


2021 SECOND QUARTER REPORT

Consolidating Canada's Automotive Dealership Properties

Automotive Properties REIT™

Automotive Properties Real Estate Investment Trust

Management's Discussion and Analysis

June 30, 2021

Table of Contents

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- and six-month periods ended June 30, 2021. This MD&A also outlines the REIT's capital structure, operating strategies and business outlook. 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 months ended June 30, 2021 ("Q2 2021") are against results for the three months ended June 30, 2020 ("Q2 2020") and all comparisons of results for the six months ended June 30, 2021 ("YTD 2021") are against results for the six months ended June 30, 2020 ("YTD 2020"), unless otherwise noted.

This MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements of the REIT and accompanying notes for the three- and six-month periods ended June 30, 2021. Further information about the REIT can be found in the REIT's annual information form dated March 23, 2021 (the "AIF"). The AIF, along with other continuous disclosure documents required by the Canadian securities regulators, can be found on the REIT's SEDAR profile at www.sedar.com and on the REIT's website at www.automotivepropertiesreit.ca. This MD&A is dated August 11, 2021.

All information regarding Dilawri (as defined below) 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.

The REIT

The REIT is an internally managed, unincorporated, open-ended real estate investment trust that was formed to own primarily income-producing automotive properties, including retail dealership and original equipment manufacturers properties, in Canada. As at the date of this MD&A, the REIT owns a portfolio of 66 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.5 million square feet of gross leasable area ("GLA"). The REIT has been internally managed since January 1, 2020.

The REIT commenced operations on July 22, 2015 following completion of its initial public offering of trust 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").

893353 Alberta Inc. ("Dilawri") is a privately held corporation which, together with certain of its affiliates, holds an approximate 28.1% effective interest in the REIT as at June 30, 2021 (December 31, 2020 – 26.0%), 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 3,827,554 trust units of the REIT ("REIT Units"). 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 1, 2021, the REIT acquired the land and buildings of the Lexus Laval automotive dealership located in Laval, Quebec ("Lexus Laval") from the Dilawri Group for approximately $14,800 plus acquisition costs of $462. The Lexus Laval property is a 30,015 square foot full-service automotive dealership property. On closing of the transaction, the applicable Dilawri Tenant entered into a 17-year triple-net lease with the REIT. The REIT funded the transaction through the issuance of 1,369,102 REIT Units to Dilawri valued at approximately $14,800. The REIT Units were issued at a price of $10.81 per unit which represents the volume-weighted average trading price of the REIT Units for the first 20 trading days of 2021, pursuant to the terms of the Strategic Alliance Agreement.

The Strategic Alliance Agreement with Dilawri continues to allow the REIT to benefit from a preferential relationship with Dilawri as Dilawri develops and acquires automotive dealerships in the future. These agreements are described under Section 8 “Related Party Transactions” in this MD&A.

In Q2 2021, the REIT provided for $339 of capital commitments to a new tenant for facility improvements in respect of one of the REIT’s properties located in Edmonton, Alberta.

As at June 30, 2021, the total number of issued and outstanding REIT Units and Class B LP Units was 39,066,154 and 9,933,253, respectively, for a total of 48,999,407 Units (as defined below). The REIT Units are listed and posted for trading on the Toronto Stock Exchange under the symbol “APR.UN”. REIT Units and Class B LP Units are collectively referred to in this MD&A as “Units”.

The REIT announced monthly cash distributions of $0.067 per REIT Unit, resulting in total distributions declared and paid of $9,850 for Q2 2021 (Q2 2020 – $9,574 declared and paid). For YTD 2021, the REIT declared and paid distributions totalling $19,424 (YTD 2020 – $19,148 declared and paid).

Impact of COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19 has had a significant adverse impact on trade and on local, national and global economies. Provincial governments across Canada continued emergency measures in Q2 2021 in order to combat the spread of COVID-19, including: stay-at-home orders, travel restrictions, self-imposed quarantine periods, temporary closures or restrictions of non-essential businesses, limitations on public gatherings, and social distancing guidelines, some of which continue to be in effect as of the date of this MD&A. As a result of these measures, most of the REIT’s tenants’ businesses were operated on a limited basis by appointment only during Q2 2021. Since the onset of the pandemic, the REIT has engaged in regular discussions with its tenants regarding the impact that COVID-19 has had, and is continuing to have, on their respective businesses. The REIT believes that the fundamentals of the automotive dealership business have not changed, and that the industry is resilient and will continue to grow as the pandemic continues to stabilize.

The REIT has collected 100% of its Q2 2021 contractual base rent due under its leases and the payments due from the rent deferral agreements with tenants (the “Deferral Agreements”). As at June 30, 2021, the remaining tenant deferral rent receivable was $507. Pursuant to the Deferral Agreements, the REIT agreed to defer, predominately interest-free, a portion of the applicable tenants’ base rent primarily for a three-month period occurring between April and July 2020, but all rent ceased to be deferred as of the end of 2020. All amounts outstanding under the Deferral Agreements are due to be paid by no later than the end of 2021.

The REIT has collected 100% of its expected July and August 2021 contractual base rent under the leases plus contractual base rent that is due under the Deferral Agreements. As of the date of this MD&A, no additional rent deferrals have been requested by the REIT’s tenants.

For Q2 2021, the REIT decreased the discount rates for properties in the Greater Toronto Area (“GTA”) and Greater Montreal Area (“GMA”) by approximately 20 basis points primarily due to industry-wide single tenant retail and industrial capitalization rate reductions. This reduction in discount rates is in addition to the decrease by approximately 10 basis points, for the entire property portfolio recorded in Q1 2021, reflecting the resilience of the automotive dealership retail business during the pandemic. Accordingly, the REIT made a fair value adjustment to its property portfolio for Q2 2021 of $18,778, resulting from the 20 basis point decrease of discount rates to the REIT’s GTA and GMA properties. The overall capitalization rate applicable to the REIT’s entire portfolio decreased to 6.5% as at June 30, 2021 (March 31, 2021 – 6.6%; December 31, 2020 – 6.7%).

As at June 30, 2021, the REIT had a Debt to GBV ratio (as defined below) of 41.3% and a strong liquidity position with $75,000 of undrawn capacity under its Credit Facilities (as defined below), cash on hand of $8,165 and seven unencumbered properties with an aggregate value of approximately $101,370 (see Section 7 "Liquidity and Capital Resources" in this MD&A for more details). In Q2 2020, the REIT proactively engaged in discussions with its key lenders regarding the easing of certain financial covenants contained in the Credit Facilities. In particular, two of the REIT's lenders have amended their respective Credit Facilities to remove the cap on the REIT's distributions at 100% AFFO payout ratio (calculated on a rolling four-quarter basis) so long as the REIT's Debt to GBV ratio is less than 55% (or, in one case, the REIT has at least $17,000 in the aggregate of cash on hand and amounts available to be drawn under its revolving Credit Facilities). The third lender has increased the cap on distributions to 110% of AFFO (calculated on a rolling four-quarter basis) until September 30, 2021.

At the time of engaging in these discussions, the REIT did not expect to exceed the original limits contained in the Credit Facilities; however, management worked with the REIT's lenders in order to manage any potential further risk associated with the impact of COVID-19. The REIT has met and continues to meet all lender covenant requirements.

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 impact of the COVID-19 pandemic on the REIT, its investment properties, its tenants, including with respect to payment of rents and deferrals thereof, and the pace of industry consolidation;
- the impact of government COVID-19 relief programs, on the REIT and its tenants;
- 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, and (ii) expected transactions to be entered into between Dilawri and the REIT (including pursuant to the Strategic Alliance Agreement);
- 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;
- 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 acquire 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 inflation will remain relatively low, that interest rates will remain stable or at lower levels for the near term, 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, and at which times, 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.

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, Same Property 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 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 (referred to as “ROU” assets).

“FFO payout ratio” is calculated as distributions paid 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) on a straight-line basis; and (ii) capital expenditures. The REIT includes a capital expenditure reserve of 0.5% of base rent in the AFFO calculation. To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management’s best estimate of costs 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 paid 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. The REIT includes a capital expenditure reserve of 0.5% of base rent in the ACFO calculation. To date, the REIT has not incurred capital expenditure costs. The capital expenditure reserve is based on management’s best estimate of costs 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 measure that means 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 a non-IFRS measure that means NOI prior to the effects of straight-line adjustments and 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 of Cash NOI. 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) (except in respect of convertible debt, as described above), 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 (C) REIT Units, Class A LP 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, mortgages and interest rate swaps.

"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 a 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

According to DesRosiers Automotive Consultants Inc., total Canadian light vehicle sales for YTD 2021 increased by approximately 33.0% compared to YTD 2020, reflecting the recovery of the retail automotive business.

The tables below contain new automobile sales by units in Canada for the five months ended May 31, 2021 and May 31, 2020 (the latest available information from Statistics Canada), and for the 2020 and 2019 calendar years. Historically, Canada's automotive retail industry has been characterized by strong industry fundamentals. According to Statistics Canada, automotive retail industry sales totaled $151 billion in 2020 (down 9% from $165 billion in 2019), representing approximately 25% 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 3.6%.

	Five Months Ended May 31 (units)			
	2021	**YoY unit increase/ (decrease)**	**YoY % increase/ (decrease)**	2020
Alberta	85,052	23,026	37.1%	62,026
British Columbia and the Territories	85,935	28,091	48.6%	57,844
Manitoba	21,031	5,777	37.9%	15,254
New Brunswick	16,106	5,627	53.7%	10,479
Newfoundland and Labrador	12,187	4,705	62.9%	7,482
Nova Scotia	18,507	6,564	55.0%	11,943
Ontario	270,115	65,036	31.7%	205,079
Prince Edward Island	3,302	1,374	71.3%	1,928
Québec	173,239	67,349	63.6%	105,890
Saskatchewan	18,429	4,757	34.8%	13,672
Total Canada	**703,903**	**212,306**	**43.2%**	491,597

(Source: Statistics Canada)

	Twelve Months Ended December 31 (units)			
	2020	**YoY unit increase/ (decrease)**	**YoY % increase/ (decrease)**	**2019**
Alberta	183,540	(38,677)	(17.4%)	222,217
British Columbia and the Territories	171,322	(37,087)	(17.8%)	208,409
Manitoba	46,928	(10,491)	(18.3%)	57,419
New Brunswick	34,601	(6,356)	(15.5%)	40,957
Newfoundland and Labrador	27,309	(3,192)	(10.5%)	30,501
Nova Scotia	39,891	(11,258)	(22.0%)	51,149
Ontario	646,275	(197,274)	(23.4%)	843,549
Prince Edward Island	7,010	(1,100)	(13.6%)	8,110
Québec	371,124	(79,194)	(17.6%)	450,318
Saskatchewan	41,817	(6,852)	(14.1%)	48,669
Total Canada	**1,569,817**	**(391,481)**	**(20.0%)**	**1,961,298**

(Source: Statistics Canada)

New vehicle sales represent a portion of overall dealer profitability, as significant profit contributions are also generated from used vehicle sales, service and parts, and finance and insurance. 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").

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

Management believes that the REIT is well-positioned to capitalize on opportunities for accretive acquisitions from third-party automotive dealership 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 dealership 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 affected 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 entity in Canada exclusively focused on owning and acquiring automotive dealership properties.

