawri Group who provide services to the REIT under the Administration Agreement.

General and administrative expenses include \$295 for Q1 2019 (Q1 2018 - \$291) paid by the REIT to Dilawri pursuant to the Administration Agreement.

## **Strategic Alliance Agreement**

In connection with the IPO, the REIT and Dilawri entered into the Strategic Alliance Agreement which establishes a preferential and mutually beneficial business and operating relationship between the REIT and the Dilawri Group. The Strategic Alliance agreement will be in effect so long as the Dilawri Organization and the applicable transferors of the Initial Properties own, control or direct, in the aggregate, an effective interest of at least 10% (on a fully-diluted basis) in the REIT. Among other things, the Strategic Alliance Agreement provides the REIT with the first right to purchase REIT-Suitable Properties (as defined in the Strategic Alliance Agreement) in Canada or the United States acquired or developed by the Dilawri Group. The purchase price in respect of a REIT-Suitable Property will be mutually agreed by the REIT and Dilawri at the applicable time.

## **SECTION 9 – OUTLOOK**

The Canadian automotive retail industry is a large and stable business with a track record of long-term growth. According to Statistics Canada, overall automotive retail industry sales totaled a record \$162 billion in 2018 (up 4% from \$156 billion in 2017), representing approximately 27% of Canada's overall retail sales of products and merchandise. Over the last 20 years, Canadian automobile retail sales grew at a compound annual rate of 4.7%.

For calendar year 2017, sales of new automobiles were up 4.7% to a record 2,076,970 units, compared to 1,983,745 units for 2016, which was itself a record year for new automobile sales in Canada (Source: Statistics Canada). For calendar year 2018, this steady growth slowed, with sales of new automobiles declining 2.0% to 2,035,732 units, compared to 2,076,970 units for 2017 (Source: Statistics Canada). Management believes, based on industry analysts' projections, that there will be a modest decline in new vehicle sales for 2019. Diversification of brand and geography remain important as some brands continue to gain market share while certain brands are experiencing sales deterioration. Acquisitions will be made on a selective basis funded through debt financing and timely equity offerings. The overall Canadian automotive retail fundamentals support the ability of the automobile dealership tenants within the REIT's portfolio to meet their current lease obligations and the annual rent escalators in place.

As the only publicly traded Canadian real estate entity focused on owning automotive dealership properties, the REIT provides a unique opportunity for automotive dealership owners to monetize the real estate underlying their dealerships while retaining ownership and control of their core automotive dealership businesses. This provides dealership owners with liquidity to advance their individual strategic objectives, whether it be succession planning, directly investing in upgrading their dealerships, or facilitating acquisitions in this period of industry consolidation. The Canadian automotive dealership industry is highly fragmented, and the REIT expects consolidation will continue due to increased industry sophistication and growing capital requirements for owner operators, which encourages them to pursue increased economies of scale.

The REIT is well positioned to acquire additional properties on an accretive basis given management's transaction experience, increasing awareness of the REIT in the automotive dealership community and the REIT's ability to access the capital markets for funding.

**SECTION 10 – OTHER DISCLOSURES**

**Commitments and Contingencies**

In conjunction with the IPO, the REIT and Dilawri entered into the Administration Agreement which covers various operational and administrative services to be provided to the REIT by Dilawri on a cost-recovery basis. The Administration Agreement has a term of 5 years from the closing of the IPO and will be automatically renewed for successive one year terms, subject to certain termination rights set out in the agreement.

The REIT, as lessee, is committed under long term land and other leases that are classified as a liability to make lease payments with minimum annual rental commitments as follows:

Within 1 year.....	\$803
After 1 year, but not more than 5 years.....	3,074
More than 5 years.....	<u>7,546</u>
Total.....	<u>\$11,423</u>

**Disclosure Controls and Internal Controls over Financial Reporting**

The REIT's certifying officers have designed a system of disclosure controls and procedures ("DC&P") to provide reasonable assurance that (i) material information relating to the REIT, including its consolidated subsidiaries, is made known to them by others; and (ii) information required to be disclosed by the REIT in its annual filings, interim filings and other reports filed or submitted by the REIT under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation. Also, the REIT's certifying officers have designed a system of internal controls over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with IFRS.

There have been no changes to the REIT's ICFR during Q1 2019 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

Management does recognize that any controls and procedures no matter how well designed and operated, can only provide reasonable assurance and not absolute assurance of achieving the desired control objectives. In the unforeseen event that lapses in the disclosure or internal controls and procedures occur and/or mistakes happen, the REIT intends to take whatever steps are necessary to minimize the consequences thereof.

Consistent with National Instrument 52-109—Certification of Disclosure in Issuers' Annual and Interim Filings, the REIT has filed certificates on Form 52-109F2.

## SECTION 11 – QUARTERLY RESULTS OF OPERATIONS

The following is a summary of selected consolidated financial information for each of the eight most recently completed quarters:

