



APCAPITAL.ca



# Offering Memorandum



APREIT

**FORM 45-106 F2**  
**Offering Memorandum for Non-Qualifying Issuers**  
**AP CAPITAL REIT**

**Date:** May 30, 2017

**The Issuer**

Name AP Capital REIT (the “REIT”)

Head office: 1601 – 128 West Pender Street, Vancouver, BC V6B 1R8 (up to August 2017)  
1795 – 555 Burrard Street (PO Box 213), Vancouver BC V7X 1M9 (after August 2017)

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E-mail address: investor@apcapital.ca

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Currently listed or quoted? **No. These securities do not trade on any exchange or market.**

Reporting issuer? No.

SEDAR filer? Yes.

**The Offering**

Securities offered: Three (3) classes (each, a “Class”) of trust units (each, a “Unit” and together, the “Units”) of the REIT are being offered under this Offering Memorandum, designated as Class C1 Units, Class C2 Units and Class F Units. All of the Units in any Class of Units will have the same rights, benefits and other attributes, and will rank equally, with every other Unit in such Class of Units and no Unit in a Class of Units will have any preference or priority over any other Unit of such Class of Units Each Class of Units shall have the attributes and characteristics set out under Item 5 - “Securities Offered – Terms of Units”.

Price per security: \$1,000 per Class C1 Unit.  
\$1,000 per Class C2 Unit.  
\$1,000 per Class F Unit.

Minimum offering: **There is no minimum. You may be the only purchaser. Funds available under the offering may not be sufficient to accomplish our proposed objectives.**

Maximum offering: There is no maximum offering.

Minimum Subscription: 10 Units for Class C1 Units and Class F Units.  
150 Units for Class C2 Units.  
AP Capital REIT Operations Ltd. (the “Trustee”), the trustee of the REIT, may in its discretion, on an individual basis, accept subscriptions from Subscribers for less than said number of Units. See Item 5 “Securities Offered - Subscription Procedure”.

Payment terms: Bank draft, certified cheque on closing or, if subscribing through a Deferred Plan (defined herein), an Authorization Letter to a financial institution.

Proposed closing date(s): This is a continuous offering. Closings will occur from time to time at such times as the Trustee may determine. The Trustee may terminate the Offering at any time.

Tax consequences: There are important tax consequences to these securities. See Item 6 “Income Tax and RRSP Eligibility”.

Selling agent: Where permitted by applicable securities legislation, the Trustee intends to pay a sales fee of up to 7% of the gross proceeds realized on the sale of Class C1 Units and a sales fee of up to 1% of the gross proceeds realized on the sale of Class C2 Units to any one of, or a combination of: investment dealers, Exempt Market Dealers, or other parties registered with securities regulators. In addition, the Trustee may pay agents selling Class C1 Units, Class C2 Units, and Class F Units an annual Trailer Fee commencing after the first anniversary of any subscriptions therefor up to 1% of the subscription price of such Class C1 Units, Class C2 Units, and Class F Units held by persons acquiring such Units through such agent. See Item 7 “Compensation Paid to Sellers and Finders”.

**Resale restrictions**

You will be restricted from selling your securities for an indefinite period. See Item 10. However, the Units are redeemable in certain circumstances. See Item 5.1 “Terms of Units – Declaration of Trust – Unitholders’ Right to Redeem”.

**Purchaser’s rights**

You have 2 business days to cancel your agreement to purchase these securities. If there is a misrepresentation in this Offering Memorandum, you have the right to sue either for damages or to cancel the agreement. See Item 11.

**No securities regulatory authority has assessed the merits of these securities or reviewed this Offering Memorandum. Any representation to the contrary is an offence. This is a risky investment. See Item 8.**

Please initial below and submit this page with your subscription agreement. Keep one copy for your records.

\_\_\_\_\_ (investor Initials)

The REIT conditionally offers the Units for sale by way of private placement to qualified investors who are residents of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. Subscriptions will be received if, as and when accepted, subject to satisfaction of the conditions set forth under Item 5 “Subscription Procedure” and to the right of the Trustee to close the subscription books at any time without notice. Closings will occur from time to time at such times as the Trustee may determine. See Item 4 “Prior Sales” and Item 5 “Subscription Procedure”.

No action has been or will be taken to permit a public offering of the Units in any jurisdiction where action would be required to be taken for such purpose. Accordingly, the distribution or circulation of this Offering Memorandum and the offering and sale of the Units may be restricted by law in certain jurisdictions. This Offering Memorandum does not constitute, and may not be used for or in conjunction with, an offer or solicitation by anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or to any person to whom it is unlawful to make such an offer or solicitation. Persons into whose possession this Offering Memorandum may come are directed to inform themselves of and observe such restrictions and all legal requirements of their respective jurisdictions of residence in respect of the acquisition, holding and disposition of the Units.

**Prospective investors should thoroughly review this Offering Memorandum and are advised to consult with their own legal, investment, accounting, and tax advisors concerning this investment.**

The Units will be issued only on the basis of information contained in this Offering Memorandum and provided by the REIT, and no other information or representation has been authorized or may be relied upon as having been authorized by the REIT. Any subscription for the Units made by any person on the basis of statements or representations not contained in this Offering Memorandum or so provided, or inconsistent with the information contained herein or therein, shall be solely at the risk of such person.

This copy of the Offering Memorandum is personal to the person to whom it is delivered and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire any of the Units. Distribution of this Offering Memorandum to any person other than the person to whom it is delivered and those persons, if any, retained to advise such person with respect hereto is unauthorized, and any disclosure of any of its contents without the prior written consent of the REIT is prohibited. Each prospective purchaser, by accepting delivery of this Offering Memorandum, agrees to the foregoing and undertakes to make no photocopies of or to otherwise reproduce, in whole or in part, this Offering Memorandum or any documents relating thereto and, if such prospective purchaser does not purchase any of the Units or the Offering is terminated, to return promptly this Offering Memorandum and all such documents to the REIT, if so requested by the REIT.

**This is a partial blind pool Offering. The REIT expects that the available net proceeds of the Offering will be applied by the CDN LP (defined herein) and the CDN/US LP (defined herein) in the purchase, or improvement, of one or more properties. The specific properties in which the CDN LP and the CDN/US LP will invest have not yet been specifically determined. Three properties have been acquired to date. See Item 2.3 “Development of the Business of the REIT”.**

#### **Note Regarding Forward-Looking Statements and Third-Party Sources**

This Offering Memorandum contains forward-looking statements. These statements relate to future events or the REIT’s future performance. All statements other than statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, identified by the use of words such as “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “believe”, “estimate”, “predict”, “potential”, “targeting”, “intend”, “could”, “might”, “continue”, or the negative of these terms or other comparable terminology. These statements are only predictions. Undue reliance should not be placed on these forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are based will occur. Economic and market conditions may change, which may materially impact the success of the REIT’s intended strategies as well as the REIT’s actual course of conduct. By its nature, forward-looking information involves numerous assumptions, known and unknown risks and uncertainties, both general and specific, that contribute to the possibility that the predictions, forecasts,

projections and other forward-looking statements will not occur and may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The forward-looking statements contained in this Offering Memorandum are expressly qualified by this cautionary statement. See Item 8 “Risk Factors”.

In addition, this Offering Memorandum includes market and industry data and forecasts that were obtained from third-party sources, industry publications and publicly available information. Third-party sources generally state that the information contained therein has been obtained from sources believed to be reliable, but there can be no assurance as to the accuracy or completeness of such information. Although the REIT believes this information to be reliable, the REIT has not independently verified any of the third party sourced data referred to herein. The REIT has not analyzed or verified the underlying studies or surveys relied upon or referred to by such sources, nor has the REIT ascertained the underlying economic assumptions relied upon by such sources.

### ***Non-IFRS Measures***

The REIT has included certain non-IFRS measures in this Offering Memorandum. Management believes that in addition to conventional measures prepared in accordance with International Financial Reporting Standards (“IFRS”), investors in the real estate industry use these non-IFRS financial measures to evaluate the REIT’s performance, ability to generate cash flows and financial condition. Accordingly, these non-IFRS financial measures are intended to provide additional information and should not be considered in isolation or as a substitute for performance measures prepared in accordance with IFRS. The non-IFRS financial measures do not have standardized meanings and may not be comparable to measures used by other issuers in the real estate industry or other industries. The non-IFRS measures used herein include the following:

- (a) “capitalization rate” or “cap rate”, which is the ratio of net operating income to property asset value;
- (b) “net operating income” or “NOI” which represents total investment property revenue less investment property operating expenses for a given income-producing real estate asset. Net operating income is a measure that is used by investors and management alike to evaluate and compare the performance of properties and to determine trends in earnings and to compute the fair value of properties because it is not affected by: (i) the cost of funds of the property owner, (ii) the impact of depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets that are included in net income computed in accordance with IFRS, or (iii) general and administrative expenses and other gains and losses that are specific to the property owner.

The cost of funds is eliminated from the measure because it is specific to the particular financing capabilities and constraints of the owner. The cost of funds is also eliminated because it is dependent on historical interest rates and other costs of capital as well as past decisions made by management regarding the appropriate mix of capital which may have changed or may change in the future. Depreciation and amortization expenses as well as gains or losses from the sale of operating real estate assets are eliminated because they may not accurately represent the actual change in value in the portfolio of properties that result from use of the properties or changes in market conditions. While certain aspects of real property do decline in value over time in a manner that is intended to be captured by depreciation and amortization, the value of the properties as a whole have historically increased or decreased as a result of changes in overall economic conditions instead of from actual use of the property or the passage of time.

Gains and losses from the sale of real property vary from property to property and are affected by market conditions at the time of sale which will usually change from period to period. These gains and losses can create distortions when comparing one period to another or when comparing operating results to the operating results of other real estate entities that have not made similarly timed purchases or sales. Management of the REIT believes that eliminating these costs from net income is useful because the resulting measure captures the actual revenue generated and actual expenses incurred in operating the REIT’s portfolio of properties as well as trends in occupancy rates, rental rates and operating costs. However, the usefulness of NOI is limited because it excludes general and

administrative costs, interest expense, interest income and other expense, depreciation and amortization expense and gains or losses from the sale of properties, and other gains and losses as stipulated by IFRS, the level of capital expenditures and leasing costs necessary to maintain the operating performance of the REIT's properties, all of which are important economic costs.

NOI may fail to capture significant trends in these components of net income which further limits its usefulness. NOI is a measure of the operating performance of the REIT's properties but does not measure the REIT's performance as a whole. NOI is therefore not a substitute for net income as computed in accordance with IFRS. This measure should be analyzed in conjunction with net income computed in accordance with IFRS. Other real estate entities may use different methods for calculating NOI or similarly named measures and, accordingly, the REIT's NOI may not be comparable to similarly named measures reported by other companies that do not define the measure exactly as the REIT.

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**Schedule:**

Schedule A - Form of Subscription Agreement

## SUMMARY

*The following is a summary of certain information contained in this Offering Memorandum, and reference should be made to the more detailed and additional information contained elsewhere in this Offering Memorandum.*

### **Business of the REIT**

AP Capital REIT (the “**REIT**”) is a limited purpose, unincorporated open-ended investment trust, governed by the terms and conditions of a Declaration of Trust dated June 26, 2015, as amended August 11, 2015 and May 1, 2016 (as so amended, the “**Declaration of Trust**”) and by the general laws of trusts and the laws of British Columbia.

The REIT has been established to:

1. issue units of the REIT;
2. acquire Class A limited partnership units (each, a “**Class A CDN LP Unit**”) of AP Capital REIT Limited Partnership (the “**CDN LP**”);
3. acquire Class A limited partnership units (each, a “**Class A CDN/US LP Unit**”) of AP Capital REIT (CDN/US) Limited Partnership (the “**CDN/US LP**”); and
4. temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the REIT, making other investments as contemplated by the Declaration of Trust, paying amounts payable by the REIT in connection with the redemption of any Units and making distributions to holders (the “**Unitholders**”) of Units.

### **Business of the CDN LP**

AP Capital REIT (GP) Ltd. (the “**General Partner**”) and the CDN LP Founding Limited Partner (defined herein) have established the CDN LP pursuant to the laws of the Province of British Columbia to:

1. acquire, own and operate the Morrison Centre (defined herein) and additional revenue-producing real estate properties (the “**Canadian Properties**”) in Canada;
2. develop or redevelop a building or buildings on the Canadian Properties and thereafter own and operate such Canadian Properties on a long-term basis; and
3. conduct any other business or activity incidental, ancillary or related thereto.

### **Business of the CDN/US LP**

The General Partner and the CDN/US LP Founding Limited Partner (defined herein) have established the CDN/US LP pursuant to the laws of the Province of British Columbia to:

1. acquire limited partnership units (each, a “**US Limited Partnership Unit**”) of United States limited partnerships (each, a “**US Limited Partnership**”) previously formed, and to be formed, to acquire revenue-producing real estate properties (the “**US Properties**”, and together with the Canadian Properties, the “**Properties**”) in the United States, including limited partnership units (each, a “**US Class A LP Unit**”) of AP Capital REIT (USA) LP (the “**US LP**”), an Arizona limited partnership, and limited partnership units (each, a “**Cobblestone Class A LP Unit**”) of AP Capital REIT Cobblestone LP (the “**Cobblestone LP**”), a Delaware limited partnership; and
2. advance funds to the US Limited Partnerships, including the loan

(the “US LP Loan”) to the US LP, and the loan to the Cobblestone LP;  
and

3. conduct any other business or activity incidental, ancillary or related thereto.

**Business of the US LP**

AP Capital REIT US (GP) Ltd. (the “US GP”) and the CDN/US LP have established the US LP pursuant to the laws of Arizona to:

1. acquire, own and operate Greenway Property (defined herein);
2. develop or redevelop a building or buildings on the Greenway Property and thereafter hold, rent and operate same; and
3. conduct any other business or activity incidental, ancillary or related thereto.

The US LP may accept subscriptions directly from qualified US investors, and such funds will be used in addition to funds received from the CDN/US LP for the purposes enumerated above.

**Business of the Cobblestone LP**

AP Capital REIT Phoenix (GP) Ltd. (the “Phoenix GP”) and the CDN/US LP have established the Cobblestone LP pursuant to the laws of Delaware to:

1. acquire, own and operate Cobblestone (defined herein);
2. develop or redevelop a building or buildings on Cobblestone and thereafter hold, rent and operate same; and
3. conduct any other business or activity incidental, ancillary or related thereto.

The Cobblestone LP may accept subscriptions directly from qualified US investors, and such funds will be used in addition to funds received from the CDN/US LP for the purposes enumerated above.

**Offering:**

This is a continuous offering of the Units. There is no minimum or maximum Offering. This Offering is being made pursuant to exemptions from the prospectus and, where applicable, registration requirements of applicable securities legislation in Canada.

See Item 5.2 “Subscription Procedure”. A subscriber whose subscription is accepted will become a Unitholder of the REIT.

**Subscription Procedure:**

Subscribers may subscribe for Units by returning to the REIT a completed Subscription Agreement, together with payment in the form of a certified cheque, bank draft or Authorization Letter to the Subscriber’s financial institution in the amount of the aggregate Subscription Price for the Subscriber’s Units. A Subscriber whose subscription is accepted by the Trustee will become a Unitholder. The Trustee may terminate the Offering at any time. See Item 5.2 “Subscription Procedure”.

**Subscription Price and Minimum Subscription Amounts**

The subscription prices per Unit and minimum subscription amounts are as follows:

1. \$1,000 per Class C1 Unit (subject to exceptions by the Trustee, in its sole discretion, a minimum subscription of 10 Class C1 Units);
2. \$1,000 per Class C2 Unit (subject to exceptions by the Trustee, in its sole discretion, a minimum subscription of 150 Class C2 Units); and

3. \$1,000 per Class F Unit (subject to exceptions by the Trustee, in its sole discretion, a minimum subscription of 10 Class F Units).

**Sales Fee:**

Where permitted by applicable securities legislation, the Trustee may pay a sales fee of:

1. up to 7% of the gross proceeds realized on the sale of Class C1 Units; and
2. up to 1% of the gross proceeds realized on the sale of Class C2 Units,

to any one of, or a combination of: investment dealers, Exempt Market Dealers, or where permitted, non-registrants.

In addition, the Trustee may pay agents selling Class C1 Units, Class C2 Units and Class F Units an annual trailer fee commencing after the first anniversary of any subscriptions for such Units of up to 1% of the subscription price of such that remain outstanding. See Item 7 "Compensation Paid to Sellers and Finders".

The REIT will be obligated to pay any applicable GST or other taxes on such fees.

**Use of Proceeds:**

The Net Subscription Proceeds (defined herein) will be used by the REIT to acquire Class A CDN LP Units and Class A CDN/US LP Units.

The CDN LP will use the net proceeds from the issuance of the Class A CDN LP Units to acquire, own and operate Canadian Properties. A portion of such proceeds will also be used to pay due diligence and documentation costs relating to such property acquisitions, sales commissions where applicable, completion costs and other fees and expenses related thereto.

The CDN/US LP will use the net proceeds from the issuance of the Class A CDN/US LP Units to acquire US Limited Partnership Units of US Limited Partnerships, including the US LP and the Cobblestone LP.

The US Limited Partnerships will use the proceeds from the issuance of the US Limited Partnership Units to acquire, own and operate US Properties, including the Greenway Property and Cobblestone. A portion of such proceeds will also be used to pay due diligence and documentation costs relating to such property acquisitions, sales commissions where applicable, completion costs and other fees and expenses related thereto.

As a result, an investment in Units of the REIT represents an indirect investment in the acquisition, ownership and operation of the Properties owned by the CDN LP and the US Limited Partnerships, and the distributions and other returns on and of capital payable on account of the Class A CDN LP Units and Class A CDN/US LP Units will ultimately flow through to the Unitholders.

Pending investment in Class A CDN LP Units and Class A CDN/US LP Units, the Net Subscription Proceeds will be invested in cash and money market investments.

**The REIT's Distribution Policy:**

The REIT will distribute to each Unitholder on a monthly basis an amount equal to the Trustee's estimate of the net income and net realized capital gains of the REIT, less estimated non-capital losses carried forward, if any, for each month. For each year ending December 31, the distribution will equal an amount equal to 100% of the REIT's net income and net realized capital gains, less non-capital losses carried forward, if any, for the year, less the amounts distributed for the previous 11 months. Such monthly distributions will be paid in arrears on the

15th day of the next calendar month immediately following the calendar month to which distribution relates, except the December 31 distribution, which will be paid on the immediately preceding Business Day or such other date determined from time to time by the Trustee.

The REIT has the right but not the obligation to make distributions and allocations among the Unitholders in such a manner so as to ensure where possible that the Unitholders are treated equitably taking into account differences that may arise as a result of the acquisition of Units at different times in the Fiscal Year or in different fiscal calendar years.

The REIT intends to distribute its net income and net realized capital gains, if any, in the year they are earned or realized to ensure that no income tax is payable by the REIT. If distributions to Unitholders are in excess of net income and net realized capital gains, if any, of the REIT the adjusted cost base of the Unitholders' Units will generally be reduced. See Item 5.1 "Terms of Units – Distributions" and Item 6 "Income Tax Consequences and RRSP Eligibility".

**Distributions by the  
CDN LP**

Pursuant to the Limited Partnership Agreement of the CDN LP (the "**CDN LP Agreement**"), the CDN LP will distribute in each month the amount by which the CDN LP's cash on hand or to be received in respect of that month (excluding any proceeds from any financing) exceeds unpaid administration expenses of the CDN LP (excluding the Asset Management Fee (defined herein)); amounts required for the business and operations of the CDN LP, including operating expenses and capital expenditures; all current obligations of the CDN LP; and all principal and interest payments under any financing, and after the creation of a reasonable working capital and capital improvement reserve as determined by General Partner, as follows:

- (a) first as 0.01% thereof, to the General Partner, to a maximum of \$100 per annum;
- (b) second to limited partners holding Class A CDN LP Units, an amount equal to \$70 per annum per Class A CDN LP Unit (the "**Class A Preferred Return**") commencing as of the date a Unit Certificate representing Class A CDN LP Units is issued to such limited partners;
- (c) third to limited partners holding Class B Units of the CDN LP (each, a "**Class B CDN LP Unit**"), an amount equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN LP Units in respect of the Class A Preferred Return; less
  - (ii) the amount which would have been paid to the Limited Partners holding Class A CDN LP Units in respect of the Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN LP Units and 30% to the limited partners holding Class B CDN LP Units.

**Distributions by the CDN/US LP**

Pursuant to the Limited Partnership Agreement of the CDN/US LP (the "**CDN/US LP Agreement**"), the CDN/US LP will distribute in each month the amount by which the CDN/US LP's cash on hand or to be received in respect of that month (excluding any proceeds from any financing) exceeds unpaid administration expenses of the CDN/US LP (excluding the Asset Management Fee); amounts required for the business and operations of the CDN/US LP, including operating expenses and capital expenditures; all current obligations of the CDN/US LP; and

all principal and interest payments under any financing, and after the creation of a reasonable working capital and capital improvement reserve as determined by General Partner, as follows:

- (a) first as 0.01% thereof, to the General Partner, to a maximum of \$100 per annum;
- (b) second to limited partners holding Class A CDN/US LP Units, an amount equal to \$70 per annum per Class A CDN/US LP Unit (the “**CDN/US Class A Preferred Return**”) commencing as of the date a Unit Certificate representing Class A CDN/US LP Units is issued to such limited partners;
- (c) third to limited partners holding Class B Units of the CDN/US LP (each, a “**Class B CDN/US LP Unit**”), an amount equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN/US LP Units in respect of the CDN/US Class A Preferred Return; less
  - (ii) the amount which would have been paid to the limited partners holding Class A CDN/US LP Units in respect of the CDN/US Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN/US LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN/US LP Units and 30% to the limited partners holding Class B CDN/US LP Units.

**Redemption:**

Units are redeemable at the request of the Unitholders, subject to applicable law and certain other conditions set out in the Declaration of Trust. Different redemption rights apply to each Class of Units. See Item 5.1 “Terms of Units – Unitholders’ Right to Redeem”.

**Administration Agreements:**

Pursuant to administration agreements, as amended (each, as so amended, an “**Administration Agreement**”) between the Manager (defined herein) and each of the CDN LP and the CDN/US LP, the Manager has agreed to provide certain services relating to the Properties, including structuring the offering of Units, structuring the ownership of each of the Properties. In respect of the Properties, negotiating and completing the sale of one or more Properties, overseeing and supervising property management of the Properties, and preparing annual financial reports on the Properties.

In consideration of providing such services, each of the CDN LP and the CDN/US LP will pay to the Manager an acquisition fee (the “**Acquisition Fee**”), in an amount equal to 0.75% of the gross purchase price of each Property, plus GST if applicable, upon the completion of the purchase of each Property, a disposition fee (the “**Disposition Fee**”), in an amount equal to 0.45% of the gross selling price of a Property, plus GST if applicable, upon the completion of the sale of the Property, and an annual management fee (the “**Asset Management Fee**”) equal to 1.5% of net assets, payable monthly on the last day of each month during the term of the Administration Agreements.

See Item 2.7 “Material Agreements”.

- Distribution on Termination:** On the termination of the REIT, the assets of the REIT will be liquidated and the proceeds distributed to pay the liabilities of the REIT and to establish reserves for the contingent liabilities of the REIT. Thereafter, the Trustee will redeem the Units from the Unitholders on a *pro rata* basis. See Item 5.1 “Terms of Units – Termination of the REIT”.
- Residency Requirement:** Unitholders must be residents of Canada. The General Partner may force a transfer or redemption of Units if a Unitholder becomes a non-resident. See Item 5.1 “Terms of Units – Forced Redemption Upon Non- Residency”.
- Eligibility for Investment:** Provided that the REIT is a mutual fund trust, the Units will be a qualified investment for Deferred Plans (defined herein). See Item 6 “Income Tax Consequences and RRSP Eligibility”.
- Taxation of the REIT and Unitholders:** The REIT will not pay tax on the net income and net realized capital gains that are distributed to Unitholders (as is required under the terms of the Declaration of Trust), provided the REIT has no non-resident or other Designated Beneficiaries (defined herein). The Declaration of Trust prohibits the issue of Units to non-resident or other Designated Beneficiaries. Losses incurred by the REIT cannot be allocated to Unitholders but may be deducted by the REIT in future years.
- In computing their taxable income, Unitholders will be required to include the income and the taxable portion of capital gains distributed to them by the REIT. Distributions not included in taxable income, other than the untaxed one-half of capital gains, will generally reduce a Unitholder’s adjusted cost base of the Units held.
- On a redemption or other disposition of Units, the Unitholder will realize a capital gain or loss to the extent that the proceeds of disposition exceed or are exceeded by the adjusted cost base of the Units, respectively. One-half of a capital gain must be included in income as a taxable capital gain. One-half of a capital loss is an allowable capital loss which may be applied against taxable capital gains realized in the year, with any excess (adjusted to reflect the appropriate inclusion rate) available for carry back three years or forward indefinitely and applied against taxable capital gains realized in those earlier or later years. See Item 6 “Income Tax Consequences and RRSP Eligibility”.
- No Transferability:** Units will not be transferable, except if required as a result of a Unitholder becoming a non-resident. Units will not be listed on any stock exchange. As well, securities requirements may prohibit or restrict transferability of Units. See Item 5.1 “Terms of Units – Forced Redemption Upon Non-Residency” and Item 11 “Resale Restrictions”.

**Risk Factors:**

An investment in Units entails a number of risks, including that this Offering is a partial blind pool offering; that there is no market for Units and a market for Units is not expected to develop; that an investment in Units is an indirect investment in the Properties acquired by the CDN LP and the US Limited Partnerships, and have attached to them various risks of investing in real estate; environmental risk; competition for real estate properties; risk associated with changes in economic conditions; risks associated with redemptions and retractions of Units; the possibility of conflicts of interest; and risks associated with changes in income tax regulation. These risks are more fully described in Item 8 "Risk Factors".

This Offering is not suitable for investors who cannot afford to assume any significant risks in connection with their investments.

## GLOSSARY

*The following terms appear throughout this Offering Memorandum. Care should be taken to read each term in the context of the particular provision of this Offering Memorandum in which such term is used.*

**"Affiliate"** or **"Affiliates"** has the same meaning as in the B.C. Securities Act;

**"Acquisition Fee"** means a fee payable by each of the CDN LP and the CDN/US LP to the Manager for services related to the acquisition of Properties, in an amount equal to 0.75% of the gross purchase price of each Property, plus GST, if applicable, and payable to the General Partner upon the completion of the purchase of each Property;

**"Administration Agreements"** means the agreements, as may be amended, restated or supplemented from time to time, between the Manager and each of the CDN LP and the US LP pursuant to which the Manager agrees to provide certain services to each of the CDN LP and the US LP in consideration for the payment of the Asset Management Fee, the Acquisition Fee and the Disposition Fee;

**"Asset Management Fee"** means an annual fee payable by each of the CDN LP and the CDN/US LP to the Manager equal to 1.5% of Net Assets, payable monthly on the last day of each month during the term of the Administration Agreements;

**"Authorized Interim Investments"** means such investments that are "qualified investments" for a trust governed by a Deferred Plan and may include shares, bonds, debentures, notes, marketable securities and cash, among other things;

**"B.C. Securities Act"** means the *Securities Act* (British Columbia), with all amendments thereto in force from time to time and any statutes that may be passed which have the effect of supplementing or superseding such statute;

**"Business Day"** means a day other than a Saturday, Sunday or any day on which the principal office of the REIT's bankers located in Vancouver, British Columbia, is not open for business during normal banking hours;

**"Canada Five-Year Yield"** means on any date the yield to maturity on such date (expressed as a percentage), assuming semi-annual compounding, which a non-callable Government of Canada bond would carry if issued in Canadian dollars in Canada at 100% of its principal amount on such date with a term to maturity of approximately five years, which Canada Five-Year Yield shall be determined by a major Canadian investment dealer selected by the Trustee;

**"Canadian Portfolio"** means the revenue-producing Properties acquired, owned and operated by the CDN LP;

**"Canadian Properties"** means revenue-producing real estate properties in Canada;

**"Cash Flow (Trust)"** means, for any calendar month:

- (a) the sum of all cash amounts received by the REIT for or in respect of such month, including the amounts received as a limited partner holding Class A CDN LP Units and Class A CDN/US LP Units pursuant to the terms of the CDN LP Agreement and the CDN/US LP Agreement, respectively, returns of capital and repayments of indebtedness, as well as all amounts received by the REIT in any prior calendar month to the extent not previously distributed; less
- (b) all costs and expenses of the REIT that, in the opinion of the Trustee, may reasonably be considered to have accrued and become owing in respect of, or which relate to, such month or a prior month if not accrued in such prior month; less

- (c) all amounts payable in cash that relate to the redemption or repurchase of Units and that have become payable by the REIT in such month or prior month; and less
- (d) any interest expense incurred by the REIT between distributions,

provided that any funds borrowed by the REIT or the proceeds of the issuance of Units or other securities of the REIT and related transactions in connection therewith will not be included in the calculations of Cash Flow (Trust) in respect of any month;

**“CDN LP”** means AP Capital REIT Limited Partnership, a British Columbia limited partnership established by the REIT and the General Partner pursuant to the laws of the Province of British Columbia and the CDN LP Agreement;

**“CDN LP Agreement”** means the agreement establishing the CDN LP made as of June 25, 2015 between the General Partner and the REIT, as such agreement may be amended, restated, modified or supplemented from time to time;

**“CDN LP Founding Limited Partner”** means Steven Froese, businessman and resident of Alberta;

**“CDN LP Limited Partner”** means a partner of the CDN LP holding Class A CDN LP Units or Class B CDN LP Units of the CDN LP;

**“CDN/US Class A Preferred Return”** means an annual amount equal to \$70 per Unit, payable to the limited partners holding Class A CDN/US LP Units of the CDN/US LP;

**“CDN/US LP”** means AP Capital REIT (CDN/US) Limited Partnership, a British Columbia limited partnership established by the REIT and the General Partner pursuant to the laws of the Province of British Columbia and the CDN/US LP Agreement;

**“CDN/US LP Agreement”** means the agreement establishing the CDN/US LP made as of June 25, 2015 between the General Partner and the REIT, as such agreement may be amended, restated, modified or supplemented from time to time;

**“CDN/US LP Founding Limited Partner”** means Steven Froese, businessman and resident of Alberta;

**“Class A CDN LP Unit”** means a Class A limited partnership unit of the CDN LP;

**“Class A CDN/US LP Unit”** means a Class A limited partnership unit of the CDN/US LP;

**“Class A Preferred Return”** means an annual amount equal to \$70 per Unit, payable to the limited partners holding Class A CDN LP Units of the CDN LP;

**“Class A Unit”** means a Class A unit of the REIT;

**“Class B CDN/US LP Unit”** means a Class B limited partnership unit of the CDN/US LP;

**“Class B CDN LP Unit”** means a Class B limited partnership unit of the CDN LP;

**“Class B Unit”** means a Class B unit of the REIT;

**“Class C1 Unit”** means a Class C1 unit of the REIT;

**“Class C2 Unit”** means a Class C2 unit of the REIT;

**“Class D1 Unit”** means a Class D1 unit of the REIT;

**“Class D2 Unit”** means a Class D2 unit of the REIT;

**“Class E Unit”** means a Class E unit of the REIT;

**“Class F Unit”** means a Class F unit of the REIT;

**“Class G Unit”** means a Class G unit of the REIT;

**“Closing”** means a closing of the sale of Units as the Trustee may determine from time to time;

**“Cobblestone”** means the lands and premises acquired by the Cobblestone LP located at 1761 East Warner Road, Tempe, Arizona, 85284;

**“Cobblestone Class A LP Unit”** means a Class A limited partnership unit of the Cobblestone LP;

**“Cobblestone GP”** means AP Capital REIT Phoenix (GP) Ltd., a Delaware corporation;

**“Cobblestone LP”** means AP Capital REIT Cobblestone LP, a Delaware limited partnership

**“Cost Sharing and Recovery Agreements”** means, collectively, the Cost Sharing and Recovery Agreement (CDN/US LP) and the Cost Sharing and Recovery Agreement (CDN LP);

**“Cost Sharing and Recovery Agreement (CDN/US LP)”** means an agreement dated as of June 26, 2015 between the REIT and the CDN/US LP pursuant to which the CDN/US LP has agreed to bear all of the costs of this Offering incurred by the REIT, as a cost of issuing Class A CDN/US LP Units, as may be amended, restated or supplement from time to time;

**“Cost Sharing and Recovery Agreement (CDN LP)”** means an agreement dated as of June 26, 2015 between the REIT and the CDN LP pursuant to which the CDN LP has agreed to bear all of the costs of this Offering incurred by the REIT, as a cost of issuing Class A CDN LP Units, as may be amended, restated or supplement from time to time;

**“Debt Securities”** means debt securities of any subsidiary of the REIT that may be created and issued from time to time, that are subordinated and unsecured, have a maturity of five years or less, are pre-payable at any time at the option of the issuer prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;

**“Declaration of Trust”** means the REIT’s Declaration of Trust dated June 26, 2015, as amended August 11, 2015 and May 1, 2016, as amended, restated and supplemented from time to time;

**“Deferred Plan”** has the meaning ascribed thereto under Item 6.1 “Income Tax Consequences”;

**“Designated Beneficiary”** has the meaning given to it in section 210 of the Tax Act;

**“Disposition Fee”** means a fee payable to the General Partner for services rendered in connection with the sale of a Property, including identifying and engaging a real estate broker, readying the Property for sale and overseeing the conduct and completion of the sale process, in an amount equal to 0.45% of the gross selling price of the Property, plus GST, if applicable, and payable to the General Partner upon the completion of the sale of the Property;

**“Distributable Cash Flow (Trust)”** means, for any calendar month, an amount equal to the Cash Flow (Trust) for such month, less any amount that the Trustee may reasonably consider to be necessary to provide for the payment of any costs or expenses, including any tax liability of the REIT, that have been or are reasonably expected to be incurred in the activities and operations of the REIT (to the extent that such costs or expenses have not otherwise been taken

into account in the calculation of the Cash Flow (Trust)) and less such reserves or amounts as are, in the opinion of the Trustee, necessary or desirable;

**“Distribution Payment Date”** in respect of any calendar month, means a date on which the Trustee is required to make a distribution of Distributable Cash Flow (Trust), which date shall be on or before the 15th day of the next calendar month or, if such day is not a Business Day, the immediately following Business Day, except in the case of the distribution for the period ending December 31 in which case the Distribution Payment Date will be the immediately preceding Business Day or such other date determined from time to time by the Trustee;

**“Distribution Reinvestment Plan”** or **“DRIP”** means the distribution reinvestment plan of the REIT;

**“Fiscal Year”** means each consecutive period of twelve (12) months coinciding with the calendar year and ending on December 31;