The REIT evaluates acquisition opportunities based 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 a 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 12 automotive dealership properties from the Dilawri Group under the Strategic Alliance Agreement as of the date of this MD&A.

Internal Growth

Management believes that the REIT is well-positioned to achieve organic increases in cash flow and, as a result, increase the value 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 (each, a "Dilawri Lease") contains annual contractual basic rent escalators in the amount of 1.5% per annum. The Dilawri 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

As at June 30, 2021, the REIT's portfolio consisted of 66 income-producing commercial properties, representing approximately 2.5 million square feet of gross leasable area, in metropolitan markets across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Québec. Out of the 66 income-producing commercial properties, 36 are exclusively occupied by the Dilawri Group for use as automotive dealerships or automotive dealership ancillary uses (such as automotive repair facilities), while two of the other 30 properties are jointly occupied by the Dilawri Group (for use as automotive dealerships or automotive dealership ancillary uses) and one or more third parties (for use as automotive dealerships or complementary uses, including restaurants), and 28 properties are exclusively occupied by other dealership groups or original equipment manufacturers for use as automotive dealerships or for automotive ancillary uses, such as a vehicle service compound facility or a repair facility. Consequently, the Dilawri Group is the REIT's most significant tenant and accounted for approximately 61.8% of the REIT's YTD 2021 base rent, including rent from properties subleased to third parties (62.3% as at YTD 2020). The overall portfolio continues to be 100% leased.

The applicable Dilawri Tenant is the lead tenant for Dixie Auto Mall until July 2030. As of June 30, 2021, two premises at the Dixie Auto Mall were leased but unoccupied and are being used for ancillary purposes; however, this does not affect the term of the applicable Dilawri Leases.

In January 2021, the lease for the premises at 17616 111 Avenue in Edmonton, Alberta was terminated, and the REIT entered into a new long-term lease with a tenant operating the Tesla Edmonton service centre. The previous tenant occupying the premises paid all deferred rent outstanding and a termination fee of $339. The REIT provided for $339 of capital commitments for facility improvements to the new tenant. The maturity date of the lease was extended by 2.5 years.

Overall, at June 30, 2021, the REIT's properties had a weighted average rental rate of $25.44 per square foot ($25.78 as at June 30, 2020). The decrease from Q2 2020 is due to the addition of the Tesla Laval service centre (127,398 square feet of GLA).

Income Producing Property Portfolio Summary

As at June 30, 2021	**Number of Properties**	**GLA (sq. ft.)**	**Average rental rate (per sq. ft.)** (1)	**Weighted Average Lease Term (yrs)**
Greater Vancouver Area (GVA) (2)	8	199,244	$36.17	12.6
Calgary	7	293,158	$26.27	11.1
Edmonton	6	174,350	$29.98	12.4
Regina	9	203,560	$23.30	9.6
Winnipeg	2	96,135	$20.47	16.8
KW/Guelph	3	87,300	$21.56	15.0
Greater Toronto Area (GTA)	13	691,908	$29.11	9.9
Ottawa/Kingston	11	303,817	$24.20	16.0
Greater Montréal Area (GMA)	7	475,019	$16.84	12.7
Total Portfolio	**66**	**2,524,491**	**$25.44**	**12.1**

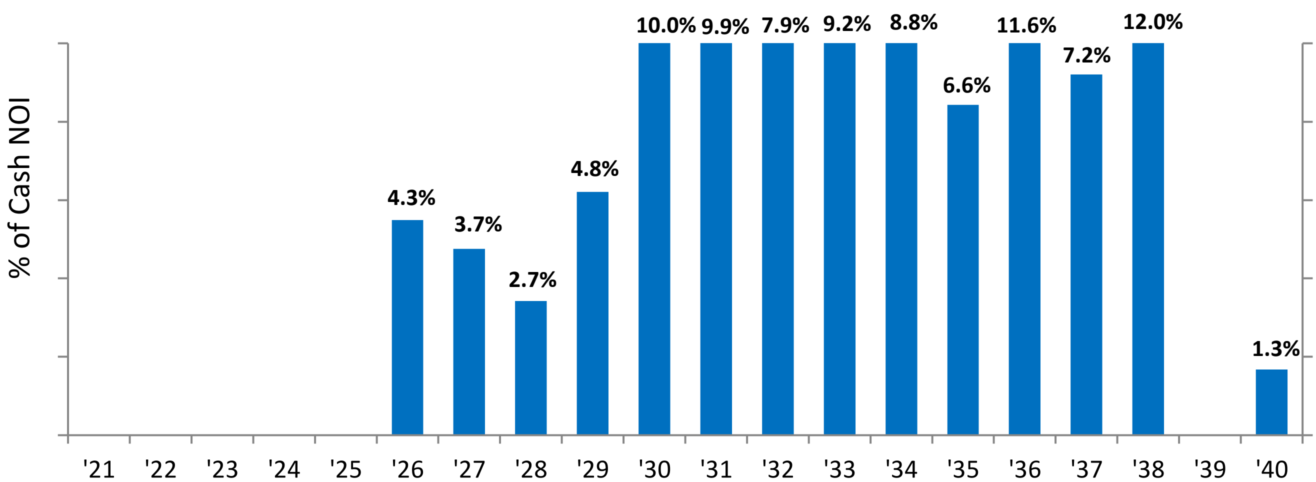
As at June 30, 2020	Number of Properties	GLA (sq. ft.)	Average rental rate (per sq. ft.) [3]	Weighted Average Lease Term (yrs)
Greater Vancouver Area (GVA) [2]	8	199,244	$35.70	13.6
Calgary	7	293,158	$25.90	12.1
Edmonton	6	174,350	$29.86	13.1
Regina	9	203,560	$22.95	10.6
Winnipeg	2	96,135	$19.03	17.8
KW/Guelph	3	87,300	$21.47	16.0
Greater Toronto Area (GTA)	13	691,908	$28.20	10.4
Ottawa/Kingston	11	303,817	$23.96	17.0
Greater Montréal Area (GMA)	5	317,608	$18.74	14.6
Total Portfolio	**64**	**2,367,080**	**$25.78**	**13.0**

(1) Based on 12-month period contractual rental revenue commencing June 30, 2021.
(2) Excludes land leases, which expenses are passed on to the tenant.
(3) Based on 12-month period contractual rental revenue commencing June 30, 2020.

Profile of Overall Lease Maturity

The lease portfolio matures between 2026 and 2040 as set out in the chart below:

Lease Maturity Profile (*)



(*) Based on 12-month period contractual rental revenue commencing June 30, 2021.

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 following table sets out the breakdown of automotive brands that are marketed, retailed and serviced at the REIT's properties as of June 30, 2021:

Manufacturer / Brand	REIT Auto Property GLA (Sq. Feet)	% of REIT Auto Property GLA	% of REIT Auto Property Rent [1]	No. of REIT Locations
BMW [2]	320,824	12.8%	10.8%	7

Honda [3]	313,155	12.5%	12.7%	9
Volkswagen	252,299	10.1%	10.8%	7
Audi [4]	237,484	9.5%	11.2%	6
Toyota	210,360	8.4%	7.6%	5
Tesla [5]	171,446	6.8%	4.1%	3
Acura [3]	162,081	6.5%	7.1%	6
General Motors	99,851	4.0%	3.2%	2
Other [6]	97,565	3.9%	4.9%	7
Porsche [7]	84,569	3.4%	5.0%	2
Chrysler [8]	81,750	3.3%	1.8%	2
Mazda	81,352	3.2%	4.0%	4
Hyundai	80,950	3.2%	3.4%	4
Nissan	71,521	2.9%	3.1%	3
Mercedes Benz	60,850	2.4%	2.3%	1
Lexus	46,241	1.8%	2.1%	2
Kia	39,543	1.6%	1.8%	2
Ford	39,287	1.6%	1.5%	1
Infiniti	19,355	0.8%	1.3%	3
Subaru	19,033	0.7%	0.6%	2
Mitsubishi	14,750	0.6%	0.7%	2
Total	**2,504,266**	**100.0%**	**100.0%**	**80**

Notes:

(1) Based on 12-month period contractual rental revenue commencing June 30, 2021.

(2) Includes MINI.

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

(4) Includes the Audi service property (formerly Infiniti Vancouver).

(5) Includes the Tesla KW, Tesla Laval and Tesla Edmonton service centres.

(6) Includes the Dilawri Distinctive Collection property in Calgary (which has been sub-leased to a third-party effective July 2021), which has franchise agreements with Aston Martin and Bentley. Also includes the former Dilawri Acura and BMW property in Regina at 1921 1st Avenue which is being used for ancillary dealership purposes by both the Dilawri Pre Owned 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 Nissan Truck and Hyundai dealerships which have vacated their premises located in Dixie Auto Mall and a Harley Davidson dealership located in the Dixie Auto Mall; and the applicable Dilawri Tenant will continue to be the lead tenant for Dixie Auto Mall until July 2030. Includes 3 vehicle compound facilities and undeveloped land that were acquired as part of the Mierins Auto Group Portfolio.

(7) Includes Porsche JLR Edmonton.

(8) 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 June 30, 2021 with comparative figures for the twelve months ended June 30, 2020 as provided to the REIT by Dilawri:

Dilawri Group's Financial Information *(all figures are approximations, not in thousands)*		
	June 30, 2021 LTM [3]	**June 30, 2020 LTM** [3]
Combined Revenues (not audited or reviewed)	$3.9 billion	$3.4 billion
EBITDA (not audited or reviewed)	$202.2 million	$107.8 million
Pro Forma Adjusted Rent Coverage Ratio (not audited or reviewed)	4.4[1]	3.1[2]
Term Debt (not audited or reviewed)	$459.8 million [1]	$468.4 million [2]
Term Debt to EBITDA Ratio (not audited or reviewed)	2.7[1]	4.3[2]

Notes:

(1) As at June 30, 2021.
(2) As at June 30, 2020.
(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 this 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 and the Term Debt to EBITDA Ratio 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 term 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

The REIT's performance is measured by management's selection of certain key indicators including those set out in the table below. For further information on the REIT's operating measures and non-IFRS measures, please refer to Sections 5 and 6 of this MD&A.