### Selected Quarterly Information

(\$ thousands except where otherwise indicated)	First Quarter 2019	Fourth Quarter 2018	Third Quarter 2018	Second Quarter 2018	First Quarter 2018	Fourth Quarter 2017	Third Quarter 2017	Second Quarter 2017
Number of Properties	57	54	42	40	39	39	35	35
GLA (sq. ft.)	2,139,512	2,024,877	1,665,460	1,467,568	1,425,212	1,425,212	1,366,367	1,366,367
Rental revenue	15,684	13,741	11,834	11,373	11,306	10,856	10,599	10,467
Net Operating Income	13,571	11,493	9,993	9,659	9,600	9,188	9,017	8,988
Net Income (Loss)	(17,882)	13,666	5,675	5,317	14,492	6,594	12,729	5,793
Net Income (Loss) per unit – basic <sup>(i)</sup>	(0.564)	0.442	0.213	0.203	0.554	0.252	0.487	0.222
Net Income (Loss) per unit – diluted <sup>(ii)</sup>	(0.561)	0.440	0.212	0.202	0.552	0.251	0.485	0.221
FFO per unit – basic <sup>(iii)</sup>	0.270	0.235	0.250	0.253	0.255	0.238	0.245	0.250
FFO per unit – diluted <sup>(iv)</sup>	0.269	0.234	0.249	0.252	0.254	0.237	0.244	0.249
AFFO per unit – basic <sup>(iii), (v)</sup>	0.245	0.211	0.222	0.223	0.224	0.209	0.216	0.218
AFFO per unit – diluted <sup>(iv), (v)</sup>	0.243	0.210	0.220	0.222	0.224	0.209	0.215	0.217
AFFO payout ratio <sup>(v)</sup>	82.7%	95.7%	91.4%	90.5%	89.7%	96.2%	93.5%	92.6%
Distribution declared per unit	0.201	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Weighted average Units – basic	31,729,805	30,898,283	26,629,805	26,212,622	26,149,253	26,149,053	26,149,053	26,149,053
Weighted average Units – diluted	31,898,661	31,057,609	26,780,847	26,355,338	26,232,967	26,226,225	26,220,165	26,215,815
Total assets	800,014	766,239	641,630	580,865	555,301	547,606	514,618	507,814
Debt to GBV	56.3%	54.7%	53.1%	49.1%	48.7%	48.5%	45.8%	46.5%
Debt service coverage	1.6x	1.8X	1.8X	2.5X	1.9x	1.9x	2.1x	2.1x

(i) Net Income (Loss) per Unit – basic is calculated in accordance with IFRS by dividing the Net Income (Loss) by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.

(ii) Net Income (Loss) per Unit – diluted is calculated in accordance with IFRS by dividing the Net Income (Loss) by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted as at March 31, 2019, to certain Trustees and management.

(iii) The FFO and AFFO per Unit-basic is calculated by using the weighted-average number of outstanding REIT Units and Class B LP Units. The FFO and AFFO per Unit basic comparable numbers were adjusted in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019.

(iv) The FFO and AFFO per Unit-diluted is calculated by using the weighted-average number of outstanding REIT Units, Class B LP Units, DUs and IDUs granted as at March 31, 2019. The FFO and AFFO per Unit diluted comparable numbers were adjusted in accordance with the Real Property Association of Canada's White Paper on Funds from Operations & Adjusted Funds from Operations for IFRS issued in February 2019.

(v) Comparatives have been adjusted to reflect the change in the definition of the calculation of AFFO (being the inclusion of capital expenditures reserve and the elimination of the addback of non-cash unit based compensation expenses).

The increase in rental revenue and NOI is primarily attributable to the thirty-one property acquisitions completed since the REIT's IPO. The net income (loss) is impacted by the fluctuations in fair value adjustments of Class B LP Units, investment properties and interest rate swaps.

## **SECTION 12 – RISKS & UNCERTAINTIES, CRITICAL JUDGMENTS & ESTIMATES**

The risks inherent in the REIT's business are identified in the REIT's Management's Discussion and Analysis for the year ended December 31, 2018 (the "Annual MD&A") and in its current Annual Information Form, all of which remain unchanged at the date of this MD&A and are available at [www.sedar.com](http://www.sedar.com).



**Automotive Properties Real Estate Investment Trust**  
**Condensed Consolidated Interim Financial Statements**  
For the period ended March 31, 2019

**Automotive Properties REIT**  
**Condensed Consolidated Interim Balance Sheets (Unaudited)**

<i>(in thousands of Canadian dollars)</i>	Note	As at March 31, 2019	As at December 31, 2018
<b>ASSETS</b>			
Cash and cash equivalents		\$453	\$295
Prepaid expenses and other assets	5	2,344	1,946
Investment properties	4	797,217	763,998
<b>Total assets</b>		<b>\$800,014</b>	<b>\$766,239</b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	7	\$13,251	\$5,606
Credit facilities and mortgages payable	6	439,929	416,872
Interest rate swaps	6	7,803	1,114
Deferred Units and Income Deferred Units	10	1,740	1,072
Class B LP Units	9	107,080	89,101
<b>Total liabilities</b>		<b>569,803</b>	<b>513,765</b>
<b>Unitholders' equity</b>		<b>230,211</b>	<b>252,474</b>
<b>Total liabilities and unitholders' equity</b>		<b>\$800,014</b>	<b>\$766,239</b>

See accompanying notes to the condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees

*"Louis Forbes"*

**Louis Forbes**  
Trustee, Audit Committee Chair

*"John Morrison"*

**John Morrison**  
Trustee, Lead Independent

**Automotive Properties REIT**  
**Condensed Consolidated Interim Statements of Income (Loss) and**  
**Comprehensive Income (Loss) (Unaudited)**