**“General Partner”** means AP Capital REIT (GP) Ltd., a British Columbia corporation;

**“Greenway Property”** means the lands and premises acquired by the US LP located at 3202-3342 East Greenway Road, Phoenix, Maricopa County, Arizona 85032;

**“Manager”** means AP Capital REIT Services Ltd., a British Columbia corporation;

**“Morrison Centre”** means the lands and premises acquired by the CDN LP located at 9914 Morrison Street, Fort McMurray, Alberta;

**“Net Asset Value”** means, on the date that such valuation is made, the aggregate fair market value of the assets of the REIT on such valuation day less the amount of the liabilities of the REIT at that time, as determined in accordance with the terms of the Declaration of Trust;

**“Net Subscription Proceeds”** means the gross proceeds to the REIT from the sale of the Units less the costs of this Offering and the Sales Fee;

**“Non-residents”** means non-residents of Canada within the meaning of the Tax Act and includes partnerships that are not “Canadian partnerships” within the meaning of the Tax Act;

**“Offering”** means this offering of Units;

**“Ordinary Resolution”** means a resolution approved by more than 50% of the votes cast by those Unitholders who vote and who are entitled to vote in person or by proxy at a duly convened meeting of Unitholders, or a written resolution in one or more counterparts distributed to all Unitholders and signed by Unitholders holding in the aggregate more than 50% of the aggregate number of votes held by those Unitholders who are entitled to vote;

**“Permitted Investments”** means

- (a) debt obligations of or guaranteed by the Government of Canada or a province of Canada;
- (b) commercial paper obligations of a corporation or other person whose commercial paper is rated investment grade by Dominion Bond Rating Service Limited or its successors or assigns or by Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., or its successors or assigns;
- (c) interest-bearing accounts and short term (which shall mean having a date of maturity or call for payment not more than 60 days from the date on which the investment is made) certificates of deposit

issued or guaranteed by a Canadian chartered bank or trust company, provincial credit union or registered broker dealers;

- (d) money market mutual funds; or
- (e) any combination thereof;

**“Portfolio”** means, collectively, the Canadian Portfolio and the US Portfolio;

**“Properties”** means, collectively, the Canadian Properties and the US Properties and **“Property”** means any one of them;

**“Redemption”** means a redemption of Units by a Unitholder;

**“Redemption Penalty Amount”** means:

- (a) with respect to a Unitholder holding Class C1 Units who has requested the redemption of such Units by the REIT pursuant to the terms and conditions of the Declaration of Trust:
  - (i) up to 7% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C1 Units to be redeemed where the request for redemption occurs within 12 months from the date that the subscription for such Class C1 Units was accepted by the Trustee on behalf of the REIT;
  - (ii) up to 6% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C1 Units to be redeemed where the request for redemption occurs between 13 months and 24 months from the date that the subscription for such Class C1 Units was accepted by the Trustee on behalf of the REIT;
  - (iii) up to 5% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C1 Units to be redeemed where the request for redemption occurs between 25 months and 36 months from the date that the subscription for such Class C1 Units was accepted by the Trustee on behalf of the REIT;
  - (iv) up to 4% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C1 Units to be redeemed where the request for redemption occurs between 37 months and 48 months from the date that the subscription for such Class C1 Units was accepted by the Trustee on behalf of the REIT;
  - (v) up to 3% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C1 Units to be redeemed where the request for redemption occurs between 49 months and 60 months from the date that the subscription for such Class C1 Units was accepted by the Trustee on behalf of the REIT;

For greater clarity, there will be no Redemption Penalty Amount applicable to Class C1 Units that have been held by a Unitholder for more than sixty (60) months;

- (b) with respect to a Unitholder holding Class C2 Units who has requested the redemption of such Units by the REIT pursuant to the terms and conditions of the Declaration of Trust:
  - (i) up to 2% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C2 Units to be redeemed where the request for redemption occurs within 12 months from the date that the subscription for such Class C2 Units was accepted by the Trustee on behalf of the REIT;

(ii) up to 1% of the amount of the Subscription Price paid by the Unitholder with respect to the Class C2 Units to be redeemed where the request for redemption occurs between 13 months and 24 months from the date that the subscription for such Class C2 Units was accepted by the Trustee on behalf of the REIT;

For greater clarity, there will be no Redemption Penalty Amount applicable to Class C2 Units that have been held by a Unitholder for more than twenty-four (24) months;

**"REIT"** means AP Capital REIT, a trust created pursuant to the Declaration of Trust;

**"Sales Fee"** means a fee which may be paid by the REIT to registered securities dealers and exempt market dealers, or where permitted, non-registrants, in an amount not to exceed 7% of the subscription monies obtained by such persons, payable at the time of the initial subscription;

**"Special Resolution"** means a resolution approved by not less than 75% of the votes cast by those Unitholders who vote and are entitled to vote in person or by proxy at a duly convened meeting of Unitholders or a written resolution in one or more counterparts distributed to all Unitholders and signed by Unitholders holding in the aggregate not less than 75% of the aggregate number of votes held by those Unitholders who are entitled to vote;

**"Subscriber"** means a subscriber for Units;

**"Subscription Agreement"** means the subscription agreement to subscribe for Units in the form of Schedule A attached hereto;

**"Subscription Price"** means the amount paid by a Subscriber for a Unit;

**"Tax Act"** means the *Income Tax Act* (Canada), R.S.C. 1985 (5th Supp.) c.1;

**"Trailer Fee"** means an annual fee payable to agents selling Class C1 Units, Class C2 Units and Class F Units, commencing after the first anniversary of any subscriptions for such Units, up to 1% of the subscription price of Class C1 Units, Class C2 Units and Class F Units held by persons acquiring such Units through such agent;

**"Trustee"** means AP Capital REIT Operations Ltd., a British Columbia corporation;

**"Trust Notes"** means promissory notes of the REIT that may be created and issued from time to time that are subordinated and unsecured, have a maturity of five years or less, are pre-payable at any time at the REIT's option prior to maturity, and pay an annual rate of interest equal to the Canada Five-Year Yield, payable monthly in arrears;

**"Trust Property"** means the properties and assets held from time to time by the REIT or by the Trustee on behalf of the REIT, including:

- (a) the contribution in the amount of \$10 by the settlor of the REIT;
- (b) all funds or property derived from the issuance or sale of Units and Trust Notes or other funds or property received by the REIT;
- (c) any Class A CDN/US LP Units and the Class A CDN LP Units or other securities of the CDN/US LP or the CDN LP or of any other person held from time to time by or on behalf of the REIT;
- (d) any Permitted Investments held from time to time by or on behalf of the REIT;

- (e) any proceeds of disposition of any of the foregoing property or in respect of the investment or substitution of the properties and assets of the REIT; and
- (f) all proceeds, income, dividends, interest, profit, return of capital, gains and accretions and all substituted assets, rights and benefits of any kind or nature whatsoever arising directly or indirectly from or in connection with or accruing to such foregoing property or such proceeds of disposition;

**“Unit”** means a unit of individual beneficial interest in the REIT;

**“Unitholders”** means those investors whose subscriptions to purchase Units are accepted by the REIT and thereafter at any particular time the persons entered in the register or registers of the REIT as holders of Units and the singular form means one such registered holder;

**“US Class A LP Units”** means Class A limited partnership units of the US LP;

**“US General Partners”** means the general partners of the US Limited Partnership, and includes any one of them (as context requires), the US GP and the Cobblestone GP;

**“US GP”** means AP Capital REIT US (GP) Ltd., an Arizona corporation;

**“US Limited Partnerships”** means the United States limited partnerships formed, and to be formed, to acquire US Properties, and includes any one of them (as context requires), the US LP and the Cobblestone LP;

**“US Limited Partnership Units”** means the limited partnership units of the US Limited Partnerships, and includes the limited partnerships of any one of them (as context requires), the US Class A LP Units and the Cobblestone Class A LP Units;

**“US LP”** means AP Capital REIT (USA) LP, an Arizona limited partnership;

**“US LP Loan”** means a loan made by the CDN/US LP to the US LP and used by the US LP for the purposes of acquiring, owning and operating Greenway Property;

**“US Portfolio”** means the US Properties acquired, owned and operated by the US Limited Partnerships using proceeds from the issuance of US Limited Partnership Units; and

**“US Properties”** means revenue-producing real estate properties in the United States.

**CANADIAN CURRENCY**

All dollar amounts stated herein, unless otherwise stated, are expressed in Canadian currency.

**ITEM 1 - USE OF AVAILABLE FUNDS**

<b>1.1 Available Funds of the REIT</b>		
<b>Sources of Funds</b>	<b>Assuming Minimum Offering<sup>(1)</sup></b>	<b>Assuming Maximum Offering<sup>(2)</sup></b>
A. Amount to be Raised by this Offering	N/A	\$10,000,000 <sup>(2)</sup>
B. Selling Commissions and Fees	N/A	\$400,000 <sup>(3)</sup>
C. Estimated Costs of the Offering (e.g., legal, accounting, audit)	N/A	\$75,000 <sup>(4)</sup>
<b>D. Available Funds: D = A – (B + C)</b>	N/A	\$9,525,000
E. Additional Sources of Funding Required	N/A	N/A
F. Adjusted Working Capital <sup>(5)</sup>	N/A	\$120,652
<b>G. Total: G = (D+E) - F</b>	N/A	\$9,403,338
H. Reimbursement of Costs by the CDN LP and the CDN/US LP	N/A	\$475,000 <sup>(6)</sup>
<b>Use of Net Funds By Trust</b>		
I. Operating and administrative costs of the Trust	N/A	\$35,000
J. Investment by Trust in Class A CDN LP Units and Class A CDN/US LP Units <sup>(7)</sup>	N/A	\$9,844,348
<b>K. Total</b>	N/A	<b>\$9,879,348</b>

<sup>(1)</sup> There is no minimum offering.

<sup>(2)</sup> There is no maximum offering. This is a continuous offering. Subscription prices for Units may vary. The amount of \$10,000,000 is used for illustrative purposes only.

<sup>(3)</sup> The REIT may pay a sales fee to registered securities dealers and exempt market dealers, or where permitted, non-registrants, in an amount not to exceed 7% of the subscription proceeds. Accordingly, using the illustrative example of \$10,000,000 (see note 2), the REIT could pay as much as \$700,000 in up front selling commissions and fees. The amount included in the table above is based on the REIT's expectation that the average sales fee paid will be approximately 4% of the subscription proceeds. In addition, the Trustee may pay agents selling Class C1 Units, Class C2 Units, and Class F Units an annual Trailer Fee commencing after the first anniversary of any subscriptions therefor up to 1% of the subscription price of such Class C1 Units, Class C2 Units, and Class F Units held by persons acquiring such Units through such agent. See Item 7 "Compensation Paid to Sellers and Finders".

<sup>(4)</sup> Estimated Offering Costs include expenses of or incidental to the issue, sale and delivery of the Units pursuant to this Offering, including, without limitation, fees and disbursements of legal counsel and accountants, and the reasonable out-of-pocket expenses (including applicable taxes) of the General Partner in connection with such issue, sale and delivery.

<sup>(5)</sup> Adjusted working capital has been calculated as the sum of cash and cash equivalents, trade and other receivables, and prepaid expenses less accounts payable and accrued liabilities, loans payable, and dividends payable. The REIT has excluded short term debt from the adjusted working capital calculation as it is considered non-operational.

<sup>(6)</sup> Pursuant to the Cost Sharing and Recovery Agreements, the CDN LP and the CDN/US LP will reimburse the REIT for the costs and expenses, including selling commissions and fees and other related costs of the Offering, incurred by the REIT in offering the Units and obtaining subscriptions for Units, in consideration of the REIT investing the subscription proceeds in the

acquisition of Class A CDN LP Units and Class A CDN/US LP Units. See Item 1.2 below, “Use of Available Funds”.

- (7) The net proceeds raised by the REIT from the issuance of the Units will be invested in Class A CDN LP Units and Class A CDN/US LP Units.

## 1.2 Use of Available Funds

The REIT intends to use the Net Subscription Proceeds to acquire the Class A CDN LP Units and Class A CDN/US LP Units. Pending such use, the Net Subscription Proceeds will be invested in Authorized Interim Investments.

The CDN LP has been established by the REIT to acquire, own and operate Canadian Properties. The CDN LP will use the net proceeds from the issuance of the Class A CDN LP Units to acquire, own and operate Canadian Properties, which, as of the date hereof, include the Morrison Centre. The CDN/US LP has been established by the REIT to acquire US Limited Partnership Units. The CDN/US LP will use the net proceeds from the issuance of the Class A CDN/US LP Units to acquire US Limited Partnership Units. The US Limited Partnerships will use the net proceeds from the issuance of the US Limited Partnership Units to acquire, own and operate US Properties, which, as of the date hereof, include the Greenway Property and Cobblestone. See Item 2.2 “Our Business”, below, for a more complete description of the business of the CDN LP and the CDN/US LP. Pending use as described above, the net proceeds received by the CDN LP and the CDN/US LP from the REIT will be invested in Authorized Interim Investments. The General Partner will use its best efforts to make suitable investments of such funds as soon as possible following each Closing.

Description of intended use of available funds by the CDN LP and the US LP listed in order of priority	Assuming min. offering <sup>(1)</sup>	Assuming max. offering <sup>(2)</sup>
Gross Proceeds from the Issuance of Class A CDN LP Units and Class A CDN/US LP Units <sup>(1)(2)</sup>	N/A	\$9,879,348
Reimbursement of Costs to the REIT	N/A	\$475,000
<b>Net Proceeds available to the CDN LP and the CDN/US LP</b>		<b>\$9,404,348</b>
<b>Use of Funds</b>		
Acquisition of Properties <sup>(3)</sup>	N/A	\$8,905,598
Estimated closing costs for purchase of Properties (including acquisition fees, legal, due diligence and financing costs) <sup>(4)</sup>	N/A	\$498,750
<b>Total</b>		<b>\$9,404,348</b>

(1) There is no minimum offering.

(2) There is no maximum offering. This is a continuous offering. Subscription prices for Units may vary. The amount of \$10,000,000 is used for illustrative purposes only (see Item 1.1 “Available Funds of the REIT”).

(3) Represents an estimate of a portion of the purchase price for Property acquisitions by the CDN LP and the US Limited Partnerships. Additional funding for such Property acquisitions is expected by way of mortgage financing, which will typically not exceed 75% of the appraised value of the Property to be acquired. See Item 2.2 “Our Business – Debt Financing”.

(4) The REIT estimates that closing costs for Property acquisitions will be approximately \$498,750, which includes the 0.75% Acquisition Fee payable to the Manager under the Administration Agreements.

Under the Administration Agreements, the Manager has agreed to provide the certain services to each of the CDN LP, Cobblestone LP and the US LP, for which it will be paid the fees prescribed under such agreements by each of the respective partnerships. The directors and officers of the Manager are also directors and officers of the Trustee. See Item 2.7 “Material Agreements – Administration Agreements”.

Under the Property Manager Agreements, the General Partner and the US Limited Partnerships have engaged AP Capital REIT Services Ltd. as the exclusive Property Manager for the Properties comprising the Portfolio. The fee paid to AP Capital REIT Services Ltd. is based on a percentage of the rental revenue from each Property, and is, for the

most part, recoverable from the tenants under the terms of their leases. The directors and officers of the Property Manager are also directors and officers of the Trustee. See Item 2.2 “Our Business – Property Management”.

### 1.3 Reallocation

The REIT intends to spend the Net Subscription Proceeds as stated. Funds will be reallocated only for sound business reasons.

## ITEM 2 - BUSINESS OF THE REIT

### 2.1 Structure

**The REIT** – The REIT is an open-ended, unincorporated investment trust governed by the laws of the Province of British Columbia. The REIT was formed by a Declaration of Trust dated June 26, 2015, as amended August 11, 2016 and May 1, 2016, between the Trustee and James Speakman, as settlor. The principal office of the REIT is located at 1601 – 128 West Pender Street, Vancouver, BC V6B 1R8 (up to August 2017) and 1795 – 555 Burrard Street, Vancouver, BC V7X 1M9 (after August 2017).

The REIT is a mutual fund trust for purposes of the Tax Act. The beneficial interests in the REIT are divided into Units. There is no limit to the number of Units that may be issued by the REIT, subject to any determination to the contrary made by the Trustee.

**The Trustee** – The trustee of the REIT is AP Capital REIT Operations Ltd., a British Columbia company incorporated under the *Business Corporations Act* (British Columbia) on December 23, 2014 under incorporation number BC1023032. The registered and records office of the Trustee is located at 800 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1.

**The CDN LP** – The CDN LP was formed by the REIT and the General Partner under the name “AP Capital REIT Limited Partnership” by a Certificate of Limited Partnership filed pursuant to the *Partnership Act* (British Columbia) on June 25, 2015 under registration number LP664124. The registered office of the CDN LP is located at 800 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1.

**The CDN/US LP** – The CDN/US LP was formed by the REIT and the General Partner under the name “AP Capital REIT (CDN/US) Limited Partnership” by a Certificate of Limited Partnership filed pursuant to the *Partnership Act* (British Columbia) on June 25, 2015 under registration number LP664121. The registered office of the CDN/US LP is located at 800 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1.

**The General Partner** – The general partner of the CDN LP and the CDN/US LP is AP Capital REIT (GP) Ltd., a British Columbia company incorporated under the *Business Corporations Act* (British Columbia) on November 13, 2014, under incorporation number BC01018996. The registered and records office of the General Partner is located at 800 – 885 West Georgia Street, Vancouver, British Columbia V6C 3H1.

**The US LP** – The US LP was formed by Steven Froese and the US GP under the name “AP Capital REIT (USA) LP” by a Certificate of Limited Partnership filed pursuant to the laws of the State of Arizona on September 11, 2015. The registered office of the US LP is located at 2390 East Camelback Road, Phoenix, Arizona.

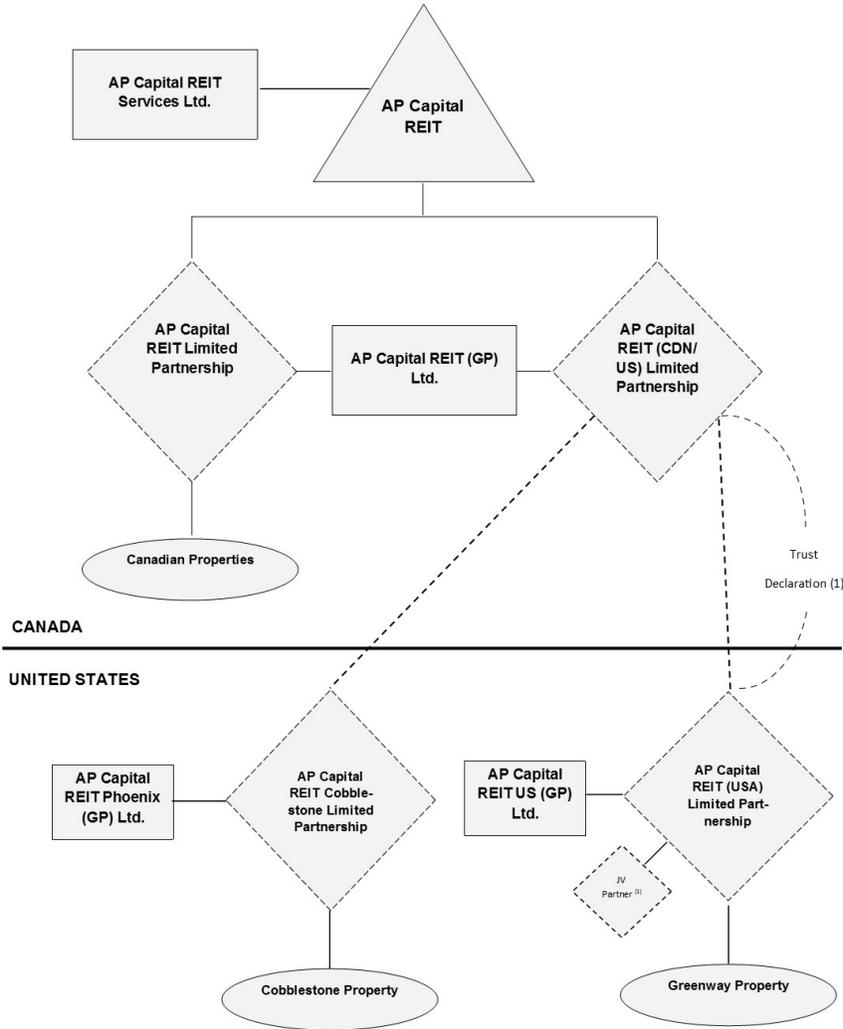
**The US GP** – The general partner of the US LP is AP Capital REIT US (GP) Ltd., a corporation incorporated under the laws of the State of Arizona on September 9, 2015. The registered office of the US GP is located at 2390 East Camelback Road, Phoenix, Arizona 85016.

**The Cobblestone LP** – The Cobblestone LP was formed by Steven Froese and Roy Wiebe under the name “AP Capital REIT Cobblestone LP”, by a Certificate of Limited Partnership filed pursuant to the laws of the State of Delaware on

November 24, 2016. The registered office of the Cobblestone LP is located at 1209 Orange Street, Wilmington, Delaware 19801.

**The Cobblestone GP** – the general partner of the Cobblestone LP is AP Capital REIT Phoenix (GP) Ltd., a corporation incorporated under the laws of the State of Delaware on November 7, 2016. The registered office of the Cobblestone GP is located at 1209 Orange Street, Wilmington, Delaware 19801.

**AP CAPITAL REIT ORGANIZATIONAL STRUCTURE**



(1) Declaration of Bare Trust and Agency Agreement dated November 1, 2015 between Steven Froese and the CDN/US LP. See Item 2.2 “Our Business – The CDN/US LP”.

(2) The JV Partner is Tandem Assets I LP, which owns an 11.94% interest in the Greenway Property.

**2.2 Our Business**

**The REIT** - The REIT has been established to issue Units and to use the proceeds therefrom to acquire and hold the Class A CDN LP Units issued by the CDN LP and the Class A CDN/US LP Units issued by the CDN/US LP. The REIT will invest the Net Subscription Proceeds that it receives from the issuance of its Units to qualified investors in Class A CDN/US LP Units and Class A CDN LP Units, in such proportions as the Trustee may determine. The REIT will also

temporarily hold cash and money market investments for the purposes of paying the expenses and liabilities of the REIT, paying amounts payable by the REIT in connection with the redemption of any Units, and making distributions to Unitholders.

The REIT's long-term objective is to earn income by way of distributions from the CDN LP and the CDN/US LP to holders of the Class A CDN LP Units and the Class A CDN/US LP Units, which will originate from the CDN LP's interest in the Canadian Portfolio and the CDN/US LP's indirect interest, through the US Limited Partnerships, in the US Portfolio. An investment in Units is intended to provide Subscribers with the opportunity to receive cash distributions originating from the ongoing operation of the properties comprising the Portfolio.

**The CDN LP** – The CDN LP will use the net subscription proceeds from the issuance of the Class A CDN LP Units to:

- (a) acquire, own and operate Canadian Properties, which, as of the date hereof, includes the Morrison Centre;
- (b) develop or redevelop a building or buildings on one or more Canadian Properties and thereafter own and operate such properties on a long-term basis; and
- (c) conduct any other business or activity incidental, ancillary or related thereto.

To date, other than Morrison Centre, the General Partner has not identified any Canadian Properties for potential acquisition by the CDN LP.

Subscribers should note that neither they nor any limited partner of the CDN LP will acquire an interest in the properties held by the CDN LP.

**The CDN/US LP** – The CDN/US LP will use the net subscription proceeds received from the issuance of Class A CDN/US LP Units to:

- (a) acquire US Limited Partnership Units, which include the US Class A LP Units and the Cobblestone Class A LP Units;
- (b) to fund the US LP Loan and loans to the Cobblestone LP or in respect of Cobblestone; and
- (c) conduct any other business or activity incidental, ancillary or related thereto.

On October 29, 2015, the CDN/US LP acquired 5,382.10623 US Class A LP Units (the "**October 2015 US LP Units**"). In order to satisfy the requirements of the mortgage lender to the US LP, Steven Froese, the sole director of the US GP, entered into a Declaration of Bare Trust and Agency Agreement dated November 1, 2015, whereby Mr. Froese agreed to hold the October 2015 US LP Units as bare trustee, nominee and agent for the sole benefit and account of the CDN/US LP, which was deemed necessary due to the lack of borrowing and credit history of the US LP.

On November 30, 2016, the CDN/US LP acquired 4,827.6590 Cobblestone Class A LP Units.

Subscribers should note that neither they nor any limited partner of the CDN/US LP will acquire an interest in the properties indirectly held by the CDN/US LP.

**The US Limited Partnerships** – The US Limited Partnerships will use the net subscription proceeds from the issuance of the US Limited Partnership Units to:

- (a) acquire, own and operate US Properties, which, as of the date hereof, includes the Greenway Property acquired by the US LP and Cobblestone acquired by the Cobblestone LP;

- (b) develop or redevelop a building or buildings on one or more Canadian Properties and thereafter own and operate such properties on a long-term basis; and
- (c) conduct any other business or activity incidental, ancillary or related thereto.

To date, other than Greenway Property and Cobblestone, the US General Partners have not identified any US Properties for potential acquisition by the US Limited Partnerships.

**Title to the Properties** – In order to accommodate the expected requirements of lenders and to segregate any risks of ownership between Properties, the CDN LP and the US Limited Partnership may have title to each of the Properties registered in the name of a separate, single-purpose entity, which will likely be a limited partnership established in the Province or State, as applicable, in which the Property is located.

The US Limited Partnerships will hold a 99% interest in any such United States limited partnership and/or LLC formed for the purpose of acquiring US Properties. The officers and directors of the general partner or parties related to them will be the officers, directors and shareholders of the general partners of any United States registered limited partnership or LLCs.

### ***Investment Philosophy***

Each of the General Partner and US General Partners' focus will be on purchasing commercial Properties that are undervalued and mismanaged in markets located in municipal centers within North America that show promising potential for growth and where the asset values are sufficient to allow profitable operations over the subject term and the continued financing of additional Properties. Each of the General Partner and US General Partners' will focus on the market segment between individual real estate investors, on the one hand, and pension funds, REITs and public real estate companies, on the other hand. The General Partner and US General Partners believe there is an opportunity to purchase Properties in this niche either before they come to market, at valuations below those that would be paid in an open bidding process, or when analysis suggests an undervaluation. The General Partner and US General Partners will continually review the REIT's target real estate markets to assess the potential for new opportunities.

The General Partner and US General Partners each believes that research combined with professional management expertise are the cornerstones of a successful real estate investment program. The General Partner and the US General Partners aim to create value by investing in Properties that they have identified as having the potential to create value, as follows:

- (a) purchasing mismanaged, undervalued or underutilized Properties;
- (b) performing strategic renovations and other capital improvements to the Properties, if required, to improve marketability, rental income and occupancy levels;
- (c) refinancing Properties where appropriate to realize immediate market value gains and reinvesting funds to acquire additional Properties for the Portfolio; and
- (d) realizing value through capital appreciation of the Portfolio through the acquisition of Properties based on solid economic fundamentals and research.

The General Partner and US General Partners intend to operate on the following principles:

- (a) that strategically-located Properties in areas with solid economic fundamentals have historically appreciated in value over time;

- (b) that the current interest environment enables real estate owners to obtain favorable mortgage rate financing;
- (c) that when total income from a Property meets or exceeds the Property carrying costs, there is an opportunity to gain positive leverage which increases the overall return on equity invested;
- (d) that the current financing costs provide investment opportunity in real estate with attractive leveraged yields that are less available from many other investment alternatives; and
- (e) that real estate investment is also likely to provide an opportunity for greater returns through leveraged capital appreciation.

The General Partner and US General Partners also believe that Properties may be acquired at attractive prices as a result of market inefficiencies, below market rents, poor management practices or an absence of sound investment strategies by the current property owners. By providing experienced and proven management systems, the General Partner and US General Partners anticipate higher returns from such Properties over time.

The General Partner and US General Partners believe that increased value can be realized through a variety of initiatives such as strategic renovations, restructuring, refinancing, re-branding, re-leasing, re-negotiating existing leases, change of use, capital improvements, or market repositioning.

#### **Investment Strategy**

The General Partner and US General Partners intend to make acquisitions that represent an opportunity to establish and improve the overall quality of the Portfolio, minimize and mitigate the risk(s) associated with any investment and enhance the sustainability of the long term investment strategy of the CDN LP and the US Limited Partnerships.

The General Partner and US General Partners will focus on acquiring Properties which they believe to be operating below their potential realizable value. The General Partner and US General Partners will focus on identifying Properties for possible acquisition in growth markets and aggressively manage and reposition those Properties with the view to preserving partnership capital, and enhancing the potential for increased income and capital gains.

The General Partner and US General Partners will focus on acquiring Properties located in municipal centers within North America, which will allow the CDN LP and US Limited Partnerships to capitalize on operational efficiencies and further increase their presence and critical mass therein. The CDN LP and US Limited Partnerships may also expand, renovate or take advantage of the development opportunities presented by a Property to enhance the return on capital while retaining a diversified Portfolio and conservative risk profile as a whole.

The CDN LP and US Limited Partnerships may also consider re-mortgaging Properties comprising the Portfolio over time in effort to increase investment capital, which can be used to acquire additional Properties. Any excess cash flow may also be re-invested into the Portfolio or utilized to pay down existing mortgage debt on the Portfolio.

#### **Investment Process**

The CDN LP and the CDN/US LP, directly or indirectly, as the case may be, intend to use the aggregate net proceeds realized from this Offering together with the proceeds from mortgage financing, periodic re-mortgaging and cash flow from operations, to acquire Properties and manage/operate the Portfolio.

The CDN LP and US Limited Partnerships will purchase Properties at prices and on terms negotiated with arm's length third party vendors. In some cases the CDN LP and US Limited Partnerships might acquire a Property under an agreement initiated by the General Partner, a US General Partner or parties associated with the General Partner or the US General Partners, or a nominee thereof, with arm's length third party vendors, which agreement will be

assigned to the CDN LP or a US Limited Partnership, as the case may be, which will, upon assignment, reimburse any deposits and due diligence or other out-of-pocket expenses incurred by the General Partner or a US General Partner before the assignment. From time to time, there may be a fee charged for property assignments by the General Partner and/or a US General Partner, as applicable.

The CDN LP and US Limited Partnerships may purchase Properties from the officers and directors of the General Partner or a U S General Partner, as the case may be, or from corporations associated with such parties at a price below or equal to the average of the value established by a certified appraisal obtained from an independent appraiser with respect to the Property in question and a single market valuation obtained from an independent realtor with respect to the Property.

The General Partner and US General Partner will identify and evaluate potential acquisitions. When the General Partner and US General Partner determine that an acquisition is worth considering, a strict due diligence process will be followed. The General Partner and US General Partner may obtain independent property, environmental and structural reports even if not required by lenders.

As part of the due diligence process with respect to a proposed acquisition, the General Partner and the US General Partners will consider, among others, the following:

**Appraisal** - What is the Property worth and how was it appraised (Direct comparison, Income or Cost Approach).

**Zoning** - What is the Property being used for today? Is it the best use? Are there limitations against future improvements/additions to the Property?

**Financing** - How is this Property going to be purchased? How will lenders view this purchase?

**Environmental Report** - Are there any current environmental concerns? What is the environmental history of the Property?

**Engineering Report** - What is the condition of the existing building or buildings located on the Property? What is the structural integrity of any buildings?

**Site Survey Real Property Report** - Are there any easements registered on the Property?

**Macroeconomics** - Refer to high level economic fundamentals that speak to the future viability to a neighborhood, city or province or state. These are broad economic indicators that help the General Partner identify areas of interest based on several key factors.

**Net Migration** - What are the population trends in the area? Are there more people arriving or departing? Thriving areas tend to see population increases over the long term. An increase is generally a positive indicator for real estate values as more people arrive and the supply of available residential and commercial properties tighten.

**Industry** - What are the major industries in the area? Who are the major employers and how much of the job market do they represent? What are the future prospects for current major employers? What other businesses are locating/relocating in the area?

**Transportation** - How accessible is the area? Are there any infrastructure expansion plans pending?

**Government** - How easy/difficult is it to do business in the area? How do taxes for businesses compare to other areas?

After the successful acquisition of a Property, the General Partner and the US General Partners will implement a value enhancement process that consists of value-increasing and revenue augmentation activities, including strategic capital improvements and the implementation of value-added tenant services.

The Properties comprising the Portfolio will be monitored by the General Partner and the US General Partners on a continuous basis to gauge the effectiveness of the management process on cash flows and tenant satisfaction. Through analysis of market rental rates, the General Partner and US General Partners will determine where capital expenditures will permit the largest increase in rents and when a Property's rate of return has been maximized. The General Partner and US General Partners may decide to sell a particular Property and reinvest capital into opportunities that will provide superior returns.

### **Disposition Guidelines**

The CDN LP and US Limited Partnerships may sell a Property when the General Partner and US General Partners determine that the associated capital can be more efficiently deployed. This will be a continuous monitoring process, where economic, political and demographic trends are taken into account.

The CDN LP and US Limited Partnerships may also sell Properties comprising the Portfolio to the officers and directors of the General Partner or the US General Partners or to corporations or limited partnerships associated with such parties at a purchase price based on the value established by a certified appraisal obtained from an independent appraiser with respect to the Property in question.

The General Partner and US General Partners may, at their discretion and without notice to the limited partners of the CDN LP and US Limited Partnerships, reallocate the CDN LP's and/or the US Limited Partnerships' assets to Properties as determined by the General Partner and the US General Partners, as applicable, in their discretion.

### **Debt Financing**

The CDN LP and US LP may finance a part of the purchase price and the operating cost of their respective Properties comprising the Portfolio, and may refinance any acquisition financing where more favourable financing becomes available from third party lenders such as banks, trust companies, mortgage syndicates or other providers of mortgage funding. The General Partner and US General Partners expect that a mortgage loan charging a Property will typically not be more than 75% of the appraised value of such Property, although occasionally higher leverage may be desired or assumed. Additional funds may be required for the property management reserve account which may be required by the applicable lenders.

### **Cash Flow Payments**

In accordance with the terms of their respective limited partnership agreements, the CDN LP and the US Limited Partnerships will apply cash flow from operations of the Properties comprising the Portfolio towards the operating expenses, provision of reasonable reserves for working capital, renovations and upgrades to such Properties, and the payment of interest and annual principal payments on the mortgage loans of such Properties. The amount by which the cash on hand of each of the CDN LP and the US Limited Partnerships exceed the foregoing will constitute "Distributable Cash" under each of their respective limited partnership agreements.