Operating Results	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	**2021**	2020
Rental revenue	**$19,562**	$18,800	**$38,975**	$37,406
NOI	**16,860**	15,586	**33,617**	31,380
Cash NOI	**16,025**	14,755	**32,106**	29,671
Same Property Cash NOI	**15,508**	14,755	**30,007**	24,950
Same Property Cash NOI (excluding bad debt (expense)/ reversal)	**15,337**	15,177	**29,729**	29,348
Net Income (Loss)	**17,858**	(23,356)	**44,187**	(7,609)
FFO	**11,750**	10,662	**23,412**	21,428
AFFO	**10,994**	9,856	**22,059**	19,827
Fair value adjustment to investment properties	**18,778**	(10,905)	**31,828**	(34,035)
Distributions per Unit	**0.201**	0.201	**0.402**	0.402
Net Income (Loss) per Unit – basic (1)	**0.364**	(0.490)	**0.910**	(0.160)
Net Income (Loss) per Unit – diluted (2)	**0.359**	(0.485)	**0.900**	(0.158)
FFO per Unit – basic (3)	**0.240**	0.224	**0.482**	0.450
FFO per Unit – diluted (4)	**0.236**	0.222	**0.477**	0.446
AFFO per Unit – basic (3)	**0.224**	0.207	**0.454**	0.416
AFFO per Unit – diluted (4)	**0.221**	0.205	**0.449**	0.412
Weighted average Units – basic (5)	**49,005,099**	47,630,305	**48,555,987**	47,630,305
Weighted average Units – diluted (6)	**49,685,935**	48,129,963	**49,079,104**	48,081,191
Payout ratio (%)				
FFO	**85.2%**	90.5%	**84.3%**	90.1%
AFFO	**91.0%**	98.0%	**89.5%**	97.6%

Balance Sheet and Other Metrics	**As at June 30, 2021**	As at December 31, 2020	As at June 30, 2020
Total assets	**$992,449**	$936,352	$897,139
Total liabilities (excluding Class B LP Units)	**$557,599**	$438,718	$433,328
Number of Units outstanding (includes Class B LP Units)	**49,013,407**	47,630,305	47,630,305
Market price per REIT Unit — close (end of period)	**$12.43**	$10.71	$9.26
Market capitalization (includes Class B LP Units)	**$609,237**	$510,121	$441,057
Overall capitalization rate	**6.5%**	6.7%	6.9%
Fixed weighted average effective interest rate on debt (excludes revolving Credit Facilities) (7)	**3.73%**	3.76%	3.77%
Proportion of total debt at fixed interest rates through interest rate swaps and Mortgages	**91%**	91%	95%
Weighted average interest rate swap and Mortgage term remaining (years)	**5.4**	5.8	5.5
Weighted average term to maturity of debt	**3.3**	2.9	3.4
Interest Coverage Ratio (8)	**3.8X**	3.6X	3.5X
Debt Service Coverage Ratio (8)	**1.9X**	1.8X	1.8X

Debt to GBV	**41.3%**	43.2%	44.4%

(1) Net Income per Unit — basic is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units and Class B LP Units.
(2) Net Income per Unit — diluted is calculated in accordance with IFRS by dividing the Net Income by the amount of the weighted average number of outstanding REIT Units, Class B LP Units, DUs, IDUs, RDUs and PDUs (each as defined below) granted to certain Trustees and management of the REIT.
(3) 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.
(4) 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, IDUs, RDUs and PDUs granted to certain Trustees and management of the REIT.
(5) The weighted average number of outstanding Units — basic includes the Class B LP Units.
(6) The weighted average number of outstanding Units — diluted includes the Class B LP Units, DUs, IDUs, RDUs and PDUs granted to certain Trustees and management of the REIT.
(7) The fixed weighted average effective interest rate on debt is calculated on an annualized basis.
(8) For Q2 2021 ratios, see Section 7 "Financing Metrics and Debt Covenants".

SECTION 5 — RESULTS OF OPERATIONS

Net Income (Loss) and Comprehensive Income (Loss)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Variance	**2021**	2020	Variance
Net Property Income						
Base rent	**$16,013**	$15,278	$735	**$31,807**	$30,353	$1,454
Property tax recoveries	**2,873**	2,792	81	**5,635**	5,604	31
Straight line rent adjustment	**676**	730	(54)	**1,194**	1,449	(255)
Lease termination fee	—	—	—	**339**	—	339
Rental Revenue	**19,562**	18,800	762	**38,975**	37,406	1,569
Property tax expense	**(2,873)**	(2,792)	(81)	**(5,635)**	(5,604)	(31)
Bad debt reversal (expense)	**171**	(422)	593	**277**	(422)	699
Property Costs	**(2,702)**	(3,214)	512	**(5,358)**	(6,026)	668
NOI	**$16,860**	$15,586	$1,274	**$33,617**	$31,380	$2,237
Other Income (Expenses)						
General and administrative expenses	**(1,178)**	(1,027)	(151)	**(2,311)**	(1,996)	(315)
Interest expense and other financing charges	**(3,857)**	(3,885)	28	**(7,745)**	(7,875)	130
Fair value adjustment on interest rate swaps	**(392)**	(1,796)	1,404	**10,701**	(20,427)	31,128
Distribution expense on Class B LP Units	**(1,997)**	(1,997)	1	**(3,994)**	(3,994)	1
Fair value adjustment on Class B LP Units, DUs and IDUs	**(10,356)**	(19,332)	8,976	**(17,909)**	29,338	(47,247)
Fair value adjustment on investment properties	**18,778**	(10,905)	29,683	**31,828**	(34,035)	65,863
Net Income (Loss) and Comprehensive Income (Loss)	**$17,858**	$(23,356)	$41,214	**$44,187**	$(7,609)	$51,796

For Q2 2021, net income was $17,858 compared to a net loss of $23,356 in Q2 2020. The positive variance was primarily due to higher NOI and fair value adjustments on investment properties, Class B LP Units, Deferred Units ("DUs") and Income Deferred Units ("IDUs"). NOI totalled $16,860 in Q2 2021, an increase of 8.2% compared to $15,586 in Q2 2020. The increase was primarily due to the properties acquired subsequent to Q2 2020, and contractual rent increases.

Rental Revenue and Property Costs

Rental revenue is based on triple-net leases with tenants. As such, rental revenue also includes recoverable realty taxes and straight-line adjustments.

For Q2 2021, rental revenue was $19,562, an increase of $762, or 4.1%, compared to Q2 2020. The increase was primarily due to the properties acquired subsequent to Q2 2020 and contractual rent increases.

For YTD 2021, rental revenue was $38,975, an increase of $1,569, or 4.2%, compared to YTD 2020. The increase was attributable to the properties acquired subsequent to YTD 2020 and contractual rent increases.

Property costs for Q2 2021 and YTD 2021 were $512 and $668 lower than Q2 2020 and YTD 2020, respectively. The decreases are attributable to the reversal of the bad debt expense in both Q2 2021 and YTD 2021. As a result of the improved credit risk related to the accounts receivable associated with the Deferral Agreements, the REIT recognized a bad debt reversal of $171 for Q2 2021 (Q2 2020 – ($422)), which reflects the REIT's assessment of the reduced credit risk relating to the collection of the tenant rent and other receivable balance under the Deferral Agreements which totalled $507 as at June 30, 2021.

General and Administrative Expenses

The table below illustrates the breakdown of general and administrative expenses incurred in Q2 2021 and YTD 2021 as compared to the corresponding periods in 2020:

	Q2 2021	Q2 2020	Variance	**YTD 2021**	YTD 2020	Variance
Human Resource Costs	**$570**	$487	$84	**1,235**	$964	$272
Public Entity and Other Costs	**522**	410	112	**898**	807	91
Independent Trustee Fees	**86**	130	(44)	**178**	225	(47)
General and administrative expenses	**$1,178**	$1,027	$152	**$2,311**	$1,996	$316

Human resource costs reflect the expenses related to the management, operating and administrative support of the REIT. Human resource costs also include accruals for short-term incentive awards for management, the vesting of long-term DUs, IDUs, Performance Deferred Units ("PDUs") and Restricted Deferred Units ("RDUs"). Public entity and other costs reflect the expenses related to ongoing operations of the REIT, including professional fees for legal and audit services, and depreciation expense for an office lease right-of-use ("ROU") asset.

For Q2 2021, human resource costs of $570 and public entity and other costs of $522 totalled $1,092, and for YTD 2021, human resource costs of $1,235 and public entity and other costs of $898 totalled $2,133. The increase in human resource costs in Q2 2021 and YTD 2021 of approximately $83 and $271, respectively, resulted primarily from the vesting of long-term compensation cost. Additional increases of $112 and $91, respectively, in public entity and other costs are a result of the REIT's growth.

During YTD 2021, the independent Trustees of the REIT ("Independent Trustees") elected to receive board and committee fees in the form of DUs. The non-cash unit-based compensation expense relates to DUs and IDUs granted in accordance with the REIT's Equity Incentive Plan (the "Plan"). 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 Q2 2021 and YTD 2021, the REIT paid the Independent Trustees $86 and $178, respectively, representing a decrease of $44 and $47, compared to Q1 2020 and YTD 2020 respectively. The decreases are primarily a result of fewer Board meetings in year-to-date 2021.

Interest Expense and Other Financing Charges

Interest expense includes 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 Q2 2021 and YTD 2021, the interest expense and other financing charges were $3,857 and $7,745, respectively, representing decreases of $28 and $130 as compared to Q2 2020 and YTD 2020, respectively. The decreases are primarily a result of repayments of debt subsequent to Q2 2020 and YTD 2020.

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 indicated a decrease in capitalization rates from December 31, 2020 and March 31, 2021. For the three-month period ended June 30, 2021, the REIT decreased the discount rates for properties in the GTA and GMA by approximately 20 basis points primarily due to industry-wide single tenant retail and industrial capitalization rate reductions. Furthermore, there was a decrease of approximately 10 basis points applicable to the entire portfolio for the three-month period ended March 31, 2021, primarily due to the resilience of the automotive dealership retail business during the pandemic.

For Q2 2021 and YTD 2021, the fair value adjustments in investment properties were $18,778 and $31,828, respectively, compared to $(10,905) for Q2 2020 and $(34,035) for YTD 2020. The overall capitalization rate applicable to the REIT's entire portfolio decreased to 6.5% as at June 30, 2021 (March 31, 2021 – 6.6%; December 31, 2020 – 6.7%). The historical book value of the investment properties owned by the REIT as at June 30, 2021 was $905,642 (December 31, 2020 – $890,963).

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 will be appraised annually.

A 25 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of investment properties of approximately $39,000 or $(36,000), respectively.

A 50 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $81,000 or $(69,500), respectively.

Changes in Fair Values of Class B LP Units, Unit-based compensation 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 and unit-based compensation 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 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 an increase in fair value adjustment for Class B LP Units and unit-based compensation in Q2 2021 of $10,356 (Q2 2020 — increase of $19,332), and an increase of $17,909 for YTD 2021 (YTD 2020 – decrease of $29,338).

The REIT enters into interest rate swaps to limit its exposure to fluctuations in the interest rates on variable rate financings for certain of its 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 (loss) and comprehensive income (loss).

The fair value adjustment for interest rate swaps for Q2 2021 was a loss of $392 (Q2 2020 — loss of $1,796) and a gain of $10,701 for YTD 2021 (YTD 2020 – loss of $20,427). The variances reflect a decline in interest rates in the derivative market as at June 30, 2021.