For the three months ended March 31, <i>(in thousands of Canadian dollars)</i>	Note	2019	2018
<b>Net Property Income</b>			
Rental revenue from investment properties	11	<b>\$15,684</b>	\$11,306
Property costs	11	<b>(2,113)</b>	(1,706)
Net Operating Income		<b>13,571</b>	9,600
<b>Other Income (Expenses)</b>			
General and administrative expenses		<b>(715)</b>	(628)
Interest expense and other financing charges		<b>(4,206)</b>	(2,305)
Fair value adjustment on interest rate swaps	6	<b>(6,689)</b>	814
Distribution expense on Class B LP Units	8	<b>(1,997)</b>	(1,997)
Fair value adjustment on Class B LP Units and Deferred Units	9, 10	<b>(18,185)</b>	8,201
Fair value adjustment on investment properties	4	<b>339</b>	807
<b>Net Income (Loss) and Comprehensive Income (Loss)</b>		<b>\$(17,882)</b>	\$14,492

*See accompanying notes to the condensed consolidated interim financial statements.*

# Automotive Properties REIT

## Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (Unaudited)

For the three months ended March 31, 2019  
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income (Loss)	Cumulative Distributions to Unitholders	Total
<b>Unitholders' Equity at December 31, 2018</b>		<b>\$212,334</b>	<b>\$77,637</b>	<b>\$(37,497)</b>	<b>\$252,474</b>
Issuance of Units	9	—	—	—	—
Net loss		—	(17,882)	—	(17,882)
Distributions	8	—	—	(4,381)	(4,381)
<b>Unitholders' Equity at March 31, 2019</b>		<b>\$212,334</b>	<b>\$59,755</b>	<b>\$(41,878)</b>	<b>\$230,211</b>

For the three months ended March 31, 2018  
(in thousands of Canadian dollars)

	Note	Trust Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
<b>Unitholders' Equity at December 31, 2017</b>		<b>\$154,933</b>	<b>\$38,487</b>	<b>\$(23,209)</b>	<b>\$170,211</b>
Issuance of Units	9	—	—	—	—
Net Income		—	14,492	—	14,492
Distributions	8	—	—	(3,259)	(3,259)
<b>Unitholders' Equity at March 31, 2018</b>		<b>\$154,933</b>	<b>\$52,979</b>	<b>\$(26,468)</b>	<b>\$181,444</b>

See accompanying notes to the condensed consolidated interim financial statements.

# Automotive Properties REIT

## Condensed Consolidated Interim Statements of Cash Flow (Unaudited)

For the three months ended March 31,  
(in thousands of Canadian dollars)

	Note	2019	2018
<b>OPERATING ACTIVITIES</b>			
Net income (loss)		\$(17,882)	\$14,492
Straight-line rent		(759)	(754)
Non-cash compensation expense		190	154
Fair value adjustment on interest rate swaps		6,689	(815)
Distributions expense on Class B LP Units		1,997	1,997
Fair value adjustment on Class B LP Units and Deferred Units		18,185	(8,201)
Fair value adjustment on investment properties		(339)	(807)
Interest expense and other financing charges		4,020	2,216
Amortization of financing fees		186	89
Amortization of other assets		30	19
Change in non-cash operating accounts	17	18	(7)
<b>Cash Flow from operating activities</b>		<b>12,335</b>	<b>8,383</b>
<b>INVESTING ACTIVITIES</b>			
Acquisitions of investment properties		(24,458)	(500)
Development activities		(151)	(5,578)
<b>Cash Flow used in investing activities</b>		<b>(24,609)</b>	<b>(6,078)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from Credit Facilities		27,100	7,700
Principal repayment on Credit Facilities		(4,060)	(2,584)
Interest paid		(3,971)	(2,211)
Financing fees paid		(82)	(20)
Repayment on lease liability		(176)	-
Distributions to holders of Units and holders of Class B LP Units		(6,379)	(5,256)
<b>Cash Flow from (used in) financing activities</b>		<b>12,432</b>	<b>(2,371)</b>
Net increase (decrease) in cash and cash equivalents during the period		158	(66)
Cash and cash equivalents, beginning of period		295	227
<b>Cash and cash equivalents, end of period</b>		<b>\$453</b>	<b>\$161</b>

See accompanying notes to the condensed consolidated interim financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements (Unaudited)

For the three months ended March 31, 2019 and 2018  
(in thousands of Canadian dollars, except Unit and per Unit amounts)

## 1. NATURE OF OPERATIONS

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Automotive Properties Real Estate Investment Trust (the “REIT”) is an unincorporated, open-ended real estate investment trust existing pursuant to a declaration of trust dated June 1, 2015, as amended and restated on July 22, 2015 (the “Declaration of Trust”) under, and governed by, the laws of the Province of Ontario. The REIT was formed primarily to own income-producing automotive dealership properties located in Canada. The principal, registered and head office of the REIT is located at 133 King Street East, Suite 300, Toronto, Ontario M5C 1G6. The REIT’s trust units (“Units”) are listed on the Toronto Stock Exchange and are traded under the symbol “APR.UN”.

893353 Alberta Inc. (“Dilawri”) is a privately held corporation, which, together with certain of its affiliates, held an approximate 32.8% effective interest in the REIT as at March 31, 2019, through the ownership, direction or control of all of the Class B limited partnership units (“Class B LP Units”) of Automotive Properties Limited Partnership, the REIT’s operating subsidiary (the “Partnership”), and 480,552 Units. The Class B LP Units are economically equivalent to, and exchangeable for, Units. Dilawri and its affiliates, other than its shareholders and controlling persons, are referred to herein as the “Dilawri Group”.

The REIT commenced operations on July 22, 2015 following completion of an initial public offering of Units (the “IPO”). In connection with the completion of the IPO, the REIT indirectly acquired a portfolio of 26 commercial properties from certain members of the Dilawri Group (the “Initial Properties”) and leased the Initial Properties to the applicable member of the Dilawri Group (collectively, and including members of the Dilawri Group that became tenants at a REIT property after the IPO, the “Dilawri Tenants”).