Pursuant to the CDN LP Agreement, the CDN LP will distribute in each month the amount by which the CDN LP's cash on hand or to be received in respect of that month (excluding any proceeds from any financing) exceeds unpaid administration expenses of the CDN LP (excluding the Asset Management Fee); amounts required for the business and operations of the CDN LP, including operating expenses and capital expenditures; all current obligations of the CDN LP; and all principal and interest payments under any financing, and after the creation of a reasonable working capital and capital improvement reserve as determined by General Partner, as follows:

- (a) first as 0.01% thereof, to the General Partner, to a maximum of \$100 per annum;

- (b) second to limited partners holding Class A CDN LP Units, an amount equal to the Class A Preferred Return commencing as of the date a Unit Certificate representing Class A CDN LP Units is issued to such limited partners;
- (c) third to limited partners holding Class B CDN LP Units, an amount equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN LP Units in respect of the Class A Preferred Return; less
  - (ii) the amount which would have been paid to the limited partners holding Class A CDN LP Units in respect of the Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN LP Units and 30% to the limited partners holding Class B CDN LP Units.

Pursuant to the CDN/US LP Agreement, the CDN/US LP will distribute in each month the amount by which the CDN/US LP's cash on hand or to be received in respect of that month (excluding any proceeds from any financing) exceeds unpaid administration expenses of the CDN/US LP (excluding the Asset Management Fee); amounts required for the business and operations of the CDN LP, including operating expenses and capital expenditures; all current obligations of the CDN/US LP; and all principal and interest payments under any financing, and after the creation of a reasonable working capital and capital improvement reserve as determined by General Partner, as follows:

- (a) first as 0.01% thereof, to the General Partner, to a maximum of \$100 per annum;
- (b) second to limited partners holding Class A CDN/US LP Units, an amount equal to the Class A Preferred Return commencing as of the date a Unit Certificate representing Class A CDN/US LP Units is issued to such limited partners;
- (c) third to limited partners holding Class B CDN/US LP Units, an amount equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN/US LP Units in respect of the Class A Preferred Return; less
  - (ii) the amount which would have been paid to the limited partners holding Class A CDN/US LP Units in respect of the Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN/US LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN/US LP Units and 30% to the limited partners holding Class B CDN/US LP Units.

Distributions of cash flow in accordance with the foregoing will take priority over redemption of Units. Redemptions are undertaken in accordance with the terms, conditions and restrictions set out in the Declaration of Trust. See Item 5.1 "Terms of Units – Distributions" for further discussion regarding distributions and redemptions.

#### **Distribution Reinvestment Plan**

The REIT offers Canadian investors to take part in an optional distribution reinvestment plan ("DRIP") for all classes of Units, pursuant to which Unitholders are entitled to elect to have all cash distributions they receive from the REIT automatically reinvested in additional Units of the same class. No brokerage commissions, service charges or similar

fees are payable in connection with the purchase of Units under the DRIP. Units issued under the DRIP are issued by the REIT from its treasury. Participation in the DRIP does not relieve Unitholders of any liability for any income or other taxes that may be payable on or in respect of the distributions that are reinvested for their account under the DRIP. Unitholders who do not enroll in the DRIP will receive regular cash distributions from the REIT, as more particularly described in this Offering Memorandum.

Canadian investors have the option to request enrolment in the DRIP, and enrolment will continue until the investor gives written notice to the REIT that the investor no longer wishes to participate in the DRIP. Such notice of termination of enrolment may be given at any time. There are no restrictions on termination of enrolment.

DRIP issuances for the period ended December 31, 2016 were as follows:

<b>Class and Number</b>	<b>Value (deemed value of \$1,000 per Unit)</b>
539.2506 Class B Units	\$539,251
8.2708 Class C1 Units	\$8,271
27.4204 Class C2 Units	\$27,420
24.9345 Class F Units	\$24,935
363.9936 Class G Units	\$363,993
<b>Total</b>	<b>\$963,871</b>

Due to a significant number of Unitholders participating therein, the REIT expects that the DRIP will have a positive impact on cash flow because cash that would otherwise be paid out to investors in distributions will instead be available for reinvestment by the REIT.

### **Property Management**

The General Partner and the US Limited Partnerships have engaged AP Capital REIT Services Ltd. as the exclusive Property Manager for the Properties comprising the Portfolio. The Property Management Agreements are on standard commercial terms. Such terms include, among other things, provisions relating to budgeting, collection of rents and maintaining property bank accounts, payment of expenses, the maintenance of the property, attending to tenant matters, leasing and enforcing leases, insurance management and other related matters. These agreements are for terms not exceeding five years and may be terminated by the CDN LP and the US Limited Partners on the sale of a Property, in the event of a default by AP Capital REIT Services Ltd., or upon 90 days' prior written notice.

The fee paid to AP Capital REIT Services Ltd. is based on a percentage of the rental revenue from each Property, and is, for the most part, recoverable from the tenants under the terms of their leases.

### **2.3 Development of the Business**

To date, the CDN LP and the US Limited Partnerships have acquired three properties, the Morrison Centre, Greenway Property and Cobblestone, as more particularly described below. Neither the General Partner nor the US General Partners have identified any other Properties for acquisition by the CDN LP or the US Limited Partnerships as of the date hereof.

Property	Location	Purchase Date	Purchase Price
Morrison Centre	Fort McMurray, Alberta	June 30, 2015	\$25,000,000
Greenway Property	Phoenix, Arizona	October 28, 2015	US\$23,100,000
Cobblestone	Tempe, Arizona	November 30, 2016	US\$11,200,000

### Morrison Centre

The CDN LP acquired Morrison Centre effective as of June 30, 2015, for a price of \$25,000,000, from 1576697 Alberta Ltd., a company related to the REIT in that 50% of its shares are held by AP Capital Mortgage Investment Corporation, which has directors in common with the Trustee and the General Partner. The Manager waived the Acquisition Fee in the amount of \$375,000 plus GST in respect of the purchase of Morrison Centre. The CDN LP incorporated a new Alberta corporation called 1904934 Alberta Ltd. to hold Morrison Centre as nominee, bare trustee and agent for and on behalf of the CDN LP. 1576697 Alberta Ltd. originally acquired Morrison Centre for \$14,000,000 on or about May 15, 2011 from Bond St. Properties Inc. Bond Street Properties Inc. had originally planned to construct two residential towers on a portion of the property on which Morrison Centre is located but, during the recent economic downturn, experienced permitting, and other similar delays, and financial difficulties. Bond Street Properties Inc. ultimately sold the Morrison Centre to 1576697 Alberta Ltd. The net operating income of Morrison Centre was \$1,825,000 in 2015, representing a cap rate of 7.3% at acquisition.

The purchase price of \$25,000,000 paid by the CDN LP to 1576697 Alberta Ltd. for Morrison Centre was paid as follows: (a) assumption of the short-term mortgage (the “**Servus Mortgage**”) in favour of Servus Credit Union (“**Servus**”) in the amount of \$14,748,174.94 at the time of closing, (b) cash from the Offering of Units, and (c) the issuance of Class A Units of the CDN LP. The CDN LP also assumed 1576697 Alberta Ltd.’s obligation in respect of \$173,712.22 in security deposits held under the various leases at Morrison Centre. On a post-closing basis, the CDN LP replaced the Servus Mortgage with a new loan (the “**Replacement Loan**”) from Servus in the amount of \$16,500,000, which was secured by a first mortgage charge against Morrison Centre. The Replacement Loan bears interest at a rate equal to Servus’ prime lending rate (which was 2.70% on August 5, 2016, the date of the Commitment Letter) plus 0.75%, floating, calculated daily and payable monthly in arrears. The Replacement Loan is repayable with monthly blended instalments of \$95,300, which will be applied firstly to interest and secondly to principal and is amortized over a 240 month period with a three year term expiring 36 months after the interest adjustment date, which was October 1, 2015.

The Morrison Center was built in 1977, and construction materials used were concrete block with steel trusses and concrete floors. The general building condition is sound with new HVAC units installed within the last 4 years, and over 70% of the net leasable space having been renovated within the past 5 years. There are no environmental issues on the site. The Morrison Centre has a rentable area of 50,700 square feet and has a tenant mix consisting of primarily medical tenants. The upper floor mix is forty-five percent medical, with the balance a variety of offices ranging from union to accounting companies. The main floor is made up of fourteen percent medical-related tenants, thirty-one percent office retail including a mix of insurance and a well-established hair salon and spa (who in the last 12 months invested over fifty thousand dollars in tenant improvements). The balance on the main floor is made up of two restaurant tenants, one of which invested millions of dollars into their establishment and has entered into a 10 year lease with two 10 year options. The lower floor is comprised of a mix of retail, medical, office and restaurant kitchen. The retail is made up of a dancewear store of 30 year presence in Fort McMurray, and the office space is leased by a law firm, a union and a multi-national security company. The balance is the restaurant and a medical based professional health consulting firm.

As at May 30, 2017, the vacancy rate of the Morrison Centre is 6.76%.



Morrison Centre is located in downtown Fort McMurray on the corner of Franklin Avenue and Morrison Street, directly across the street from the site where a 7,000-seat downtown event arena was proposed to be built. As of May 2017, the plans to construct that arena have been put on hold by the municipality. Fort McMurray's primary economic drivers are oil and gas extraction, mining, construction, pipeline maintenance, forestry and governance. The decrease in oil pricing and related downturn in economic conditions in Alberta have curtailed certain planned projects and have resulted in significant job losses, decreases in the housing market and similar negative impacts on local businesses. Nevertheless, the CDN LP and REIT believe that the central location of Morrison Centre and its relatively stable tenant mix (as further described below), which is mostly concentrated in the medical, dental and similar health-related service businesses, will hold it in good stead during the current economic downturn.

There were two appraisals with respect to Morrison Centre from early 2015. Independent Property Appraisal assessed that Morrison Centre had a value of \$26,360,000 and R. Wyton Appraisal & Consulting Ltd.'s assessment was slightly lower at \$26,000,000. An updated appraisal by Independent Property Appraisal assesses Morrison Centre at \$25,570,000 as of February 2017.

#### *May, 2016 Wildfire*

In early May, 2016, Fort McMurray suffered the largest wildfire the province of Alberta has experienced in recent history. On May 4, 2016, the Alberta government declared a provincial state of emergency in response to a wildfire that initially began southwest of Fort McMurray but which spread quickly into Fort McMurray and forced the largest wildfire evacuation in Alberta's history. The entire town of Fort McMurray, in excess of 80,000 people, was evacuated, and the fire is estimated to have consumed in excess of 590,000 hectares (1,500,000 acres) before it was declared to be under control on July 5, 2016. Continued wildfire threat, explosions and poor air quality prevented residents and rebuilding crews from returning to the town until June 1, 2016 when the Alberta government permitted residents to return to Fort McMurray in phases once it was satisfied that the wildfire no longer posed a threat, hazardous areas were secured, local government was re-established and essential services and their related infrastructure were re-established.

During the height of the wildfire and until June 1, 2016 when the phased re-entry commenced, all tenants of Morrison Centre had been evacuated. The REIT's standard lease agreement requires business interruption coverage for all tenants and the REIT did not face issues with being able to meet its debt payment obligations to Servus under the Replacement Loan. By middle of July 2016, tenants had resumed business and reoccupied their space.

The REIT has experienced demand for vacancy in the building and secured several new tenants from supporting services in the multi-billion dollar rebuild of the community. Long term, the REIT believes that the demand for commercial rental space in Fort McMurray will increase and Morrison Centre will be in a position to meet that need.

The REIT acquires properties based on many different factors including but not limited by, upside potential through leases or expansion, building condition, tenant mix, and location. This particular property is located in a B- market and has a B-rated tenant mix that has a long term presence in the building. The property was acquired because the acquisition price was below market value with an attractive cap rate. The general goal will be to maintain rates on renewing leases to current market rates, but this will depend on the general economic conditions in Fort McMurray and Alberta generally, particularly in light of the May, 2016 wildfire discussed herein. The rates may not be able to be increased in the short term while Alberta continues to deal with the downturn in economic conditions and while Fort McMurray recovers from the effects of the wildfire. The long term strategy is to maximize the lease income and explore expansion/redevelopment ideas with the City in order to meet the needs that will come up if the economy rebounds and if the City renews its plans to construct the event arena.

### **Greenway Property**

On October 28, 2015, the US LP acquired an 88.06% interest in the Greenway Property for a purchase price of US\$23,100,000, or US\$112.24 per square foot. The purchase price was paid as follows: (a) cash on hand, and (b) a loan (the “**Midcap Loan**”) obtained from Midcap Financial Trust (“**Midcap**”) in the original principal amount of \$18,000,000 and secured by a first mortgage registered against title to the Greenway Property. The Midcap Loan bears interest at a rate of 5.5% per annum, matures on October 29, 2018 and the US LP is required to make interest-only payments. The net operating income of the Greenway Property was US\$1,959,567 in 2015, which represents a cap rate of 7.50% at acquisition.

An amount of US\$500,000 was held back from the loan amount by Midcap to fund future tenant improvement costs and capital improvement expenditures. The termination date of the Midcap Loan is October 28, 2018 but the US LP has two options to extend the term for 12 months each.

Tandem Assets I LP owns 11.94% of Greenway Property. Tandem Assets I LP is related to the REIT in that the general partner of Tandem Assets I LP has directors in common with the Trustee and the General Partner.

The Greenway Property consists of a 205,804 square foot multi-tenanted retail property located at 3202-3342 East Greenway Road in Phoenix, Arizona. The property is anchored by Food City, Goodwill, and Ross Dress For Less. The buildings were constructed in 1988 and are situated on an 18.41-acre site. There is one appraisal in place with respect to the Greenway Property, prepared by CBRE on October 12, 2015. CBRE assesses that the Greenway Property has a value of US\$23,100,000, and that if rents were stabilized, that value could increase to US\$25,700,000.

As at May 30, 2017, the vacancy of the Greenway Property is 18.49%.



The Greenway Property is located in the city of Phoenix, which is the state capital of Arizona, and is considered a suburban location. Phoenix is situated in Maricopa County, with the Greenway Property being located 15 miles northeast of the Phoenix Central Business District.

At May 30, 2017, Greenway Property has 38,043 square feet of vacant shop space. Leasing agents report strong interest in the center subsequent to the opening of the Ross Store that took over a previously vacated gym space. With new ownership and marketing by the US LP, combined with the new professional management company operating at the property, stronger leasing activity is projected and lease-up of the center to stabilized occupancy is projected over the next 36 months.

#### *The Financial Crisis*

Following the global financial crisis of 2007-08, Arizona was deeply affected by what the commentators have called the "Great Recession". The economic downturn dramatically curtailed population growth and tourism, devastated the housing market, reduced state revenues, drove up unemployment, and sent shock waves through all economic sectors. The United States as a whole has suffered from the prolonged recession, but Arizona's economy took a disproportionately negative hit. However, local and state leaders focused on finding ways to diversify Arizona's economy and as a result, most cities and towns in Arizona, as well as some counties and the state as a whole, have pursued economic development efforts to explore new economic sectors, better utilize existing resources, attract new businesses, retain current industries and promote a more-skilled workforce.

Some of Phoenix's key industries, many of which have gained traction and prominence due to the efforts of government leader to focus on economic recovery and development, are manufacturing, tourism, healthcare, technology, service-based businesses, financial services and construction. The Arizona economy expanded at a steady pace throughout the first half of 2015, with job growth moving above the 2% range and exceeding the national average. The unemployment rate is steady at just above 5%, on par with that of the U.S. and a full percentage point below the Arizona rate. The forecast calls for Arizona's growth to pick up speed during the 2015-2017 time period, with gains across most indicators estimated to exceed national results. Importantly, the mix of job creation taking place in metropolitan Phoenix continues to shift away from lower-wage positions and towards office-using industries, most notably financial services, professional and business services and technology, which will likely have a positive impact on state per capita personal income growth going forward.

The REIT expects the financial performance of Greenway Property to improve for the 2017 fiscal year, leasing up vacant space and creating a plan to implement strategic improvements to the buildings as and where necessary on a going forward basis in order to enhance value.

### ***Cobblestone***

On November 30, 2016, the Cobblestone LP acquired Cobblestone for a purchase price of US\$11,200,000, or US\$114.38 per square foot. The purchase price was paid as follows: (a) cash on hand, and (b) a loan (the "**Wells Fargo Loan**") obtained from Wells Fargo in the original principal amount of US\$7,450,000 and secured by a first mortgage registered against title to the Cobblestone. The Wells Fargo Loan bears an interest rate of 5.306% per annum, on a ten year term with a 30 year amortization period. The net operating income of Cobblestone is US\$771,456 per year, which indicates a capitalization rate of 6.89% at acquisition.

Cobblestone consists of a 97,915 square foot retail strip mall located at Warner Road and McClintock Drive in Tempe, Arizona. The buildings were constructed in 1986 and are situated on 7.71 acre site. Cobblestone is located in Tempe, Arizona at an intersection with strong traffic counts, a dense population base and some of the highest incomes in the Phoenix metropolitan area. Ten thousand residents are within 1-mile of the property and average household incomes are greater than \$137,000. Cobblestone is anchored by Bashas' new high-end concept occupying 45,000 feet (Bashas' has 130 stores in the Arizona market). In addition, the property includes a dentist, doctor's office, veterinary clinic, spa, salon, pool supply store, plus more. Not included in the purchase, but located inside the property grounds, are two parcels containing a Wells Fargo bank and a Starbucks location, respectively. The property was appraised by Colliers International at US\$11,570,000 as of November 2016.

As at May 30, 2017, the vacancy of Cobblestone is 7.23%.



## 2.4 Long Term Objectives

The long term objectives of the REIT are:

- (a) to issue sufficient Units to be able to acquire sufficient Class A CDN LP Units and Class A CDN/US LP Units to permit the CDN LP and CDN/US LP (through the US Limited Partnerships) to pursue and complete the acquisitions of Properties on a commercially reasonable basis;
- (b) to provide Unitholders with profits derived from the REIT’s investment in Class A CDN LP Units and Class A CDN/US LP Units and the General Partner and US General Partners’ operation of the Properties; and
- (c) to distribute such profits to Unitholders as and when received from the CDN LP and the CDN/US LP.

Subject to future events, which may have an impact on the timing of such decisions, it is the current intention of the Trustee to continue the REIT for an indefinite period of time.

## 2.5 Short Term Objectives and How the REIT Intends to Achieve Them

The business objectives of the REIT for the next 12 months are to complete the offering of a sufficient number of Units pursuant to this Offering Memorandum to be able to acquire sufficient Class A CDN LP Units and Class A CDN/US LP Units for the CDN LP and CDN/US LP, directly or indirectly, as applicable, to carry out the acquisition of additional Properties and continue their operation on a commercially reasonable and profitable basis.

What the issuer must do and how it must do it	Target completion date or if not known, number of months to complete	Cost to complete
Raise sufficient funds to purchase additional Properties	Ongoing – Next property purchase expected within 12 months. The purchase of the property will be subject to further due diligence.	Unknown
Manage, operate and improve properties.	Ongoing – improved management and operation of properties typically are to occur over the first 12-24 months of ownership depending on the size, age, and other characteristics of the property.	Unknown

## 2.6 Insufficient Funds

The funds available as a result of this Offering may not be sufficient to accomplish all of the proposed objectives of the REIT and there is no assurance that alternative financing will be available.

## 2.7 Material Agreements

The following is a list of agreements, which are material to this Offering and to the REIT, all of which are in effect:

- (a) The Declaration of Trust dated June 26, 2015, as amended August 11, 2015 and May 1, 2016, between the Trustee and the Settlor. See Item 5.1 – “Terms of Units – Declaration of Trust”;
- (b) Subscription Agreements – the Agreements by which investors will subscribe for and acquire Units on the terms and conditions described in this Offering Memorandum;

- (c) CDN LP Agreement dated June 25, 2015 between the CDN LP Founding Limited Partner and the General Partner. See Item 5.1 – “Terms of Units – CDN LP Agreement”;
- (d) CDN/US LP Agreement dated June 25, 2015 between the CDN/US LP Founding Limited Partner and the General Partner. See Item 5.1 – “Terms of Units – CDN/US LP Agreement”;
- (e) Cost Sharing and Recovery Agreements dated June 26, 2015 between CDN LP and the REIT and the CDN/US LP and the REIT relating to the reimbursement by the CDN LP and the CDN/US LP, as applicable, to the REIT of costs incurred in the offering of the Units and obtaining subscriptions for Units;
- (f) An Administration Agreement dated June 26, 2015, as amended May 1, 2016 and April 30, 2017, between the Manager and the CDN LP. See Item 2.7 “Material Agreements – Administration Agreements”;
- (g) An Administration Agreement dated June 26, 2015, as amended May 1, 2016 and April 30, 2017, between the Manager and the US LP. See Item 2.7 “Material Agreements – Administration Agreements”;
- (h) A Declaration of Bare Trust and Agency Agreement dated effective September 9, 2015, whereby Steven Froese confirms, acknowledges and agrees that as of and from September 9, 2015, he holds 100 shares in the capital of the US GP as nominee, bare trustee and agent for 1018999 B.C. Ltd., 1019374 B.C. Ltd., 1019001 B.C. Ltd., 1901174 Alberta Ltd., 0824016 B.C. Ltd., and 541461 Alberta Ltd.;
- (i) A Declaration of Bare Trust and Agency Agreement dated November 1, 2015, whereby Steven Froese confirms, acknowledges and agrees that as of and from October 29, 2015, he holds the October 2015 US LP Units (as defined above in Item 2.2 “Our Business – the CDN/US LP”) solely as bare trustee, nominee and agent for the sole benefit and account of the CDN/US LP; and
- (j) Cobblestone LP Agreement dated November 22, 2016 between the CDN/US LP and LP Founding Limited Partner and the General Partner.

Copies of all contracts referred to above may be inspected during normal business hours at the principal office of the General Partner, located at 1601 – 128 West Pender Street, Vancouver, BC V6B 1R8 (up to August 2017) and 1795 – 555 Burrard Street, Vancouver, BC V7X 1M9 (after August 2017).

### ***Administration Agreements***

Under the Administration Agreements, the Manager has agreed to provide the following services to each of the CDN LP and the US LP, for which it will be paid the fees set out below by each of the respective partnerships:

- (a) structure the CDN LP and the US LP and this Offering, identify Properties for acquisition, negotiate the purchase thereof, structure the ownership of each of the Properties, conduct due diligence, apply for and obtain mortgage loans and liaise with legal counsel, brokers and others in connection with completing the purchase of Properties;
- (b) when necessary or advisable, negotiate and complete the sale of a Property on such terms and conditions and at such time as the Manager may determine, including identifying and engaging a real estate broker, readying the Property for sale and overseeing the conduct and completing the sale process, or providing advice to the General Partner and US General Partners in respect of same;

- (c) oversee and supervise property management of the Properties, establish appropriate legal and accounting systems for the CDN LP and the US LP, report to the limited partners of each of the CDN LP and the US LP on an ongoing basis, liaise with the lenders any mortgage loans in connection with the Properties, use best efforts to arrange a refinancing of the mortgage loans at the expiration of their terms and any subsequent refinancing, conduct ongoing analysis of market conditions to monitor the CDN LP's and the US LP's investment in the Properties; prepare annual financial reports on the Properties, provide overall management, financial and business planning, perform such other administrative duties as a reasonably prudent administrative manager would provide in the same or comparable circumstances and such other administrative duties as the CDN LP and the US LP may reasonably request from time to time and/or providing advice to the General Partner and US GP in respect of same; and
- (d) oversee the preparation of this Offering Memorandum, the offering and sale of Units, and the completion of all matters related to the closing of subscriptions on behalf of the REIT. In addition, the Manager will be entitled to be reimbursed for any deposits paid and for all out-of-pocket expenses incurred by the Manager in completing any of the above duties, both in respect of the purchase of a Property or the ongoing ownership, operation and management of a Property.

In consideration of such services, the CDN LP and the US LP will each pay the Manager the following fees:

- (a) the Acquisition Fee, in an amount equal to 0.75% of the gross purchase price of each Property, plus GST if applicable, upon the completion of the purchase of each Property;
- (b) the Asset Management fee, in an amount equal to 1.5% of the Net Asset Value, payable monthly on the last day of each month during the term of the Administration Agreements; and
- (c) the Disposition Fee in an amount equal to 0.45% of the gross selling price of the Property, plus GST if applicable, upon the completion of the sale of the Property.

In addition, the Manager will be entitled to be reimbursed for any deposits paid and for all out-of-pocket expenses incurred by the Manager in completing any of the above duties.

The Manager may require the CDN LP and/or the US Limited Partnerships to pay all or any portion of the Acquisition Fee, the Disposition Fee and the Asset Management Fee to the Manager by issuing to the Manager that number of Class A CDN LP Units and/or that number of US Limited Partnership Units.

Pursuant to the Amendment Agreements to the Administration Agreements, the Asset Management Fee and the Acquisition Fee payable to the Manager have been reduced from what was payable in 2016 and the first quarter of 2017. As a result, from and after May 1, 2017, the Asset Management Fee shall be paid to the Manager monthly on an estimated basis on the first day of each month. The estimated monthly payments to be paid in each such year shall be determined by dividing the greater of \$100,000 and the 1.5% of the Net Asset Value for the year immediately preceding the year in which the payments are to be made by 12. Once the Net Asset Value for each calendar year is determined in accordance with the foregoing, the CDN LP, Cobblestone LP and/or the US LP, as applicable, may make a balloon payment in favour of the Manager if the aggregate of the estimated Asset Management Fee paid during a year based on such formula was less than the actual Asset Management Fee amount due.

**ITEM 3 - DIRECTORS, MANAGEMENT, PROMOTERS AND PRINCIPAL HOLDERS**

**3.1 Compensation and Securities Held**

***The Trustee***

The following table sets out information about each director, officer and promoter of the Trustee and each person who directly or indirectly beneficially owns or controls 10% or more of any class of voting securities of the REIT (a "principal holder").

Name and municipality of principal residence	Positions held (e.g. Director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by the REIT in the most recently completed financial year (or if the REIT has not completed a financial year, since inception) and the compensation anticipated to be paid in the current financial year*	Number, percentage and type of securities of the REIT held after completion of minimum offering	Number, percentage and type of securities of the REIT held after completion of maximum offering
Steven Alexander Froese <sup>(1)</sup> Leduc, Alberta	Director and officer July 1, 2015	Nil	1 Class A Unit 16%) 820.24 Class G Units (14%)	1 Class A Unit 16%) 820.24 Class G Units (14%)
Roy Phil Wiebe <sup>(2)</sup> Edmonton, Alberta	Director and officer July 1, 2015	Nil	1 Class A Unit 16%) 268.75 Class F Units (2%) 762.25 Class G Units (13%)	1 Class A Unit 16%) 268.75 Class F Units (2%) 762.25 Class G Units (13%)
Sander van der Vorm <sup>(3)</sup> Vancouver, British Columbia	Director and officer July 1, 2015	Nil	1 Class A Unit 16%) 696.92 Class F Units (4%) 26.15 Class G Units (1%)	1 Class A Unit 16%) 696.92 Class F Units (4%) 26.15 Class G Units (1%)
Bradly Daniel Unrau <sup>(4)</sup> Abbotsford, British Columbia	Director and officer July 1, 2015	Nil	1 Class A Unit 16%) 1,699.64 Class F Units (11%) 59.7 Class G Units (1%)	1 Class A Unit 16%) 1,699.64 Class F Units (11%) 59.7 Class G Units (1%)

Name and municipality of principal residence	Positions held (e.g. Director, officer, promoter and/or principal holder) and the date of obtaining that position	Compensation paid by the REIT in the most recently completed financial year (or if the REIT has not completed a financial year, since inception) and the compensation anticipated to be paid in the current financial year*	Number, percentage and type of securities of the REIT held after completion of minimum offering	Number, percentage and type of securities of the REIT held after completion of maximum offering
Daniel Harold Weiss <sup>(5)</sup> Edmonton, Alberta	Director and officer July 1, 2015	Nil	1 Class A Unit 16%) 968.2 Class F Units (6%) 804.25 Class G Units (14%)	1 Class A Unit 16%) 968.2 Class F Units (6%) 804.25 Class G Units (14%)
Ches Orlando Hagen <sup>(6)</sup> Vancouver, British Columbia	Director and officer July 1, 2015	Nil	1 Class A Unit 16%) 469.21 Class F Units (3%) 8.73 Class G Units (1%)	1 Class A Unit 16%) 469.21 Class F Units (3%) 8.73 Class G Units (1%)

\* Other than as is otherwise disclosed in this Offering Memorandum, the directors and officers of the Trustee do not presently receive compensation in their capacity as directors and officers.

- (1) Includes Units held by 1019374 B.C. Ltd. All of the issued and outstanding shares of this company are held by 1345776 Alberta Ltd., which is in turn beneficially owned as to more than 50% of the voting rights by Steven Froese and Tanis Froese. In addition, 1019374 B.C. Ltd. owns 25 common shares of the Trustee.
- (2) Includes Units held by 1901174 Alberta Ltd. All of the issued and outstanding shares of this company are held by Roy Wiebe. In addition, 1901174 Alberta Ltd. owns 25 common shares of the Trustee.
- (3) Includes Units held by 1019001 B.C. Ltd. All of the issued and outstanding shares of this company are held by Sander van der Vorm. In addition, 1019001 B.C. Ltd. owns 25 common shares of the Trustee.
- (4) Includes Units held by 1018999 B.C. Ltd. and 0824004 B.C. Ltd. All of the issued and outstanding shares of 1018999 B.C. Ltd. are held by 0824004 B.C. Ltd., which is in turn beneficially owned as to more than 50% of the voting rights by Bradley Unrau and Tara Unrau. In addition, 1018999 B.C. Ltd. owns 25 common shares of the Trustee.
- (5) Includes Units held by 541461 Alberta Ltd. and 1453694 Alberta Ltd. All of the issued and outstanding shares of these company are held by Daniel Weiss. In addition, 541461 Alberta Ltd. owns 25 common shares of the Trustee.
- (6) Includes Units held by 0824016 B.C. Ltd. All of the issued and outstanding shares of this company are held by Ches Hagen. In addition, 0824016 B.C. Ltd. owns 25 common shares of the Trustee.

### 3.2 Management Experience

The following table discloses the principal occupations of the directors and senior officers of the Trustee, the General Partner and the Manager and over the past five years.

Name and position	Principal Occupation and Related Experience
<p>Steven Alexander Froese Director &amp; President</p>	<p>Mr. Froese has over 23 years' of experience in commercial real estate. In the late nineties Mr. Froese build out over seventeen commercial construction projects throughout the United States.</p> <p>He is the founder of Dominion Properties Corp., a company that owned and managed over 500,000 square feet of mixed retail and office space. Mr. Froese is also the co-founder of Tandem Assets, which administers a portfolio of properties including shopping centres and medical offices which is valued at over \$25,000,000 in Western Canada and Phoenix, Arizona.</p> <p>Mr. Froese is also a founding partner of AP Capital Mortgage Investment Corporation.</p>
<p>Roy Phil Wiebe Director &amp; Vice-President</p>	<p>Mr. Wiebe has over 20 years' of business ownership and management experience which includes building and exiting several multimillion dollar ventures ranging from agriculture, real estate and the oil service industry.</p> <p>Mr. Wiebe has 15 years' experience in the operations and ongoing management of commercial and residential real estate. Mr. Wiebe focusses on streamlining operations in the business in which he has been involved, reducing expenses and driving more revenue to the bottom line. He continues to manage and grow his personal portfolio of owned and co-owned properties in various segments of the real estate market in both the United States and Western Canada.</p>
<p>Sander van der Vorm Director &amp; Vice-President</p>	<p>Mr. van der Vorm has over fifteen years of business ownership and management experience, including corporate restructuring at multinational firms, and corporate finance for real estate projects and local businesses in Western Canada.</p> <p>With over a decade of involvement in the commercial real estate development market, Mr. van der Vorm has experience in property redevelopment, management and project revenues.</p>
<p>Bradly Daniel Unrau Director &amp; Vice-President</p>	<p>Mr Unrau is a founding partner of AP Capital Mortgage Investment Corporation, a company that manages a mortgage portfolio of over \$40,000,000 in British Columbia and Alberta. In 2009, Mr. Unrau started Dominion Lending Centres Alta Pacific, a local commercial and residential mortgage brokerage firm that arranges in excess of \$60,000,000 in real estate financing per annum.</p> <p>Mr Unrau has over 20 years' of experience in the acquisition, ownership and management of commercial and residential real estate in Western Canada. Mr. Unrau's personal portfolio consists of owned and co-owned properties in all segments of the real estate market from city-core commercial complexes, to single family -and high-density residential properties.</p>
<p>Daniel Harold Weiss Director &amp; Vice-President</p>	<p>For almost 30 years Mr. Weiss has been involved in the real estate industry as an agent, investor, builder, developer, lender and property manager and focuses on the area of risk management. Mr. Weiss is a founding partner in AP Capital Mortgage Investment Corporation and in Dominion Properties Corp. Mr. Weiss's various personal holdings include land, apartments, residential and commercial buildings, warehouses and shopping malls and he has been involved in developing numerous projects such as medical clinics, adult bungalows, townhouse projects and commercial properties.</p>

Name and position	Principal Occupation and Related Experience
Ches Orlando Hagen Director & Vice- President	<p>Mr. Hagen is a founding partner of AP Capital Mortgage Investment Corporation. In addition to acting as a director of AP Capital Mortgage Investment Corporation, Mr. Hagen is the co-founder of VendAsta Technologies Inc. VendAsta has operations in Vancouver, British Columbia and Saskatoon, Saskatchewan.</p> <p>For more than 15 years Mr. Hagen has been raising capital for private companies in Canada through various channels including conventional banks, venture capital firms, investment dealers and exempt market dealers.</p> <p>Educated at British Columbia Institute of Technology, Mr. Hagen holds a Diploma of Technology in Marketing Management.</p>

### 3.3 Penalties, Sanctions and Bankruptcy

No penalty or sanction has been in effect during the last 10 years, no cease trade order has been in effect for a period of more than 30 consecutive days during the past 10 years against or with regard to any:

- (a) director, executive officer or control person of the REIT or the General Partner, or
- (b) any issuer of which any person referred to in Item 1 above was a director, senior officer, or control person of at that time.

Except as set out below, no declaration of bankruptcy, voluntary assignment in bankruptcy, proposal under any bankruptcy or insolvency legislation, proceedings, arrangement or compromise with creditors, appointment of a receiver, receiver manager or trustee to hold assets has been in effect during the last ten years against or with regard to any other:

- (a) director, executive officer or control person of the REIT or the General Partner, or
- (b) any issuer of which any person referred to in Item 1 above was a director, senior officer, or control person of at that time.

On September 6, 2013, Mr. van der Vorm made a voluntary assignment into bankruptcy for the benefit of his personal creditors pursuant to the Bankruptcy and Insolvency Act (Canada). This was and is Mr. van der Vorm's first and only insolvency or bankruptcy related proceeding and it was related to his personal debts and financial obligations. Pursuant to the applicable legislation, Mr. van der Vorm was automatically discharged from bankruptcy within 9 months, on June 17, 2014.