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"). The calculations of these measures and the reconciliation to net income and comprehensive income are set out in the following table:

($000s, except per Unit amounts)	Three Months Ended June 30, 2021	2020	Variance	Six Months Ended June 30, 2021	2020	Variance
Calculation of NOI						
Property revenue	**$19,562**	$18,800	$762	**$38,975**	$37,406	$1,569
Property costs	**(2,702)**	(3,214)	512	**(5,358)**	(6,026)	668
NOI (including straight-line adjustments)	**$16,860**	$15,586	$1,274	**$33,617**	$31,380	$2,237
Adjustments:						
Land lease payments	**(159)**	(101)	(58)	**(317)**	(260)	(57)
Straight-line adjustment	**(676)**	(730)	54	**(1,194)**	(1,449)	255
Cash NOI	**$16,025**	$14,755	$1,270	**$32,106**	$29,671	$2,435
Reconciliation of net income to FFO and AFFO						
Net income (loss) and comprehensive income (loss)	**$17,858**	$(23,356)	$41,214	**$44,187**	$(7,609)	$51,796
Adjustments:						
Change in fair value — Interest rate swaps	**392**	1,796	(1,404)	**(10,701)**	20,427	(31,128)
Distributions on Class B LP Units	**1,997**	1,997	-	**3,994**	3,994	-
Change in fair value — Class B LP Units, DUs and IDUs	**10,356**	19,332	(8,976)	**17,909**	(29,338)	47,247
Change in fair value — investment properties	**(18,778)**	10,905	(29,683)	**(31,828)**	34,035	65,863
ROU asset net balance of depreciation/interest and lease payments	**(75)**	(12)	(63)	**(149)**	(81)	(68)
FFO	**$11,750**	$10,662	$1,087	**$23,412**	$21,428	$1,983
Adjustments:						
Straight-line adjustment	**(676)**	(730)	54	**(1,194)**	(1,449)	255
Capital expenditure reserve	**(80)**	(76)	(4)	**(159)**	(152)	(7)
AFFO	**$10,994**	$9,856	$1,137	**$22,059**	$19,827	$2,231
Number of Units outstanding (including Class B LP Units)	**49,013,407**	47,630,305	1,383,102	**49,013,407**	47,630,305	1,383,102
Weighted average Units outstanding — basic	**49,005,099**	47,630,305	1,374,794	**48,555,987**	47,630,305	925,682
Weighted average Units outstanding — diluted	**49,685,935**	48,129,963	1,555,972	**49,079,104**	48,081,191	997,913
FFO per Unit — basic (1)	**$0.240**	$0.224	$0.016	**$0.482**	$0.450	$0.032
FFO per Unit — diluted (2)	**$0.236**	$0.222	$0.014	**$0.477**	$0.446	$0.031
AFFO per Unit — basic (1)	**$0.224**	$0.207	$0.017	**$0.454**	$0.416	$0.038
AFFO per Unit — diluted (2)	**$0.221**	$0.205	$0.016	**$0.449**	$0.412	$0.037
Distributions per Unit	**$0.201**	$0.201	-	**$0.402**	$0.402	-
FFO payout ratio	**85.2%**	90.5%	(5.3) %	**84.3%**	90.1%	(5.8) %
AFFO payout ratio	**91.0%**	98.0%	(7.0) %	**89.5%**	97.6%	(8.1) %

(1) 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.
(2) 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, IDUs, RDUs and PDUs granted to certain independent Trustees and management of the REIT.

FFO, AFFO and Cash NOI

FFO for Q2 2021 increased 10.2% to $11,750, compared to $10,662 in Q2 2020. FFO per Unit (diluted) was $0.236 in Q2 2021, compared to $0.222 in Q2 2020. The increase was primarily due to the properties acquired subsequent to Q2 2020, bad debt reversal related to the tenant receivables and contractual rent increases.

FFO for YTD 2021 increased 9.3% to $23,412, compared to $21,428 in YTD 2020. FFO per Unit (diluted) was $0.477 in YTD 2021, compared to $0.446 in YTD 2020. The increase was primarily due to the properties acquired subsequent to YTD 2020, bad debt reversal related to the tenant receivables and contractual rent increases.

AFFO for Q2 2021 increased 11.5% to $10,994, compared to $9,856 in Q2 2020. Cash NOI in Q2 2021 was $16,025 on $19,562 of rental revenue, compared to Cash NOI of $14,755 of $18,800 of rental revenue for Q2 2020. AFFO per Unit (diluted) was $0.221 in Q2 2021, compared to $0.205 in Q2 2020. The increases were primarily due to the properties acquired subsequent to Q2 2020, bad debt reversal related to the tenant receivables and contractual rent increases, partially offset by capital reserve expenses.

AFFO for YTD 2021 increased 11.3% to $22,059, compared to $19,827 in YTD 2020. Cash NOI in YTD 2021 was $32,106 on $38,975 of rental revenue, compared to Cash NOI of $29,671 on $37,406 of rental revenue in YTD 2020. AFFO per Unit (diluted) was $0.449 in YTD 2021, compared to $0.412 in YTD 2020. The increases were primarily due to the properties acquired subsequent to YTD 2020, bad debt reversal related to the tenant receivables and contractual rent increases, partially offset by capital reserve expenses.

For Q2 2021, the REIT declared and paid distributions to Unitholders of $9,850 or $0.201 per Unit (Q2 2020 — $9,574 declared and paid), and for YTD 2021, the REIT declared and paid distributions of $19,424, or $0.402 per Unit (YTD 2020 - $19,148 declared and paid). This resulted in an AFFO payout ratio of 91.0% in Q2 2021 (Q2 2020 — 98.0%) and 89.5% in YTD 2021 (YTD 2020 – 97.6%). The AFFO payout ratio was lower in Q2 2021 and YTD 2021 primarily due to the bad debt reversal related to the tenant receivables and contractual rent increases. The higher AFFO payout ratio in Q2 2020 and YTD 2020 also reflect the temporary dilutive effective of the December 2019 equity offering.

Same Property Cash Net Operating Income

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Variance	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	Variance
Same property base rental revenue	**$15,496**	$15,278	$218	**$30,047**	$29,608	$439
Bad debt reversal (expense)	**171**	(422)	593	**277**	(422)	699
Land lease payments	**(159)**	(101)	(58)	**(317)**	(260)	(57)
Same Property Cash NOI	**$15,508**	$14,755	$753	**$30,007**	$28,926	$1,081
Bad debt reversal (expense)	**(171)**	422	(593)	**(277)**	422	(699)
Same Property Cash NOI (excluding bad debt (expense)/reversal)	**$15,337**	$15,177	$160	**$29,730**	$29,348	$382

Excluding bad debt reversal (expense), Same Property Cash NOI increased 1.1% to $15,337 in Q2 2021 from $15,177 in Q2 2020, and 1.3% to $29,730 in YTD 2021 from $29,348 in YTD 2020. The increase is primarily a result of contractual rent increases.

Reconciliation of Cash Flow from Operating Activities to ACFO

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"). 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, assumed 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. The calculation of ACFO and the reconciliation to cash flow from operating activities are set out in the table below:

($000s)	Three Months Ended June 30, 2021	2020	Variance	Six Months Ended June 30, 2021	2020	Variance
Cash flow from operating activities	**$15,406**	$11,702	$3,704	**$30,845**	$25,743	$5,102
Change in non-cash working capital	**691**	(130)	821	**(960)**	523	(1,483)
Interest paid	**(3,775)**	(3,616)	(159)	**(7,333)**	(7,273)	(60)
Amortization of financing fees	**(119)**	(154)	35	**(234)**	(302)	68
Amortization of indemnification fees	**(45)**	(41)	(4)	**(90)**	(82)	(8)
Net interest expense and other financing charges in excess of interest paid	**37**	(115)	152	**(178)**	(300)	122
Capital expenditure reserve	**(79)**	(76)	(3)	**(159)**	(152)	(7)
ACFO	**$12,116**	$7,570	$4,546	**$21,891**	$18,157	$3,734
ACFO payout ratio	**81.3%**	126.5%	(45.2) %	**89.2%**	105.5%	(16.3) %

ACFO increased to $12,116 in Q2 2021, from $7,570 in Q2 2020. In YTD 2021, ACFO increased to $21,891, compared to $18,157 in YTD 2020. The increases were primarily due to the properties acquired subsequent to Q2 2020, contractual rent increases and the collection of rent receivables relating to the Deferral Agreements.

SECTION 7 — LIQUIDITY AND CAPITAL RESOURCES

Capital Structure

Debt	Term (yrs)	Key Terms: Hedged Term (yrs)	Interest Rate	Payments & Interest/Amortization	Effective Interest Rate (fixed)	Outstanding as at June 30, 2021	Outstanding as at December 31, 2020
Facility 1	2.0 (1)	1.5 to 9.5	BA + 150 bps, Prime +25 bps	(1)	3.75%	**$182,396**(5)	$202,086
Facility 2	3.0 (2)	2.0 to 9.5	BA + 150 bps, Prime +25 bps	(2)	3.52%	**93,072**	95,403
Facility 3	5.0 (3)	4.5 to 7.5	BA + 150 bps, Prime +50 bps	(3)	4.05%	**103,313**(6)	85,500
Mortgages	6.6 to 9.8(4)	n/a	Fixed 2.21% to 3.72 %	P&I, 20 yrs and 25yrs	3.24%	**24,580**	14,905
						403,361	$397,894
Financing fees						**(2,500)**	(1,864)

Weighted Average /Total	**3.3**	**5.4**		**3.73%**	**$400,861**	$396,030

Class B LP Units, DUs and IDUs	**$129,924**	$110,848
Cash Balance	**$8,165**	$308

Key Financing Metrics and Debt Covenants(7)(8)	Debt Covenant	Declaration of Trust (9)	**As at June 30, 2021**	As at December 31, 2020
Interest coverage	-	-	**3.8**	3.6
Debt to GBV	<60% (10)	<60% (10)	**41.3%**	43.2%
Unitholders' Equity (including Class B LP Units, DUs and IDUs)	>$120,000	-	**$564,774**	$502,097
Debt Service Coverage	>1.35	-	**1.9**	1.8
AFFO payout ratio	(11) (12) (13)	-	**91.0%**	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 2024.
(3) Facility 3 and the associated revolving facility matures in June 2026.
(4) The REIT extended the maturity of Facility 3 to June 2026.
(5) In January 2021, the REIT renewed a Mortgage in the amount of approximately $5,791 for a term of 7 years at an interest rate of 2.21%. In April 2021, the REIT entered into a Mortgage with a life insurance company in the amount of $10,000 for a term of 10 years at an interest rate of 3.39%.
(6) $18,216 of the non-revolving balance of Facility 1 remains at floating rates (December 31, 2020 – $18,414).
(7) $20,187 of the non-revolving balance of Facility 3 remains at floating rates (December 31, 2020 – $nil).
(8) The calculations of these ratios, which are non-IFRS measures, are set out under "Financing Metrics and Debt Covenants" below.
(9) 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.
(10) 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 and is described in the AIF. Management believes that the REIT is in compliance with these operating covenants.
(11) Including convertible debentures, the maximum ratio is 65%.
(12) The AFFO payout ratio in respect of Facility 1 may exceed 100% so long as (i) the REIT's Debt to GBV ratio is less than 55% or (ii) the REIT's 12 month retrospective rolling AFFO payout ratio is less than 100%.
(13) The AFFO payout ratio in respect of Facility 2 may exceed 100% (four quarter rolling) during the period from April 1, 2020 to September 30, 2021, subject to a maximum AFFO payout ratio of 110%.
(14) The AFFO payout ratio in respect of Facility 3 may exceed 100% (four quarter rolling) so long as (i) the REIT's Debt to GBV ratio is less than 55% and (ii) the REIT's cash on hand plus the cumulative amount available to be drawn under the revolving Credit Facilities exceeds $17,000.