As at March 31, 2019, the REIT owned a portfolio of 57 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.1 million square feet of gross leasable area. The Dilawri Tenants are the REIT’s major tenant, occupying 34 of the REIT’s 57 income-producing commercial properties.

The subsidiaries of the REIT included in the REIT’s consolidated financial statements include the Partnership and Automotive Properties REIT GP Inc.

## 2. SIGNIFICANT ACCOUNTING POLICIES

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### (a) Statement of Compliance

The unaudited condensed consolidated interim financial statements of the REIT are prepared in accordance with International Accounting Standard (“IAS”) 34 — *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). These unaudited condensed consolidated interim financial statements should be read in conjunction with the REIT’s audited annual consolidated financial statements as at and for the year ended December 31, 2018 and the accompanying notes thereto. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

These condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Trustees of the REIT (the “Board”) on May 14, 2019.

### (b) Basis of Presentation

The condensed consolidated interim financial statements of the REIT have been prepared using the historical cost basis except for the following items that were measured at fair value:

- investment properties as described in note 4;
- interest rate swaps as described in note 6;
- Class B LP Units which are exchangeable for Units at the option of the holder as described in note 9; and
- Deferred Units (“DUs”) and Income Deferred Units (“IDUs”) which are exchangeable for Units in accordance with their terms as described in note 10.

The condensed consolidated interim financial statements are presented in Canadian dollars, the REIT’s functional and reporting currency.

### (c) Basis of Consolidation

The consolidated financial statements include the accounts of the REIT and the other entities that the REIT controls in accordance with IFRS 10 — *Consolidated Financial Statements*. Control requires exposure or rights to variable returns and the ability to affect those returns through power over an investee. All intercompany transactions and balances have been eliminated on consolidation.

### (d) Significant accounting policies

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2018, except for the new accounting standard, IFRS 16 – *Leases* (“IFRS 16”), which was applied on January 1, 2019 as noted below:

#### IFRS 16 — *Leases*:

The REIT adopted IFRS 16 on January 1, 2019 on a modified retrospective basis. In January 2016, the IASB issued IFRS 16 which replaces IAS 17 — *Leases* and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract on the basis of whether the customer controls the asset being leased. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by lessees, introducing a single, on-balance sheet accounting model that is similar to current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice.

The REIT is the lessee for two land leases and one office lease, which are in the scope of IFRS 16 and as at January 1, 2019, the REIT recognized right-of-use assets and lease liabilities of \$7,694. For all leases for which the REIT is a lessee of investment properties, the right-of-use assets have been measured at fair value with no straight line depreciation and classified as investment property at the date of initial application on January 1, 2019. The office lease right-of-use asset is recognized in prepaid expenses and other assets and IFRS 16 replaces the straight-line operating lease expense with a depreciation charge presented in the general and administration expense. Lease-related expenses previously recorded in property costs were recorded as a fair value adjustment on investment properties recorded in the consolidated statements of income (loss) and comprehensive income (loss). Lease liabilities were discounted at the REIT’s incremental borrowing rate as at January 1, 2019.

The REIT elected the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied IFRS 16 only to contracts that were previously identified as leases;
- Excluded initial direct costs from measuring right-of-use assets; and
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

## 3. ACQUISITIONS

On March 29, 2019, the REIT acquired the real estate underlying two automotive dealership properties located in Winnipeg, Manitoba for approximately \$23,950 plus acquisition costs of \$685. The acquisition consists of two full-service automotive dealership properties totaling 96,135 square feet of gross leasable area.

During the year ended December 31, 2018, the REIT completed the following acquisitions:

Property	Location	Date of Acquisition	Total Investment Properties <sup>(1)</sup>
Kitchener-Waterloo, ON (the “Tesla KW”)	Kitchener-Waterloo, ON	February 13	\$5,541
Frost GM Expansion	Brampton, ON	June 1	\$2,008
Country Hills VW	Calgary, AB	June 19	\$18,069
BMW Laval & Sherwood Park VW	Laval, QC & Sherwood Park, AB	September 28	\$56,509
Brimell Toyota	Scarborough, ON	November 30	\$27,182
Mierins Auto Group Portfolio	Ottawa, ON & Kingston, ON	December 12	\$103,925
<b>Total Acquisitions</b>			<b>\$213,234</b>

(1) Includes acquisition costs.

The total purchase price for the above noted properties of \$213,234 was comprised of cash consideration in the amount of \$57,401, the assumption of payables in the amount of \$1,285 and debt financing in the amount of \$154,548.

#### 4. INVESTMENT PROPERTIES

	Income producing properties <sup>(1)</sup>	Right-of-use assets <sup>(2)</sup>	March 31, 2019	December 31, 2018
Balance, beginning of period	\$763,998	\$-	\$763,998	\$543,135
Acquisitions <sup>(3)</sup>	24,635	-	24,635	213,234
Additions	-	7,335	7,335	-
Capitalized interest and other	151	-	151	620
Fair value adjustment on investment properties	454	(115)	339	4,099
Straight-line rent	759	-	759	2,910
<b>Balance, end of period</b>	<b>\$789,997</b>	<b>\$7,220</b>	<b>\$797,217</b>	<b>\$763,998</b>

(1) Includes the Tesla KW property.

(2) Refers to two land leases.

(3) Includes acquisition costs.

#### Valuation of Investment Properties

The REIT valued the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. Property under development is measured using both a comparable sales method and a discounted cash flow method, net of costs to complete. The REIT's valuation inputs are supported by quarterly market reports from an independent appraiser which indicate no change in capitalization rates from December 31, 2018. The overall capitalization rate applicable to the entire portfolio remained at 6.6%, which is equivalent to the REIT's overall assessment as at March 31, 2019.