### 3.4 Loans

Please refer Item 12 of the audited consolidated Financial Statements (Note 15 – Related Party Transactions) for details in regards to debentures or loans due to or from the directors, management, promoters or principal holders of the Trustee, the Manager, the General Partner or the US GP as at May 30, 2017.

## ITEM 4 - CAPITAL STRUCTURE

### 4.1 Capital Structure

The following are the details of the outstanding securities of the REIT at May 30, 2017:

Description of Security	Number Authorized to be Issued	Price per security	Number Outstanding as at May 30, 2017	Number outstanding after min. offering <sup>(1)</sup>	Number outstanding after max. offering <sup>(2)</sup>
Class A Units	Unlimited	\$1,000	6	N/A	6
Class B Units	Unlimited	\$1,000	Nil	N/A	Nil
Class C1/C2 Units	Unlimited	\$1,000	3,438.44822	N/A	8,438.44822 <sup>(3)</sup>
Class D1/D2 Units	Unlimited	\$1,000	Nil	N/A	Nil
Class E/F Units	Unlimited	\$1,000	15,497.99889	N/A	20,497.99889 <sup>(3)</sup>
Class G Units	Unlimited	\$1,000	5,832.796824	N/A	5,832.796824 <sup>(3)</sup>

<sup>(1)</sup> There is no minimum offering.

<sup>(2)</sup> There is no maximum offering. This is a continuous offering. Subscription prices for many Units vary. The amounts in the table are based on an offering of "\$10,000,000", which is used for illustrative purposes only.

<sup>(3)</sup> This number does not account for any redemptions that may occur or Units that may be issued in respect of the DRIP.

## 4.2 Long Term Debt

The REIT has an indirect interest in mortgages held by the individual the CDN LP and the US Limited Partnership. The amounts and terms of these loans are outlined in the table below.

Description	Interest Rate	Repayment Terms	Principal Outstanding as at April 30, 2017
Morrison Centre	3.45%	Amortized over 240 months	\$15,758,537.35
Greenway Property	5.89%	Interest only monthly	US\$17,500,000.00
Cobblestone	5.31%	Amortized over 360 months	US\$7,408,459.29

## 4.3 Prior Sales

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
September 5, 2016	Class C1 Units	20	\$1,000	\$20,000
September 15, 2016	Class F Units	230	\$1,000	\$230,000
October 5, 2016	Class C1 Units	57	\$1,000	\$57,000
October 5, 2016	Class C2 Units	1,600	\$1,000	\$1,600,00
November 7, 2016	Class C1 Units	144	\$1,000	\$144,000
November 7, 2016	Class F Units	300	\$1,000	\$300,000
November 15, 2016	Class F Units	749.19335	\$1,000	\$749,193.35
November 21, 2016	Class C1 Units	220	\$1,000	\$220,000
November 21, 2016	Class C2 Units	500	\$1,000	\$500,000
November 21, 2016	Class F Units	875.15205	\$1,000	\$875,152.05
December 5, 2016	Class C1 Units	62	\$1,000	\$62,000
December 5, 2016	Class C2 Units	200	\$1,000	\$200,000
December 5, 2016	Class F Units	1,575.664338	\$1,000	\$1,575,664.34

Date of issuance	Type of security issued	Number of securities issued	Price per security	Total funds received
December 15, 2016	Class F Units	328.51836	\$1,000	\$328,518.36
January 5, 2017	Class C1 Units	50	\$1,000	\$50,000
January 5, 2017	Class F Units	138.91294	\$1,000	\$138,912.94
January 16, 2017	Class C1 Units	41	\$1,000	\$41,000
February 6, 2017	Class C1 Units	14	\$1,000	\$14,000
February 15, 2017	Class C1 Units	33.31812	\$1,000	\$33,318.12
March 6, 2017	Class C1 Units	70	\$1,000	\$70,000
March 6, 2017	Class F Units	17	\$1,000	\$17,000
March 15, 2017	Class C1 Units	122.82435	\$1,000	\$122,824.35
April 1, 2017	Class F Units	11,582.01975	\$1,000	\$11,582,019.75
April 5, 2017	Class C1 Units	109.87606	\$1,000	\$109,876.06
April 17, 2017	Class C1 Units	37	\$1,000	\$37,000
April 17, 2017	Class F Units	107.2642	\$1,000	\$107,264.20

#### 4.4 Redemption History

The REIT's historical redemptions are set out below for the periods indicated:

	Number and Class of Units	Value (\$)
<b>2015</b>		
Unpaid redemption requests, beginning of year	-	\$ -
Redemption requests	-	\$ -
Redemptions paid out	-	\$ -
Unpaid redemption requests end of year	-	\$ -
<b>2016</b>		
Unpaid redemption requests, beginning of year	-	\$ -
Redemption requests	174.46162 Class G Units	\$174,461.62
Redemptions paid out	174.46162 Class G Units	\$174,461.62
Unpaid redemption requests end of year	-	\$ -
<b>2017 (up to May 30, 2017)</b>		
Unpaid redemption requests, beginning of year	-	\$ -
Redemption requests	2.76895 Class C1 Units 11,746.988454 Class B Units 1,077.74174 Class F Units 85.42578 Class G Units	\$2,768.95 \$11,746,988.45 \$1,077,741.74 \$85,425.78
Redemptions paid out	2.76895 Class C1 Units 500 Class F Units 26.8815 Class G Units	\$2,768.95 \$500,000 \$26,881.15
Unpaid redemption requests end of year	577.74174 Class F Units 58.54428 Class G Units	\$577,741.74 \$58,544.28

## ITEM 5 - SECURITIES OFFERED

### 5.1 Terms of Units

#### Units Offered and Subscription Price

The securities offered pursuant to this Offering Memorandum are Class C1 Units, Class C2 and Class F Units of the REIT. The price per Class C1 Unit is \$1,000; the price per Class C2 Unit is \$1,000; and the price per Class F Unit is \$1,000.

A summary of the material terms of the Declaration of Trust, the CDN LP Agreement and the CDN/US LP is set out below.

### **Declaration of Trust**

The following is a summary of certain material provisions of the Declaration of Trust. **This summary does not purport to be complete and reference should be to the Declaration of Trust itself, a copy of which is available from the Trustee. Capitalized terms in this summary regarding the Units which are not defined in this Offering Memorandum are defined in the Declaration of Trust.**

### ***Classes of Units***

The REIT is authorized to issue an unlimited number of redeemable units of beneficial interest. Each Unit entitles the Unitholder to the same rights and obligations as any other Unitholder holding the same Class of Units and no Unitholder of any Class is entitled to any privilege, priority or preference in relation to any other Unitholders of that same Class.

The Trustee will have the power and authority, from time to time, for and on behalf of the REIT, to create one or more additional Classes or series of Units on such terms and conditions as may be determined by the Trustee, provided that such creation does not adversely affect the pecuniary value of the interest of any Unitholder in the REIT.

### ***Nature of Units – voting, distributions, termination, etc.***

Each Class or series will have special rights and restrictions, which may differ from the rights and restrictions of other Class or series of Units. All of the Units in any Class or series will have the same rights, benefits and other attributes and will rank equally with every other Unit in such Class or series and no Unit in a Class or series will have any preference or priority over any other Unit of such Class or series. Each Unit will entitle the holder to the same rights and obligations as a holder of any other Unit of the same Class or series and no unitholder will be entitled to any privilege, priority or preference in relation to any other Unitholders holding Units of the same Class or series. Unless otherwise specified in the Declaration of Trust or any amendment thereto, each Unitholder including holders of the nine classes described in the paragraph immediately following this paragraph below, is entitled to one vote for each Unit held and, subject to an adjustment in a unit's proportionate share as a result of the date of first issue of a Unit, is entitled to participate equally with respect to any and all distributions made by the REIT to the unitholders holding units of the same class or series, including distributions of net income and net realized capital gains, if any. On termination, the unitholders of record holding outstanding units are entitled to receive all of the assets of the REIT designated for such class or series of Units remaining after payment of all debts, liabilities and liquidation expenses of the REIT.

The REIT has nine Classes of Units, being the Class A Units, Class B Units, Class C1 Units, Class C2 Units, Class D1 Units, Class D2 Units, Class E Units, Class F Units and Class G Units. All Units of each such Class, other than Class B Units, are entitled to participate equally with respect to any and all distributions made by the REIT to the unitholders holding units of such other Classes, including distributions of net income and net realized capital gains, if any. On termination, the Unitholders of record holding Units of all such Classes are entitled to receive, proportionately to the number of Units held by them, all of the assets of the REIT remaining after payment of all debts, liabilities and liquidation expenses of the REIT. See also Item 5 "Terms of Units – Declaration of Trust - Voting", Item 5 "Terms of Units – Declaration of Trust - Distributions" and Item 5 "Terms of Units – Declaration of Trust - Distribution in Termination of the REIT".

### ***Class C1 and Class C2 Units***

Class C1 Units and Class C2 Units will participate equally with respect to any and all distributions made by the REIT to the Unitholders holding Class A Units, Class D1 Units, Class D2 Units, Class E Units, Class F Units and Class G Units, including distributions of net income and net realized capital gains, if any. On termination, the Unitholders of record holding Units of all such Classes are entitled to receive, proportionately to the number of Units held by them, all of the assets of the REIT remaining after payment of all debts, liabilities and liquidation expenses of the REIT.

The REIT intends to pay a sales fee of up to 7% of the gross proceeds realized on the sale of Class C1 Units and a sales fee of up to 1% of the gross proceeds realized on the sale of Class C2 Units. In addition, the Trustee will pay agents selling Class C1/C2 Units an annual Trailer Fee commencing after the first anniversary of any subscriptions for such units up to 1% of the subscription price of Class C1/C2 Units held by persons acquiring such Units through such agent. See Item 7 “Compensation Paid to Sellers and Finders”.

### **Class F Units**

Class F Units will participate equally with respect to any and all distributions made by the REIT to the Unitholders holding Class A Units, Class C1 Units, Class C2 Units, Class D1 Units, Class D2 Units and Class G Units, including distributions of net income and net realized capital gains, if any. On termination, the Unitholders of record holding Units of all such Classes are entitled to receive, proportionately to the number of Units held by them, all of the assets of the REIT remaining after payment of all debts, liabilities and liquidation expenses of the REIT.

The REIT does not intend to pay any upfront sales fees on the gross proceeds realized on the sale of Class F Units. The Trustee may pay agents selling Class F Units an annual Trailer Fee up to 1% of the subscription price of Class F Units held by persons acquiring such Units through such agent. See Item 7 “Compensation Paid to Sellers and Finders”.

**The REIT reserves the right to commence or cease offering any of the Classes of Units at times and in amounts which are different than as set out above.**

### ***Distribution Reinvestment Plan***

The REIT provides Canadian Unitholders with the opportunity to participate in a distribution reinvestment plan. See Item 2.2 “Our Business – Distribution Reinvestment Plan”.

### ***Voting***

Each Unitholder is entitled to one vote for each Unit held and, subject to an adjustment in a Unit’s proportionate share as a result of the date of first issue of a Unit in the first Fiscal Year, is entitled to participate equally with respect to any and all distributions made by the REIT to the Unitholders holding Units, including distributions of net income and net realized capital gains, if any, from the REIT’s property. On termination, the Unitholders of record holding outstanding Units are entitled to receive all of the assets of the REIT remaining after payment of all debts, liabilities and liquidation expenses of the REIT. See Item 5 “Terms of Units – Declaration of Trust - Termination of the REIT”.

### ***Distributions***

The REIT intends to distribute to each Unitholder cash flow realized from the REIT’s investment in Class A CDN LP Units and Class A CDN/US LP Units (being the distributable cash flow received generated by the Properties comprising the Canadian Portfolio owned and operated through the CDN LP and indirectly through distributable cash flow received generated by the Properties comprising the US Portfolio owned and operated through the US Limited Partnerships by virtue of its investment in the CDN/US LP) for each month in which such amounts are realized. Such distributions will be made to Unitholders of record on or before the 15th day of the next calendar

month immediately following the end of each month for which a distribution is declared, except that the month ending December 31 will have a distribution payment date that is the business day immediately preceding December 31.

Each distribution declared pursuant to the Declaration of Trust constitutes a binding obligation of the REIT for payment. Consequently, a Unitholder holding Units can demand a payment of a declared distribution and upon receipt of such demand the REIT must pay that amount to the Unitholder forthwith.

To the extent distributions are calculated in respect of a period and payable at the end of such period, if for any reason, including the termination of the REIT, such period is not completed or such amounts are no longer payable, then the distribution will be pro-rated to the end of the shortened period and be payable at the end of such shortened period. The Trustee will have the right but not the obligation to make distributions and allocations among Unitholders in such a manner so as to ensure where possible that they are treated equitably taking into account differences that may arise as a result of the acquisition of Units at different times in a fiscal year or in different fiscal calendar years.

The REIT intends to distribute all of the net income and net realized capital gains, if any, of the REIT from its investment in Class A CDN LP Units and Class A CDN/US LP Units to Unitholders, so that the REIT will not be liable to pay income tax pursuant to the Tax Act during any year. If distributions to Unitholders are in excess of the net income and net realized capital gains, if any, of the REIT from its investment in Class A CDN LP Units and Class A CDN/US LP Units, it will generally result in a reduction in the adjusted cost base of the Units to the Unitholder. See Item 6 "Income Tax Consequences and RRSP Eligibility".

Where the Trustee determines the REIT does not have cash in an amount sufficient to make payment of the full amount of any distribution that has been declared payable, or otherwise made payable, on the due date for such payment or for any other reason cannot pay the distribution in cash, or the Trustee otherwise elects in respect of any such distribution in its sole and absolute discretion, the payment will be distributed to Unitholders in the form of additional Units, or fractions of Units, having a value equal to the cash shortfall. Such additional Units will be issued pro rata in proportion to the number of Units held by Unitholders of record on such date. Such additional Units will be issued pursuant to applicable exemptions under applicable securities laws, discretionary exemptions granted by applicable securities regulatory authorities or a prospectus or similar filing.

#### ***Distribution on Termination of the REIT***

On the termination of the REIT, the assets of the REIT shall be liquidated and the proceeds distributed in the following order:

- (a) to pay the liabilities of the REIT and to establish reserves for the contingent liabilities of the REIT relating to the Trust Property;
- (b) to pay any fees owing relating to the Trust Property;
- (c) to pay unpaid fees and expenses of the Trustee relating to the Trust Property; and
- (d) to redeem from the REIT's property the Units on a pro rata basis from the Unitholders.

#### ***Powers and Responsibilities of the Trustee***

Subject only to the express limitations contained in the Declaration of Trust, and in addition to any other powers and authorities conferred by the Declaration of Trust, the Administration Agreement, or which the Trustee may have by virtue of any present or future statute or rule of law, the Trustee, without any action or consent by the Unitholders, will have and may exercise at any time and from time to time the following powers and authorities,

which may be exercised by the Trustee in such manner and upon such terms and conditions as they may from time to time determine proper:

- (a) to supervise the activities and manage the investments and affairs of the REIT;
- (b) to hold the Trust Property in safekeeping, retaining moneys, securities, property, assets or investments, and investing moneys from time to time forming part of the Trust Property;
- (c) to ensure that the Net Subscription Proceeds are invested in Class A CDN LP Units and Class A CDN/US LP Units;
- (d) to borrow money as necessary to pay distributions to Unitholders, and encumbering Trust Property in respect thereof;
- (e) to pay properly incurred expenses out of Trust Property;
- (f) to open, operate and close bank accounts and other similar credit, deposit and banking arrangements, to negotiate and sign banking and financing contracts and agreements and deposit monies from time to time forming part of the Trust Property in such accounts;
- (g) to possess and exercise rights, powers and privileges appertaining to ownership of or interests in Trust Property;
- (h) to hold legal title to the Trust Property;
- (i) to appoint the accountants and/or auditors of the REIT;
- (j) to ensure compliance with applicable securities legislation;
- (k) to prepare and file or cause to be prepared and filed all requisite returns, reports and filings;
- (l) to provide all requisite office accommodation and associated facilities;
- (m) to provide or cause to be provided to the REIT all other administrative and other services and facilities required by the REIT;
- (n) to maintain or cause to be maintained complete records of all transactions in respect of the investment portfolio of the REIT;
- (o) to prescribe any instrument provided for or contemplated by the Declaration of Trust;
- (p) to effect payment of distributions to the Unitholders;
- (q) to collect, sue for and receive all sums of money or other property or items that are believed due to the REIT and obtain security, including encumbrances on assets, to secure the full payment of monies owed to the REIT and the performance of all obligations in favour of the REIT, and to exercise all of the rights of the REIT, and to perform all of the obligations of the REIT, under such security;
- (r) to possess and exercise all the rights, powers and privileges pertaining to the ownership of all or any part of the Trust Property, including the Class A CDN LP Units and Class A CDN/US LP Units, to the same extent that any person might, unless otherwise limited herein;

- (s) where reasonably required, to engage, employ, contract with or retain on behalf of the REIT any persons as agents, representatives, employees or independent contractors in one or more capacities;
- (t) except as prohibited by law, to delegate from time to time to the REIT's employees, consultants, agents and other persons the doing of such things and the exercise of such powers hereunder as the Trustee may from time to time deem expedient, so long as any such delegation is not inconsistent with any of the provisions of the Declaration of Trust and subject at all times to the general control and supervision of the Trustee as provided for herein;
- (u) to issue and redeem Units pursuant to the terms and conditions of the Declaration of Trust;
- (v) where desirable to make or cause to be made application for the listing or quotation on any stock exchange or market of Units, and to do all things which in the opinion of the Trustee may be necessary or desirable to effect or maintain such listing or quotation;
- (w) to use best efforts to do all such acts and things as are necessary to ensure that the REIT qualifies as a "mutual fund trust" pursuant to subsection 132(6) of the Tax Act;
- (x) to pay all taxes or assessments, of whatever kind or nature, whether within or outside Canada, imposed upon or against the Trustee in connection with the Trust Property, undertaking or income of the REIT, or imposed upon or against the Trust Property in connection with the undertaking or income of the REIT, or any part thereof, and to settle or compromise disputed tax liabilities, and for the foregoing purposes to make such returns, take such deductions, and make such designations, elections, allocations and determinations in respect of Trust Income, Net Realized Capital Gains or any other amounts distributed, allocated and made payable to Unitholders in a year and any other matter as shall be permitted under the Tax Act and analogous provisions of any provincial income tax legislation, and to do all such other acts and things as may be deemed by the Trustee in its sole discretion to be necessary, desirable or convenient;
- (y) to do all such acts and things, and to execute, deliver and perform the obligations of the REIT under all such agreements and instruments as are necessary to complete the Offering or as are contemplated by this Offering Memorandum; and
- (z) to do all such other acts and things and execute all such agreements and other instruments as are incidental to the foregoing, and to exercise all powers that are necessary or useful to carry on the purpose and activities of the REIT, to promote or advance any of the purposes or objectives for which the REIT is formed and to carry out the provisions of the Declaration of Trust whether or not herein specifically mentioned.

Further to subsection (l) above, the auditors appointed by the Trustee will be an independent recognized firm of chartered accountants that has an office in Canada. The Trustee has appointed MNP LLP as the initial auditors of the REIT, to hold such office until the first annual meeting of the Unitholders. The auditors will be selected at each succeeding annual meeting of Unitholders. The auditors will be entitled to receive such remuneration as may be approved by the Trustee. The auditors may at any time resign or be removed by the Trustee with the approval of a majority of the votes cast at a meeting of Unitholders duly called for the purpose and, upon the resignation or upon the removal of auditors as aforesaid, new auditors may be appointed by a majority of votes cast at a meeting duly called for the purpose or, in the absence of such meeting, by the Trustee.

The Trustee or any successor trustee may resign upon 60 days' notice to the Unitholders, or may be removed by a Special Resolution of the Unitholders by notice to the Trustee not less than sixty (60) days prior to the date that such removal is to take effect, provided a successor trustee is appointed or the REIT is terminated. In the event

that the Trustee resigns or is removed or becomes incapable of acting or if for any cause a vacancy shall occur in the office of the Trustee, a successor trustee shall forthwith be appointed by the Unitholders by Special Resolution to fill such vacancy. Forthwith following the appointment of a successor Trustee, the former Trustee will account to the new Trustee for all Trust Property which the former Trustee holds as trustee and will execute and deliver such documents as the new Trustee may require for the conveyance of any Trust Property held in the Trustee's name.

The Declaration of Trust provides that the Trustee will not be liable in carrying out its duties under the Declaration of Trust except in cases where the Trustee fails to act honestly, in good faith and in the best interests of the REIT and Unitholders or to exercise the degree of care, diligence and skill that a reasonably prudent trustee would exercise in comparable circumstances, and shall be indemnified out of the Trust Property unless there has been wilful default or fraud by the Trustee. In addition, the Declaration of Trust contains other customary provisions limiting the liability of the Trustee and indemnifying the Trustee in respect of certain liabilities incurred by it in carrying out its duties.

The Trustee will not receive fees from the REIT for acting as trustee of the REIT, but will be reimbursed by the REIT for all expenses and liabilities which are properly incurred by the Trustee in connection with the activities of the REIT.

#### ***Meetings of Unitholders and Resolutions***

The Trustee may, at any time, convene a meeting of the Unitholders or of a Class of Unitholders and will be required to convene a meeting on receipt of a request in writing of Unitholders holding, in aggregate, 50% or more of the Units outstanding. Any matter to be considered at a meeting of Unitholders, other than certain matters requiring the approval of Unitholders by Special Resolution, will require the approval of Unitholders by an Ordinary Resolution. A quorum for any meeting convened to consider such matter will consist of two or more Unitholders present in person or by proxy and representing not less than 10% of the Units then outstanding. If a quorum is not present at a meeting within 30 minutes after the time fixed for the meeting, the meeting, if convened pursuant to a request of Unitholders, will be cancelled, but otherwise will be adjourned to another day, not less than 10 days later, selected by the Chair of the meeting and notice will be given to the Unitholders of such adjourned meeting. The Unitholders present at any adjourned meeting will constitute a quorum.

Each Unitholder is entitled to one vote per Unit held.

The following matters require approval by Ordinary Resolution and shall be deemed approved, consented to or confirmed, as the case may be, upon the adoption of such Ordinary Resolution:

- (a) matters relating to the administration of the REIT for which the approval of the Unitholders is required by policies of the securities regulatory authorities or other applicable laws and regulations in effect from time to time, and such policies, laws or regulations do not require approval by Special Resolution;
- (b) subject to the requirements for a Special Resolution, any matter or thing stated herein to be required to be consented to or approved by the Unitholders; and
- (c) any matter which the Trustee considers appropriate to present to the Unitholders for their confirmation or approval.

Each of the following actions requires approval by Special Resolution, the terms of which shall specify the date upon which the proposed action shall be undertaken and the party who shall undertake the action:

The following powers shall only be exercisable by Special Resolution passed by the Unitholders:

- (a) consenting to the amendment of the Declaration of Trust except as provided therein;
- (b) changes to the investment objectives of the REIT;
- (c) the removal of the Trustee;
- (d) the appointment of a new trustee;
- (e) the termination of the REIT;
- (f) a reduction in the amount payable on any outstanding Units upon liquidation of the REIT;
- (g) an increase in the liability of any Unitholders; or
- (h) the alteration or elimination of any voting rights pertaining to any outstanding Units.

Notwithstanding the above or any other provision in the Declaration of Trust, no confirmation, consent or approval shall be sought or have any effect and no Unitholders shall be permitted to effect, confirm, consent to or approve, in any manner whatsoever, where the same increases the obligations of or reduces the compensation payable to or protection provided to the Trustee, except with the prior written consent of the Trustee.

#### ***Termination of the REIT***

The Trustee may at any time terminate and dissolve the REIT by giving to each then Unitholder written notice of its intention to terminate the REIT at least ninety (90) days before the date on which the REIT is to be terminated. Upon termination, the net assets of the REIT will be distributed to the Unitholders. Prior to the termination date, the Trustee will convert the assets of the REIT to cash.

After paying, retiring or discharging or making provision for the payment, retirement or discharge of all known liabilities and obligations of the REIT, providing for indemnity against any other outstanding liabilities and obligations therefor (actual and contingent) and paying any unpaid fees and expenses of the REIT, the Trustee will redeem the Units from the Trust Property on a *pro rata* basis.

#### ***Amendments to the Declaration of Trust***

Subject to the restrictions described in "Meetings of Unitholders and Resolutions", any provision of the Declaration of Trust may be amended, deleted, expanded or varied by the Trustee, if the amendment is, in the opinion of counsel, not a material change which adversely affects the pecuniary value of the interest of any Unitholder in the REIT and does not relate to:

- (a) any material change in the position, authority or responsibility of the Trustee;
- (b) any change in the investment policy of the REIT; or
- (c) any change in the Declaration of Trust, if such change is material or is otherwise required by the Declaration of Trust.

#### ***Information and Reports***

After the end of each calendar quarter, the Trustee will distribute or make available in accordance with applicable securities legislation to each Unitholder the REIT's accountant prepared and reviewed financial statements. On or before March 31 in each year, the Trustee will:

- (a) deliver or make available to each Unitholder: the REIT's audited financial statements for the previous fiscal year and such other reports as are from time to time required by applicable securities or other laws; and
- (b) deliver to each person who received a distribution at any time during the previous calendar year, tax reporting information in such a manner as will enable such person to report the income tax consequences of investment in Units in their annual Canadian income tax return.

Such financial statements will be prepared in accordance with IFRS; provided that such statements and the obligations to deliver such statements may vary from such principles to the extent required to comply with applicable securities laws or securities regulatory requirements or to the extent permitted by applicable securities regulatory authorities.

### ***Certificates***

The REIT will not issue Certificates for Units to Unitholders.

### ***Liability of Unitholders***

In circumstances where a material obligation of the REIT is created, it is provided in the Declaration of Trust that the Trustee shall use its best efforts to have any such obligations modified so as to achieve disavowal of any personal liability of Unitholders. Further, the Trustee will cause the operations of the REIT to be conducted, with the advice of counsel, in such a way and in such jurisdictions as to avoid, as far as possible, any material risk of liability on the Unitholders for claims against the REIT.

In case of claims made against the REIT, which do not arise out of contracts, for example, claims for taxes or claims in tort, personal liability may also arise against Unitholders. However, to the extent that a Unitholder is held personally liable in respect of liabilities of the REIT, such Unitholder will be entitled to indemnity and reimbursement out of the Trust Property to the full extent of such liability and for all costs of any litigation or other proceedings in which such liability has been determined, including, without limitation, all fees and disbursements of counsel.

### ***Unitholders' Rights to Redeem***

Redemption of Units by Unitholders is restricted under the terms of the Declaration of Trust. The total amount payable by the REIT by cash payment in respect of the redemption of Units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding Units.

A Unitholder wishing to redeem the whole or any part of his, her or its Units (a "**Redemption**") may deliver a notice of such desire (the "**Redemption Notice**") to the REIT, subject to the time frames and restrictions set out below. Upon receipt by the REIT of the Redemption Notice, the Unitholder shall thereafter cease to have any rights with respect to the Units tendered for redemption (other than to receive the redemption payment therefor) including the right to receive any distributions thereon that are declared payable to the Unitholders of record in respect of the Class of Units the Unitholder has purported to redeem on a date that is subsequent to the day of receipt by the REIT of the Redemption Notice. Units shall be considered to be tendered for redemption on the date that the REIT has, to the satisfaction of the Trustee, received the Redemption Notice and further documents or evidence the Trustee may reasonably require with respect to the identity, capacity or authority of the person giving such notice.

Subject to applicable laws and the conditions listed below, the REIT will redeem the Units specified in such Redemption Notice. As noted above, the total amount payable by the REIT by cash payment in respect of the redemption of Units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding Units. The Trustee may, in its sole discretion, redeem by cash payment Units in excess

of 10% of the issued and outstanding Units in a fiscal year of the REIT, if in the opinion of the Trustee, doing so will not adversely affect the REIT.

The price per Unit to be redeemed by cash payment will be equal to the amount of the unreturned Capital Contribution of each Unit to be redeemed as of the date of receipt by the Trustee of a duly completed Redemption Notice less (i) any costs incurred by the REIT in the sale of the Unit(s), (ii) any costs of the REIT incurred with respect to the redemption as may be determined by the Trustee in its sole discretion and (iii) the applicable Redemption Penalty Amount, if any.

For greater certainty, there is no Redemption Penalty payable in respect of the Class F Units, and Class F Unitholders may deliver Redemption Notices to the Trustee at any time.

The REIT will pay the redemption price payable in respect of any Unit by way of a cash payment within 90 days of the receipt by the Trustee of a Redemption Notice. Payments made by the REIT of such redemption price is conclusively deemed to have been made upon the mailing of a cheque in a postage prepaid envelope addressed to the former Unitholder unless the cheque is dishonored upon presentment. Upon the payment of such redemption price, the REIT will be discharged from all liability to the former Unitholder in respect of the Units so redeemed.

If the REIT receives Redemption Notices for Units in excess of the number of Units to be redeemed by cash payment, as provided above, the price per Unit payable by the REIT upon the redemption of such excess Units will be equal to the amount of the unreturned Capital Contribution of each Unit to be redeemed as of the date of receipt by the Trustee of a duly completed Redemption Notice less (i) any costs incurred by the REIT in the sale of the Unit(s), (ii) any costs of the REIT incurred with respect to the redemption as may be determined by the Trustee in its sole discretion and (iii) the applicable Redemption Penalty Amount, if any.

For such excess Units, the redemption price per Unit multiplied by the number of Units tendered for redemption will be paid to a Unitholder and satisfied by way of either of the following methods to be selected at the sole discretion of the Trustee:

- (a) the issuance and delivery of a number of Trust Notes, each in the principal amount of \$100, having an aggregate principal amount, determined on the redemption date, equal to the redemption price per Unit multiplied by the number of Units tendered for redemption;
- (b) a distribution *in specie* to the Unitholder of a number of Class A CDN LP Units and/or Class A CDN/US LP Units having an aggregate value determined on the redemption date based on the redemption price of the Class A CDN LP Units and/or Class A CDN/US LP Units under the terms and conditions of the CDN LP Agreement or CDN/US LP Agreement, as applicable, equal to the redemption price per Unit multiplied by the number of Units tendered for redemption; or
- (c) a distribution to the Unitholder of a number of Debt Securities having an aggregate principal amount, determined on the redemption date, equal to the redemption price per Unit multiplied by the number of Units tendered for redemption.

Where the REIT makes a distribution in specie of a pro rata number of Class A CDN LP Units and/or Class A CDN/US LP Units on a redemption of Units pursuant to (a), (b) and (c) immediately above, the Trustee may designate as payable to the particular redeeming Unitholders receiving of Class A CDN LP Units and/or Class A CDN/US LP Units portions of the amount of the value of such of Class A CDN LP Units and/or Class A CDN/US LP Units:

- (a) not exceeding the amount of any capital gain of the REIT as a result of the distribution of such property as an amount payable out of the Net Realized Capital Gains of the REIT; and

- (b) not exceeding an allocable share of income in respect of the of Class A CDN LP Units and/or Class A CDN/US LP Units so distributed determined in accordance with the terms of the CDN LP Agreement or CDN/US LP Agreement, as applicable,

together with any other income realized by the REIT as a result of a distribution of Class A CDN LP Units and/or Class A CDN/US LP Units, as an amount payable out of Trust Income.

Units in any given Class will be redeemed according to the order in which Redemption Notices in respect of such Class are received.

#### ***Forced Redemption Upon Non-Residency***

At no time may Non-residents or Designated Beneficiaries be Unitholders. If a Unitholder becomes a Non-resident or otherwise becomes a Designated Beneficiary, the Trustee may in its discretion, either forthwith redeem all or a part of the Units held by such Unitholder, or by written notice require the Unitholder to, within 30 days, transfer its Units to a transferee who is not a Non-resident or Designated Beneficiary. The redemption proceeds payable for each Unit to be redeemed will be equal to 85% of the lesser of the Subscription Price and the amount per Unit determined by the Trustee in accordance with the terms of the Declaration of Trust on the day on which the Trustee issues the redemption notice. The amount so determined will be payable in cash subject to the limitations provided for in the Declaration of Trust, in which case the redemption proceeds may be paid *in specie* in accordance with the provisions of the Declaration of Trust by delivery of Class A CDN LP Units and/or Class A CDN/US LP Units, to the extent permitted by the CDLP LP Agreement and/or CDN/US LP Agreement as applicable, or by delivery of Debt Securities in any other case. Any capital gains or income realized in a year by the REIT as a result of any disposition of property in accordance with the foregoing will be designated and treated as having been paid to the redeemed Unitholder in accordance with the Declaration of Trust.

#### ***Issuance of Units***

The REIT may issue new Units from time to time. Unitholders holding Units do not have any pre-emptive rights whereby additional Units proposed to be issued are first offered to existing Unitholders holding Units. New Units may be issued as part of an ongoing continuous offering by way of this Offering Memorandum, as a distribution, for cash through rights offerings to existing Unitholders (i.e. in which Unitholders receive rights to subscribe for new Units in proportion to their existing holdings of Units), through private placements (i.e. offerings to specific investors which are not made generally available to the public or existing Unitholders) or through the DRIP. The price or the value of the consideration for which Units may be issued will be the price determined by the Trustee based on the Net Asset Value of the REIT.

**The foregoing is a summary only of certain of the material provisions of the Declaration of Trust. For a complete understanding of all of the provisions of the Declaration of Trust, reference should be made to the Declaration of Trust itself, a copy of which is available from the Trustee.**

#### **The CDN LP Agreement**

The following is a summary of certain material provisions of the CDN LP Agreement. **This summary does not purport to be complete and reference should be to the CDN LP Agreement itself, a copy of which is available from the Trustee. Capitalized terms in this summary regarding the Class A CDN LP Units which are not defined in this Offering Memorandum are defined in the CDN LP Agreement.**

#### ***Capital in the CDN LP***

Interests in the CDN LP consist of an unlimited number of Class A CDN LP Units, an unlimited number of Class B CDN LP Units and the interest held by the General Partner. The General Partner has made a capital contribution of \$10 to the CDN LP, and has no further obligation to contribute capital. The CDN LP Founding Limited Partner made a capital

contribution of \$10.00 to the CDN LP, which capital contribution was returned upon the completion of the initial subscription for CDN LP limited partnership units.

***Distributions***

The CDN LP will pay and distribute an amount equal to all cash flow from the operation of the CDN LP's business after payment of all obligations relating to the Properties, including all principal and interest payments under any financing, and after the creation of a reasonable working capital and capital improvement reserve as determined by the General Partner. As well, the General Partner will distribute the proceeds received from a sale or refinancing of the Properties or any one of them, or other capital transaction such as the receipt of insurance or expropriation proceeds, after the creation of a reasonable reserve as determined by the General Partner. In any such case, such distributions will be as cash flow permits and will be distributed as follows:

First, as 0.01% thereof, to the General Partner;

- (a) second, to limited partners holding Class A CDN LP Units, an amount equal to the Class A Preferred Return commencing as of the date a Unit Certificate representing Class A CDN LP Units is issued to such limited partners;
- (b) third, to limited partners holding Class B CDN LP Units, an amount equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN LP Units in respect of the Class A Preferred Return; less
  - (ii) the amount which would have been paid to the limited partners holding Class A CDN LP Units in respect of the Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN LP Unit;
- (c) thereafter, 70% to the limited partners holding Class A CDN LP Units and 30% to the limited partners holding Class B CDN LP Units.