Facility 1, Facility 2 and Facility 3 described above are collectively referred to as the "Credit Facilities" and the mortgages described above are referred to as the "Mortgages".

In June 2021, the REIT increased the amount available of its non-revolving portion under Facility 3 by $20,187 to a total of $103,313 and extended the term to maturity from December 2023 to June 2026. The revolving portion of Facility 3 was also extended to June 2026. In September 2021, Facility 3's non-revolving and revolving portions are each committed to increase by $10,000.

The Credit Facilities' AFFO payout ratio covenant was adjusted during 2020 to permit the REIT to exceed 100% to manage any potential further risk associated with the impact of COVID-19. The AFFO payout ratio debt covenant is based on the rolling average of the last four fiscal quarters. For the four quarters ended June 30, 2021, the AFFO payout ratio was approximately 93.1%.

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 2021	$9,466
2022	18,977
2023	189,762
2024	78,337
2025	6,077
Thereafter	100,742
Total	$403,361

The REIT's liquidity position as at June 30, 2021 includes $75,000 of undrawn capacity under its revolving Credit Facilities, which management believes is sufficient to carry out its obligations, discharge liabilities as they come due and fund distributions to Unitholders. Capital requirements in the next two years are low and capital expenditure requirements are expected to be insignificant. Nonetheless, the current economic, operating and capital market environment resulting from the pandemic has led to an increased emphasis on liquidity. While the REIT has not changed its objectives in managing its capital structure, the current focus has been on ensuring that the REIT retains sufficient liquidity.

Capital required for investing activities will be addressed through additional borrowings or issuances of equity as acquisition and development opportunities arise. As at June 30, 2021, the REIT had seven unencumbered properties with an aggregate value of approximately $101,370, which can be used as security in respect of future financing requirements, as and when needed.

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 50%-55% of GBV over the long term. As at June 30, 2021, the REIT's Debt to GBV ratio was 41.3% (December 31, 2020 — 43.2% and June 30, 2020 — 44.9%). The decrease as compared to December 31, 2020 is primarily attributable to the acquisition of Lexus Laval, which was funded the through the issuance of 1,369,102 REIT Units to Dilawri valued at approximately $14,800, and the fair value adjustment of $18,778 on investment properties in Q2 2021. 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 would exceed 60% of GBV (or 65% of GBV including convertible debentures).

Secured Credit Facilities, Mortgages and Interest Rate Swap Arrangements

All of the REIT's Credit Facilities and Mortgages are with Canadian Schedule 1 banks and a life insurance company and are secured by all but seven of the REIT's investment properties.

As at June 30, 2021, the REIT had total revolving Credit Facilities of $75,000, of which $75,000 was undrawn ($30,000 in Facility 1, $15,000 in Facility 2, and $30,000 in Facility 3).

Financing Fees

During Q2 2021, the REIT incurred financing fees of $837 (December 31, 2020 — $36). The amounts are accounted for using the effective interest method. As at June 30, 2021, $2,500 remains unamortized (December 31, 2020 — $1,864).

Interest Rate Swaps

The REIT enters 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.

As a result of the above, the REIT's weighted average interest rate swap term as of June 30, 2021 is 5.4 years.

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 June 30, 2021.

Remaining Term (yrs)	Amount ($000s)	Total Swapped Fixed Rate Debt (%)
1.9	44,579	13.1
3.7	82,658	24.3
4.6	70,983	20.8
7.9	142,354	41.8
5.4	**340,574**	**100.0**

As at June 30, 2021, the notional principal amount of the interest rate swaps was $340,574 (December 31, 2020 — $349,000) and the fair value adjustment of the interest rate swaps was a loss of $(392) and $10,701 for the three- and six- month periods ended June 30, 2021, respectively, compared to $(1,796) and $(20,427) for the three- and six-month periods ended June 30, 2020, respectively. This resulted in a liability balance of $12,147 as at June 30, 2021 (December 31, 2020 — $22,847).

The weighted average interest rate swap term and Mortgage term remaining is 5.5 years as at June 30, 2021.

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 June 30, 2021, the total number of REIT Units outstanding was 39,066,154.

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 June 30, 2021, the total number of Class B LP Units outstanding was 9,933,253.

Deferred Units

The REIT offers an Equity Incentive Plan, pursuant to which DUs (including RDUs and PDUs) may be granted to Trustees, officers and employees of the REIT on a discretionary basis by the Board. The maximum number of REIT Units available for issuance under the Plan is 1,000,000. 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.

DUs and RDUs awarded under the Equity Incentive Plan will vest over time, and in the case of PDUs, subject to the achievement of performance vesting conditions, which may include but are not limited to, financial or operational performance of the REIT, total unitholder return or individual performance criteria, measured over a performance period.

For YTD 2021, a total of 107,087 DUs, PDUs, RDUs and IDUs were granted, of which 40,577 DUs, PDUs, RDUs and IDUs will be accounted for in accordance with the vesting schedule. During Q2 2021 14,000 DUs and IDUs were exchanged for Units. As at June 30, 2021, a total of 698,359 DUs, PDUs, RDUs and IDUs remain outstanding.

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.

In determining the amount of the monthly cash distributions paid to holders of REIT Units, the Board applies discretionary judgment to forward-looking 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 REIT is currently paying monthly cash distributions to Unitholders of $0.067 per Unit, representing $0.804 per Unit on an annualized basis.

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:

Calculations of financial metrics and debt covenants			**As at June 30, 2021**	**As at December 31, 2020**
Net Asset Value				
Investment properties, IFRS value			$980,852	$932,229
Cash, prepaid and other assets			11,597	4,123
Accounts payable and accrued liabilities			(14,667)	(15,378)
Credit Facilities, Mortgages and interest rate swaps			(413,008)	(418,877)
Total Net Asset Value			**$564,774**	**$502,097**
Total Net Asset Value excluding interest rate swaps			**$576,921**	**$524,944**
REIT Units and Class B LP Units outstanding			49,013,407	47,630,305
Debt to GBV				
Indebtedness outstanding:				
Credit Facilities & Mortgages (excludes deferred financing costs)		**A**	$403,361	$397,894
Lease Liability		**A1**	6,796	6,990
Gross Book Value				
Total assets		**B**	992,449	936,352
Debt to GBV [(1)]	**((A+A1)/B) X 100**		**41.3%**	**43.2%**
Unitholders' Equity & Class B LP Units & DUs & IDUs				
Unitholders' Equity			$434,850	$391,249
Value of DUs & IDUs			6,454	4,463
Value of Class B LP Units			123,470	106,385
Total Unitholders' Equity & Class B LP Units & DUs & IDUs			**$564,774**	**$502,097**

Calculations of financial metrics and debt covenants					
Interest coverage		**Q2 2021**	**Q2 2020**	**YTD 2021**	**YTD 2020**
Cash NOI		$16,025	$14,755	$31,767	$29,671
General and administrative expenses		(1,178)	(1,027)	(2,311)	(1,996)
Income before interest expense and fair value adjustments	**C**	14,846	13,728	29,455	27,675
Interest expense and other financing charges	**D**	(3,857)	3,885	(7,745)	7,875
Interest Coverage Ratio (2)	**C/D**	**3.8X**	**3.5X**	**3.8X**	**3.5X**
Debt Service Coverage					
Consolidated net income (loss)		$17,858	$(23,356)	$44,187	$(7,609)
Interest expense and other financing charges		3,857	3,885	7,745	7,875
Distribution expense on Class B LP Units		1,997	1,997	3,994	3,994
Amortization of other assets		45	41	91	82
Fair value adjustments, net		(8,030)	32,033	(24,620)	25,124
EBITDA	**E**	15,726	14,600	31,396	29,466
Principal payments on debt		4,574	4,527	9,118	9,048
Interest payments on debt (excludes bank charges)		3,778	3,616	7,336	7,273
Debt Service	**F**	8,352	8,143	16,454	16,321
Debt Service Ratio (3)	**E/F**	**1.9X**	**1.8X**	**1.9X**	**1.8X**
AFFO payout ratio					
AFFO		10,994	9,855	22,059	19,827
Distributions on REIT Units		7,853	7,577	15,430	15,154
Distributions on Class B LP Units		1,996	1,997	3,994	3,994
		9,849	9,574	19,424	19,148
AFFO payout ratio (4)		**91.0%**	**98.0%**	**89.5.%**	**97.6%**

Notes:

(1) The Debt to GBV ratio as at June 30, 2021 decreased as compared to December 31, 2020, primarily due to the acquisition of Lexus Laval which was funded the through the issuance of 1,369,102 REIT Units to Dilawri valued at approximately $14,800 and the fair value adjustment of $18,778 on investment properties in Q2 2021.

(2) The Interest Coverage Ratio for Q2 2021 increased compared to the same period in the previous year, mainly due to the increase in Cash NOI resulting from the acquisitions of properties funded through two equity offerings completed in 2019 and through the issuance of 1,369,102 REIT Units in Q2 2021.

(3) The Debt Service Ratio for Q2 2021 increased compared to the same period in the previous year, mainly due to the increase in Cash NOI.

(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 June 30, 2021 held an approximate 28.1% (June 30, 2020 – 26.0%) 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 3,827,554 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 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 letters of credit 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 three years subsequent to the IPO and, accordingly, 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 AIF, which can be found on SEDAR at www.sedar.com and on the REIT's website www.automotivepropertiesreit.ca.

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 and supported by an independent appraisal report. Pursuant to the Strategic Alliance Agreement, the REIT acquired the following investment properties in 2020 and year to date 2021:

- On March 1, 2021, the REIT acquired the Lexus Laval automotive dealership property from a member of the Dilawri Group for $14,800 and leased it to a Dilawri Tenant.
- On February 6, 2020, the REIT acquired the Acura North Vancouver automotive dealership property from a member of the Dilawri Group for $17,500 and leased it to a Dilawri Tenant.
- On February 5, 2020, the REIT acquired the Regina BMW automotive dealership property from a member of the Dilawri Group for $11,350 and leased it to a Dilawri Tenant.

SECTION 9 — OUTLOOK

Since the end of Q2 2021, provincial governments across Canada have eased COVID-19 related business restrictions, including those that impact automotive dealerships, as COVID-19 vaccination rates of Canadians have increased significantly and case counts have stabilized. As provincial COVID-19 related restrictions continue to ease, pent-up consumer demand is expected to support the continued recovery in Canadian auto sales and service work performed by the automotive dealerships. COVID-19 has also impacted the vehicle supply chain, resulting in constraints of specific parts, models and brands. Management believes these supply constraints are temporary and will not have a material impact on the REIT's tenants. The REIT believes that the overall fundamentals of the automotive dealership business remain strong and that the industry is resilient and will continue to grow as the pandemic continues to stabilize. While the current outlook regarding the pandemic is more positive than at the end of Q1 2021, future developments related to the pandemic could result in additional restrictions being implemented throughout 2021 that could impact the financial performance and financial position of the REIT and its tenants in future periods.

At the date of this MD&A, the REIT has collected 100% of its expected July and August 2021 contractual base rent under the leases, plus contractual base rent that is due under the Deferral Agreements. As of the date of this MD&A, no additional rent deferrals have been requested by the REIT's tenants.