A 25 basis point decrease or increase in capitalization rates would result in an increase or decrease in the fair value of the investment properties of approximately \$31,200 or \$(29,000), respectively.

#### Rental Commitments

Minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within 1 year	\$53,264
After 1 year, but not more than 5 years	215,835
More than 5 years	506,321
	<u>\$775,420</u>

#### 5. PREPAID EXPENSES AND OTHER

As at	March 31, 2019	December 31, 2018
Prepaid indemnity fee	<b>\$727</b>	\$746
Right of use assets, net of depreciation	<b>337</b>	-
Prepaid other	<b>1,280</b>	1,200
	<b>\$2,344</b>	\$1,946

## 6. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit facilities and mortgages payable consists of:

As at	March 31, 2019	December 31, 2018
Facility 1 <sup>(i)</sup>	<b>\$226,300</b>	\$210,347
Facility 2 <sup>(ii)</sup>	<b>88,241</b>	85,791
Facility 3 <sup>(iii)</sup>	<b>99,913</b>	95,000
Mortgages <sup>(iv)</sup>	<b>28,101</b>	28,376
Total	<b>\$442,555</b>	\$419,514
Financing fees <sup>(v)</sup>	<b>(2,625)</b>	(2,642)
	<b>\$439,929</b>	\$416,872

(i) Facility 1 includes:

A non-revolving loan in the amount of \$200,800 (December 31, 2018 - \$182,847) bearing interest at the bankers' acceptance ("BA") rate plus 150 basis points ("bps") or the Canadian Prime rate ("Prime") plus 25 bps, maturing in June 2023. The principal is repayable in equal quarterly payments based on a 25 year amortization. The REIT entered into floating-to-fixed interest rate swaps, with remaining terms of 3 to 10 years, which resulted in a weighted average effective interest rate of 3.75% of which \$19,800 of the non-revolving balance remains at floating rates.

A revolving credit facility in the amount of \$30,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2023, of which \$25,500 was drawn as at March 31, 2019 (December 31, 2018 - \$27,500) and of which \$838 was secured for the issuance of irrevocable letters of credit (the "LCs") on October 24, 2017.

(ii) Facility 2 includes:

A non-revolving loan in the amount of \$73,241 (December 31, 2018 - \$73,991) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in June 2022, at which point it will become a demand loan. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 3 to 9 years, which resulted in a weighted average effective interest rate of 3.55%.

A revolving credit facility in the amount of \$15,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in June 2022, of which \$15,000 was drawn as at March 31, 2019 (December 31, 2018 - \$11,800).

(iii) Facility 3 includes:

A non-revolving loan in the amount of \$93,813 (December 31, 2018 - \$95,000) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps, maturing in December 2023, at which point it will become a demand loan. The principal is repayable in monthly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 7 to 10 years, which resulted in a weighted average effective interest rate of 4.05%.

A revolving credit facility in the amount of \$30,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, maturing in December 2023, of which \$6,100 was drawn as at March 31, 2019 (December 31, 2018 - \$nil).

(iv) Mortgages:

The REIT has entered into certain mortgages with Canadian Schedule 1 banks that have interest rates that range from 3.22% to 3.72% and have maturity dates that range from May 2019 to June 2027 (the "Mortgages"). The mortgage of \$12,172 which expires on May 2019 has been extended to September 2019. As at March 31, 2019, the weighted average interest rate of the mortgages was 3.51% (December 31, 2018 - 3.51%).

- (v) During the three month period ended March 31, 2019, the REIT incurred financing fees of \$169 (December 31, 2018 - \$2,117). The amounts are accounted for using the effective interest method, \$2,625 remains unamortized as at March 31, 2019 (December 31, 2018 - \$2,642).

The credit facilities described above (the "Credit Facilities") and the Mortgages are secured by the REIT's investment properties, except for the Tesla KW and the Brimell Toyota properties.

Principal repayments are as follows:

Remainder of 2019 .....	\$26,399
2020 .....	19,020
2021 .....	24,641
2022 .....	95,138
2023 .....	118,459
Thereafter .....	<u>158,898</u>
Total .....	<u>\$442,555</u>

(b) Interest Rate Swaps

The REIT entered into interest rate derivative contracts to limit its exposure to fluctuations in the interest rates payable on variable rate financings for Facility 1, Facility 2, and Facility 3. Gains or losses arising from changes in the fair value of the interest rate derivative contracts are recognized in the condensed consolidated statements of net income (loss) and comprehensive income (loss) (terms described in Note 6 (a)(i), (ii) and (iii) above).

As at March 31, 2019, the notional principal amount of the interest rate swaps was approximately \$348,000 (December 31, 2018 – approximately \$352,000) and the fair value adjustment of the interest rate swaps was \$(6,689) (March 31, 2018 - \$814) resulting in a liability balance of \$7,803 (December 31, 2018 - \$1,114).