***Distributions upon wind-up, etc.***

Upon the liquidation, dissolution or wind-up of the CDN LP, all funds realized by the CDN LP from the disposition of its assets, after the payment or provision for the payment of the debts and liabilities of the CDN LP and liquidation expenses, will be applied and distributed as follows:

- (a) first, to the limited partners holding Class A CDN LP Units, pro rata in accordance with their respective proportionate shares, to the extent of their unreturned initial capital contributions;
- (b) second, to the limited partners holding Class A CDN LP Units, pro rata in accordance with their respective proportionate shares, until each has received an amount which, when aggregated with the distributions previously received by them, is equal to (but not in excess of) the sum of \$70 per annum per Class A CDN LP Unit commencing as of the date a Unit Certificate representing Class A CDN LPs Unit is issued to such limited partners;
- (c) third, to the limited partners holding Class B CDN LP Units, *pro rata* in accordance with their respective proportionate shares, until each has received an amount which, when aggregated with the distributions previously received by them is equal to 30/70ths of the difference between:
  - (i) the amount paid to the Limited Partners holding Class A CDN LP Units in respect of the Class A Preferred Return; less

- (ii) the amount which would have been paid to the limited partners holding Class A CDN LP Units in respect of the Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN LP Units and 30% to the limited partners holding Class B CDN LP Units.

***Allocation of Income and Losses for Tax and Accounting Purposes***

For income tax and accounting purposes, all net income and losses from operations for each fiscal year of the CDN LP will be allocated in the manner in which cash is distributed, as set out above. The General Partner shall have the discretion, acting in good faith, to allocate revenue and expenses on a daily, incremental basis to ensure a fair distribution amongst Limited Partners after taking into consideration any matters that may be relevant.

***Additional Capital Contributions***

No limited partner is required to make additional capital contributions to the CDN LP over and above the purchase price paid for such limited partner's Class A CDN LP Units.

***Management and Control of the CDN LP***

Under the terms of the CDN LP Agreement, the General Partner is given full power and authority to manage, control, administer and operate the business of the CDN LP, except for certain matters being subject to votes of the limited partners. No limited partner is permitted to take part in the management of the business of the CDN LP. The General Partner has unlimited liability for the debts, liabilities and obligations of the CDN LP to the extent required by the Partnership Act (British Columbia) and other applicable legislation. A limited partner will not be liable for any debts, liabilities or obligations of the CDN LP in excess of such limited partner's paid capital contributions and any unpaid capital contributions agreed to be paid in respect of such limited partner's Units, provided such limited partner does not take part in the control or management of the business of the CDN LP.

***Removal of the General Partner***

The limited partners may, by special resolution and upon 60 days' written notice to the General Partner, remove the General Partner without cause, and may remove the General Partner for cause, if such cause is not remedied after reasonable notice from the limited partners. In either such case, the limited partners will appoint, concurrently with the removal, a replacement general partner to assume all of the responsibilities and obligations of the removed General Partner, and the removed General Partner will be released of its liabilities under the CDN LP Agreement and indemnified for any damages and expenses with respect to events which occur in relation to the CDN LP after the appointment of the new General Partner.

In the event of the removal of the General Partner, the CDN LP may terminate any agreements made between the CDN LP and the General Partner or a related party, upon the payment by the CDN LP to the General Partner or such related party of the amount stated in such agreement to be payable upon termination or, in the absence thereof, a reasonable termination compensation. As well, the CDN LP will purchase from the General Partner its interest in the CDN LP for a price equal to the fair market value thereof.

The removal and replacement of the General Partner will not dissolve the CDN LP, and the business of the CDN LP will be continued by the new general partner.

### ***No Transferability***

Limited partners may not transfer, assign, pledge, encumber or dispose of any Class A CDN LP Units without the written consent of the General Partner. As well, limited partners may not sell, transfer or dispose of less than all of their Units.

### ***Certificates***

Certificates for Units will be issued to limited partners.

**The foregoing is a summary only of certain of the material provisions of the CDN LP Agreement. For a complete understanding of all of the provisions of the CDN LP Agreement, reference should be made to the CDN LP Agreement itself, a copy of which is available from the Trustee.**

### **The CDN/US LP Agreement**

The following is a summary of certain material provisions of the CDN/US LP Agreement. **This summary does not purport to be complete and reference should be to the CDN/US LP Agreement itself, a copy of which is available from the Trustee. Capitalized terms in this summary regarding the Class A CDN/US LP Units which are not defined in this Offering Memorandum are defined in the CDN/US LP Agreement.**

### ***Capital in the CDN/US LP***

Interests in the CDN/US LP consist of an unlimited number of Class A CDN/US LP Units, an unlimited number of Class B CDN/US LP Units and the interest held by the General Partner. The General Partner has made a capital contribution of \$10 to the CDN/US LP, and has no further obligation to contribute capital. The CDN/US LP Founding Limited Partner made a capital contribution of \$10.00 to the CDN/US LP, which capital contribution was returned upon the completion of the initial subscription for Class A CDN/US LP Units.

### ***Distributions***

The CDN/US LP will pay and distribute an amount equal to all cash flow from the operation of the CDN/US LP's business after payment of all obligations relating to the Properties, including all principal and interest payments under any financing, and after the creation of a reasonable working capital and capital improvement reserve as determined by the General Partner. As well, the General Partner will distribute the proceeds received from a sale or refinancing of the Properties or any one of them, or other capital transaction such as the receipt of insurance or expropriation proceeds, after the creation of a reasonable reserve as determined by the General Partner. In any such case, such distributions will be as cash flow permits and will be distributed as follows:

- (a) first, as 0.01% thereof, to the General Partner;
- (b) second, to limited partners holding Class A CDN/US LP Units, an amount equal to the CDN/US Class A Preferred Return commencing as of the date a Unit Certificate representing Class A CDN/US LP Units is issued to such limited partners;
- (c) third, to limited partners holding Class B CDN/US LP Units an amount equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN/US LP Units in respect of the CDN/US Class A Preferred Return; less

- (ii) the amount which would have been paid to the limited partners holding Class A CDN/US LP Units in respect of the CDN/US Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN/US LP Units and 30% to the limited partners holding Class B CDN/US LP Units of the CDN/US LP.

***Distributions upon wind-up, etc.***

Upon the liquidation, dissolution or wind-up of the CDN/US LP, all funds realized by the CDN/US LP from the disposition of its assets, after the payment or provision for the payment of the debts and liabilities of the CDN/US LP and liquidation expenses, will be applied and distributed as follows:

- (a) first, to the limited partners holding Class A CDN/US LP Units, *pro rata* in accordance with their respective proportionate shares, to the extent of their unreturned initial capital contributions;
- (b) second, to the limited partners holding Class A CDN/US LP Units, *pro rata* in accordance with their respective proportionate shares, until each has received an amount which, when aggregated with the distributions previously received by them, is equal to (but not in excess of) the sum of \$70 per annum per Class A CDN/US LP Unit commencing as of the date a Unit Certificate representing Class A CDN/US LP Units is issued to such limited partners;
- (c) third, to the limited partners holding Class B CDN/US LP Units, *pro rata* in accordance with their respective proportionate shares, until each has received an amount which, when aggregated with the distributions previously received by them is equal to 30/70ths of the difference between:
  - (i) the amount paid to the limited partners holding Class A CDN/US LP Units in respect of the CDN/US Class A Preferred Return; less
  - (ii) the amount which would have been paid to the limited partners holding Class A CDN/US LP Units in respect of the CDN/US Class A Preferred Return if such amount had been calculated on the basis of \$60 per annum per Class A CDN/US LP Unit;
- (d) thereafter, 70% to the limited partners holding Class A CDN/US LP Units and 30% to the limited partners holding Class B CDN/US LP Units.

***Allocation of Income and Losses for Tax and Accounting Purposes***

For income tax and accounting purposes, all net income and losses from operations for each fiscal year of the CDN/US LP will be allocated in the manner in which cash is distributed, as set out above. The General Partner shall have the discretion, acting in good faith, to allocate revenue and expenses on a daily, incremental basis to ensure a fair distribution amongst limited partners after taking into consideration any matters that may be relevant.

***Additional Capital Contributions***

No limited partner is required to make additional capital contributions to the CDN/US LP over and above the purchase price paid for such limited partner's Class A CDN/US LP Units.

***Management and Control of the CDN/US LP***

Under the terms of the CDN/US LP Agreement, the General Partner is given full power and authority to manage, control, administer and operate the business of the CDN/US LP, except for certain matters being subject to votes of the limited partners. No limited partner is permitted to take part in the management of the business of the CDN/US LP. The General Partner has unlimited liability for the debts, liabilities and obligations of the CDN/US LP to the extent

required by the Partnership Act (British Columbia) and other applicable legislation. A limited partner will not be liable for any debts, liabilities or obligations of the CDN/US LP in excess of such limited partner's paid capital contributions and any unpaid capital contributions agreed to be paid in respect of such limited partner's units, provided such limited partner does not take part in the control or management of the business of the CDN/US LP.

### ***Removal of the General Partner***

The limited partners may, by special resolution and upon 60 days' written notice to the General Partner, remove the General Partner without cause, and may remove the General Partner for cause, if such cause is not remedied after reasonable notice from the limited partners. In either such case, the limited partners will appoint, concurrently with the removal, a replacement general partner to assume all of the responsibilities and obligations of the removed General Partner, and the removed General Partner will be released of its liabilities under the CDN/US LP Agreement and indemnified for any damages and expenses with respect to events which occur in relation to the CDN/US LP after the appointment of the new General Partner.

In the event of the removal of the General Partner, the CDN/US LP may terminate any agreements made between the CDN/US LP and the General Partner or a related party, upon the payment by the CDN/US LP to the General Partner or such related party of the amount stated in such agreement to be payable upon termination or, in the absence thereof, a reasonable termination compensation. As well, the CDN/US LP will purchase from the General Partner its interest in the CDN LP for a price equal to the fair market value thereof.

The removal and replacement of the General Partner will not dissolve the CDN/US LP, and the business of the CDN/US LP will be continued by the new general partner.

### ***No Transferability***

Limited partners may not transfer, assign, pledge, encumber or dispose of any Class A CDN/US LP Units without the written consent of the General Partner. As well, limited partners may not sell, transfer or dispose of less than all of their units.

### ***Certificates***

Certificates for Units will be issued to limited partners.

**The foregoing is a summary only of certain of the material provisions of the CDN/US LP Agreement. For a complete understanding of all of the provisions of the CDN/US LP Agreement, reference should be made to the CDN/US LP Agreement itself, a copy of which is available from the Trustee.**

## **5.2 Subscription Procedure**

The Units are being offered for sale to qualified investors who are residents of the Provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. The Units are conditionally offered if, as and when Subscriptions are accepted by the REIT and subject to prior sale. Subscriptions for Units will be received by the REIT subject to rejection or allotment in whole or in part and the right is reserved to close the subscription books at any time without notice.

This Offering is being made in accordance with certain statutory prospectus exemptions and, where applicable, registration exemptions, contained in securities legislation in the jurisdictions in which the Units are being offered. Such exemptions relieve the REIT from provisions under such statutes requiring the REIT to file a prospectus and, in certain cases, to utilize a registered securities dealer to sell the Units. As such, investors: (i) may not receive the benefits associated with the involvement of such registrants, and (ii) will not receive the benefits associated with purchasing the Units pursuant to a filed prospectus, including the review of the material by the securities commissions or similar regulatory authority in such jurisdictions.

The Units are being offered on a continuous basis pursuant to exemptions from the prospectus and, where applicable, registration requirements of applicable securities legislation. In order to subscribe for Units, investors must agree to provide the REIT with such information and to execute and deliver to the REIT the form of Subscription Agreement (including the certificates, acknowledgements, questionnaires and other documents as the REIT may request) in order to enable it to determine the availability of an exemption, including the following:

- (a) if the investor is relying on “offering memorandum” exemption to the prospectus requirement in section 2.9 (the “**Offering Memorandum Exemption**”) of *National Instrument 45-106 Prospectus Exemptions* (“**NI 45-106**”) and the investor is resident in or otherwise subject to the securities laws of British Columbia:
  - (i) two copies of a Risk Acknowledgement Form (Form 45-106F4), and
  - (ii) unless the investor is subscribing through a registered securities dealer, two copies of a Risk Acknowledgement Form (Appendix A to BCI 32-513);
- (b) if the investor is relying on the Offering Memorandum Exemption and the investor is resident in or otherwise subject to the securities laws of Manitoba:
  - (i) two copies of a Risk Acknowledgement Form (Form 45-106F4), and
  - (ii) if the investor is investing more than \$10,000 pursuant to the Offering Memorandum Exemption, the investor must meet the definition of “eligible investor” (as defined in NI 45-106) and an “Eligible Investor Questionnaire”;
- (c) if the investor is relying on the Offering Memorandum Exemption and the investor is resident in or otherwise subject to the securities laws of Alberta, Ontario or Saskatchewan:
  - (i) two copies of a Risk Acknowledgement Form (Form 45-106F4), and
  - (ii) if the investor is an individual, two copies of Schedule 1 and Schedule 2 attached to the Risk Acknowledgement Form (Form 45-106F4). Investors investing more than \$10,000 in a 12 month period must meet the definition of “eligible investor”. Investors investing more than \$30,000 (but not more than \$100,000) in a 12 month period must meet the definition of “eligible investor” and have received suitability advice with respect to the investment from a portfolio manager, investment dealer or exempt market dealer. These limits do not apply to “accredited investors” (as defined in NI 45-106) or persons described in section 2.5 of NI 45-106 (however, such investors must complete Schedule 1 and Schedule 2 attached to the Risk Acknowledgement Form (Form 45-106F4);
- (d) if the investor is relying on the “accredited investor” exemption to the prospectus requirement in section 2.3 of NI 45-106 and the investor is resident in or otherwise subject to the securities laws of British Columbia, Alberta, Manitoba, Ontario or Saskatchewan:
  - (i) the investor must be an “accredited investor” as defined in NI 45-106,
  - (ii) if applicable, two copies of a Risk Acknowledgment Form for Individual Accredited Investors (Form 45-106F9), and
  - (iii) if the investor is resident in or otherwise subject to the securities laws of British Columbia and the investor is not subscribing through a registered securities dealer, two copies of a Risk Acknowledgement Form (Appendix A to BCI 32-513);

- (e) if the investor is relying on the “minimum investment” exemption (\$150,000) to the prospectus requirement in section 2.10 of NI 45-106 and the investor is resident in or otherwise subject to the securities laws of British Columbia, Alberta, Manitoba, Ontario or Saskatchewan:
  - (i) the investor is not an individual (as defined in applicable securities laws),
  - (ii) the conditions of section 2.10 of NI 45-106 are satisfied, and
  - (iii) if the investor is resident in or otherwise subject to the securities laws of British Columbia and the investor is not subscribing through a registered securities dealer, two copies of a Risk Acknowledgement Form (Appendix A to BCI 32-513); and
  
- (f) if the investor is relying on the “family, friends and business associates” exemption to the prospectus requirement in section 2.5 of NI 45-106 (subject to section 2.6 of NI 45-106 for Saskatchewan residents and 2.6.1 of NI 45-106 for Ontario residents) and the investor is resident in or otherwise subject to the securities laws of British Columbia, Alberta, Manitoba, Ontario or Saskatchewan:
  - (i) such supporting documentation that the REIT or its legal counsel may request to establish the investor’s qualification to rely on such exemption,
  - (ii) if applicable, two copies of: A. a Risk Acknowledgment Form (Form 45-106F12) (Ontario residents), or B. a Risk Acknowledgement Form (Form 45-106F5) (Saskatchewan residents), as applicable, and
  - (iii) if the investor is resident in British Columbia and the investor is not subscribing through a registered securities dealer, two copies of a Risk Acknowledgement Form (Appendix A to BCI 32-513).

In addition to the foregoing, Units may be issued pursuant to other available exemptions from the prospectus requirements of applicable securities legislation provided the conditions of such exemptions are satisfied.

Investors may subscribe for Units by returning to the REIT at 1601 – 128 West Pender Street, Vancouver, BC V6B 1R8 (up to August 2017) and 1795 – 555 Burrard Street, Vancouver BC V7X 1M9 (after August 2017) the following:

- (a) a completed Subscription Agreement (including all applicable schedules, appendices, acknowledgements, certificates and other documents requested by the REIT) in the form of Schedule A to this Offering Memorandum; and
- (b) either:
  - (i) a certified cheque or bank draft in the amount of the Subscription Price per Unit subscribed for, payable to “AP Capital REIT”; or
  - (ii) an irrevocable direction to a financial institution to pay to the REIT the subscription price per Unit.

In accordance with the requirements of NI 45-106, the Trustee will hold the subscription monies advanced by each Investor in trust for the Investor until midnight on the second business day after the Subscription Agreement is signed by the Investor.

Subscriptions received will be subject to rejection or acceptance by the REIT in whole or in part in the Trustee’s sole discretion. The REIT is not obliged to accept any subscription. If any subscription is not accepted, the REIT will

promptly return to the subscriber the Subscription Agreement and the money comprising such subscription. Confirmation of acceptance of a subscription will be forwarded to the subscriber by the REIT. The REIT reserves the right to close the subscription books at any time without notice.

The Units have not been and will not be registered under the *United States Securities Act* of 1933, as amended, and subject to certain exceptions, may not be offered or sold in the United States.

**All subscription documents should be reviewed by prospective subscribers and their professional advisers prior to subscribing for Units.**

## **ITEM 6 - INCOME TAX CONSEQUENCES AND RRSP ELIGIBILITY**

**You should consult your own professional advisers to obtain advice on the income tax consequences that apply to you.**

### **6.1 Income Tax Consequences**

The following summary outlines the Canadian federal income tax consequences to a subscriber who at all relevant times, for the purposes of the Tax Act, is resident in Canada and deals at arm's length with the REIT. The income tax consequences will not be the same for all subscribers but will vary depending on a number of factors, including: (i) the province in which the subscriber resides or carries on business; (ii) whether the Units acquired by the subscriber will be characterized as capital property; (iii) whether the subscriber is an individual, trust or corporation; (iv) the nature and amount of the subscriber's income from other sources; and (v) whether the Units are purchased by, or contributed or sold by the subscriber to, the subscriber's registered retirement savings plan ("RRSP"), registered retirement income fund ("RRIF"), registered education savings plan ("RESP"), deferred profit sharing plan ("DPSP"), or tax-free savings account ("TFSA"). The following discussion of the income tax consequences of an investment in Units is, therefore, of a general nature only, is not intended to constitute an exhaustive analysis of those income tax consequences and should not be interpreted as legal or tax advice to any particular subscriber.

**Each prospective subscriber should obtain independent tax advice as to both the federal and provincial income tax consequences of an investment in Units.**

This summary does not address the tax considerations of and to a subscriber borrowing money to acquire Units. All such Unitholders should consult their own tax advisors to determine the tax consequences to them of the acquisition, holding and disposition of the Units acquired pursuant to this Offering. This summary does not address any tax consequences which could arise as a result of any potential application of the general anti-avoidance rule of subsection 245(2) of the Tax Act to any particular transaction or series of transactions.

This summary is based on the current provisions of the Tax Act, the regulations to the Tax Act (the "**Regulations**"), all specific amendments to the Tax Act proposed by or on behalf of the Minister of Finance for Canada prior to the date hereof, and the current published administrative practices of the Canada Revenue Agency ("**CRA**"), and it assumes that those specific amendments will be enacted substantially as proposed, although no assurance in this regard can be given. This summary does not otherwise take into account or anticipate any changes in laws whether by judicial, governmental or legislative decision or action nor does it take into account provincial or foreign income tax legislation or considerations.

### **Introduction**

This summary focuses on the Tax Act's requirements for investments in the REIT to be qualified for RRSP, RRIF, RESP, DPSP, and TFSA purposes. The determination of whether or not the Units will qualify depends on whether the REIT meets the definition of a "mutual fund trust" as defined in the Tax Act or would otherwise meet the definition of a "mutual fund trust" if certain prescribed conditions were not met. Hence, the central focus of the summary is whether the basic requirements to become a mutual fund trust have been met and if so, whether the

Trust's proposed investments will disqualify it from being held by RRSPs, RRIFs, RESPs, DPSPs and TFSAs (collectively, "Deferred Plans").

### **Requirements for Becoming a Mutual Fund Trust**

#### ***Definition of Mutual Fund Trust***

In order for the REIT to meet the definition of a mutual fund trust, the following requirements must be met:

- (a) the REIT must be a "unit trust" resident in Canada;
- (b) the REIT's only undertaking must be:
  - (i) the investing of its funds in property (other than real property or an interest in real property);
  - (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the REIT; or
  - (iii) any combination of the activities described in subparagraphs (i) and (ii);
- (c) the REIT must comply with prescribed conditions relating to the number of its unitholders, dispersal of ownership of its units and public trading of its units; and
- (d) the REIT must not be maintained primarily for the benefit of non-residents.

#### ***Unit trust resident in Canada***

For a trust to qualify as a "unit trust" it must be an inter vivos trust, the interest of each unitholder must be described by reference to units of the trust, and the trust must meet certain prescribed conditions regarding redeemability of units, which are discussed below. The REIT is an inter vivos trust under which the interest of each beneficiary is described by reference to units. The residence of a trust is a question of fact, as a trust resides where the central management and control of the trust actually takes place. The REIT is controlled and managed by the Trustee which is a taxable Canadian corporation resident in Canada for the purposes of the Tax Act. Each of the directors of the Trustee is a resident of Canada for the purposes of the Tax Act. Provided that the directors of the Trustee in fact exercise central management and control over the REIT and such management and control is normally exercised in Canada, the REIT should meet the requirement of being resident in Canada.

#### ***Redeemability of Units***

The units of a "unit trust" must meet certain prescribed conditions regarding redeemability as an open ended trust, or certain investment restrictions applicable to closed ended trusts. In the view of the Trustee, the provisions of the Declaration of Trust (see Item 5.1 "Terms of Units – Declaration of Trust – Redemption") relating to the redemption of Units comply with the redemption requirement necessary for an open ended "unit trust". If the REIT fails to meet the redemption on demand test for an open ended unit trust and fails to meet the investment restrictions for an a closed ended unit trust, the REIT would not meet the definition of a "unit trust".

#### ***Restricted Activities of Mutual Fund Trust***

In order for the REIT to meet the definition of a "mutual fund trust", the activities of the REIT must be restricted to (i) the investing of its funds in property, (ii) the acquiring, holding, maintaining, improving, leasing or managing of any real property (or interest in real property) that is capital property of the REIT, or (iii) some combination of the foregoing. Hence, a mutual fund trust is permitted to invest its funds in shares, debt obligations, and limited

partnership interests, and in real property as long as the real property is capital property to the REIT. Investment in real property for the purposes of development and resale is not permitted. However, the CRA has commented that, in its view, investment in real property that will be developed and thereafter held as capital property would be acceptable.

The Declaration of Trust includes provisions which restrict the type of the REIT's investments in such manner that this requirement should be met.

### ***Ownership of Units***

The REIT must comply with prescribed conditions relating to the number of its Unitholders, dispersal of ownership of its units and public trading of its units at a particular time in order to qualify as a mutual fund trust. In essence, in order for the REIT to qualify as a mutual fund trust at a particular time, the REIT must have at least 150 beneficiaries each of whom holds a block of Units with an aggregate fair market value of not less than \$500, and the Units must have been qualified for distribution to the public by way of a prospectus or similar disclosure document, such as an offering memorandum.

Upon the REIT achieving at least 150 Unitholders each holding a block of Units with an aggregate fair market value of \$500 or more, the REIT can qualify as a mutual fund trust.

### ***Non-Resident Ownership of Units***

The final requirement of a trust maintaining its mutual fund trust status is that the REIT not be primarily for the benefit of non-resident persons. The term "primarily" is generally interpreted to mean greater than 50%. Under the terms of the REIT Agreement, no non-resident persons are permitted to hold units of the REIT. Accordingly, this test should be met.

### **Taxation of the REIT, CDN LP and CDN/US LP and Unitholders**

#### ***Taxation of the REIT***

The REIT will not pay tax on its net income and net realized capital gains distributed to Unitholders (pursuant to the terms of the Declaration of Trust), provided the REIT has no non-resident or other designated beneficiaries. The Declaration of Trust prohibits the issue of Units to non-resident or other designated beneficiaries. Losses incurred by the REIT cannot be allocated to Unitholders but may, subject to certain limitations and in accordance with the applicable provisions of the Tax Act, be deducted from income or capital gains realized by the REIT in future years.

#### ***Taxation of CDN LP and CDN/US LP***

##### *Canadian Tax Considerations*

The CDN LP and the CDN/US LP are not subject to tax under the Tax Act. Each partner of the CDN LP and the CDN/US LP (including the REIT) is required to include in computing the partner's income for a particular taxation year the partner's share of the income or loss of the limited partnership for its fiscal year ending in or on the partner's taxation year-end, whether or not any of that income or loss is distributed to the partner in the taxation year. For this purpose, the income or loss of the CDN LP and the CDN/US LP must be computed for each fiscal year as if each partnership was a separate person resident in Canada, and will be required to be allocated to partners on the basis of their respective shares of that income or loss as provided for in the CDN LP Agreement or the CDN/US LP Agreement, as applicable, subject to certain provisions of the Tax Act in that regard.

If the CDN LP or the CDN/US LP incurs losses for purposes of the Tax Act, a limited partner, including the REIT, will be entitled to deduct in the computation of its income for purposes of the Tax Act its share of any such losses for any fiscal year to the extent of that limited partner's "at-risk amount" in respect of the limited partnership. In general, the

“at-risk amount” of a limited partner in respect of a limited partnership for any taxation year will be the adjusted cost base of the limited partner’s partnership interest at the end of the year, plus any undistributed income allocated to the limited partner for the year, less any amount owing by the limited partner (or a person with whom the limited partner does not deal at arm’s length) to the limited partnership (or a person with whom it does not deal at arm’s length), and less the amount of any benefit that the limited partner (or a person with whom the limited partner does not deal at arm’s length) is entitled to receive or obtain for the purpose of reducing, in whole or in part, any loss of the limited partner from the investment.

On the sale or other disposition of all or some of the Properties, the CDN LP or the CDN/US LP, as applicable, must allocate the net proceeds of disposition (gross proceeds less costs of disposition) on a reasonable basis among each separate asset which comprises the property sold. On dispositions of Properties that are capital properties for purposes of the Tax Act, a capital gain will be realized on the amount by which the net proceeds of disposition allocated to a particular depreciable property exceed the capital cost of that property (no capital loss can be realized on depreciable property). A capital gain (or capital loss) will be realized on the amount by which the net proceeds of disposition allocated to a non-depreciable capital property exceed (or are less than) its adjusted cost base.

#### *United States Tax Considerations*

For U.S. tax purposes, a partnership is generally treated as a look-through entity and as such it is not subject to U.S. income tax itself. Each partnership is required to file annual information returns with the Internal Revenue Service (“IRS”). The partners in a partnership account for the income, expenses and taxes derived or paid by the partnership on a current basis and the character of these items is determined at the partnership level. The ultimate partners of a partnership will be subject to U.S. income tax on their relevant proportion of income derived from real estate activities in the U.S.

An election may be made by a partnership to be treated as a corporation for U.S. income tax purposes. This election has been made for the CDN/US LP. As such, the ultimate partner of the US LP is the CDN/US LP which will be responsible for U.S. income tax and U.S. tax filings in respect of the US LP.

#### ***Taxation of Unitholders***

A Unitholder will generally be required to include in computing income for a particular taxation year the portion of the net income of the REIT for the taxation year of the REIT ending on or before the particular taxation year end of the Unitholder, including net taxable capital gains (determined for the purposes of the Tax Act), that is paid or payable, or deemed to be paid or payable, to the Unitholder in the particular taxation year, whether those amounts are received in cash or otherwise.

Any amount in excess of the net income and net taxable capital gains of the REIT that is paid or payable, or deemed to be paid or payable, by the REIT to a Unitholder in a taxation year, will not generally be included in the Unitholder’s income for the year. A Unitholder will be required to reduce the adjusted cost base of its Units by the portion of any amount paid or payable to such Unitholder (other than proceeds of disposition in respect of the redemption of Units and the non-taxable portion of net capital gains) that was not included in computing the Unitholder’s income and will realize a capital gain to the extent that the adjusted cost base of the Unitholder’s Units would otherwise be a negative amount.

On the disposition or deemed disposition of a Unit by a Unitholder, on redemption or otherwise, the Unitholder will realize a capital gain or loss to the extent that the proceeds of disposition exceed or are exceeded by the adjusted cost base of the Units, respectively. The adjusted cost base of a Unit to a Unitholder will include the amount paid by the Unitholder for the Unit, subject to certain adjustments. One-half of a capital gain realized by a Unitholder on disposition or deemed disposition of Units must generally be included in a Unitholder’s income as a taxable capital gain in the taxation year in which the disposition occurs. One-half of any capital loss realized by a Unitholder on a disposition or deemed disposition of Units generally may be deducted by the Unitholder against taxable capital gains

of the Unitholder in the year of disposition, in the three preceding taxation years or in any subsequent taxation year in accordance with the provisions of the Tax Act.

In general terms, capital gains realized on the disposition of Units, and net income of the REIT paid or payable, or deemed to be paid or payable, to a Unitholder who is an individual or trust (other than certain specified trusts) and that is designated as taxable dividends or as net taxable capital gains, may increase the Unitholder's liability for alternative minimum tax.

## 6.2 Eligibility for Investment

Under the Regulations, an investment in a trust that meets the definition of a "mutual fund trust" is a qualified investment for a Deferred Plan. Accordingly, provided that at a particular time the REIT qualifies as a mutual fund trust within the meaning of the Tax Act, as discussed above, the Units will be a qualified investment for Deferred Plans. If the REIT does not qualify or ceases to qualify as a mutual fund trust, the Units will not be qualified investments for Deferred Plans at that time. Trust Notes, units of the CDN LP or the CDN/US LP or other Trust Property that may be issued or distributed by the REIT to Unitholders on or in connection with redemption of Units, may not be qualified investments for Deferred Plans.

Where a Deferred Plan acquires or holds a Unit that is not a qualified investment at any time, or acquires or holds a Trust Note, or other Trust Property that is not a qualified investment, adverse tax consequences may arise to the Deferred Plan and the holder of or annuitant or beneficiary under the Deferred Plan. **Accordingly, Deferred Plans that propose to invest in Units should consult their own tax advisors before deciding to purchase Units and again before deciding to exercise the redemption rights attached to such Units.**

Notwithstanding that the Units may be qualified investments for Deferred Plans as described above, a holder of a TFSA or an annuitant under an RRSP or RRIF, as the case may be, will be subject to a penalty tax if the Units held in the TFSA, RRSP or RRIF are a "prohibited investment" as defined in the Tax Act for the TFSA, RRSP or RRIF. The Units will generally be a "prohibited investment" for trusts governed by a TFSA, RRSP or RRIF if the holder of the TFSA or the annuitant under the RRSP or RRIF, as applicable, does not deal at arm's length with the REIT for the purposes of the Tax Act, or has a "significant interest", as defined in the Tax Act, in the REIT. Generally, a holder or annuitant will have a significant interest in the REIT if the TFSA, RRSP or RRIF (as applicable), the annuitant or holder (as applicable), and other persons not at arm's length with the annuitant or holder together, directly or indirectly, hold interests as a beneficiary under the REIT that have a fair market value of 10% or more of the fair market value of the interests of all beneficiaries under the REIT.

## ITEM 7 - COMPENSATION PAID TO SELLERS AND FINDERS

Where permitted by applicable securities legislation, the Trustee may pay a sales fee of: (i) up to 7% of the gross proceeds realized on the sale of Class C1 Units; and (ii) up to 1% of the gross proceeds realized on the sale of Class C2 Units, to any one of, or a combination of: investment dealers, Exempt Market Dealers, or where permitted, non-registrants. Accordingly, using the illustrative example of \$10,000,000 (see Item 1.1), the REIT could pay as much as \$700,000 in up front selling commissions and fees. The amount included in table 1.1 is based on the REIT's expectation that the average sales fee paid will be approximately 4% of the subscription proceeds. In addition, the Trustee may pay agents selling Class C1 Units, Class C2 Units and Class F Units an annual trailer fee commencing after the first anniversary of any subscriptions for such Units of up to 1% of the subscription price of such that remain outstanding. The REIT will be obligated to pay any applicable GST or other taxes on such fees.

## ITEM 8 - RISK FACTORS

The purchase of Units involves a number of risk factors. This Offering is suitable only for investors who are aware of the risks inherent in the real estate industry and who have the ability and willingness to accept the risk of loss of their invested capital and who have no immediate need for liquidity. An investor should reach a decision to invest in

the REIT after careful consideration with his or her advisors as to the suitability of the REIT in light of its investment objective and the information set out in this Offering Memorandum. In addition to the factors set forth elsewhere in this Offering Memorandum, prospective investors should consider the following factors.

## **8.1 Investment Risk**

### ***Partial Blind Pool Offering***

This is a partial blind pool Offering. The gross proceeds of the Offering will ultimately be invested in the acquisition of one or more Properties, after the deduction of the costs of the Offering. However, the specific Properties in which the CDN LP and the CDN/US LP, directly or indirectly, as applicable, will invest have not yet been determined. Depending on the return on investment achieved on the Properties that may be acquired by the CDN LP and the CDN/US LP, the Unitholders' return on their respective investments in the Units will vary.

### ***Marketability of Units***

The Units are not listed on an exchange. There is currently no secondary market through which the Units may be sold, there can be no assurance that any such market will develop and the REIT has no current plans to develop such a market. The Units are not transferable, except if required as a result of a Unitholder becoming a non-resident. In such situations, securities requirements may prohibit or restrict transferability of Units. Consequently, holders of Units will not be able to resell their Units and the sole method of liquidation of an investment in REIT Units is by way of redemption of REIT Units. Accordingly, an investment in Units is suitable solely for persons able to make and bear the economic risk of a long-term investment. See Item 5.1 "Terms of Units – Declaration of Trust – Forced Redemption Upon Non-Residency", Item 5.1 "Terms of Units – Declaration of Trust – Redemption" and Item 10 "Resale Restrictions".

### ***Nature of Units***

The Units are not the same as shares of a corporation and the REIT is not governed by the *Business Corporations Act* (British Columbia) which grants certain protections to shareholders of corporations. As a result, the Unitholders will not have the statutory rights and remedies normally associated with share ownership, such as the right to bring "oppression" or "derivative" actions.