Given the REIT's strong balance sheet position, the REIT can pursue acquisitions on a strategic basis through debt financing and available liquidity. In considering potential acquisitions, diversification of automobile brand and geographic location remain important criteria for the REIT, as some automotive brands continue to gain market share while other brands are experiencing sales deterioration, and certain markets present a more favourable economic outlook.

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 continued consolidation over the mid-to-long term due to increased industry sophistication and growing capital requirements for owner operators, which encourages them to pursue increased economies of scale. The REIT expects that the pace of consolidation in the automotive dealership industry will rebound as the pandemic continues to stabilize.

As at June 30, 2021, the REIT had Debt to GBV ratio of 41.3% and a strong liquidity position with a $75,000 of undrawn Credit Facilities, cash on had of $8,165 and seven unencumbered properties with an aggregate value of $101,370.

The financial markets continually fluctuate, and it is therefore difficult for management to quantify the impact that the pandemic will have on the cost and availability of debt and equity capital to the REIT. Management and the Trustees are continuing to closely monitor the impact of the pandemic on the REIT’s business and the business of the REIT’s tenants and will continue to prudently manage the REIT’s available resources during this period of economic uncertainty. Management has also proactively raised its level of preparedness planning to adapt should risk levels rise and will continue to monitor and adjust its business continuity and other plans as the pandemic continues.

SECTION 10 — OTHER DISCLOSURES

Environmental and Corporate Social Responsibility

The REIT has a triple-net lease structure which limits its ability to impact energy use and conservation policies at its properties. However, the REIT has adopted a written Environmental and Corporate Social Responsibility Policy (the “ESG Policy”) to formally recognize the REIT’s approach to addressing its environmental and social responsibilities as a good corporate citizen. The ESG Policy acknowledges the nature of the REIT’s business as an owner of automotive dealership properties in Canada and its efforts to promote a culture of improvement with regards to sustainability and social responsibility for the benefit of all its stakeholders, including employees, tenants, suppliers, Unitholders and local communities.

The ESG Policy articulates the REIT’s commitment to: (i) protecting its investors by managing sustainability-related risks; (ii) informing its tenants, suppliers and investment partners of sustainable options; (iii) sourcing with integrity; (iv) collaborating on sustainability with industry bodies; (v) compliance with applicable Canadian federal, provincial, territorial and municipal laws relating to environmental matters; (vi) making, or requiring its tenants to make, the necessary capital and operating expenditures to comply with environmental laws and address any material environmental issues; (vii) requiring its officers and other staff to adhere to the REIT’s policies and procedures regarding the environment, sustainability and compliance with environmental legislation, and report any non-compliance with such policies and procedures; and (viii) offering a safe place to work. A copy of the ESG Policy is available on the REIT’s website.

Oversight of the ESG Policy is within the mandate of the REIT’s Governance, Compensation and Nominating Committee (the “GCN Committee”). As part of that oversight, management reports to the GCN Committee at each quarterly meeting in respect of, among other things, compliance with the ESG Policy and any environmental and corporate social responsibility (“ESG”) initiatives undertaken by management. Furthermore, commencing in 2021, the GCN Committee and the Board have made ESG a stand-alone metric in the REIT’s short-term incentive plan for executive officers in recognition of the importance of ESG to the REIT. To that end, management is currently in the process of developing a corporate sustainability plan and updating the REIT’s ESG Policy with the assistance of an outside ESG consultant. The REIT has also established an ESG committee comprised of REIT management and employees that makes recommendations to the REIT’s executive officers in respect of ESG initiatives and engagement.

Commitments and Contingencies

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	$296
After 1 year, but not more than 5 years	2,054
More than 5 years	4,446
Total	$6,796

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 Q2 2021 that have materially affected, or are reasonably likely to materially affect, the REIT's ICFR.

Management recognizes 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:

($ thousands except where otherwise indicated)	**Second Quarter 2021**	First Quarter 2021	Fourth Quarter 2020	Third Quarter 2020	Second Quarter 2020	First Quarter 2020	Fourth Quarter 2019	Third Quarter 2019
Number of Properties	**66**	66	65	65	64	64	62	61
GLA (sq. ft.)	**2,524,491**	2,524,491	2,494,476	2,494,476	2,367,080	2,367,080	2,325,088	2,296,780
Rental revenue	**19,562**	19,413	19,091	18,627	18,800	18,606	18,122	17,349
Net Operating Income	**16,860**	16,757	16,471	16,168	15,586	15,794	15,144	14,667
Net Income (Loss)	**17,858**	26,329	30,180	4,395	(23,356)	15,748	3,894	1,054
Net Income (Loss) per Unit — basic[(i)]	**0.364**	0.547	0.634	0.092	(0.490)	0.331	0.096	0.027
Net Income (Loss) per Unit — diluted[(ii)]	**0.359**	0.541	0.626	0.091	(0.485)	0.328	0.096	0.026
FFO per Unit — basic[(iii)]	**0.240**	0.242	0.236	0.234	0.224	0.226	0.222	0.247
FFO per Unit — diluted[(iv)]	**0.236**	0.239	0.233	0.231	0.222	0.224	0.220	0.246
AFFO per Unit — basic[(iii)]	**0.224**	0.230	0.217	0.217	0.207	0.209	0.203	0.226
AFFO per Unit — diluted[(iv)]	**0.221**	0.227	0.214	0.215	0.205	0.208	0.202	0.224
AFFO payout ratio	**91.0%**	88.5%	93.9%	93.5%	98.0%	96.6%	99.6%	89.7%
Distribution declared per Unit	**0.201**	0.201	0.201	0.201	0.201	0.201	0.201	0.201
Weighted average Units — basic	**49,005,099**	48,101,885	47,630,305	47,630,305	47,630,305	47,630,305	40,502,680	39,729,805
Weighted average Units — diluted	**49,685,935**	48,712,838	48,203,686	48,167,267	48,129,963	48,032,420	40,767,092	39,981,885
Market price per REIT Unit – close (end of period)	**$12.43**	$11.44	$10.71	$9.97	$9.26	$7.38	$12.15	$11.09
Total assets	**992,449**	965,510	936,352	910,671	897,139	919,352	935,733	871,762
Debt to GBV	**41.3%**	41.7%	43.2%	44.8%	44.4%	44.9%	43.6%	49.6%

Debt service coverage	**1.9X**	1.9X	1.8X	1.8X	1.8X	1.8X	1.6X	1.6X

Notes:

(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 June 30, 2021, to certain Trustees and management of the REIT.

(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 June 30, 2021 to certain Trustees and management of the REIT. 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.

The increase in rental revenue and NOI is primarily attributable to the 40 property acquisitions completed since the REIT's IPO. Net income (loss) is also impacted by fluctuations in fair value adjustments of Class B LP Units, investment properties and interest rate swaps.

SECTION 12 — RISKS & UNCERTAINTIES, CRITICAL JUDGEMENTS & 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, 2020 (the "Annual MD&A") and in its AIF, all of which remain unchanged at the date of this MD&A and are available at www.sedar.com.

Automotive Properties REIT

Automotive Properties Real Estate Investment Trust
Unaudited Condensed Consolidated Interim Financial Statements

For the period ended June 30, 2021

Automotive Properties REIT
Condensed Consolidated Interim Balance Sheets (Unaudited)

(in thousands of Canadian dollars)	Note	As at June 30, 2021	As at December 31, 2020
ASSETS			
Cash and cash equivalents		$8,165	$308
Accounts receivable and other assets	5	3,432	3,815
Investment properties	4	980,852	932,229
Total assets		**$992,449**	**$936,352**
LIABILITIES AND UNITHOLDERS' EQUITY			
Liabilities:			
Accounts payable and accrued liabilities	7	$14,667	$15,378
Credit facilities and mortgages payable	6	400,861	396,030
Interest rate swaps	6	12,147	22,847
Unit-based compensation	10	6,454	4,463
Class B LP Units	9	123,470	106,385
Total liabilities		$557,599	$545,103
Unitholders' equity		$434,850	$391,249
Total liabilities and unitholders' equity		**$992,449**	**$936,352**

See accompanying notes to the unaudited 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)

(in thousands of Canadian dollars)	Note	Three months ended June 30, **2021**	Three months ended June 30, 2020	Six months ended June 30, **2021**	Six months ended June 30, 2020
Net Property Income					
Rental revenue from investment properties	**11**	**$19,562**	$18,800	**$38,975**	$37,406
Property costs	**11**	**(2,702)**	(3,214)	**(5,358)**	(6,026)
Net Operating Income		**$16,860**	$15,586	**$33,617**	$31,380
Other Income (Expenses)					
General and administrative expenses		**$(1,178)**	$(1,027)	**$(2,311)**	$(1,996)
Interest expense and other financing charges		**(3,857)**	(3,885)	**(7,745)**	(7,875)
Fair value adjustment on interest rate swaps	**6**	**(392)**	(1,796)	**10,701**	(20,427)
Distribution expense on Class B LP Units	**8**	**(1,997)**	(1,997)	**(3,994)**	(3,994)
Fair value adjustment on Class B LP Units and Deferred Units	**9, 10**	**(10,356)**	(19,332)	**(17,909)**	29,338
Fair value adjustment on investment properties	**4**	**18,778**	(10,905)	**31,828**	(34,035)
Net Income (Loss) and Comprehensive Income (Loss)		**$17,858**	$(23,356)	**$44,187**	$(7,609)

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

Automotive Properties REIT
Condensed Consolidated Interim Statements of Changes in Unitholders' Equity (Unaudited)

For the six months ended June 30, 2021
(in thousands of Canadian dollars)

	Note	Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2020		**$380,757**	**$100,103**	**$(89,611)**	**$391,249**
Issuance of Units	**9**	14,937	—	—	14,937
Net Income		—	44,187	—	44,187
Distributions	**8**	—	—	(15,523)	(15,523)
Unitholders' Equity at June 30, 2021		**$395,694**	**$144,290**	**$(105,134)**	**$434,850**

For the six months ended June 30, 2020
(in thousands of Canadian dollars)

	Note	Units	Cumulative Net Income	Cumulative Distributions to Unitholders	Total
Unitholders' Equity at December 31, 2019		**$380,757**	**$73,138**	**$(59,303)**	**$394,592**
Issuance of Units	**9**	—	—	—	—
Net Loss		—	(7,609)	—	(7,609)
Distributions	**8**	—	—	(15,154)	(15,154)
Unitholders' Equity at June 30, 2020		**$380,757**	**$65,529**	**$(74,457)**	**$371,829**

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

Automotive Properties REIT
Condensed Consolidated Interim Statements of Cash Flow (Unaudited)