## 7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	March 31, 2019	December 31, 2018
Accounts payable and accrued liabilities	<b>\$3,135</b>	\$3,057
Accrued interest	<b>376</b>	423
Distributions payable (Note 8)	<b>2,126</b>	2,126
Lease liability (Note 2(d))	<b>7,614</b>	-
	<b>\$13,251</b>	\$5,606

## 8. DISTRIBUTIONS

	2019			2018		
	Units	Class B LP Units	Total	Units	Class B LP Units	Total
<i>For the three months ended March 31,</i>						
Paid in Cash	<b>\$4,381</b>	<b>\$1,997</b>	<b>\$6,378</b>	\$3,259	\$1,997	\$5,256
Declared	<b>4,381</b>	<b>1,997</b>	<b>6,378</b>	3,259	1,997	5,256
Payable as at period end	<b>1,460</b>	<b>666</b>	<b>2,126</b>	1,086	666	1,752

## 9. UNITHOLDERS' EQUITY AND CLASS B LP UNITS

### Units

The REIT is authorized to issue an unlimited number of Units.

Each Unit is transferable and represents an equal, undivided beneficial interest in the REIT and any distributions from the REIT, whether of net income, net realized capital gains (other than such gains allocated and distributed to redeeming holders of Units ("Unitholders")) or other amounts and, in the event of the termination or winding-up of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. All Units rank equally among themselves without discrimination, preference or priority and entitle the holder thereof to receive notice of, to attend and to one vote at all meetings of Unitholders and holders of Special Voting Units (as defined below) or in respect of any written resolution thereof.

Unitholders are entitled to receive distributions from the REIT (whether of net income, net realized capital gains or other amounts) if, as and when declared by the Board. Upon the termination or winding-up of the REIT, Unitholders will participate equally with respect to the distribution of the remaining assets of the REIT after payment of all liabilities. Such distribution may be made in cash, as a distribution in kind, or both, all as the Board in its sole discretion may determine.

Units have no associated conversion or retraction rights. No person is entitled, as a matter of right, to any pre-emptive right to subscribe for or acquire any Unit, except for Dilawri as set out in the Exchange Agreement entered into on closing of the IPO between the REIT and certain members of the Dilawri Group, pursuant to which such members of the Dilawri Group have been granted, among other things, certain rights to participate in future offerings of the REIT.

### Class B LP Units

In conjunction with the IPO, and as partial consideration for the Initial Properties, the REIT, through the Partnership, issued Class B LP Units to certain members of the Dilawri Group. Each Class B LP Unit is exchangeable at the option of the holder for one Unit (subject to certain anti-dilution adjustments), is accompanied by a special voting unit (a "Special Voting Unit") (which provides the holder with that number of votes at any meeting of Unitholders to which a holder of the number of Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled), and will receive distributions of cash from the Partnership equal to the distributions to which a holder of the number of Units that may be obtained upon the exchange of the Class B LP Unit to which such Special Voting Unit is attached would be entitled.

### For the three months ended March 31, 2019

	Units	Amount
Units, beginning of period	21,796,552	\$212,334
Units issued, net of costs	-	-
<b>Total Units, end of period</b>	<b>21,796,552</b>	<b>\$212,334</b>
Class B LP Units, beginning of period	9,933,253	\$89,101
Fair value adjustment on Class B LP Units	-	17,979
<b>Total Class B LP Units, end of period</b>	<b>9,933,253</b>	<b>\$107,080</b>
<b>Total Units and Class B LP Units, end of period</b>	<b>31,729,805</b>	<b>\$319,414</b>

For the year ended December 31, 2018

	Units	Amount
Units, beginning of year	16,216,000	\$154,933
Units issued, net of costs	5,580,552	57,401
<b>Total Units, end of year</b>	<b>21,796,552</b>	<b>\$212,334</b>
Class B LP Units, beginning of year	9,933,253	\$108,372
Fair value adjustment on Class B LP Units	-	(19,271)
<b>Total Class B LP Units, end of year</b>	<b>9,933,253</b>	<b>\$89,101</b>
<b>Total Units and Class B LP Units, end of year</b>	<b>31,729,805</b>	<b>\$301,435</b>

## 10. UNIT BASED-COMPENSATION

The REIT offers an Equity Incentive Plan (the "Plan") whereby DUs may be granted to eligible participants under the Plan (each, a "Participant") on a discretionary basis by the Governance, Compensation and Nominating Committee of the Board. The maximum number of Units available for issuance under the Plan is 500,000. Each DU is economically equivalent to one Unit, however, under no circumstances shall DUs be considered Units nor entitle a Participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU shall receive a distribution of additional IDUs equal to the amount of distributions paid per Unit by the REIT on its Units. Upon vesting of the DUs and IDUs, a Participant may elect, prior to the expiry of such DU or IDU, to exchange such vested DUs and IDUs (subject to satisfaction of any applicable withholding taxes) for an equal number of Units. The holder of such DUs and IDUs cannot settle the DUs and IDUs for cash.

Under the Plan, the fair value of the DUs and IDUs is recognized as compensation expense over the vesting period. Fair value is determined with reference to the market price of the Units.

The Units are redeemable at the option of the holder and are considered puttable instruments in accordance with IAS 32 — *Financial instruments: presentation* ("IAS 32"). As the exemption under IAS 32 does not apply to IFRS 2 — *Share based payments*, the DUs and IDUs are accounted for as a liability. The deferred unit liability is adjusted to reflect the change in their fair value at each reporting period with the changes in fair value recognized as compensation expense.

During the three months ended March 31, 2019, the REIT accrued for short-term incentive awards in the amount of \$71 (March 31, 2018 - \$69) which will be settled by the granting of DUs.