### ***Personal Liability of Unitholders***

The Declaration of Trust provides that no Unitholder shall be held to have any personal liability as such, and no resort shall be had to a Unitholder's private property, for satisfaction of any obligation in respect of or claim arising out of or in connection with any contract or obligation of the REIT or of the Trustee or any obligation in respect of which a Unitholder would otherwise have to indemnify the Trustee for any liability incurred by the Trustee, but rather only the Trust Property is intended to be liable and subject to levy or execution for satisfaction of any obligation or claim.

There is a risk that a Unitholder could be held personally liable, notwithstanding the foregoing statement in the Declaration of Trust, for obligations in connection with the REIT (to the extent that claims are not satisfied by the REIT). It is intended that the REIT's operations be conducted in such a way as to minimize any such risk and, in particular and where practical, to cause every written contract or commitment of the REIT to contain an express statement that liability under such contract or commitment is limited to the value of the assets of the REIT.

In any event, the REIT considers that the risk of any personal liability of Unitholders to be minimal in view of the size of the anticipated equity of the REIT, the nature of its activities and the requirement of the REIT that any written contract or commitment of the REIT (except where such inclusion is not reasonably possible) include an express limitation of liability. In the event that a Unitholder should be required to satisfy any obligation of the REIT, such Unitholder will be entitled to reimbursement from any available assets of the REIT.

### ***Currency Exchange Rate Risk***

The offering price for Units is denominated in Canadian dollars, but a portion of the underlying investment in the US Portfolio will be in US Properties and therefore will be denominated in U.S. dollars. The Canadian dollar is not maintained at a fixed exchange rate compared to foreign currencies but rather the value of the Canadian dollar has a floating exchange rate in relation to other currencies. Consequently, income and expense or any ultimate gain on sale of a U.S. Property or interest on U.S.-based loans will be earned or incurred in U.S. dollars. As a result of fluctuations in the Canada/U.S. dollar exchange rate, the value of an investment in Units and the return on the original investment, when expressed in Canadian dollars, may be greater or less than that determined only with reference to U.S. dollars. Accordingly, investors are subject to currency exchange rate risk.

### ***Tax Matters***

The return on the Unitholder's investment in the Units is subject to changes in Canadian federal and provincial tax laws, tax proposals, other governmental policies or regulations and governmental, administrative or judicial interpretation of the same. There can be no assurance that tax laws, tax proposals, policies or regulations, or the interpretation thereof, will not be changed in a manner which will fundamentally alter the tax consequences to Unitholders acquiring, holding or disposing of Units.

If the REIT ceases to meet the requirements for a mutual fund trust, the Units of the REIT will cease to be qualified investments for Deferred Plans. This could result in Deferred Plans which hold Units becoming liable for a penalty tax.

### ***Reliance on Assumptions***

The REIT's business plan and investment strategy have been formulated based on the REIT's analysis and expectations regarding recent economic developments in Canada and United States. Such analysis may be incorrect or the economic conditions upon which such analysis is based may change unexpectedly and such expectations may not be realized.

### ***No Maximum Time for Investment of Net Proceeds***

There is no maximum time period for the full investment of the net proceeds of the offering in Properties and the timing of such investment will depend upon the identification by the General Partner and the US General Partners of Properties meeting the criteria for acquisition.

### ***Restrictions on Redemption***

Redemption of Units by Unitholders is restricted under the terms of the Declaration of Trust governing the REIT. The total amount payable by the REIT by cash payment in respect of the redemption of Units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding Units. Accordingly, Units may not be an appropriate investment for investors seeking liquidity.

### ***Limitation on Payment of Redemption Price in Cash***

The total amount payable by the REIT by cash payment in respect of the redemption of Units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding Units. The Trustee may, in its sole discretion, redeem by cash payment Units in excess of 10% of the issued and outstanding Units in a fiscal year of the REIT, if in the opinion of the Trustee, doing so will not adversely affect the REIT.

### ***Payment of Redemption Price in Kind***

As a result of the foregoing limitations, the Trustee may pay the redemption of Units by way of a Trust Note, Debt Security or Class A CDN LP Units and/or Class A CDN/US LP Units. Trust Notes, Debt Securities and Class A CDN LP Units and/or Class A CDN/US LP Units received as a result of redemptions of Units may not be liquid. Further, they will generally not be qualified investments or may be prohibited investments for Plans. Where Trust Notes, Debt Securities or Class A CDN LP Units and/or Class A CDN/US LP Units held by a Plan are not qualified investments or are prohibited investments, adverse tax consequences will generally arise to the Plan and the annuitant, beneficiary or holder of the Plan, including, depending on the circumstances, that the Plan and the annuitant, beneficiary or holder may become subject to additional taxes and penalties, that the annuitant, beneficiary or holder of the Plan may be deemed to have received income therefrom, and that the Plan may have its tax status revoked. Accordingly, Plans that propose to invest in Units should consult their own tax advisors before doing so and before deciding to exercise the redemption rights attached to such Units.

### ***Risk Factors Relating to the REIT's Canadian Tax Status***

The REIT intends to as a "mutual fund trust" under the Tax Act at all relevant times. If the REIT does not meet the requisite conditions or otherwise does not qualify or ceases to qualify as a "mutual fund trust" under the Tax Act, adverse consequences may arise including that: (i) the REIT may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the non-qualifying trust would be reduced and Unitholders may otherwise be adversely affected), and (ii) the Units will not be qualified investments for Plans (with the result that adverse tax consequences will generally arise to the Plan and the annuitant, beneficiary or holder of the Plan, including, depending on the circumstances, that the Plan and the annuitant, beneficiary or holder may become subject to additional taxes and penalties, that the annuitant, beneficiary or holder of the Plan may be deemed to have received income therefrom, and that the Plan may have its tax status revoked.

### ***Risk Factors Relating to the Treatment of SIFTs and Controlled Foreign Affiliates***

There can be no assurances that Canadian federal income tax laws respecting the criteria relating to, and the treatment of "specified investment flow-throughs" or SIFTs or controlled foreign affiliates' exempt surplus will not be changed, or that administrative policies and assessing practices of the CRA will not develop, in a manner which adversely affects the REIT or the Unitholders.

### ***Other Canadian Tax and Foreign Tax Related Risk Factors***

The tax treatment of investment and real estate activities of the REIT have a material effect on the advisability of an investment in the Units. The rules governing the Canadian federal income taxation of Unitholders are complex. The summary under Item 6 "Income Tax Consequences and RRSP Eligibility" does not address or consider all aspects of Canadian federal income tax of an investment in the REIT and does not consider provincial, territorial, U.S., State, or other foreign tax legislation or considerations. Prospective investors should consult their own professional advisors as to the tax consequences to them of making an investment in, and of holding, Units offered herein.

### ***Risk Factors Relating to Non-Residents***

The Tax Act may impose additional withholding or other taxes on distributions made by the REIT to Unitholders who are non-residents of Canada. These taxes and any reduction thereof under a tax treaty between Canada and another country may change from time to time. In addition, this Offering Memorandum does not describe the tax consequences under the Tax Act to non-residents, which may be more adverse than the consequences to other Unitholders. Prospective purchasers who are non-residents should consult their own tax advisors.

## ***U.S. Market Factors***

The US Portfolio will be located in the U.S. Global market and economic conditions since the beginning of 2008 have been challenging with recession conditions in the North American economy. U.S. markets appear to be improving, albeit slowly, and are currently experiencing declining levels of unemployment, stable or rising home prices, declining foreclosure rates, and improving but curtailed access to credit markets. Fears of a “double-dip” recession have somewhat subsided, although the rate of recovery remains slow when compared to previous recessions. Although the recession technically ended in June, 2009, the U.S. economy has not yet returned to operating at normal capacity and the effects of the coming reduction in fiscal stimulus programs may halt the nascent recovery. Concern about the stability of the markets generally and the strength of the economic recovery may lead lenders to curtail funding to businesses and consumers, and force financial institutions to continue to take the necessary steps to restructure their business and capital structures. Although economic indicators suggest that the worst of the economic downturn has passed, the demand for housing, support for rents and property values may not continue on their current trajectory and the domestic and international economic shocks could lead to a deterioration of market conditions. The REIT cannot predict when or if the real estate markets will recover to such a level that will allow for the accomplishment of its stated objectives. The value of Properties acquired may decline if market conditions cease their improvement or worsen.

## **8.2 Issuer Risk**

### ***Limited Recourse***

The Trustee, the General Partner, and the US General Partners are all companies without material assets. Should a claim be made against any of them, it will likely be difficult to realize upon any judgment which might be obtained against it.

### ***Geographic Concentration***

The REIT’s portfolio currently consists of three properties, two located in Arizona (Phoenix and Tempe) and one located in Fort McMurray, Alberta. Both jurisdictions have experienced significant declines in economic conditions – Fort McMurray more recently than Phoenix. Given the current concentration of the REIT’s portfolio in these two cities, the REIT’s intention is to pursue asset acquisition outside of Alberta and Arizona to diversify the portfolio and the income derived therefrom. If the REIT is unsuccessful in acquiring assets outside of Arizona and Alberta, the income derived from the current assets could be negatively affected if the economic conditions in these regions declines.

### ***Reliance on Management***

Prospective purchasers assessing the risks and rewards of this investment should appreciate that they will, in large part, be relying on the good faith and expertise of the Trustee, the General Partner and the US General Partners and their principals in determining the composition of the portfolios of Properties and in negotiating the pricing and other terms of the agreements leading to the acquisition of Properties.

### ***Key Personnel***

The operations of the REIT, the Trustee, the General Partner, the US General Partners and the Manager are highly dependent upon the continued support and participation of their key personnel. The loss of their services may materially affect the timing or the ability of the REIT to implement its business plan. The management teams of the REIT, the Trustee, the General Partner, the US General Partners and the Manager consist of several key people. In order to manage the REIT, the Trustee, the General Partner, the US General Partners and the Manager successfully in the future, it may be necessary to further strengthen their management teams. The competition for such key personnel is intense, and there can be no assurance of success in attracting, retaining, or motivating such individuals.

Failure in this regard would likely have a material adverse effect on the REIT's business, financial condition, and results of operations.

### ***Litigation***

The REIT, the CDN LP and/or the US Limited Partnerships may become subject to disputes with various parties with whom they maintain relationships or with whom they do business. Any such dispute could result in litigation or other legal proceedings. Whether or not any dispute actually proceeds to litigation, the REIT, the CDN LP and/or the US Limited Partnerships may be required to devote significant resources, including management time and attention, to its successful resolution (through litigation, settlement or otherwise), which would detract from management's ability to focus on its business. Any such resolution could involve the payment of damages, costs or expenses, which may be significant. In addition, any such resolution could involve the agreement by the REIT, the CDN LP and/or the US Limited Partnerships to certain settlement terms or conditions that may restrict the operation of the REIT's business.

## **8.3 Industry Risk**

### ***Risks of Real Estate Investment***

Investment in real estate is subject to numerous risks, including the highly competitive nature of the real estate industry, changes in general or local conditions, failure of tenants to pay rent, changes in neighbourhood property values, interest rates, availability of mortgage funds, increases in real estate tax rates and other operating expenses, the possibility of competitive overbuilding and of the inability to obtain full occupancy of the properties, governmental rules and fiscal policies, including rent control legislation, which limit potential rent increases, and other events and factors which are beyond the control of the REIT or the CDN LP or the US Limited Partnerships.

There is no assurance that the CDN LP and the US Limited Partnerships will be able to obtain sufficient mortgage financing to finance the acquisition of real estate investments, or on commercially acceptable terms, or that any such mortgage financing will be renewed upon maturity or, if renewed, renewed on the same terms and conditions (including the rate of interest). The real estate properties may not generate sufficient funds to service the mortgage financing taken out in respect of them. If a default occurs, a property could be foreclosed upon indebtedness with variable interest rates will result in fluctuations in the CDN LP's and the US Limited Partnerships' cost of borrowing.

### ***General Real Estate Ownership Risks***

All real property investments are subject to a degree of risk and uncertainty. Property investments are affected by various factors including general economic conditions, local real estate markets, demand for leased premises, competition from other available premises and various other factors. The value of real property and any improvements thereto may also depend on the credit and financial stability of the tenants. Distributable cash flow will be adversely affected if a significant number of tenants of the Properties were to become unable to meet their obligations under their leases or if a significant amount of available space in the Properties is not able to be leased on economically favourable lease terms. A prolonged deterioration in economic conditions could increase and exacerbate the foregoing risks. The failure to rent unleased space on a timely basis or at all would likely have an adverse effect on the Trust's financial condition.

Certain significant expenditures, including property taxes, maintenance costs, mortgage payments, insurance costs and related charges must be made throughout the period of ownership of real property regardless of whether a Property is producing any income. Real property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relationship with demand for and the perceived desirability of such investments. Such illiquidity will tend to limit the ability of the CDN LP and the US Limited Partnerships to vary their portfolios promptly in response to changing economic or investment conditions. If for whatever reason, liquidation of assets is required, there is a risk that sales proceeds realized might be less than the current book value of the investments of the CDN LP and the US Limited Partnerships or that market conditions would prevent prompt disposition of assets.

### ***Potential Liability under Environmental Protection Legislation***

Environmental and ecological legislation and policies have become increasingly important in recent years. Under various laws, as the owner of real estate properties the CDN LP and the US Limited Partnerships could become liable for the costs of removal or remediation of certain hazardous or toxic substances released on, from or in one or more of the properties. The failure to remove or remediate such substances, if any, may adversely affect the CDN LP's and/or the US Limited Partnerships' ability to sell such a property or to borrow using a property as collateral.

### ***Current Economic Conditions***

Canadian real estate investment trusts are subject to risks related to real estate in the markets where properties are owned, as well as the Canadian credit, capital and financial markets. Sensitivity to global economic conditions, and their impact in Canada, may negatively affect the REIT, the CDN LP and the US Limited Partnerships, their properties and/or their tenants. The REIT, the CDN LP and the US Limited Partnerships are subject to the risks commonly associated with recessionary economic conditions, including debt financing risk, tenant risk and illiquidity risk.

### ***Economic and market conditions could negatively impact the REIT's business, results of operations and financial condition.***

The REIT's business may be affected by market and economic challenges experienced by Canada, the U.S. or global economies or the real estate industry as a whole or by the local economic conditions in the markets in which the REIT's assets are located, including any dislocations in the credit markets. For example, prolonged lower oil prices may negatively impact the economy in Alberta, where Morrison Centre is located and where the REIT may purchase additional Properties. These conditions may materially affect the tenants, the value and performance of the assets and the REIT's ability to sell assets, as well as the REIT's ability to make principal and interest payments on, or refinance, any outstanding debt when due. Challenging economic conditions may also impact the ability of certain of tenants to enter into new leasing transactions or satisfy rental payments under existing leases. Specifically, these conditions may have the following consequences:

- (a) the financial condition of tenants may be adversely affected, which may result in the CDN LP or the US Limited Partnerships, as applicable, having to increase concessions, reduce rental rates or make capital improvements in order to maintain occupancy levels or to negotiate for reduced space needs, which may result in a decrease in occupancy levels;
- (b) significant job loss may occur, which may decrease demand for space and result in lower occupancy levels, which will result in decreased revenues and which could diminish the value of assets, which depend, in part, upon the cash flow generated by the REIT's assets;
- (c) an increase in the number of bankruptcies or insolvency proceedings of tenants and lease guarantors, which could delay efforts to collect rent and any past due balances under the relevant leases and ultimately could preclude collection of these sums;
- (d) the ability of the CDN LP and the US Limited Partnerships to borrow on terms and conditions that they find acceptable may be limited;
- (e) the amount of capital that is available to finance assets could diminish, which, in turn, could lead to a decline in asset values generally, slow asset transaction activity, and reduce the loan to value ratio upon which lenders are willing to lend; and
- (f) the value of certain of the REIT's assets may decrease below the amounts paid for them, which would limit the REIT's ability to dispose of assets at attractive prices or for potential buyers to

obtain debt financing secured by these assets and could reduce the REIT's ability to finance its business.

### ***Acquisition Risk***

The CDN LP and the US Limited Partnerships intend to acquire Properties selectively. The acquisition of Properties entails risks that investments will fail to perform in accordance with expectations. In undertaking such acquisitions, the CDN LP and the US Limited Partnerships will incur certain risks, including the expenditure of funds on, and the devotion of management's time to, transactions that may not come to fruition. Additional risks inherent in acquisitions include risks that the Properties will not achieve anticipated occupancy levels and that estimates of the costs of improvements to bring an acquired Property up to standards established for the market position intended for that Property may prove inaccurate.

### ***Financing Risks***

There is no assurance that the CDN LP and the US Limited Partnerships will be able to obtain sufficient mortgage loans to finance the acquisition of Properties, or, if available, that the CDN LP and the US Limited Partnerships will be able to obtain mortgage loans on commercially acceptable terms. Further, there is no assurance or guarantee that any mortgage loans, if obtained, will be renewed when they mature or, if renewed, renewed on the same terms and conditions (including the rate of interest). In the absence of mortgage financing, the number of Properties which the CDN LP and the US Limited Partnerships are able to purchase will decrease and the possible return from the ownership of Properties will be reduced. Even if the CDN LP and the US Limited Partnerships are successful in obtaining adequate mortgage loans, the CDN LP and the US Limited Partnerships may not be able to generate sufficient funds through the operation of the Properties to service the mortgage loans. If a default occurs under any of the mortgage loans, one or more of the lenders could exercise its rights including, without limitation, foreclosure or sale of the Properties.

### ***Interest Rate Fluctuations***

It is anticipated that the value of Units at any given time may be affected by the level of interest rates prevailing at that time. A rise in interest rates may have a negative effect on the value of Units. A decrease in interest rates may encourage tenants to purchase condominiums or other types of housing, which could result in a reduction in demand for rental properties. Changes in the interest rates may also have effects on vacancy rates, rent levels, repositioning costs and other factors affecting the REIT's business and profitability. The mortgage loans arranged by the CDN LP and the US Limited Partnerships may include indebtedness with interest rates based on variable lending rates that will result in fluctuations in the cost of borrowing.

### ***Uninsured Losses***

The General Partner and the US General Partners will, under the terms of the applicable limited partnership agreement, arrange for comprehensive insurance, including fire, liability and extended coverage, of the type and in the amounts customarily obtained for properties similar to those to be owned by the CDN LP and the US Limited Partnerships and will endeavour to obtain coverage where warranted against earthquakes and floods. However, in many cases certain types of losses (generally of a catastrophic nature) are either uninsurable or not economically insurable. Should such a disaster occur with respect to any of the Properties, the CDN LP and the US Limited Partnerships could suffer a loss of capital invested and not realize any profits which might be anticipated from the disposition of such Properties.

### ***Competition for Real Property Investments***

The CDN LP and the US Limited Partnerships will compete for suitable real property with individuals, corporations, real estate investment trusts and similar vehicles, and institutions (both U.S., Canadian and foreign) which are presently seeking or which may seek in the future real property investments similar to those sought by the CDN LP

and the US Limited Partnerships. An increased availability of investment funds allocated for investment in real estate would tend to increase competition for real property investments and increase purchase prices, reducing the yield on such investments.

### ***Revenue Shortfalls***

Revenues from the Properties may not increase sufficiently to meet increases in operating expenses or debt service payments under mortgages or to fund changes in the variable rates of interest charged in respect of such loans.

**For all of the aforesaid reasons and others set forth and not set forth herein, the Units involve a certain degree of risk. Any person considering the purchase of the Units should be aware of these and other factors set forth in this Offering Memorandum and should consult with his/her legal, tax and financial advisors prior to making an investment in the Units. The Units should only be purchased by persons who can afford to lose all of their total investment.**

### **ITEM 9 - REPORTING OBLIGATIONS**

As the REIT is not a “reporting issuer” as defined in the applicable securities legislation, the continuous reporting requirements of those acts do not generally apply to the REIT.

**The REIT is not required to send you any documents on an annual or ongoing basis.** The REIT will, however, on or before April 30 in each calendar year, provide to each Unitholder audited annual financial statements and all other information required to file Canadian income tax returns.

### **ITEM 10 - RESALE RESTRICTIONS**

The Units will be subject to a number of resale restrictions, including a restriction on trading. Until the restriction on trading expires, investors will not be able to trade the Units unless they comply with an exemption from the prospectus and registration requirements under securities legislation. The Units issued by the REIT will bear a restrictive legend substantially as follows:

“UNLESS PERMITTED UNDER SECURITIES LEGISLATION, THE HOLDER OF THIS SECURITY MUST NOT TRADE THE SECURITY BEFORE THE DATE THAT IS 4 MONTHS AND A DAY AFTER THE LATER OF (I) THE ISSUANCE DATE, AND (II) THE DATE THE ISSUER BECAME A REPORTING ISSUER IN ANY PROVINCE OR TERRITORY.”

For investors resident in Manitoba, unless permitted under securities legislation, investors must not trade the securities without the prior written consent of the regulator in Manitoba unless (a) the REIT has filed a prospectus with the regulator in Manitoba with respect to the securities purchased by the investor and the regulator in Manitoba has issued a receipt for that prospectus, or (b) the investor has held the securities for at least 12 months. The regulator in Manitoba will consent to the trade if the regulator is of the opinion that to do so is not prejudicial to the public interest.

### **ITEM 11 - PURCHASERS' RIGHTS**

If you purchase the Units you will have certain rights, some of which are described below. For complete information about your rights, you should consult a lawyer.

The REIT publishes certain information, available on its website, [www.apcapital.ca](http://www.apcapital.ca), which provides an overview of the business and periodic updates of the REIT's performance, including: (a) Executive Summary (b) Quarterly Report (c) Monthly Fast Facts. Any Offering Memorandum marketing materials related to the Offering and which are delivered or made reasonably available to a purchaser before the closing of that purchaser's subscription for Units are deemed to be incorporated by reference in this Offering Memorandum.

### **11.1 Two Day Cancellation Right for a Subscriber**

You can cancel your agreement to purchase the Units. To do so, you must send a notice to the Trustee before midnight on the second business day after you sign the Subscription Agreement in respect of the Units.

### **11.2 Rights of Action in the Event of a Misrepresentation**

Applicable securities laws in the offering jurisdictions provide you with a remedy to sue to cancel your agreement to buy these securities or for damages if this Offering Memorandum, or any amendment thereto, contains a misrepresentation. Unless otherwise noted, in this section, a “**misrepresentation**” means an untrue statement or omission of a material fact that is required to be stated or that is necessary in order to make a statement in this Offering Memorandum not misleading in light of the circumstances in which it was made.

These remedies are available to you whether or not you relied on the misrepresentation. However, there are various defences available to the Persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the securities. In addition, these remedies, or notice with respect thereto, must be exercised or delivered, as the case may be, by you within the strict time limit prescribed in the applicable securities laws.

The applicable contractual and statutory rights are summarized below. By its execution of the Subscription Agreement, the REIT will be deemed to have granted these rights to you. Subscribers should refer to the applicable securities laws of their respective Offering Jurisdiction for the particulars of these rights or consult with professional advisors.

### **11.3 Statutory Rights of Action for Subscribers in the Provinces of Alberta and British Columbia**

If you are a resident in Alberta or British Columbia and this Offering Memorandum, together with any amendments hereto, contains a misrepresentation, you have a statutory right to sue:

- (a) the REIT to cancel your agreement to buy the Units; or
- (b) for damages against the REIT, every person who was a director of the Trustee at the date of the Offering Memorandum, and every person or company who signed this Offering Memorandum.

If a misrepresentation is contained in a record incorporated by reference in, or is deemed to be incorporated into, the Offering Memorandum, the misrepresentation is deemed to be contained in the Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Units. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations.

You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Units.

You must commence your action for damages within the earlier of:

- (i) 180 days after learning of the misrepresentation; or
- (ii) three (3) years after you signed the agreement to purchase the Units.

#### **11.4 Statutory Rights of Action for Subscribers in the Province of Manitoba**

If you are a resident in Manitoba and there is a misrepresentation in this Offering Memorandum, together with any amendment to it, you have a statutory right to sue:

- (a) the REIT to cancel your agreement to buy the Units; or
- (b) for damages against the REIT, every person who was a director of the Trustee at the date of the Offering Memorandum, and every other person who signed this Offering Memorandum.

If a misrepresentation is contained in a record incorporated by reference in, or is deemed to be incorporated into, the Offering Memorandum, the misrepresentation is deemed to be contained in the Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Units. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations.

You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Units.

You must commence your action for damages within the earlier of:

- (i) 180 days after learning of the misrepresentation; or
- (ii) two (2) years after you signed the agreement to purchase the Units.

#### **11.5 Statutory Rights of Action for Subscribers in the Province of Ontario**

If you are a resident of Ontario and there is a misrepresentation in this Offering Memorandum, together with any amendment to it, you have a statutory right to sue:

- (a) the REIT to cancel your agreement to buy these Units; or
- (b) for damages against the REIT.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Units. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations.

You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Units.

You must commence your action for damages within the earlier of:

- (i) 180 days after learning of the misrepresentation; or
- (ii) three (3) years after you signed the agreement to purchase the Units.

#### **11.6 Statutory Rights of Action for Subscribers in the Province of Saskatchewan**

If you are resident in Saskatchewan and this Offering Memorandum, together with any amendments hereto, contains a misrepresentation, subject to certain limitations, you have a statutory right to sue:

- (a) the REIT to cancel your agreement to buy the Units; or
- (b) for damages against:
  - (i) the REIT, every person who was a director of the Trustee or the promoter of the REIT at the date of the Offering Memorandum,
  - (ii) every person or company whose consent has been filed respecting the Offering, but only with respect to reports, opinions or statements that have been made by them,
  - (iii) every person who, or company that, in addition to the persons or companies mentioned in clauses (i) and (ii), signed the Offering Memorandum, and
  - (iv) every person who, or company that, sells the Units on behalf of the REIT under the Offering Memorandum.

This statutory right to sue is available to you whether or not you relied on the misrepresentation. However, there are various defences available to the persons or companies that you have a right to sue. In particular, they have a defence if you knew of the misrepresentation when you purchased the Units. If you intend to rely on the rights described in (a) or (b) above, you must do so within strict time limitations.

You must commence your action to cancel the agreement within 180 days after you signed the agreement to purchase the Units.

You must commence your action for damages within the earlier of:

- (i) one year after learning of the misrepresentation; or
- (ii) six (6) years after you signed the agreement to purchase the Units.

In addition, subject to certain limitations, where any advertising or sales literature (as such terms are defined in the Saskatchewan securities legislation) disseminated in connection with the offering contains a misrepresentation, a purchaser who purchases Units referred to in that advertising or sales literature has a right of action against the REIT, every promoter of the issuer and director of the Trustee, as the case may be, and every person who or company that sells Units under the offering with respect to which the advertising or sales literature was disseminated. In addition, subject to certain limitations, where an individual makes a verbal statement to a prospective purchaser that contains a misrepresentation relating to the Units and the verbal statement is made either before or contemporaneously with the purchase of Units, the purchaser has a right of action for damages against the individual who made the verbal statement.

## **11.7 General**

***You should refer to the applicable provisions of the securities legislation for particulars of the rights or consult with a lawyer.***

***You should consult your own legal advisers with respect to your rights and the remedies available to you. The rights discussed above are in addition to and without derogation from any other rights or remedies, which you may have at law.***

**THE SECURITIES LAWS OF ALBERTA, BRITISH COLUMBIA, MANITOBA, SASKATCHEWAN AND ONTARIO ARE COMPLEX. THE FOREGOING IS A SUMMARY ONLY AND SUBJECT TO INTERPRETATION. REFERENCE SHOULD BE MADE TO THE APPLICABLE SECURITIES LEGISLATION, THE REGULATIONS AND THE RULES THEREUNDER FOR THE COMPLETE TEXT OF THE PROVISIONS UNDER WHICH THE FOREGOING RIGHTS ARE CONFERRED. THE FOREGOING SUMMARY IS SUBJECT TO THE EXPRESS PROVISIONS THEREOF.**

**THE RIGHTS DISCUSSED ABOVE ARE IN ADDITION TO, AND WITHOUT DEROGATION FROM, ANY OTHER RIGHTS OR REMEDIES WHICH THE SUBSCRIBERS MAY HAVE AT LAW. SUBSCRIBERS SHOULD CONSULT THEIR OWN LEGAL ADVISORS WITH RESPECT TO THEIR RIGHTS AND THE REMEDIES AVAILABLE TO THEM.**

**ITEM 12- FINANCIAL STATEMENTS**

**AP CAPITAL REIT**  
**Consolidated Financial Statements**  
**December 31, 2015**

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### To the Unitholders of AP Capital REIT:

We have audited the accompanying consolidated financial statements of AP Capital REIT and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2015, and the consolidated statements of income and other comprehensive income, changes in unitholders' equity and cash flows for the period from June 26, 2015, date of incorporation, to December 31, 2015, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the consolidated financial statements

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

### Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AP Capital REIT as at December 31, 2015, and the results of its operations and its cash flows for the period from June 26, 2015, date of incorporation, to December 31, 2015, in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

August 3, 2016

*MNP* LLP  
Chartered Professional Accountants

**AP Capital REIT**  
**Consolidated Statement of Financial Position**  
**As at December 31, 2015**

2015

**ASSETS**

**Non-current assets**

Investment properties (Note 4) \$ 58,300,355

**Current assets**

Cash and cash equivalents 1,197,697

Trade and other receivables (Note 15) 48,924

Prepaid expenses 73,158

1,319,779

**TOTAL ASSETS** **\$ 59,620,134**

**LIABILITIES**

**Non-current liabilities**

Long-term debt (Note 6) \$ 23,364,843

Tenant deposits 337,716

23,702,559

**Current liabilities**

Long-term debt – current portion (Note 6) 16,413,888

Loan payable (Note 5) 1,107,200

Accounts payable and accrued liabilities (Note 15) 1,540,867

19,061,995

**TOTAL LIABILITIES** **42,764,514**

**EQUITY**

Unitholders' equity (Note 7) 16,855,580

Non-controlling interests (Note 8) 40

**TOTAL EQUITY** **16,855,620**

**TOTAL LIABILITIES AND EQUITY** **\$ 59,620,134**

**Approved on behalf of the Board:**

*"Brad Unrau"*

*"Ches Hagen"*

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

**AP Capital REIT**  
**Consolidated Statement of Income and Other Comprehensive Income**  
**For the period ended December 31, 2015**

Period from June 25, 2015, date of incorporation, to December 31,	2015
<b>Revenue</b>	
Rental income	\$ 1,226,046
Cost recoveries	434,293
	<u>1,660,339</u>
<b>Expenses</b>	
Advertising and promotion	112,558
Bad debts	7,500
Insurance	18,235
Interest and bank charges	3,696
Interest on long-term debt (Note 12)	556,490
Janitorial	18,471
Management fees (Note 15)	287,156
Office	75,413
Professional fees	95,564
Property taxes	122,372
Repairs and maintenance	173,903
Telephone	1,390
Utilities	77,977
	<u>1,550,725</u>
<b>Net income for the period</b>	<b>\$ 109,614</b>
<b>Other comprehensive income</b>	
Item that will be reclassified subsequently to net income	
Unrealized foreign currency translation gain	\$ 493,307
	<u>\$ 493,307</u>
<b>Comprehensive income for the period</b>	<b>\$ 602,921</b>
<b>Net earnings per unit</b>	
Basic and diluted	\$ 8.94
<b>Weighted average number of units</b>	
Basic and diluted	<u>12,260,832</u>

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

**AP Capital REIT**  
**Consolidated Statement of Changes in Unitholders' Equity**  
**For the period ended December 31, 2015**

	Number of Class A units	Number of Class B units	Number of Class C2 units	Number of Class G units	Total number of units	Unitholders' equity	Accumulated distributions	Retained earnings	Accumulated other comprehensive income	Total
<b>Balance, June 26, 2015</b>	–	–	–	–	–	\$ –	\$ –	\$ –	–	\$ –
Net income for the period	–	–	–	–	–	–	–	109,614	–	109,614
Distributions paid in cash	–	–	–	–	–	–	(79,877)	–	–	(79,877)
Units issued from distribution reinvestment plan (Note 10)	–	152,568	1,173	67,270	221,011	221,011	(221,011)	–	–	–
Units issued for cash	6,000	10,000,000	100,000	30,328	10,136,328	10,136,328	–	–	–	10,136,328
Units issued related to the acquisition of investment property (Note 15)	–	–	–	6,280,958	6,280,958	6,280,958	–	–	–	6,280,958
Issue costs	–	–	–	–	–	(84,750)	–	–	–	(84,750)
Other comprehensive income	–	–	–	–	–	–	–	–	493,307	493,307
<b>Balance, December 31, 2015</b>	<b>6,000</b>	<b>10,152,568</b>	<b>101,173</b>	<b>6,378,556</b>	<b>16,638,297</b>	<b>\$ 16,553,547</b>	<b>\$ (300,888)</b>	<b>\$ 109,614</b>	<b>\$ 493,307</b>	<b>\$ 16,855,580</b>

Supplemental disclosures with respect to changes in unitholders' equity (Notes 8, 10 and 15)

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

**AP Capital REIT**  
**Consolidated Statement of Cash Flows**  
**For the period ended December 31, 2015**

Period from June 25, 2015, date of incorporation, to December 31,	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Net income for the period	\$ 109,614
Item not affecting cash:	
Amortization of mortgage transaction costs	49,343
Changes in non-cash working capital items:	
(Increase) decrease in trade and other receivables	(48,924)
(Increase) decrease in prepaid expenses	(73,158)
Increase (decrease) in accounts payable and accrued liabilities	1,540,867
Increase (decrease) in tenant deposits	337,716
Net cash provided by operating activities	1,915,458
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>	
Proceeds from issuance of units, net of issue costs	10,051,578
Distributions to unitholders, net of reinvested distributions	(79,877)
General Partners' contributions	30
Settlor's contribution	10
Proceeds from long-term debt	39,706,415
Repayment of long-term debt	(212,678)
Payments of mortgage transaction costs	(942,099)
Loan payable	1,107,200
Net cash provided by financing activities	49,630,579
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Investment in "Morrison" property	(19,133,120)
Investment in "Greenway" property	(30,952,210)
Capital additions	(334,900)
Net cash used in investing activities	(50,420,230)
<b>Net effect of translation of foreign currency</b>	71,890
<b>Net change in cash and cash equivalents</b>	1,197,697
<b>Cash and cash equivalents, beginning of period</b>	—
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 1,197,697</b>

Supplemental disclosures with respect to cash flows (Note 12)

**1. NATURE OF OPERATIONS**

AP Capital REIT (the "REIT") is a limited purpose, unincorporated open-ended investment trust, governed by the terms and conditions of a Declaration of Trust dated June 26, 2015 as amended on August 11, 2015, and by the general laws of trusts and the laws of British Columbia. The principal office of the REIT is located at 1601 - 128 West Pender Street, Vancouver, BC V6B 1R8.