(in thousands of Canadian dollars)	**Note**	**Three months ended June 30, 2021**	2020	**Six months ended June 30, 2021**	2020
OPERATING ACTIVITIES					
Net income (loss)		**$17,858**	$(23,356)	**$44,187**	$(7,609)
Straight-line rent		**(676)**	(730)	**(1,194)**	(1,449)
Bad debt expense (reversal)		**(171)**	422	**(277)**	422
Non-cash compensation expense		**752**	609	**1,167**	791
Fair value adjustment on interest rate swaps		**392**	1,796	**(10,701)**	20,426
Distribution expense on Class B LP Units		**1,997**	1,997	**3,994**	3,994
Fair value adjustment on Class B LP Units and Unit-based compensation		**10,356**	19,332	**17,909**	(29,338)
Fair value adjustment on investment properties		**(18,778)**	10,905	**(31,828)**	34,035
Interest expense and other charges		**3,738**	3,731	**7,511**	7,573
Financing fees		**119**	154	**234**	302
Amortization of other assets		**45**	41	**90**	82
Change in non-cash operating accounts	**16**	**(226)**	(3,199)	**(247)**	(3,486)
Cash Flow from operating activities		**15,406**	11,702	**30,845**	24,743
INVESTING ACTIVITIES					
Acquisitions of investment properties		**(388)**	(70)	**(427)**	(29,568)
Additions to investment properties		**-**	-	**-**	(1,908)
Cash Flow used in investing activities		**(388)**	(70)	**(427)**	(31,476)
FINANCING ACTIVITIES					
Proceeds from Credit Facilities and Mortgages		**30,188**	-	**32,688**	10,000
Principal and Revolver repayment on Credit Facilities and Mortgages		**(22,670)**	(14,528)	**(27,214)**	(19,048)
Interest paid		**(3,775)**	(3,616)	**(7,333)**	(7,273)
Financing fees paid		**(837)**	-	**(872)**	-
Repayments on lease liabilities		**(185)**	(126)	**(369)**	(310)
Cost of issuances of Units		**-**	-	**(37)**	-
Distributions to REIT unitholders and Class B LP unitholders		**(9,850)**	(9,574)	**(19,424)**	(19,148)
Cash Flow from (used in) financing activities		**(7,129)**	(27,844)	**(22,561)**	(35,779)
Net increase (decrease) in cash and cash equivalents during the period		**7,889**	(16,212)	**7,857**	(41,512)
Cash and cash equivalents, beginning of period		**276**	19,966	**308**	45,266
Cash and cash equivalents, end of period		**$8,165**	$3,754	**$8,165**	$3,754
Supplemental cash flow information					
Issuance of Units on acquisition of investment property	**3**	**-**	**-**	**$14,800**	**-**

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

1. NATURE OF OPERATIONS

Automotive Properties Real Estate Investment Trust (the "REIT") is an internally managed, 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 to own primarily 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 28.1% effective interest in the REIT as at June 30, 2021 (December 31, 2020 – 26.0%), through the ownership, direction or control of all of the 9,933,253 Class B limited partnership units ("Class B LP Units") of Automotive Properties Limited Partnership, the REIT's operating subsidiary (the "Partnership"), and 3,827,554 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 June 30, 2021, the REIT owned a portfolio of 66 income-producing commercial properties. The properties are located in metropolitan areas across British Columbia, Alberta, Saskatchewan, Manitoba, Ontario and Quebec, totaling approximately 2.5 million square feet of gross leasable area. The Dilawri Tenants are the REIT's major tenant, occupying 38 of the REIT's 66 income-producing commercial properties as at June 30, 2021.

The subsidiaries of the REIT included in the REIT's unaudited condensed consolidated interim financial statements include the Partnership and Automotive Properties REIT GP Inc. Effective January 1, 2020, management, operating and administrative support personnel were employed directly by the REIT.

2. SIGNIFICANT ACCOUNTING POLICIES

(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, 2020 and the accompanying notes thereto. These unaudited 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 unaudited condensed consolidated interim financial statements were approved and authorized for issuance by the Board of Trustees of the REIT (the "Board") on August 11, 2021.

(b) Basis of Presentation

The unaudited 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"), Income Deferred Units ("IDUs"), Restricted Deferred Units ("RDUs") and Performance Deferred Units ("PDUs", and together with DUs, IDUs and RDUs, "Unit-based compensation") which are exchangeable for Units in accordance with their terms as described in Note 10.

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

(c) Basis of Consolidation

The unaudited condensed consolidated interim 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 unaudited 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, 2020.

(e) Critical account judgements and estimates

COVID-19

The REIT has incorporated its assessment of the potential impact of COVID-19 into its estimates and assumptions, all of which are subject to increased uncertainty due to the market disruptions caused by COVID-19, specifically with respect to the fair value of the REIT's investment properties as described in Note 4.

The REIT has collected 100% of its contractual base rent for the six-month period ended June 30, 2021. Pursuant to rent deferral agreements with tenants (the "Deferral Agreements"), the REIT agreed to defer, predominately interest-free, a portion of the applicable tenants' base rent for primarily a three-month period occurring between April and July 2020, but all rent ceased to be deferred as of the end of 2020. All amounts remaining deferred under the Deferral Agreements are due to be paid by no later than the end of 2021.

The REIT assessed the risk of credit loss on a tenant-by-tenant basis based on its credit history with each tenant as well as the duration of the applicable Deferral Agreement. For the three- and six-month periods ended June 30, 2021, the REIT reversed the bad debt expense of $171 and $277 respectively (June 30, 2020 – bad debt expense of $422 and $422 respectively) resulting in an allowance for doubtful accounts of $nil as at June 30, 2021 (December 31, 2020 – $277), which reflects the reduced credit risk relating to the collection of the receivable balances totalling $507 (December 31, 2020 – $2,301).

The REIT will continue to review its discounted cash flow projections, changes in capitalization rates and the impact on the fair value of its investment properties. Valuation inputs and assumptions relating to rental income, rent collection, reserves and discount rates may change materially in the near term as additional market data becomes available. These potential changes could negatively impact the future value of the REIT's investment properties and its operating results.

3. ACQUISITIONS

On March 1, 2021, the REIT acquired the land and buildings of the Lexus Laval automotive dealership located in Laval, Quebec, for $14,800 plus acquisition costs of $462, from the Dilawri Group. The REIT funded the purchase price for the property through the issuance of 1,369,102 Units to the applicable member of the Dilawri Group, valued at $14,800. The Lexus Laval property is a 30,015 square foot full-service automotive dealership property.

During the year ended December 31, 2020, the REIT completed the following acquisitions:

Property	Location	Date of Acquisition	Total Investment Properties (1)
Regina BMW & Acura North Vancouver	Regina, SK & North Vancouver, BC	February 5 & February 6	$29,568
Tesla Laval	Laval, QC	August 25	$13,978
Total Acquisitions			**$43,546**

(1) Includes acquisition costs.

4. INVESTMENT PROPERTIES

	Income producing properties	**Right-of-use assets** (1)	**Total June 30, 2021**	Total December 31, 2020
Balance, beginning of period	$925,890	$6,339	$932,229	$888,129
Acquisitions (2)	15,262	-	15,262	43,546
Additions	339	-	339	3,254
Fair value adjustment on investment properties	32,054	(226)	31,828	(5,684)
Straight-line rent (3)	1,194	-	1,194	2,984
Balance, end of period	**$974,739**	**$6,113**	**$980,852**	$932,229

(1) Refers to two land leases.
(2) Includes acquisition costs.
(3) Includes a deduction for amortization of tenant allowance of $65 (December 31, 2020 - $142).

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 indicated a decrease in capitalization rates from December 31, 2020. For the three-month period ended June 30, 2021, the REIT decreased the discount rates for properties in specific markets by approximately 20 basis points. Furthermore, there was a decrease of approximately 10 basis points for all properties for the three-month period ended March 31, 2021. The fair value gain adjustments for the three- and six-month periods ended June 30, 2021 resulted in the overall capitalization rate applicable to the REIT's entire portfolio decreasing to 6.5% as at June 30, 2021 (March 31, 2021 – 6.6%; December 31, 2020 – 6.7%).

In 2021, the REIT provided for $339 of capital commitments for facility improvements to one of the tenants of the REIT's properties located in Edmonton, Alberta. In 2020, the REIT provided funding for facility improvements to one of the tenants of the REIT's automotive dealership properties located in Winnipeg, Manitoba in accordance with the terms of the purchase agreement in respect of the acquisition. Capital commitments of $1,908 resulted in an annual rent increase effective March 6, 2020. Additional capital commitments of $1,346 resulted in an annual rent increase effective July 7, 2020.

A 25 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $39,000 or $(36,000), respectively, as of June 30, 2021. A 50 basis point decrease or increase in capitalization rates or discount rates would result in an increase or decrease in the fair value of the investment properties of approximately $81,000 or $(69,500), respectively, as of June 30, 2021.

Rental Commitments

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

Within 1 year	$64,780
After 1 year, but not more than 5 years	267,177
More than 5 years	502,705
	$834,662

5. ACCOUNTS RECEIVABLE AND OTHER ASSETS

As at	**June 30, 2021**	December 31, 2020
Prepaid indemnity fee	**$560**	$597
Right-of-use assets, net of depreciation	**135**	180
Tenant accounts receivable (Note 2 (e))(1)	**507**	2,024
Prepaid and other receivables	**2,230**	1,014
	$3,432	$3,815

(1) Includes $24 (December 31, 2020 – $180) of commodity taxes and net of allowance for doubtful accounts of $nil (December 31, 2020 – $277).

6. CREDIT FACILITIES AND MORTGAGES PAYABLE

(a) Credit Facilities and Mortgages payable consists of:

As at	June 30, 2021	December 31, 2020
Facility 1(i)	**$182,396**	$202,086
Facility 2(ii)	**93,072**	95,403
Facility 3(iii)	**103,313**	85,500
Mortgages(iv)	**24,580**	14,905
Total	**403,361**	397,894
Financing fees(v)	**(2,500)**	(1,864)
	$400,861	$396,030

(i) Facility 1 includes:

A non-revolving loan in the amount of $182,396 (December 31, 2020 - $186,486) 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 1.5 to 9.5 years as at June 30, 2021, which resulted in a weighted average effective interest rate of 3.73% (December 31, 2020 - 3.73%), of which $18,018 (December 31, 2020 - $18,414) 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 $nil was drawn as at June 30, 2021 (December 31, 2020 -$15,600) 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 $93,072 (December 31, 2020 - $95,403) bearing interest at the BA rate plus 150 bps or Prime plus 25 bps, maturing in June 2024. 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 2 to 9.5 years, which resulted in a weighted average effective interest rate of 3.52% (December 31, 2020 - 3.52%).

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 2024, of which $nil was drawn as at June 30, 2021 (December 31, 2020 - $nil).

(iii) Facility 3 includes:

A non-revolving loan in the amount of $103,313 (December 31, 2020 - $85,500) bearing interest at the BA rate plus 150 bps or Prime plus 50 bps. The principal is repayable in quarterly blended payments based on a 20 year amortization. The REIT entered into floating-to-fixed interest rate swaps with remaining terms of 4.5 to 7.5 years, which resulted in a weighted average effective interest rate of 4.05% (December 31, 2020 - 4.05%), of which $20,187 (December 31, 2020 - $Nil) of the non-revolving balance remains at floating rates.

In June 2021, the REIT increased the amount of Facility 3's non-revolving loan by $20,187 and extended the maturity from December 2023 to June 2026. The increase of $20,187 remains at floating rates. In September 2021, the non-revolving and revolving portion are committed to increase by $10,000 each.

A revolving credit facility in the amount of $30,000 bearing interest at Prime plus 25 bps or BA rate plus 150 bps, with a maturity date that was extended from December 2023 to June 2026, of which $nil was drawn as at June 30, 2021 (December 31, 2020 - $nil).