Certain independent trustees of the REIT elected to receive board and committee fees in the form of DUs. The fair value of each DU granted is measured based on the volume-weighted average trading price of the Units for the five trading days immediately preceding the grant date. A summary of DUs and IDUs outstanding under the Plan is outlined below:

	As at March 31, 2019		As at December 31, 2018	
	Units	Amount	Units	Amount
Outstanding DUs and IDUs, beginning of period	119,417	\$1,072	59,088	\$645
DUs	40,087	431	52,538	537
IDUs	2,844	31	7,791	82
Fair value adjustments	-	206	-	(192)
<b>Outstanding DUs and IDUs, end of period <sup>(1)</sup></b>	<b>162,348</b>	<b>\$1,740</b>	119,417	\$1,072

(1) For the three month period ended March 31, 2019 a total of 72,094 DUs and IDUs were granted, of which 32,912 DUs will be accounted for in accordance with the vesting schedule.

## 11. RENTAL REVENUE AND PROPERTY COSTS

### (a) Rental Revenue

<i>For the three months ended March 31,</i>	<b>2019</b>	2018
Base rent	<b>\$12,812</b>	\$8,990
Property tax recoveries	<b>2,113</b>	1,537
Straight line rent adjustment	<b>759</b>	779
Rental revenue	<b>\$15,684</b>	\$11,306

### (b) Property Costs

<i>For the three months ended March 31,</i>	<b>2019</b>	2018
Property tax expense	<b>\$2,113</b>	\$1,537
Land lease	-	144
Straight line land lease adjustment	-	25
Property cost	<b>\$2,113</b>	\$1,706

Two of the Initial Properties are subject to land leases. In 2018, land lease expense included straight line rent on the land leases over the expected lease term and recoverable realty taxes that was paid by the REIT. In 2019, the REIT adopted IFRS 16. For a description of the resulting changes, see note 2, subsection (d) - "significant accounting policies".

## 12. SEGMENT INFORMATION

All of the REIT's assets and liabilities are in, and its revenues are derived from, the Canadian real estate industry segment. The REIT's investment properties are, therefore, considered by management to have similar economic characteristics.

## 13. CAPITAL MANAGEMENT

The REIT defines its capital as the aggregate of Unitholders' equity, Class B LP Units, Credit Facilities and Mortgages, which, as at March 31, 2019, totaled \$777,220 (December 31, 2018 – \$758,447). The REIT is free to determine the appropriate level of capital in the context of its cash flow requirements, overall business risks and potential business opportunities. The REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

In order to maintain or adjust its capital structure, the REIT may increase or decrease the amount of distributions paid to Unitholders, issue new Units and debt, or repay debt. The REIT manages its capital structure with the objective of:

- complying with the guidelines set out in its Declaration of Trust;
- complying with debt covenants;
- ensuring sufficient liquidity is available to support its financial obligations and to execute its operating and strategic plans;
- maintaining financial capacity and flexibility through access to capital to support future growth; and
- minimizing its cost of capital while taking into consideration current and future industry, market and economic risks and conditions.

The REIT has certain key financial covenants in its Credit Facilities and Mortgages, including debt service ratios and leverage ratios, as defined in the respective agreements. These ratios are measured by the REIT on an ongoing basis to ensure compliance with the agreements. As at March 31, 2019, the REIT was in compliance with each of the covenants under these agreements.

## 14. FAIR VALUES AND FINANCIAL INSTRUMENT RISK MANAGEMENT

The fair value of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature. References to "FVTPL" refer to the fair value through profit or loss.

The following table provides the classification and measurement of financial assets and liabilities as at March 31, 2019:

<b>Financial Assets/(Liabilities)</b>	<b>Classification/ Measurement</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Credit Facilities and Mortgages Payable	Amortized Cost	\$(439,929)	\$(442,555)
Interest Rate Swaps	FVTPL	(7,803)	(7,803)
Class B LP Units	FVTPL	(107,080)	(107,080)
DUs and IDUs	FVTPL	(1,740)	(1,740)
		<b>\$(556,552)</b>	<b>\$(559,178)</b>

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2018:

<b>Financial Assets/(Liabilities)</b>	<b>Classification/ Measurement</b>	<b>Carrying Value</b>	<b>Fair Value</b>
Credit Facilities and Mortgages Payable	Amortized Cost	\$(416,872)	\$(419,514)
Interest Rate Swaps	FVTPL	(1,114)	(1,114)
Class B LP Units	FVTPL	(89,101)	(89,101)
DUs and IDUs	FVTPL	(1,072)	(1,072))
		<b>\$(508,159)</b>	<b>\$(510,801)</b>

The REIT uses various methods to estimate the fair values of assets and liabilities that are measured at fair value on a recurring or non-recurring basis in the statement of financial position after initial recognition. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 – quoted prices in active markets for identical assets and liabilities;
- Level 2 – inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 – valuation technique for which significant inputs are not based on observable market data.

The following summarizes the significant methods and assumptions used in estimating the fair value of the REIT's assets and liabilities measured at fair value:

(i) Investment Properties

The REIT assessed the valuation of the investment properties using a discounted cash flow approach whereby a current discount rate was applied to the projected net operating income which a property can reasonably be expected to produce in the future. The fair value of investment properties as at March 31, 2019 is \$797,217 (December 31, 2018 - \$763,998) (Level 3).

(ii) Credit Facilities and Mortgages

The fair value of the REIT's Credit Facilities and Mortgages is determined based on the present value of future payments, discounted at the yield on Government of Canada bonds, plus an estimated credit spread at the reporting date for a comparable loan (Level 2).

(iii) Interest Rate Swaps

The fair value of the REIT's interest rate swaps which represents a liability balance as at March 31, 2019 is \$7,803 (December 31, 2018 – \$1,114). The fair value of an interest rate swap is determined using rates unobservable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at March 31, 2019 is \$107,080 (December 31, 2018 - \$89,101). The fair value of the Class B LP Units is based on the traded value of the Units as at March 31, 2019 (Level 1).