The REIT commenced operations on June 26, 2015. The principal activities of the REIT are the ownership and management of a diversified portfolio of retail and commercial mixed use properties.

**2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE**

*a. Statement of compliance*

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs") and effective for the period ended December 31, 2015.

These consolidated financial statements for the period ended December 31, 2015 were authorized for issue by the Board of Directors of the Trustee (the "Board") on August 3, 2016.

*b. Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the REIT's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3(N).

*c. Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the REIT's functional currency.

Assets and liabilities related to properties held in a foreign entity with a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated balance sheet date. Revenues and expenses are translated at average rates for the period unless exchange rates fluctuate significantly during the period in which case the exchange rates at the dates of the transactions are used. The resulting unrealized foreign currency translation adjustments are recognized in other comprehensive income.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### ***A. Basis of consolidation***

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries, over which the REIT has control. Control exists when the REIT has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The non-controlling interests are included in the REIT's equity. The financial statements of subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the REIT and its 99.99% owned subsidiaries; AP Capital REIT Limited Partnership (the "CDN LP"), AP Capital REIT (CDN/US) Limited Partnership and AP Capital REIT (USA) Limited Partnership (collectively, the "Limited Partnerships"). Since the General Partners each made a \$10 cash contribution, for a total of \$30, to the Limited Partnerships, and the Settlor made the initial cash contribution of \$10 to set up the REIT, they represent the non-controlling interests of the REIT (Note 8).

The REIT has entered into three agreements with these parties in the form of limited partnerships. Under IFRS 10, *Consolidated Financial Statements*, and IFRS 11, *Joint Arrangements*, the REIT determined that it has control over the Limited Partnerships. The REIT consolidates these entities and recognizes the non-controlling interests on its consolidated financial statements.

#### ***B. Property acquisitions and business combinations***

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. The basis of the judgment is set out in Note 3(N).

Where such acquisitions are not determined to be a business combination, they are treated as an asset acquisition. The cost to acquire the property is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. Otherwise, acquisitions are accounted for as a business combination.

All of the REIT's acquisitions have been classified as asset acquisitions.

#### ***C. Investment properties***

Investment properties comprise of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services, acquisition fees and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value. The REIT defines fair value to be the value a third party is willing to pay, in an arm's length transaction, for an investment property. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the consolidated statement of net income and other comprehensive income in the year which they arise.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***C. Investment properties (continued)***

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the consolidated statement of net income and other comprehensive income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

***D. Leases***

The CDN LP, through its nominee, 1904934 Alberta Ltd., a bare trust corporation (Note 4), and AP Capital REIT (USA) Limited Partnership are the lessors in all leasing arrangements. Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the Limited Partnerships to the lessees are accounted for as finance leases. All current leases of the Limited Partnerships are operating leases.

***E. Cash and cash equivalents***

Cash consists of cash on hand and cash held at banks. Cash equivalents include short-term investments with original maturities of three months or less from the acquisition date.

***F. Allocation of net income or net loss***

Net income or loss of the Limited Partnerships from the ordinary course of operations of the properties will be allocated as follows:

- Firstly, 0.01% to each of the General Partners to a maximum of \$100 per annum; and
- The balance, to the holders of Class A and Class B units at a net income or loss allocation formula as outlined in the Limited Partnership Agreements.

The REIT holds all the issued Class A units and there are no Class B units issued as at December 31, 2015.

***G. Equity issuances***

Issuances of units are recorded as increases in equity equal to the gross proceeds received. Incremental costs directly attributable to the issuance of new units are recorded as reductions in equity.

***H. Revenue recognition***

Rental revenue is recognized in income on a straight-line basis over the full lease term of each lease subject to ultimate collection being reasonably assured. An accrued straight-line rent receivable, if any, is recorded from tenants for the difference between the straight-line rent and the rent that is contractually due from the tenant. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured. Parking and other incidental income are recognized in the period when the services were performed.

***I. Net earnings per unit***

Basic net earnings per unit has been calculated based on the weighted average number of units outstanding.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***J. Financial instruments***

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the REIT’s designation of such instruments.

The REIT classifies its financial instruments as follows:

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Loan payable	Other financial liabilities
Long-term debt	Other financial liabilities

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

Non-derivative financial liabilities include accounts payable and accrued liabilities, loan payable and long-term debt. These liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are accounted for at amortized cost, using the effective interest rate method.

***K. Impairment of financial assets***

At each reporting date, the REIT assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument’s original effective interest rate. The loss is recognized in impairment expense.

***L. Income taxes***

The REIT is taxed as a “mutual fund trust” under the Income Tax Act (Canada). Pursuant to the Declaration of Trust and subject to the specific investment flow through (“SIFT”) rules, the Board intends to distribute or designate all taxable income to the unitholders of the REIT and to deduct such distributions and designations for Canadian Income Tax purposes. Accordingly, the REIT is not taxable on its income provided all of its taxable income is distributed to the unitholders.

The REIT is subject to taxation in the United States and Arizona on the taxable income earned by AP Capital REIT (USA) Limited Partnership. A deferred income tax liability arises from the temporary differences between the carrying value and the tax basis of the net assets of AP Capital REIT (USA) Limited Partnership. As at December 31, 2015, the temporary difference is insignificant; therefore a deferred income tax liability was not recorded.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***M. Fair value***

The REIT measures investment properties at fair value at the end of each reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

***N. Significant accounting judgments and estimates***

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

***a. Judgments***

In the process of applying the REIT's accounting policies, management has made the following critical judgments, which have the most significant effects on the amounts recognized in the consolidated financial statements:

***(i) Asset acquisitions***

The REIT, through the Limited Partnerships and/or their nominees, as applicable, acquires individual investment properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.).

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized. All acquisitions to date have been determined to be asset acquisitions.

***(ii) Lease contracts***

The REIT has caused the Limited Partnerships and/or their nominees, as applicable, to enter into property leases on its investment property portfolio. The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms, are operating or finance leases. The REIT must assess each lease separately against land and building. The REIT has determined that all of its current leases of land and buildings are operating leases.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*N. Significant accounting judgments and estimates (continued)*

*a. Judgments (continued)*

*(iii) Income taxes*

The REIT uses judgment to interpret tax rules and regulations and determining the appropriate rates and amounts in recording current and deferred income taxes, giving consideration to timing and probability. Actual income taxes could significantly vary from these estimates as a result of future events, including changes in income tax law or the outcome of reviews by tax authorities and related appeals. To the extent that the final tax outcome is different from the amounts that were initially recorded, such difference will impact the income tax provision in the period in which such determination is made.

The recognition of deferred income tax assets and liabilities also require significant judgment as the recognition is dependent on the REIT's projection of future taxable profits and tax rates that are expected to be in effect in the period the asset will be realized or the liability settled. Any changes to this projection will result in changes in the amount of deferred tax assets and liabilities on the consolidated balance sheet and the deferred tax expense in the consolidated statement of income and other comprehensive income.

*b. Estimates*

The significant areas of estimation include the following:

*Valuation of investment properties*

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment property are set out in Note 4.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***O. Provisions***

Provisions are recognized by the REIT when: i) the REIT has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount can be reasonably estimated. If the time value of money is material, provisions are discounted using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as interest expenses.

***P. Future accounting policy changes***

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2015 reporting period. Those which may be relevant to the REIT are set out below. Management has decided against early adoption of these standards.

***a. IFRS 9 Financial instruments: classification and measurement***

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The REIT has not yet reviewed the impact of the standard on its consolidated financial statements.

***b. IFRS 11 Joint arrangements***

In May 2014, the International Accounting Standards Board (IASB) amended IFRS 11 to clarify that the acquirer of an interest in a joint operation in which the activity constitutes a business, as defined in IFRS 3 Business combinations, is required to apply all of the principles on business combinations accounting in IFRS 3 and other IFRSs with the exception of those principles that conflict with the guidance in IFRS 11. The amendments apply to the acquisition of an interest in a joint operation on its formation, unless the formation of the joint operation coincides with the formation of the business, and the acquisition of additional interests in the same joint operation. The amendments are effective for annual periods beginning on or after January 1, 2016. The REIT is currently assessing the impact of these amendments on its consolidated financial statements.

***c. IFRS 15 Revenue from contracts with customers***

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue – barter transactions involving advertising services. The REIT has not yet reviewed the impact of IFRS 15 on its consolidated financial statements.

***d. IFRS 16 Leases***

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard would be effective for annual periods beginning on or after January 1, 2019. The REIT has not yet reviewed the impact on its consolidated financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*P. Future accounting policy changes (continued)*

*e. IAS 1 Presentation of Financial Statements*

During December 2014, the IASB issued an amendment to IAS 1 clarifying certain IAS 1 requirements. The amendments include the following: the materiality requirement in IAS 1; that specific line items in the consolidated statement of earnings and other comprehensive income and the consolidated balance sheet may be disaggregated; that entities have flexibility as to the order in which they present the notes to the financial statements; that the share of other comprehensive income of associates and joint ventures accounted for using the equity method be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to earnings. The amendments also clarify the requirements that apply when additional subtotals are presented in the consolidated balance sheet and the consolidated statement of net income and other comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016. These amendments are not expected to have any significant impact on its consolidated financial statements.

**4. INVESTMENT PROPERTIES**

On June 30, 2015, the REIT, through the CDN LP, acquired Morrison Centre (“Morrison”), a commercial mixed use property in Fort McMurray, Alberta for \$25,000,000 plus standard closing costs and adjustments. Morrison was acquired from 1576697 Alberta Ltd., a related party (Note 15). The legal title to the Morrison property, the related lease agreements and the related loan with Servus Credit Union Loan (Note 6) are registered under a bare trust corporation, 1904934 Alberta Ltd., on behalf of the CDN LP, covered by a Beneficial Ownership Agreement.

On October 29, 2015, the REIT, through AP Capital REIT (USA) Limited Partnership, acquired Greenway Park Shopping Center (“Greenway”) in Phoenix, Arizona for \$23,100,000 (USD) plus standard closing costs and adjustments.

The balance of the investment properties as at December 31, 2015 is determined as follows:

	2015
Balance, June 26, 2015	\$ —
Acquisition (Morrison)	25,414,078
Capital additions (Morrison)	—
Acquisition (Greenway)	30,952,210
Capital additions (Greenway)	334,900
Unrealized foreign exchange gain since initial purchase (Greenway)	1,599,167
Accrued rental revenue	—
Fair value adjustments to investment properties (Note 17)	—
<b>Balance, December 31, 2015</b>	<b>\$ 58,300,355</b>

As set out in Note 3(C), the fair value of recently acquired investment property would be the purchase price plus capital additions and unrealized foreign exchange gain since acquisition.

In subsequent years, the fair value of the investment properties will be determined on a market value basis. In arriving at their estimates of market values, management and the independent appraisers will use their market knowledge and professional judgment and will not rely solely on historical transactional comparisons.

**4. INVESTMENT PROPERTIES (continued)**

The appraisals will be performed by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management will review each appraisal and ensure that the assumptions used are reasonable and the final fair value amount will reflect those assumptions, which are used in the determination of the fair market values of the properties.

**5. LOAN PAYABLE**

The loan payable to Tandem Assets 1 LP, a related party (Note 15), of \$1,107,200 (USD \$800,000) is non-interest bearing, unsecured and due on demand.

**6. LONG-TERM DEBT**

Long-term debt is recorded at amortized cost and is secured by first charges on the REIT's investment properties, with a carrying and fair value of \$58,300,355. Included in long-term debt are unamortized mortgage transaction costs, which are amortized over the term of each mortgage using the effective interest rate method.

	2015
Servus Credit Union Demand Term Loan ("Servus"), bearing interest at prime rate plus 0.75% per annum, payable in monthly blended installment payments of \$95,300, due November 1, 2016, with the monthly payment schedule to be reviewed/adjusted annually to ensure that the 240 month amortization period ending in October 2035 is maintained, secured by the Morrison property	\$ 16,451,487
Less: unamortized mortgage transaction costs	(37,599)
	16,413,888
Midcap Financial Trust Term Loan ("Midcap"), bearing interest at 5.5% per annum interest only payments, due October 29, 2018, secured by the Greenway property, payable in USD \$17,500,000	24,220,000
Less: unamortized mortgage transaction costs	(855,157)
	23,364,843
	\$ 39,778,731

The Servus loan is also secured by a joint and several guarantee of \$2,000,000 by certain directors of the REIT. As at December 31, 2015, all financial covenants were met.

Principal repayments, as of December 31, 2015, based on scheduled repayments to be made on the long-term debt are as follows:

	2016	\$ 16,413,888
	2018	23,364,843
		\$ 39,778,731

## 7. UNITHOLDERS' EQUITY

### **Authorized units**

Under the Declaration of Trust, the REIT is authorized to issue unlimited number of redeemable REIT units. All of the units are voting and without par value. The Trustee will have the power and authority, from time to time, for and on behalf of the REIT, to create one or more classes or series of units on such terms and conditions as may be determined by the Trustee. All of the units in any class or series will have the same rights, benefits and other attributes and will rank equally with every other unit in such class or series.

The REIT has currently created nine Classes of units, being Class A, Class B, Class C1, Class C2, Class D1, Class D2, Class E, Class F and Class G units. All units of each class, other than Class B units, are entitled to participate equally with respect to any and all distributions made by the REIT to the unitholders, including distributions of net income and net realized capital gains, if any.

### **Issued units**

During the period ended December 31, 2015, the REIT issued units in the following classes:

#### *a. Class A units*

The REIT issued 6 Class A units for gross proceeds of \$6,000: one unit each to 1019374 B.C. Ltd., 1018999 B.C. Ltd., 1019001 B.C. Ltd., 1901174 Alberta Ltd., 0824016 B.C. Ltd. and 541461 Alberta Ltd., which are companies related to the principals of the Trustee. The price per Class A unit is \$1,000.

#### *b. Class B units*

The REIT issued 10,000 Class B units for gross proceeds of \$10,000,000. The price per Class B unit is \$1,000.

#### *c. Class C2 units*

The REIT issued 100 Class C2 units for gross proceeds of \$100,000. The price per Class C2 unit is \$1,000.

#### *d. Class G units*

On June 30, 2015, the REIT issued 6,280,958 units for a total of \$6,280,958, in exchange for an equal number of Class A units of the CDN LP related to the acquisition of the Morrison property (Notes 4 and 15). The REIT also issued an additional 30,328 units to AP Capital Mortgage Investment Corporation for total gross proceeds of \$30,328 (Note 15). The price per Class G unit is \$1,000.

### **Redemption rights**

Redemption of units by unitholders is restricted under the terms of the Declaration of Trust governing the REIT. The total amount payable by the REIT by cash payment in respect of the redemption of units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding units. A maximum of 10% of the issued and outstanding REIT units are considered liability instruments under IFRS because these units are redeemable at the option of the holder, however they are presented as equity in accordance with IAS 32.

The price per unit to be redeemed by cash payment will be equal to the amount of the unreturned capital contribution of each unit less (i) any costs incurred by the REIT in the sale of the unit(s), (ii) any costs of the REIT incurred with respect to the redemption as may be determined by the Trustee in its sole discretion, and (iii) the applicable redemption penalty amount, if any, as described below:

**7. UNITHOLDERS' EQUITY (continued)**

*a. Class B units*

There is no redemption penalty amount applicable to Class B units. The holders of Class B units may not redeem units until twelve months after the subscription date and will receive a redemption bonus equal to \$60 per unit, pro-rated based on the number of days during which the units were outstanding. The REIT will have the option to extend the date for redemption by one term of six months, during which the fixed annual return will continue to be payable.

*b. Class C1, D1 and E1 units*

A redemption penalty amount of 3% to 7% of the subscription price paid is applicable depending on the hold period of the units from the subscription date: 7% within twelve months, decreasing by 1% for each subsequent additional term of twelve months. There will be no redemption penalty amount if the units have been held for more than sixty months.

*c. Class C2 and E2 units*

A redemption penalty amount of 1% to 2% of the subscription price paid is applicable depending on the hold period of the units from the subscription date: 2% within twelve months and 1% between thirteen to twenty-four months. There will be no redemption penalty amount if the units have been held for more than twenty-four months.

*d. Class F units*

There is no redemption penalty amount applicable to Class F units. The holder of Class F units may deliver redemption notices to the Trustee at any time.

*e. Class G units*

A redemption penalty amount of \$350 per unit is applicable where the request for redemption occurs within twelve months from the subscription date. There will be no redemption penalty amount if the units have been held for more than twelve months.

Given that the REIT was newly established in 2015, the redemption level is expected to be nil. However, the actual level of redemption may differ.

**8. NON-CONTROLLING INTERESTS**

The non-controlling interests include the initial capital contribution of \$10 made to the REIT by the settlor of the REIT in order to settle and establish the REIT under the Declaration of Trust. They also include the \$10 cash contributions made by each of the three General Partners of the Limited Partnerships, for a total of \$30.

The non-controlling interests' share of the 2015 net earnings from the Limited Partnerships was nominal and was not recorded in these consolidated financial statements.

**9. DISTRIBUTIONS**

The REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15<sup>th</sup> day of the following month. The REIT determines the distribution rate by, among other considerations, its assessment of cash flows as determined using adjusted cash flows from operating activities of its Limited Partnerships. The distribution rate is determined by the Board, at their sole discretion, based on what they consider appropriate given the circumstances of the REIT. Distributions may be adjusted for amounts paid in prior periods if the actual adjusted cash flows from operating activities for those prior periods are greater or less than the estimates used for those prior periods. In addition, the Board may declare distributions out of the income, net realized capital gains, net recapture income and capital of the REIT to the extent such amounts have not already been paid, allocated or distributed.

**10. DISTRIBUTION REINVESTMENT PLAN**

The Distribution Reinvestment Plan (“DRIP”) allows holders of REIT units to elect to have all cash distributions from the REIT reinvested in additional units of the same classes of units held. No commission, service charges or brokerage fees are payable by participants in connection with the DRIP. Cash undistributed by the REIT upon the issuance of additional units under the DRIP will be invested in the REIT to be used for future property acquisitions, capital improvements and working capital.

For the period ended December 31, 2015, 152.568 of Class B units, 1.173 of Class C2 units and 67.270 of Class G units were issued under the DRIP at \$1,000 per unit, for \$152,568, \$1,173 and \$67,270, respectively, for a total of \$221,011.

**11. OPERATING LEASES – REIT as a lessor**

The REIT, through the Limited Partnerships and/or their nominees, as applicable, has entered into leases with tenants on their investment property portfolio. The leases typically have initial lease terms ranging between five and twenty years with periodic upward revision of the rental charge according to prevailing market conditions.

Future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

	2015
Within one year	\$ 3,753,169
One to five years	8,772,941
Over five years	2,608,468
	\$ 15,134,578

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

*a. Interest on long-term debt*

	2015
Interest expense	\$ 556,490
Deduct:	
Amortization of mortgage transaction costs	(49,343)
<b>Cash interest paid</b>	<b>\$ 507,147</b>

*b. Non-cash transaction*

The REIT issued 6,280.958 Class G units in exchange for an equal number of Class A units of the CDN LP related to the acquisition of the Morrison property (Note 15). This non-cash transaction is not reflected in the consolidated statement of cash flows.

**13. CAPITAL MANAGEMENT**

The REIT defines capital as the aggregate of unitholders' equity, loan payable and long-term debt. REIT's objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the initial offering memorandum, complies with existing debt covenants, funds its business strategies and builds long-term unitholders' value. The REIT's capital structure is approved by the Board through its periodic reviews.

**14. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

For certain REIT financial instruments, including cash and cash equivalents, trade and other receivables, accounts payable and accrued liabilities and loan payable, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair values of long-term debt are determined by discounting the future contractual cash flow under current financing arrangements at discount rates that represent borrowing rates presently available to the REIT for loans with similar terms and maturity and measured under level 2 fair value hierarchy since the discount rates are either provided by the lenders or are observable on the open market.

The following table presents the carrying amounts and fair values of the REIT's financial instruments:

	December 31, 2015	
	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,197,697	\$ 1,197,697
Trade and other receivables	48,924	48,924
Accounts payable and accrued liabilities	1,540,867	1,540,867
Loan payable	1,107,200	1,107,200
Long-term debt	39,778,731	39,778,731

**Financial risk management**

The Board of the REIT has the overall responsibility for the establishment and oversight of the REIT's risk management framework. The REIT's risk management policies are established to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the REIT's activities.

In the normal course of business, the REIT is exposed to a number of risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

**a. Credit risk**

Credit risk is the risk of financial loss to the REIT if a tenant or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the REIT's receivables from tenants.

The REIT's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The REIT minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process.

**14. FINANCIAL INSTRUMENTS (continued)**

**Financial risk management (continued)**

*a. Credit risk (continued)*

Accounts receivable are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write-offs. The REIT performs frequent reviews of its receivables and has determined there is no significant provision for doubtful accounts as at December 31, 2015.

The REIT places its cash and cash equivalents with Canadian financial institutions with high credit ratings. Credit ratings are actively monitored and these financial institutions are expected to meet their obligation.

*b. Interest rate risk*

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The REIT is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

Sensitivity analysis

The REIT is exposed to interest rate risk on the Servus Credit Union Demand Term Loan. Based on the outstanding balance of \$16,451,488 on the Demand Term Loan as of December 31, 2015, a 0.5% decrease in the interest rate, keeping all other variables constant, would result in an annual increase in net income of \$82,257 as a result of lower interest payable on the Demand Term Loan. A 0.5% increase in the interest rate would have an equal but opposite effect on the net income of the REIT.

The REIT is also exposed to interest rate risk on the Midcap Financial Trust Term Loan upon its maturity in October 2018. Based on the outstanding balance of \$24,220,000 (USD \$17,500,000) on the Term Loan as of December 31, 2015, a 0.5% decrease in the interest rate, keeping all other variables constant, would result in an annual increase in net income of \$121,000 as a result of lower interest payable on the Term Loan. A 0.5% increase in the interest rate would have an equal but opposite effect on the net income of the REIT.

*c. Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The REIT is exposed to foreign currency risk since AP Capital REIT (USA) Limited Partnership is a United States Partnership which was formed in Arizona. The carrying value of the assets and liabilities, as well as the net income and other comprehensive income, are subject to foreign exchange fluctuation. Management's objective in mitigating this risk is to preserve the REIT's capital invested in the United States and to minimize the impact of adverse changes to future cash flows from the income-producing property from depreciation in the U.S. dollar relative to the Canadian dollar.

The REIT also manages its foreign currency risk by hedging its exposure to fluctuations on the translation into U.S dollars by borrowing debt in U.S. dollars. As at December 31, 2015, the REIT's U.S. dollar denominated net assets are \$5,763,922, therefore a 1% change in the value of the U.S. dollar will result in a gain or loss through other comprehensive income of approximately \$57,639.

**14. FINANCIAL INSTRUMENTS (continued)**

**Financial risk management (continued)**

*d. Liquidity risk*

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. Real estate property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT was required to liquidate a real estate property investment, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

The REIT's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due.

The following are the contractual maturities of financial liabilities as at December 31, 2015, including expected interest payments:

	Amortized Cost	Due in 1 year	1 to 3 years
Accounts payable and accrued liabilities	\$ 1,540,867	\$ 1,540,867	\$ -
Loan payable	1,107,200	1,107,200	-
Long-term debt	39,778,731	39,778,731	23,364,843
	<u>\$ 2,426,798</u>	<u>\$ 19,061,955</u>	<u>\$ 23,364,843</u>

*e. Environmental risk*

The REIT is subject to various federal, provincial/state and municipal laws relating to the environment. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in investment properties, or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, the properties. The REIT has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the REIT may become subject to more stringent environmental laws and regulations that could have an adverse effect on the financial condition or results of operations.

*f. Redemption risk*

The total amount payable by the REIT by cash payment in respect of the redemption of units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding units. The Trustee may, in its sole discretion, redeem by cash payment such excess units, if in the opinion of the Trustee, doing so will not adversely affect the REIT.

**15. RELATED PARTY TRANSACTIONS**

The REIT's related parties consist of its subsidiaries and key members of management. These transactions were in the normal course of operations and were measured at fair value, which represented the amount of consideration established and agreed to by the related parties.

**Transactions with AP Capital REIT Services Ltd. (the "Manager")**

In connection with the services provided by the Manager under the Management Fee Agreements with AP Capital REIT Limited Partnership and AP Capital REIT (USA) Limited Partnership, the following amounts will be payable to the Manager:

- a.* An acquisition fee equal to 1.5% of the gross purchase price of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the purchase of each such property (or interest in a property).

For the period ended December 31, 2015, the costs of these services amounted to \$831,237. The REIT has capitalized this amount with the initial cost of the investment properties.

- b.* A disposition fee equal to 0.45% of the gross proceeds from the sale of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the sale of each property (or interest in a property) provided that the disposal fee payable on the sale of any proportionate interest in a property will be proportionate to such interest in the property.

For the period ended December 31, 2015, the costs of these services amounted to \$nil.

- c.* An asset management fee equal to 1.5% of the Annual Portfolio Value (as defined under the Management Fee Agreements), payable monthly on the last day of each month during the Term in an amount equal to 0.125% of the Annual Portfolio Value as at the beginning of each month, plus an amount equal to the amount of any portion of the asset management fee for a previous year or years of the Term of the agreement, the payment of which was waived by Manager, payable within 30 days of the presentation by Manager of an invoice therefor.

For the period ended December 31, 2015, the costs of these services amounted to \$287,156.

- d.* As at December 31, 2015, the amount owing to the Manager of \$942,986 was included in accounts payable and accrued liabilities.

**Transactions with Tandem Assets 1 LP**

Tandem Assets 1 LP is related to the REIT by virtue of having officers and directors in common with the REIT. Tandem Assets 1 LP advanced \$1,107,200 (USD \$800,000) to the REIT to fund the purchase of the Greenway property.

**Transactions with AP Capital Mortgage Investment Corporation**

AP Capital Mortgage Investment Corporation is related to the REIT by virtue of having directors and officers in common with the REIT. The REIT issued 30,328 units to AP Capital Mortgage Investment Corporation for total gross proceeds of \$30,328 (Note 7) which was included in trade and other receivables.

**Transactions with 1576697 Alberta Ltd.**

1576697 Alberta Ltd. is related to the REIT by virtue of having directors and officers in common with the REIT. On June 30, 2015, the REIT acquired the Morrison property, through the CDN LP, from 1576697 Alberta Ltd. (Note 4). The purchase price was paid by the CDN LP to 1576697 Alberta Ltd. by way of assumption of the then-existing Servus loan, payment of approximately \$3,815,000 in cash, and by issuance of 6,280,958 Class A units of the CDN LP. These units were immediately transferred to 1576697 Alberta Ltd.'s corporate shareholders, being 1453694 Alberta Ltd., 1589380 Alberta Ltd., 1345776 Alberta Ltd., 927385 Alberta Ltd., AP Capital Mortgage Investment Corporation and AP Capital REIT Services Ltd., and were then exchanged by those entities for an equal number of Class G units of the REIT (Note 7).

**15. RELATED PARTY TRANSACTIONS (continued)**

**Transactions with 1576697 Alberta Ltd. (continued)**

1576697 Alberta Ltd. also paid certain of Morrison's operating expenses and received certain rental revenues on behalf of the REIT totaling \$494,784 and \$335,050 respectively. As at December 31, 2015, \$159,734 was included in accounts payable and accrued liabilities.

**16. SEGMENTED DISCLOSURE**

The REIT's segments include two classifications of investment properties – Commercial Mixed Use and Retail, which are located in two geographical segments, Canada and USA, respectively. The accounting policies followed by each segment are the same as those disclosed in Note 3. Operating performance is evaluated by the REIT's management primarily based on net operating income, which is defined as property revenue less property operating expenses and certain advertising and promotion, bank charges and office expenses.

Period ended December 31, 2015	Commercial mixed use - Canada (6 months)	Retail - USA (2 months)	Total
Property revenue	\$ 1,177,368	\$ 482,971	\$ 1,660,339
Property operating expenses	733,354	619,252	1,352,606
Net operating income (loss)	\$ 444,014	\$ (136,281)	\$ <b>307,733</b>

As at December 31, 2015	Commercial mixed use - Canada (6 months)	Retail - USA (2 months)	Total
Cash and cash equivalents, trade and other receivables and prepaid expenses	\$ 639,616	\$ 680,163	\$ 1,319,779
Investment properties	25,414,078	32,886,277	58,300,355
<b>Segmented assets</b>	<b>\$ 26,053,694</b>	<b>\$ 33,566,440</b>	<b>\$ 59,620,134</b>

Accounts payable and accrued liabilities, loan payable and tenant deposits	\$ 812,612	\$ 2,173,181	\$ 2,985,783
Long-term debt	16,413,888	23,364,843	39,778,731
<b>Segmented liabilities</b>	<b>\$ 17,226,490</b>	<b>\$ 25,538,024</b>	<b>\$ 42,764,514</b>

**17. SUBSEQUENT EVENTS**

*a. Management fees*

Subsequent to the year-end, the REIT negotiated lower acquisition and management fees payable to the Manager from 1.5% and 1.5% (Note 15) to 0.75% and 1.0%, respectively, effective on April 1, 2016.

*b. Fort McMurray wildfire*

In early May 2016, the city of Fort McMurray suffered the largest wildfire the province of Alberta has experienced in recent history. The fire is estimated to have consumed in excess of 500,000 hectares. The entire town of Fort McMurray, in excess of 80,000 people, had been evacuated. Beginning on June 1, 2016, the Alberta government permitted the residents to return to Fort McMurray in phases.

As of the date of the Audit Report, all tenants of the Morrison property have been evacuated. The Morrison property is still standing, but management has not been able to determine if or the extent to which it has suffered any smoke or water damage. However, most reports indicate that the downtown core of Fort McMurray has not suffered significant damage.

Management is currently actively reviewing and obtaining advice on its insurance coverage and will liaise with its tenants to determine the extent of their respective coverages. At this time, without knowing more about the state of the downtown core of Fort McMurray, the status of the Morrison property and the tenant businesses, management cannot determine whether rent abatement, relief or flexible payment options for tenants will be required.

As of the date of the Audit Report, management cannot accurately determine the extent to which the Fort McMurray wildfire will impact its business. As the Morrison property in Fort McMurray is currently the only Canadian property in the REIT's portfolio, there may be a material adverse effect on the REIT's business, financial condition, and results of operations. Due to uncertainties, management is unable to determine whether a change in fair value of the Morrison property has occurred, and a fair value adjustment to investment properties (Note 4) has not been recorded in these consolidated financial statements.

**AP CAPITAL REIT**  
**Consolidated Financial Statements**

**Year Ended December 31, 2016**  
**Expressed in Canadian Dollars**

## **Independent Auditors' Report**

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### **To the Unitholders of AP Capital REIT:**

We have audited the accompanying consolidated financial statements of AP Capital REIT, which comprise the consolidated statement of financial position as at December 31, 2016, and the consolidated statements of income and other comprehensive income, changes in unitholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's responsibility for the consolidated financial statements**

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

### **Auditors' responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of AP Capital REIT as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Vancouver, British Columbia

May 30, 2017

*MNP LLP*

Chartered Professional Accountants

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**AP Capital REIT**  
**Consolidated Statement of Financial Position**  
Expressed in Canadian Dollars  
As at December 31, 2016

	2016	2015
<b>Assets</b>		
<b>Non-current assets</b>		
Investment properties (Note 4)	73,084,614	58,300,355
Restricted funds held in trust (Note 5)	778,358	-
	<b>73,862,972</b>	<b>58,300,355</b>
<b>Current assets</b>		
Cash and cash equivalents	873,504	1,197,697
Trade and other receivables (Note 15)	742,468	48,924
Prepaid expenses	361,944	270,141
	<b>1,977,916</b>	<b>1,516,762</b>
<b>Total assets</b>	<b>75,840,888</b>	<b>59,817,117</b>
<b>Liabilities</b>		
<b>Non-current liabilities</b>		
Long-term debt (Note 5)	32,707,468	23,561,826
Tenant deposits	552,593	337,716
	<b>33,260,061</b>	<b>23,899,542</b>
<b>Current liabilities</b>		
Current portion of long-term debt (Note 5)	16,102,287	16,413,888
Loans payable (Note 6)	767,901	1,107,200
Distributions payable (Note 10)	783,782	-
Trade payable and accrued liabilities	305,581	1,540,867
	<b>17,959,551</b>	<b>19,061,955</b>
<b>Total liabilities</b>	<b>51,219,612</b>	<b>42,961,497</b>
<b>Equity</b>		
Unitholders' equity (Note 7)	23,503,257	16,855,580
Non-controlling interests (Note 8)	1,118,019	40
<b>Total equity</b>	<b>24,621,276</b>	<b>16,855,620</b>
<b>Total liabilities and equity</b>	<b>75,840,888</b>	<b>59,817,117</b>

Approved on behalf of the Board

Director

Director

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

**AP Capital REIT**  
**Consolidated Statement of Income and Other Comprehensive Income**  
Expressed in Canadian Dollars  
For the year ended December 31, 2016

	year ended December 31, 2016	6 months ended December 31, 2015
<b>Revenue</b>		
Rental income	4,143,354	1,226,046
Cost recoveries	1,804,902	434,293
	<b>5,948,256</b>	<b>1,660,339</b>
<b>Operating expenses</b>		
Repairs and maintenance	652,614	173,903
Property taxes	521,464	122,372
Property management (Note 15)	92,878	287,156
Utilities	284,801	77,977
Recoverable general and administrative costs	147,506	35,030
Janitorial	82,018	18,471
	<b>1,781,281</b>	<b>714,909</b>
Net operating income	<b>4,166,975</b>	<b>945,430</b>
<b>Other expenses (revenue)</b>		
Fund management fees	-	72,975
Professional and consulting fees	255,911	95,564
General and administrative	217,850	102,608
Distribution and filing fees	50,317	8,179
Fair value adjustments to investment properties (Note 4)	(848,286)	-
	<b>(324,208)</b>	<b>279,326</b>
<b>Net income before finance expenses</b>	<b>4,491,183</b>	<b>666,104</b>
Interest on long-term debt (Note 12)	2,316,108	556,490
<b>Net income for the year</b>	<b>2,175,075</b>	<b>109,614</b>
<b>Other comprehensive income (loss)</b>		
Foreign currency translation gain (loss)	(260,590)	493,307
<b>Comprehensive income for the year</b>	<b>1,914,485</b>	<b>602,921</b>
<b>Net earnings attributable to:</b>		
Unitholders of the REIT	2,073,717	109,614
Non-controlling interests	101,358	-
<b>Net income</b>	<b>2,175,075</b>	<b>109,614</b>
<b>Other comprehensive income (loss) attributable to:</b>		
Unitholders of the REIT	(203,041)	493,307
Non-controlling interests	(57,549)	-
<b>Comprehensive income (loss)</b>	<b>(260,590)</b>	<b>493,307</b>
<b>Net earnings per unit</b>	<b>115.24</b>	<b>8.94</b>
<b>Weighted average number of units</b>	<b>17,995.4749</b>	<b>12,260.8320</b>

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



**AP Capital REIT**  
**Consolidated Statement of Cash Flows**  
Expressed in Canadian Dollars  
For the year ended December 31, 2016

	Year ended December 31, 2016	6 months ended December 31, 2015
<b>Cash flows from operating activities</b>		
<b>Operating net income for the year</b>	<b>2,175,075</b>	109,614
<b>Items not affecting cash</b>		
Amortization of mortgage transaction costs	227,034	49,343
Changes in fair value adjustments to investment properties	(848,286)	-
	<b>1,553,823</b>	158,957
<b>Changes in non-cash working capital Items:</b>		
(Increase) decrease in trade and other receivables	(693,544)	(48,924)
(Increase) decrease in prepaid expenses	(91,803)	(270,141)
Increase (decrease) in trade payable and accrued liabilities	(860,285)	1,540,867
Increase (decrease) in tenant deposits	214,877	337,716
<b>Net cash provided by operating activities</b>	<b>123,068</b>	1,718,475
<b>Cash flows from financing activities</b>		
Proceeds from issuance of units, net of issue costs	6,074,873	10,051,578
Distributions to unitholders, net of reinvested distributions	(285,614)	(79,877)
Units redeemed for cash	(228,476)	-
General Partners' contributions	10	30
Settlor's contribution	-	10
Proceeds from long-term debt	10,003,115	39,706,415
Repayments of long-term debt	(437,773)	(212,678)
Payments of mortgage transaction costs	(257,600)	(745,116)
Proceeds from loans payable	767,901	1,107,200
	<b>15,636,436</b>	49,827,562
<b>Cash flow from investing activities</b>		
Investment in Morrison property	-	(19,133,120)
Investment in Greenway property	-	(30,952,210)
Investment in Cobblestone property	(15,232,396)	-
Capital additions	(59,938)	(334,900)
Restricted funds held in trust	(778,358)	-
	<b>(16,070,692)</b>	(50,420,230)
<b>Net effect of translation of foreign currency</b>	<b>(13,005)</b>	71,890
<b>Net change in cash and cash equivalents</b>	<b>(324,193)</b>	1,197,697
<b>Cash and cash equivalents, beginning of year</b>	<b>1,197,697</b>	-
<b>Cash and cash equivalents, end of year</b>	<b>873,504</b>	1,197,697

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

**1. NATURE OF OPERATIONS**

AP Capital REIT (the "REIT") is a limited purpose, unincorporated open-ended investment trust, governed by the terms and conditions of a Declaration of Trust dated June 26, 2015 and by the general laws of trusts and the laws of British Columbia. The principal office of the REIT is located in Vancouver, BC.