(iv) Mortgages:

The REIT has entered into certain mortgages with Canadian Schedule 1 banks and a life insurance company that have interest rates that range from 2.21% to 3.72% and have maturity dates that range from June 2027 to April 2031 (the "Mortgages"). In January 2021, the REIT renewed a Mortgage in the amount of approximately $5,791 for a term of 7 years and in April 2021, the REIT entered into a new Mortgage in the amount of $10,000 for a term of 10 years. As at June 30, 2021, the weighted average interest rate of the Mortgages was 3.24% (December 31, 2020 - 3.52%).

(v) During the six-month period ended June 30, 2021, the REIT incurred financing fees of $872 (December 31, 2020 - $36). The amounts are accounted for using the effective interest method, and $2,500 remains unamortized as at June 30, 2021 (December 31, 2020 - $1,864).

The credit facilities described above (the “Credit Facilities”) and the Mortgages are secured by the REIT’s investment properties. As of June 30, 2021, the REIT had 7 unencumbered properties with an aggregate fair value of approximately $101,370.

Principal repayments are as follows:

Remainder of 2021	$9,466
2022	18,977
2023	189,762
2024	78,337
2025	6,077
Thereafter	100,742
Total	$403,361

(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 unaudited condensed consolidated interim statements of net income (loss) and comprehensive income (loss) (terms described in Note 6 (a)(i), (ii) and (iii) above).

As at June 30, 2021, the notional principal amount of the interest rate swaps was approximately $340,574 (December 31, 2020 – approximately $349,000) and the fair value adjustment of the interest rate swaps was $(392) and $10,701 for the three- and six-month periods ended June 30, 2021, respectively, compared to $(1,796) and $(20,427) for the three- and six-month periods ended June 30, 2020, respectively. This resulted in a liability balance of $12,147 (December 31, 2020 – $22,847).

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of:

As at	**June 30, 2021**	December 31, 2020
Accounts payable and accrued liabilities	**$4,260**	$4,873
Accrued interest	**327**	323
Distributions payable (Note 8)	**3,284**	3,192
Lease liabilities	**6,796**	6,990
	$14,667	$15,378

As at June 30, 2021, 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 (not including imputed interest costs):

Within 1 year	$296
After 1 year, but not more than 5 years	2,054
More than 5 years	4,446
Total	$6,796

8. DISTRIBUTIONS

	Three months ended June 30, 2021			Three months ended June 30, 2020		
	Units	**Class B LP Units**	**Total**	Units	Class B LP Units	Total
Paid in Cash	**$7,853**	**$1,997**	**$9,850**	$7,577	$1,997	$9,574
Declared	**7,853**	**1,997**	**9,850**	7,577	1,997	9,574
Payable as at period end	**2,618**	**666**	**3,284**	2,525	666	3,191

	Six months ended June 30, 2021			Six months ended June 30, 2020		
	Units	**Class B LP Units**	**Total**	Units	Class B LP Units	Total
Paid in Cash	**$15,430**	**$3,994**	**$19,424**	$15,154	$3,994	$19,148
Declared	**15,522**	**3,994**	**19,516**	15,154	3,994	19,148
Payable as at period end	**2,618**	**666**	**3,284**	2,525	666	3,191

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 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 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 (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 six months ended June 30, 2021

	Units	Amount
Units, beginning of period	37,697,052	$380,757
Units issued, net of costs	1,369,102	14,937
Total Units, end of period	**39,066,154**	**$395,694**
Class B LP Units, beginning of period	9,933,253	$106,385
Fair value adjustment on Class B LP Units	-	17,085
Total Class B LP Units, end of period	**9,933,253**	**$123,470**
Total Units and Class B LP Units, end of period	**48,999,407**	**$519,164**

For the year ended December 31, 2020

	Units	Amount
Units, beginning of year	37,697,052	$380,757
Units issued, net of costs	-	-
Total Units, end of year	**37,697,052**	**380,757**
Class B LP Units, beginning of year	9,933,253	$120,689
Fair value adjustment on Class B LP Units	-	(14,304)
Total Class B LP Units, end of year	**9,933,253**	**$106,385**
Total Units and Class B LP Units, end of year	**47,630,305**	**$487,142**

10. UNIT-BASED COMPENSATION

The REIT offers an Equity Incentive Plan (the "Plan") whereby DUs, PDUs and RDUs may be granted to eligible Participants 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 1,000,000. Each DU, PDU and RDU is economically equivalent to one Unit, however, under no circumstances shall they be considered Units nor entitle a Participant to any rights as a Unitholder, including, without limitation, voting rights or rights on liquidation. Each DU, PDU and RDU 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, PDUs, RDUs and IDUs, a Participant may elect, prior to their expiry, to exchange such vested DUs, PDUs, RDUs and IDUs (subject to satisfaction of any applicable withholding taxes) for an equal number of Units. The holder of such DUs, PDUs, RDUs and IDUs cannot settle them for cash. Certain DUs and RDUs awarded under the Plan will vest over time. PDUs are awarded under the Plan based on the achievement of performance vesting conditions.

Under the Plan, the fair value of the DUs, PDUs, RDUs 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, PDUs, RDUs 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 six months ended June 30, 2021, the REIT accrued for short-term incentive awards in the amount of $230 (June 30, 2020 - $230) which will be settled by the granting of DUs or cash assuming achievement of management targets. All 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 Unit-based compensation outstanding under the Plan is outlined below:

	As at June 30, 2021		As at December 31, 2020	
	Units	**Amount**	Units	Amount
Outstanding Unit-based compensation, beginning of period	416,261	$4,463	267,187	$3,246
DUs	68,702	801	119,985	1,018
PDUs	6,005	64	-	-
RDUs	11,009	117	-	-
IDUs	17,276	186	29,089	298
Fair value adjustments	-	823	-	(99)
Outstanding Unit-based compensation, end of period	**519,253**	**$6,454**	416,261	$4,463

For the six-month period ended June 30, 2021, a total of 107,087 DUs, PDUs, RDUs and IDUs were granted, of which 40,577 DUs, PDUs, RDUs and IDUs will be accounted for in accordance with the vesting schedule. During the three-month period ended June 30, 2021 14,000 DUs and IDUs were exchanged for Units. As at June 30, 2021, a total of 698,359 DUs, PDUs, RDUs and IDUs have been granted.

11. RENTAL REVENUE AND PROPERTY COSTS

(a) Rental Revenue

For the three months ended June 30,	**2021**	2020
Base rent	**$16,013**	$15,278
Property tax recoveries	**2,873**	2,792
Straight line rent adjustment	**676**	730
Lease termination fee(1)	**-**	-
Rental revenue	**$19,562**	$18,800

For the six months ended June 30,	**2021**	2020
Base rent	**$31,807**	$30,353
Property tax recoveries	**5,635**	5,604
Straight line rent adjustment	**1,194**	1,449
Lease termination fee(1)	**339**	-
Rental revenue	**$38,975**	$37,406

(1) Relates to a fee charged to a tenant for early termination of a lease agreement.

(b) Property Costs

For the three months ended June 30,	**2021**	2020
Property tax expense	**$2,873**	$2,792
Bad debt expense (reversal) (Note 2 (e))	**(171)**	422
Property cost	**$2,702**	$3,214

For the six months ended June 30,	**2021**	2020
Property tax expense	**$5,635**	$5,604
Bad debt expense (reversal) (Note 2 (e))	**(277)**	422
Property cost	**$5,358**	$6,026

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 June 30, 2021, totaled $959,181 (December 31, 2020 – $893,664). 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 June 30, 2021, 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 June 30, 2021:

Financial Assets/(Liabilities)	Classification/ Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages Payable	Amortized Cost	$(400,861)	$(403,361)
Interest Rate Swaps	FVTPL	(12,147)	(12,147)
Class B LP Units	FVTPL	(123,470)	(123,470)
Unit-based compensation	FVTPL	(6,454)	(6,454)
		$(542,932)	**$(545,432)**

The following table provides the classification and measurement of financial assets and liabilities as at December 31, 2020:

Financial Assets/(Liabilities)	Classification/ Measurement	Carrying Value	Fair Value
Credit Facilities and Mortgages Payable	Amortized Cost	$(396,030)	$(397,894)
Interest Rate Swaps	FVTPL	(22,847)	(22,847)
Class B LP Units	FVTPL	(106,385)	(106,385)
Unit-based compensation	FVTPL	(4,463)	(4,463)

	$(529,725)	**$(531,589)**

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 June 30, 2021 is $980,852 (December 31, 2020 - $932,229) (Level 3). See Notes 4 and 2 (e).

(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 June 30, 2021 is $12,147 (December 31, 2020 - $22,847). The fair value of an interest rate swap is determined using rates observable in the market (Level 2).

(iv) Class B LP Units

The fair value of the Class B LP Units as at June 30, 2021 is $123,470 (December 31, 2020 - $106,385). The fair value of the Class B LP Units is based on the traded value of the Units as at June 30, 2021 (Level 1).

(v) Unit-based compensation

The fair value of the Unit-based compensation as at June 30, 2021 is $6,454 (December 31, 2020 - $4,463). The fair value of the Unit-based compensation is based on the traded value of the Units as at June 30, 2021 (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, liquidity and credit risks. Below is a description of those risks and how the exposures are managed. See also Note 2 (e) for a discussion of the risks and uncertainties related to the COVID-19 pandemic.

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. A significant portion of the REIT's assets have been pledged as security under the REIT's Credit Facilities and Mortgages. Certain of the Credit Facilities allow for an extension of the term in advance of expiration.

Credit Risk

The REIT is exposed to credit risk from the possibility that counterparties could default on their financial obligations to the REIT. Exposure to credit risk arises from the possibility that the REIT's counterparties may experience financial difficulty and be unable to meet their obligations. The REIT's revenues will be dependent on the ability of the tenants to meet their obligations and the REIT's ability to collect rent therefrom. See also Note 2 (e) for a discussion of the risks and uncertainties related to the COVID-19 pandemic.

15. 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 61.9% and 61.8% of the REIT's rental income for the three- and six-month periods ended June 30, 2021, respectively (62.5% and 62.3% for the three- and six-month periods ended June 30, 2020, respectively).

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 and, accordingly, 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 and supported by an independent appraisal report. Pursuant to the Strategic Alliance Agreement, the REIT acquired the following investment properties in 2021 and 2020:

- On March 1, 2021, the REIT acquired the Lexus Laval automotive dealership from a member of the Dilawri Group for $14,800 and leased it to a Dilawri Tenant.
- On February 6, 2020, the REIT acquired the Acura North Vancouver automotive dealership property from a member of the Dilawri Group for $17,500 and leased it to a Dilawri Tenant.
- On February 5, 2020, the REIT acquired the Regina BMW automotive dealership property from a member of the Dilawri Group for $11,350 and leased it to a Dilawri Tenant.

16. SUPPLEMENTARY INFORMATION

Changes in non-cash operating accounts

	Three months ended June 30,		Six months ended June 30,	
(in thousands of Canadian dollars)	**2021**	2020	**2021**	2020
Accounts receivable and other assets	**$530**	$(4,637)	**$561**	$(4,531)
Accounts payable and accrued liabilities	**(756)**	1,438	**(808)**	1,045
Change in non-cash operating accounts	**$(226)**	$(3,199)	**$(247)**	$(3,486)