(v) DUs and IDUs

The fair value of the DUs and IDUs as at March 31, 2019 is \$1,740 (December 31, 2018 - \$1,072). The fair value of the DUs and IDUs is based on the traded value of the Units as at March 31, 2019 (Level 1).

**Financial Risk Management**

The REIT’s activities expose it to a variety of financial risks. The main risks arising from the REIT’s financial instruments are market and liquidity risks. The following is a description of those risks and how the exposures are managed:

**Market Risk**

The REIT is exposed to market risk as a result of changes in factors such as interest rates and the market price of the Units.

*Interest Rate Risk* - The majority of the REIT’s debt is financed with floating rates. Interest rate swaps (with maturities staggered over 10 years) have been entered into to mitigate interest rate fluctuations, thereby mitigating the exposure to changes in interest rates.

*Unit Price Risk* - The REIT is exposed to Unit price risk as a result of the issuance of Class B LP Units. Class B LP Units are recorded at their fair value based on market trading prices. Class B LP Units negatively impact net income (loss) when the Unit price rises and positively impact net income (loss) when the Unit price declines.

**Liquidity Risk**

Liquidity risk arises from the possibility of an inability to renew maturing debt or not having sufficient capital available to the REIT. Mitigation of liquidity risk is discussed above in Note 13 - Capital Management. A significant portion of the REIT’s assets have been pledged as security under the REIT’s Credit Facilities and Mortgages. Certain credit facilities allow for the extension of term in advance of expiration.

**15. COMMITMENTS AND CONTINGENCIES**

In conjunction with the IPO, the REIT and Dilawri entered into an Administration Agreement which covers various operational and administrative services to be provided to the REIT by Dilawri on a cost-recovery basis. The Administration Agreement has a term of 5 years from the closing of the IPO and will be automatically renewed for successive one year terms, subject to certain termination rights set out in the Administration Agreement.

As at March 31, 2019, the REIT, as lessee, is committed under long term land and other leases that are classified as a liability to make lease payments with minimum annual rental commitments as follows:

Within 1 year.....	\$803
After 1 year, but not more than 5 years .....	3,074
More than 5 years .....	<u>7,546</u>
Total .....	<u>\$11,423</u>

The REIT has also committed to pay approximately \$1,300 in other costs in relation to the construction of the Tesla KW property.

**16. RELATED PARTY TRANSACTIONS**

The REIT’s independent trustees approve all related party transactions in accordance with the Related Party Transaction Policy adopted by the Board. The Dilawri Tenants are the REIT’s major tenant and accounted for approximately 64.1% of the REIT’s rental income for the three month period ended March 31, 2019 (March 31, 2018 – 86.7%).

Pursuant to the Administration Agreement, Dilawri will provide, or cause to be provided, if and as requested by the REIT, subject to the overriding supervision and direction of the Board, management consisting of the REIT’s President and Chief Executive Officer, Chief Financial Officer and Corporate Secretary and operating and administrative support functions. The Administration Agreement has a term of 5 years and will be automatically renewed for

successive one year terms, subject to certain termination rights set out in the agreement. Services are provided under the Administration Agreement on a cost-recovery basis.

General and administrative expenses include \$295 for the three month period ended March 31, 2019 paid by the REIT to Dilawri pursuant to the Administration Agreement (March 31, 2018 - \$291).

In consideration of the applicable Dilawri Tenants leasing the entirety of the two Initial Properties with third party tenants (and thereby bearing occupancy, rental and other risks associated with the portions of those properties subleased to third party tenants for the initial lease terms of 12 and 15 years), the REIT paid to such Dilawri Tenants an indemnity fee in the aggregate amount of \$1,000 at the time of closing of the IPO (amortizable over the term of the leases).

On October 24, 2017, Dilawri paid the REIT \$896 in respect of the recoverable land transfer tax associated with the acquisition of the Initial Properties. To defer the land transfer tax, the REIT subsequently issued the LCs to the land transfer tax authority in the amount of approximately \$753 on behalf of specific members of the Dilawri Group that sold certain of the Initial Properties to the REIT in connection with the IPO. The Dilawri Group held all of the 9,933,253 issued and outstanding Class B LP Units for 3 years subsequent to the IPO, so the LCs are expected to be released. The REIT is working with the applicable tax authorities and Dilawri to secure the release of the LCs.

In connection with the IPO, the REIT and Dilawri entered into the Strategic Alliance Agreement which established a preferential and mutually beneficial business and operating relationship between the REIT and Dilawri. The Strategic Alliance Agreement will be in effect so long as Dilawri and certain other entities related to Dilawri own, control or direct, in the aggregate, an effective interest of at least 10% (on a fully-diluted basis) in the REIT. The Strategic Alliance Agreement provides the REIT with the first right to purchase REIT-Suitable Properties (as defined in the Strategic Alliance Agreement) in Canada or the United States acquired or developed by the Dilawri Group. The purchase price in respect of a REIT-Suitable Property will be mutually agreed by the REIT and Dilawri at the applicable time.

## 17. SUPPLEMENTARY INFORMATION

### Changes in non-cash operating accounts

<i>For the three months ended March 31,</i>	<b>2019</b>	2018
Prepaid expenses and other assets	<b>\$(78)</b>	\$175
Additions to right of use assets	<b>(7,694)</b>	-
Accounts payable and accrued liabilities	<b>96</b>	(182)
Additions to lease liabilities	<b>7,694</b>	
<b>Change in non-cash operating accounts</b>	<b>\$18</b>	\$(7)