The REIT commenced operations on June 26, 2015. The principal activities of the REIT are the ownership and management of a diversified portfolio of retail and commercial mixed use properties.

**2. BASIS OF PRESENTATION AND STATEMENT OF COMPLIANCE**

*a. Statement of compliance*

These consolidated financial statements have been prepared under International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") incorporating interpretations issued by the IFRS Interpretations Committee ("IFRICs") and effective for the year ended December 31, 2016.

These consolidated financial statements for the year ended December 31, 2016 were authorized for issue by the Board of Directors of the Trustee (the "Board") on May 30, 2017.

*b. Basis of measurement*

These consolidated financial statements have been prepared on a historical cost basis, except for investment properties which have been measured at fair value.

The preparation of these consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the REIT's accounting policies. Areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3(N).

*c. Functional and presentation currency*

These consolidated financial statements are presented in Canadian dollars, which is the REIT's functional currency.

Assets and liabilities related to properties held in a foreign entity with a functional currency other than the Canadian dollar are translated at the rate of exchange at the consolidated balance sheet dates. Revenues and expenses are translated at average rates for the period unless exchange rates fluctuate significantly during the period in which case the exchange rates at the dates of the transactions are used. The resulting unrealized foreign currency translation adjustments are recognized in other comprehensive income.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

#### **A. Basis of consolidation**

The consolidated financial statements comprise the financial statements of the REIT and its subsidiaries, over which the REIT has control. Control exists when the REIT has the power to govern the financial and operating policies of an entity so as to obtain benefit from its activities. The non-controlling interests are included in the REIT's equity. The financial statements of subsidiaries are consolidated from the date that control commences and continue to be consolidated until the date that control ceases.

The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances. Where necessary, adjustments are made to the financial statements of subsidiaries to ensure consistency with those used by other members of the group.

Intra-group transactions and balances are eliminated in preparing the consolidated financial statements. The consolidated financial statements reflect the financial position, results of operations and cash flows of the REIT and its 99.99% owned subsidiaries; AP Capital REIT Limited Partnership, AP Capital REIT (CDN/US) Limited Partnership, and AP Capital REIT Cobblestone Limited Partnership and its 88.06% owned subsidiary, AP Capital REIT (USA) Limited Partnership (collectively, the "Limited Partnerships").

The REIT has entered into four agreements with these parties in the form of limited partnerships. After adopting IFRS 10, *Consolidated Financial Statements*, and IFRS 11, *Joint Arrangements*, the REIT determined that it has control over the Limited Partnerships. The REIT consolidates these entities and recognizes the non-controlling interests (Note 8) on its consolidated financial statements.

#### **B. Property acquisitions and business combinations**

Where property is acquired, management considers the substance of the agreement in determining whether the acquisition represents an asset acquisition or a business combination. The basis of the judgment is set out in Note 3(N).

Where such acquisitions are not determined to be a business combination, they are treated as an asset acquisition. The cost to acquire the property is allocated between the identifiable assets acquired and liabilities assumed based on their relative fair values at the acquisition date. Otherwise, acquisitions are accounted for as a business combination.

All acquisitions to date have been determined to be asset acquisition.

#### **C. Investment properties**

Investment properties comprise of properties held to earn rental revenue or for capital appreciation or both. Investment properties are measured initially at cost including acquisition costs. Acquisition costs include transfer taxes, professional fees for legal services, acquisition fees and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating.

Subsequent to initial recognition, investment properties are measured at fair value. The REIT defines fair value to be the value a third party is willing to pay, in an arm's length transaction, for an investment property. Therefore, the fair value of recently acquired investment property would be the purchase price. Any subsequent valuations performed on an investment property, after acquisition date, would be the new basis for the fair value recorded on the investment property. Gains or losses arising from changes in fair values are included in the statement of net income and other comprehensive income in the year which they arise.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***C. Investment properties (continued)***

Investment property is derecognized when it has been disposed of or permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of investment property are recognized in the statement of net income and other comprehensive income in the year of retirement or disposal.

Gains or losses on the disposal of investment property are determined as the difference between net disposal proceeds and the carrying value of the asset on the date the transaction occurred.

***D. Leases***

AP Capital REIT Limited Partnership (“CDN LP”), through its nominee, 1904934 Alberta Ltd., a bare trust corporation (Note 4), AP Capital REIT (USA) Limited Partnership (“US LP”) and AP Capital REIT Cobblestone Limited Partnership (“Cobblestone LP”) are the lessors in all leasing arrangements. Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and benefits of ownership from the Limited Partnerships to the lessees are accounted for as finance leases. All current leases of the Limited Partnerships are operating leases.

***E. Cash and cash equivalents***

Cash consists of cash on hand and cash held at banks. Cash equivalents include short-term investments with original maturities of three months or less from the acquisition date.

***F. Allocation of net income or net loss***

Net income or loss of the Limited Partnerships from the ordinary course of operations of the properties will be allocated as follows:

- Firstly, 0.01% to each of the General Partners to a maximum of \$100 per annum;
- 11.94% of the non-controlling interest’s income or loss attributed to Tandem Assets 1 Limited Partnership (“Tandem”) which is allocated based on the income or loss associated with the US LP; and
- The balance, to the holders of Class A and Class B units at a net income or loss allocation formula as outlined in the Limited Partnership Agreements.

***G. Equity issuances and redemption***

Issuances of units are recorded as increases in equity equal to the gross proceeds received while redemption of units are recorded as decreases in equity equal to its original subscription price. Incremental costs directly attributable to the issuance of new units are recorded as reductions in equity as issue costs.

***H. Revenue recognition***

Rental revenue is recognized in income on a straight-line basis over the lease term subject to ultimate collection being reasonably assured. Revenue includes recoveries of specified operating expenses, in accordance with the terms of the lease agreements. Recoveries are recognized in the period in which the related operating expense was incurred and collectability is reasonably assured. Parking and other incidental income are recognized in the period when the services were performed.

***I. Net earnings per unit***

Basic net earnings per unit has been calculated based on the weighted average number of units outstanding.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***J. Financial instruments***

Non-derivative financial assets and non-derivative financial liabilities are initially recognized at fair value, and their subsequent measurement is dependent on their classification as described below. The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the REIT's designation of such instruments.

The REIT classifies its financial instruments as follows:

Cash and cash equivalents	Loans and receivables
Trade and other receivables	Loans and receivables
Restricted funds held in trust	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Loans payable	Other financial liabilities
Long-term debt	Other financial liabilities

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are accounted for at amortized cost, using the effective interest rate method, less any impairment losses.

Non-derivative financial liabilities include trade payable and accrued liabilities, loans payable and long-term debt. These liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are accounted for at amortized cost, using the effective interest rate method.

***K. Impairment of financial assets***

At each reporting date, the REIT assesses whether there is objective evidence that a financial asset is impaired. If a financial asset carried at amortized cost is impaired, the amount of the loss is measured as the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The loss is recognized in impairment expense.

***L. Income taxes***

The REIT is taxed as a "mutual fund trust" under the Income Tax Act (Canada). Pursuant to the Declaration of Trust and subject to the specific investment flow through ("SIFT") rules, the Board intends to distribute or designate all taxable income to the unitholders of the REIT and to deduct such distributions and designations for Canadian Income Tax purposes. Accordingly, the REIT is not taxable on its income provided all of its taxable income is distributed to the unitholders.

The REIT is subject to taxation in the United States and Arizona on the taxable income earned by the US LP and Cobblestone LP. A deferred income tax liability arises from the temporary differences between the carrying value and the tax basis of the net assets of the US Limited Partnerships. As at December 31, 2016, the temporary difference is insignificant; therefore a deferred income tax liability was not recorded.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

***M. Fair value***

The REIT measures investment properties at fair value at the end of each reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date under current market conditions. In certain circumstances, the initial fair value may be based on other observable current market transactions, without modification or on a valuation technique using market based inputs.

Fair value measurements recognized in the consolidated statement of financial position are categorized in accordance with the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Quoted prices in active markets for similar assets or liabilities or valuation techniques where significant inputs are based on observable market data.
- Level 3: Valuation techniques for which any significant input is not based on observable market data.

Each type of fair value is categorized based on the lowest level input that is significant to the fair value measurement in its entirety.

***N. Significant accounting judgments and estimates***

Judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities are reviewed on an ongoing basis. Actual results may differ from these estimates.

***a. Judgments***

In the process of applying the REIT's accounting policies, management has made the following critical judgments, which have the most significant effects on the amounts recognized in the consolidated financial statements:

*(i) Asset acquisitions*

The REIT acquires individual investment properties. At the time of acquisition, the REIT considers whether or not the acquisition represents the acquisition of a business. The REIT accounts for an acquisition as a business combination where an integrated set of activities is acquired in addition to the property. More specifically, consideration is made to the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the property (e.g., maintenance, cleaning, security, bookkeeping, etc.).

When the acquisition of a property does not represent a business, it is accounted for as an acquisition of a group of assets and liabilities. The cost of the acquisition is allocated to the assets and liabilities acquired based upon their relative fair values, and no goodwill or deferred tax is recognized. All acquisitions to date have been determined to be asset acquisitions.

*(ii) Lease contracts*

The REIT has entered into property leases on its investment property portfolio. The REIT makes judgments in determining whether certain leases, in particular those leases with long contractual terms, are operating or finance leases. The REIT must assess each lease separately against land and building. The REIT has determined that all of its leases of land and buildings are operating leases.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*N. Significant accounting judgments and estimates (continued)*

*b. Estimates*

The significant areas of estimation include the following:

*Valuation of investment properties*

The fair value of the investment properties is determined by management, using recognized valuation techniques supported, in certain instances, by independent real estate valuation experts.

The determination of the fair value of investment property requires the use of estimates such as future cash flows from assets (based on factors such as tenant profiles, future revenue streams and overall repair and condition of the property), capitalization rates and discount rates applicable to those assets. These estimates are based on market conditions existing at the reporting date.

The following approaches, either individually or in combination, are used by management, together with the appraisals, in their determination of the fair value of the investment properties:

The Income Approach derives market value by estimating the future cash flows that will be generated by the property and then applying an appropriate capitalization rate or discount rate to those cash flows. This approach can utilize the direct capitalization method and/or the discounted cash flow analysis.

The Direct Comparison Approach involves comparing or contrasting the recent sale, listing or optioned prices of properties comparable to the subject and adjusting for any significant differences between them.

Management reviews each appraisal obtained and ensures the assumptions used by the appraisers are reasonable and the final fair value amount reflects those assumptions used in the various approaches above. Where an appraisal is not obtained at the reporting date, management reviews the approaches described above, for each investment property, and estimates the fair value.

The significant assumptions used by management in estimating the fair value of investment property are set out in Note 4.

*O. Provisions*

Provisions are recognized by the REIT when: i) the REIT has a present legal or constructive obligation as a result of past events; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) the amount can be reasonably estimated. If the time value of money is material, provisions are discounted using a current rate that reflects the risk profile of the liability, and the increase to the provision due to the passage of time will be recognized as interest expenses.

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*P. New accounting pronouncement adopted during the year*

Pronouncements that are not applicable to the REIT have not been included in these consolidated financial statements.

*IAS 1 Presentation of financial statements*

During December 2014, the IASB issued an amendment to IAS 1 clarifying certain IAS 1 requirements. The amendments include the following: the materiality requirement in IAS 1; that specific line items in the consolidated statement of income and other comprehensive income and the consolidated statement of financial position may be disaggregated; that entities have flexibility as to the order in which they present the notes to the financial statements; that the share of other comprehensive income of associates and joint ventures accounted for using the equity method be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to earnings. The amendments also clarify the requirements that apply when additional subtotals are presented in the balance sheet and the statement of income and other comprehensive income. These amendments are effective for annual periods beginning on or after January 1, 2016. The Company adopted the amendments on January 1, 2016 and there was no material impact on the Company's consolidated financial statements.

*Q. Future accounting policy changes*

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2016 reporting period. Those which may be relevant to the REIT are set out below. Management has decided against early adoption of these standards.

*a. IFRS 9 Financial instruments: classification and measurement*

The final version of IFRS 9 (2014) was issued in July 2014 as a complete standard including the requirements for classification and measurement of financial instruments, the new expected loss impairment model and the new hedge accounting model. IFRS 9 (2014) will replace IAS 39 Financial instruments: recognition and measurement. IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018. The REIT has not yet reviewed the impact of the standard on its consolidated financial statements.

*b. IFRS 15 Revenue from contracts with customers*

IFRS 15, issued in May 2014, will specify how and when entities recognize, measure, and disclose revenue. The standard will supersede all current standards dealing with revenue recognition, including IAS 11 Construction contracts, IAS 18 Revenue, IFRIC 13 Customer loyalty programmes, IFRIC 15 Agreements for the construction of real estate, IFRIC 18 Transfers of assets from customers, and SIC 31 Revenue – barter transactions involving advertising services. The REIT has not yet reviewed the impact of IFRS 15 on its consolidated financial statements, which is effective for reporting periods beginning on or after January 1, 2018.

*c. IFRS 16 Leases*

In January 2016, the IASB issued IFRS 16, *Leases*. The new standard brings most leases on balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. This standard would be effective for annual periods beginning on or after January 1, 2019. The REIT has not yet reviewed the impact on its consolidated financial statements.

**4. INVESTMENT PROPERTIES**

On June 30, 2015, the REIT, through the CDN LP, acquired Morrison Centre (“Morrison”), a commercial mixed use property in Fort McMurray, Alberta for \$25,000,000 plus standard closing costs and adjustments. Morrison was acquired from 1576697 Alberta Ltd., a related party (Note 15). The legal title to the Morrison property and the related loan with Servus Credit Union Loan (Note 5) are registered under a bare trust corporation, 1904934 Alberta Ltd., on behalf of the REIT, covered by a Beneficial Ownership Agreement.

On October 29, 2015, the REIT, through the US LP, acquired Greenway Park Plaza (“Greenway”) in Phoenix, Arizona for USD \$23,100,000 plus standard closing costs and adjustments.

On November 30, 2016, the REIT, through the Cobblestone LP, acquired Cobblestone Village (“Cobblestone”) in Phoenix, Arizona for USD \$11,200,000 plus standard closing costs and adjustments.

The balance of the investment properties is determined as follows:

	<b>2016</b>	2015
Balance, beginning of year	<b>58,300,355</b>	-
Acquisitions	<b>15,232,396</b>	56,366,288
Capital additions	<b>59,938</b>	334,900
Change in unrealized foreign exchange gain (loss) since initial purchase	<b>(981,361)</b>	1,599,167
Waived acquisition fee on Morrison (Note 15)	<b>(375,000)</b>	-
Changes in fair value adjustments to investment properties	<b>848,286</b>	-
<b>Balance, end of year</b>	<b>73,084,614</b>	58,300,355

As set out in Note 3(C), the fair value of recently acquired investment property would be the purchase price plus capital additions and unrealized foreign exchange gain since acquisition.

In subsequent years, the fair value of the investment properties will be determined on a market value basis. In arriving at their estimates of market values, management and the independent appraisers will use their market knowledge and professional judgment and will not rely solely on historical transactional comparisons.

The appraisals will be performed by accredited independent appraisers with recognized and relevant professional qualifications and with recent experience in the location and category of the investment property being valued. Management will review each appraisal and ensure that the assumptions used are reasonable and the final fair value amount will reflect those assumptions, which are used in the determination of the fair market values of the properties.

**5. LONG-TERM DEBT**

Long-term debt is recorded at amortized cost and is secured by first charges on the REIT’s investment properties, with a carrying and fair value of \$71,618,522 and \$73,084,614 (2015 - \$56,701,188 and \$58,300,355), respectively. Included in long-term debt are unamortized mortgage transaction costs, which are amortized over the term of each mortgage using the effective interest rate method.

**AP Capital REIT**  
**Notes to Consolidated Financial Statements**  
**Expressed in Canadian Dollars**  
**For the year ended December 31, 2016**

**5. LONG-TERM DEBT (continued)**

	<b>2016</b>	2015 (Restated – Note 17)
Servus Credit Union Demand Term Loan (“Servus”), bearing interest at prime rate plus 0.75% per annum, payable in monthly blended installment payments of \$96,460, with term expiring on May 1, 2017, secured by the Morrison property	<b>16,013,715</b>	16,451,487
Less: unamortized mortgage transaction costs	<b>(35,703)</b>	(37,599)
	<b>15,978,012</b>	16,413,888
Midcap Financial Trust Term Loan (“Midcap”), bearing interest at 5.97% per annum interest only payments, due October 29, 2018, secured by the Greenway property, payable in USD \$17,500,000	<b>23,497,250</b>	24,220,000
Less: unamortized mortgage transaction costs (Note 17)	<b>(413,167)</b>	(658,174)
	<b>23,084,083</b>	23,561,826
Wells Fargo Bank Loan (“Wells Fargo”), bearing interest at 5.306% per annum, payable in monthly blended installment payments of \$55,585 (USD \$41,398), with term expiring on November 30, 2026, secured by the Cobblestone property, payable in USD \$7,450,000	<b>10,003,115</b>	-
Less: unamortized mortgage transaction costs	<b>(255,455)</b>	-
	<b>9,747,660</b>	-
	<b>48,809,755</b>	39,975,714

The Servus loan is also secured by a joint and several guarantee of \$2,000,000 by certain directors of the REIT. As the Servus loan is on demand, it has been included in the current portion of long-term debt.

The Wells Fargo loan is also guaranteed by certain directors of the REIT.

Under the terms of the loan agreements, the REIT is required to comply with certain loan covenants. As at December 31, 2016, all covenants were met.

In conjunction with the purchase of the Cobblestone property, and in accordance with the loan agreement with Wells Fargo, the REIT was required to set aside \$778,358 for future capital expenditures and tenant improvements. These funds have been classified as restricted funds held in trust.

Principal repayments, as of December 31, 2016, based on scheduled repayments to be made on the long-term debt are as follows:

2017	16,102,287
2018	23,206,098
2019	130,050
2020	138,521
2021	147,453
Thereafter	<u>9,085,346</u>
	<u>48,809,755</u>

**6. LOANS PAYABLE**

Loans payable consist of the following:

	<b>2016</b>	2015
Tandem Assets 1 Limited Partnership (“Tandem”), without interest, unsecured, due on demand and converted to 11.94% of equity interest in the US LP (Note 8)	-	1,107,200
Dominion Properties LLP, loan payable in USD \$341,162, bearing interest at 10% per annum, interest only payments, unsecured and due on demand	<b>458,078</b>	-
DDH Consulting, loan payable in USD \$230,746, bearing interest at 10% per annum, interest only payments, unsecured and due on demand	<b>309,823</b>	-
	<b>767,901</b>	1,107,200

**7. UNITHOLDERS’ EQUITY**

Under the Declaration of Trust, the REIT is authorized to issue unlimited number of redeemable REIT units. All of the REIT units are voting and without par value. The Trustee will have the power and authority, from time to time, for and on behalf of the REIT, to create one or more classes or series of units on such terms and conditions as may be determined by the Trustee. All of the units in any class or series will have the same rights, benefits and other attributes and will rank equally with every other unit in such class or series.

The REIT has currently created nine classes of units being Class A, Class B, Class C1, Class C2, Class D1, Class D2, Class E, Class F, and Class G Units. All units of each class, other than Class B units, are entitled to participate equally with respect to any and all distributions made by the REIT to the unitholders, including distributions of net income and net realized capital gains, if any.

**a. Class A units**

No Class A units were issued during the year ended December 31, 2016.

During the period ended December 31, 2015, the REIT issued 6 Class A units for gross proceeds of \$6,000: one unit each to 1019374 B.C. Ltd., 1018999 B.C. Ltd., 1019001 B.C. Ltd., 1901174 Alberta Ltd., 0824016 B.C. Ltd. and 5641461 Alberta Ltd., which are companies related to the principals of the Trustee. The price per Class A unit is \$1,000.

**b. Class B units**

The REIT issued 539.2506 Class B units (2015 – 152.5678) as part of the dividend reinvestment plan (“DRIP”) (Note 10).

During the period ended December 31, 2015, the REIT issued 10,000 Class B units for gross proceeds of \$10,000,000. The price per Class B unit is \$1,000.

**c. Class C1 units**

The REIT issued 8.2708 Class C1 units (2015 – nil) as part of the DRIP (Note 10).

The REIT issued 733.0000 Class C1 units (2015 – nil) for gross proceeds of \$733,000 (2015 - \$nil). The REIT cancelled 233.4032 Class C1 units (2015 – nil) and reissued them as Class F units. The price per Class C1 unit is \$1,000.

**7. UNITHOLDERS' EQUITY (continued)**

*d. Class C2 units*

The REIT issued 27.4204 Class C2 units (2015 – 1.1733) as part of the DRIP (Note 10).

The REIT issued 2,600.0000 Class C2 units (2015 – 100) for gross proceeds of \$2,600,000 (2015 - \$100,000). The REIT cancelled 301.3771 Class C2 units (2015 – nil) and reissued them as Class F units. The price per Class C2 unit is \$1,000.

*e. Class F units*

The REIT issued 24.9345 Class F units (2015 – nil) as part of the DRIP (Note 10).

The REIT issued 838.3953 Class F units (201 – nil) to settle accounts payable (Note 15).

The REIT issued 1,952.8638 Class F units (2015 – nil) for gross proceeds of \$1,952,864 (2015 - \$nil). The REIT issued 1,272.0493 Class F units after cancelling certain Class C1, Class C2 and Class G units. The price per Class F unit is \$1,000.

*f. Class G units*

The REIT issued 363.9936 Class G units (2015 – 67.2701) as part of the DRIP (Note 10).

The REIT cancelled 737.2690 Class G units (2015 – nil) and reissued them as Class F units.

The unitholders redeemed 228.4764 Class G units (2015 – nil) for gross proceeds of \$228,476 (2015 - \$nil), including the 30.328 Class G units issued to AP Capital Mortgage Investment Corporation in 2015 (Note 15).

**Redemption rights**

Redemption of units by unitholders is restricted under the terms of the Declaration of Trust governing the REIT. The total amount payable by the REIT by cash payment in respect of the redemption of units in any fiscal year of the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding units. A maximum of 10% of the issued and outstanding REIT units are considered liability instruments under IFRS because these units are redeemable at the option of the holder, however they are presented as equity in accordance with IAS 32. The price per unit to be redeemed by cash payment will be equal to the amount of the unreturned capital contribution of each unit less (i) any costs incurred by the REIT in the sale of the unit(s), (ii) any costs incurred by the REIT with respect to the redemption as may be determined by the Trustee in its sole discretion, and (iii) the applicable redemption penalty amount, if any, as described below:

*a. Class B units*

There is no redemption penalty amount applicable to Class B units. The holders of Class B units may not redeem units until twelve months after the subscription date and will receive a redemption bonus equal to \$60 per unit, pro-rated based on the number of days during which the units were outstanding. A bonus distributions payable of \$783,782 was recorded as at year-end, calculated based on the hold period to December 31, 2016. The REIT will have the option to extend the date for redemption by one term of six months, during which the fixed annual return will continue to be payable.

*b. Class C1, D1 and E1 units*

A redemption penalty amount of 3% to 7% of the subscription price paid is applicable depending on the hold period of the units from the subscription date: 7% within twelve months, decreasing by 1% for each subsequent additional term of twelve months. There will be no redemption penalty amount if the units have been held for more than sixty months.

**7. UNITHOLDERS' EQUITY (continued)**

**Redemption rights (continued)**

*c. Class C2 and E2 units*

A redemption penalty amount of 1% to 2% of the subscription price paid is applicable depending on the hold period of the units from the subscription date: 2% within twelve months and 1% between thirteen to twenty-four months. There will be no redemption penalty amount if the units have been held for more than twenty-four months.

*d. Class F units*

There is no redemption penalty amount applicable to Class F units. The holder of Class F units may deliver redemption notices to the Trustee at any time.

*e. Class G units*

A redemption penalty amount of \$350 per unit is applicable where the request for redemption occurs within twelve months from the subscription date. There will be no redemption penalty amount if the units have been held for more than twelve months. There were no penalties charged on the 228,4764 units redeemed in 2016.

Given that the REIT was newly established in 2015, the redemption level is expected to be low. However, the actual level of redemption may differ.

**8. NON-CONTROLLING INTERESTS**

The non-controlling interests include the initial capital contribution of \$10 made to the REIT by the settlor of the REIT in order to settle and establish the REIT under the Declaration of Trust.

The non-controlling interests also include the \$10 cash contributions made by each of the four General Partners of the Limited Partnerships, for a total of \$40.

**AP Capital REIT**  
**Notes to Consolidated Financial Statements**  
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**8. NON-CONTROLLING INTERESTS (continued)**

During the year ended December 31, 2016, the loan payable to Tandem of \$1,074,160 (USD \$800,000) (Note 6) was converted to equity of the US LP. The conversion has given rise to a non-controlling interest whereby Tandem has claim to 11.94% of the assets, liabilities and operations of the US LP. Tandem's proportionate share of the assets, liabilities, revenues and expenses is as follows:

	As at December 31, 2016
Current assets	103,332
Non-current assets	3,854,497
<b>Total assets</b>	<b>3,957,829</b>
	As at December 31, 2016
Current liabilities	78,480
Non-current liabilities	2,756,240
<b>Total liabilities</b>	<b>2,834,720</b>
	For the Year Ended December 31, 2016
Revenues	407,193
Expenses	305,835
Net income before other comparative loss	101,358
Other comprehensive loss	(57,549)

**9. DISTRIBUTIONS**

The REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15<sup>th</sup> day of the following month. The REIT determines the distribution rate by, among other considerations, its assessment of cash flows as determined using adjusted cash flows from operating activities of its Limited Partnerships. The distribution rate is determined by the Board, at their sole discretion, based on what they consider appropriate given the circumstances of the REIT. Distributions may be adjusted for amounts paid in prior periods if the actual adjusted cash flows from operating activities for those prior periods are greater or less than the estimates used for those prior periods. In addition, the Board may declare distributions out of the income, net realized capital gains, net recapture income and capital of the REIT to the extent such amounts have not already been paid, allocated or distributed.

**10. DISTRIBUTION REINVESTMENT PLAN**

The Distribution Reinvestment Plan (“DRIP”) allows holders of REIT units to elect to have all cash distributions from the REIT reinvested in additional units of the same classes of units held. No commission, service charges or brokerage fees are payable by participants in connection with the DRIP. Cash undistributed by the REIT upon the issuance of additional units under the DRIP will be invested in the REIT to be used for future property acquisitions, capital improvements and working capital.

For the year ended December 31, 2016, 539,2506 of Class B units (2015 - 152,5678), 8,2708 of Class C1 units (2015 – nil), 27,4204 of Class C2 units (2015 - 1.1733), 24,9345 of Class F units (2015 – nil) and 363,9936 of Class G units (2015 - 67,2701) were issued under the DRIP at \$1,000 per unit, for \$539,251 (2015 - \$152,568), \$8,271 (2015 – \$nil), \$27,420 (2015 - \$1,173), \$24,935 (2015 - \$nil) and \$363,994 (2015 - \$67,270), respectively, for a total of \$963,875 (2015 - \$221,011).

Subsequent to year end, the REIT declared a one-time bonus distributions payable, totalling \$930,087, to eligible Class B unitholders as per the terms outlined in the Declaration of Trust. \$783,782 was accrued as distributions payable as at December 31, 2016 based on the number of days held by the eligible Class B unitholders to December 31, 2016 (Note 7). The distributions payable of \$694,207 were reinvested in Class F units at a subscription price of \$1,000 per unit with the remainder payable in cash of \$89,575.

**11. OPERATING LEASES – REIT as a lessor**

The REIT has entered into leases with tenants on its investment property portfolio. The leases typically have initial lease terms ranging between five and twenty years with periodic upward revision of the rental charge according to the prevailing market conditions.

Future minimum lease payments under non-cancellable operating leases in the aggregate and for each of the following periods are as follows:

	2016	2015
Within one year	3,722,989	3,753,169
Two to five years	9,801,347	8,772,941
Over five years	3,306,991	2,608,468
	<b>16,831,327</b>	15,134,578

**12. SUPPLEMENTARY CASH FLOW INFORMATION**

*a. Interest on long-term debt*

	2016	2015
Interest expense, incurred	2,089,075	507,147
Amortization of mortgage transaction costs	227,033	49,343
<b>Interest expense</b>	<b>2,316,108</b>	556,490
Deduct:		
Amortization of mortgage transaction costs	(227,033)	(49,343)
Interest accrued for the current year	(46,922)	-
<b>Cash interest paid</b>	<b>2,042,153</b>	507,147

**12. SUPPLEMENTARY CASH FLOW INFORMATION (continued)**

*b. Non-cash transactions*

- a) The REIT issued 963.8698 units (2015 – 79.877 units) at a value of \$1,000 per unit for a total of \$963,870 (2015 - \$79,877) as distribution reinvestment.
- b) The Tandem loan of \$1,074,160 (USD \$800,000) was converted to an 11.94% equity interest in the US LP.
- c) AP Capital REIT Services Ltd. waived the 2015 acquisition fee payable of \$375,000 on the Morrison property in 2016.

**13. CAPITAL MANAGEMENT**

The REIT defines capital as the aggregate of unitholders' equity, loans payable and long-term debt. The REIT's objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the offering memorandum, complies with existing debt covenants, funds its business strategies and builds long-term unitholders' value. The REIT's capital structure is approved by the Board through its periodic reviews.

**14. FINANCIAL INSTRUMENTS**

**Fair value of financial instruments**

For certain REIT financial instruments, including cash and cash equivalents, trade and other receivables, trade payable and accrued liabilities and loan payable, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

The fair values of long-term debt are determined by discounting the future contractual cash flow under current financing arrangements at discount rates that represent borrowing rates presently available to the REIT for loans with similar terms and maturity and measured under level 2 fair value hierarchy since the discount rates are either provided by the lenders or are observable on the open market.

The following table presents the carrying amounts and fair values of the REIT's financial instruments:

	<b>December 31, 2016</b>		December 31, 2015	
	<b>Carrying Amount</b>	<b>Fair Value</b>	Carrying Amount	Fair Value
Cash and cash equivalents	<b>873,504</b>	<b>873,504</b>	1,197,697	1,197,697
Restricted funds held in trust	<b>778,358</b>	<b>778,358</b>	-	-
Trade and other receivables	<b>742,468</b>	<b>742,468</b>	48,924	48,924
Trade payable and accrued liabilities	<b>305,582</b>	<b>305,582</b>	1,540,867	1,540,867
Loans payable	<b>767,901</b>	<b>767,901</b>	1,107,200	1,107,200
Long-term debt	<b>48,809,755</b>	<b>48,809,755</b>	39,975,714	39,974,714

#### **14. FINANCIAL INSTRUMENTS (continued)**

##### **Financial risk management**

The Board of the REIT has the overall responsibility for the establishment and oversight of the REIT's risk management framework. The REIT's risk management policies are established to identify and analyze the risks faced by the REIT, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in response to the REIT's activities.

In the normal course of business, the REIT is exposed to several risks from its use of financial instruments. These risks, and the actions taken to manage them, are as follows:

##### ***a. Credit risk***

Credit risk is the risk of financial loss to the REIT if a tenant or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the REIT's receivables from tenants.

The REIT's exposure to credit risk is influenced mainly by the individual characteristics of each tenant. The REIT minimizes the risk by checking tenants' credit histories, requesting security deposits and initiating a prompt collection process.

Accounts receivable are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write-offs. The REIT performs frequent reviews of its receivables and has determined there is no significant provision for doubtful accounts as at December 31, 2016.

The REIT places its cash and cash equivalents with Canadian financial institutions with high credit ratings. Credit ratings are actively monitored and these financial institutions are expected to meet their obligations.

##### ***b. Interest rate risk***

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The REIT is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

Sensitivity analysis

The REIT is exposed to interest rate risk on the long-term debt it carries against the investment properties. Based on the total outstanding long-term debt balance of \$48,809,755 (2015 - \$39,975,714), a 0.5% decrease in the weighted average interest rate, keeping all other variables constant, would result in an annual increase in net income of \$247,570 (2015 - \$203,257) as a result of lower interest payable on the various loans. A 0.5% increase in the interest rate would have an equal but opposite effect on the net income of the REIT.

**14. FINANCIAL INSTRUMENTS (continued)**

**Financial risk management (continued)**

*c. Foreign currency risk*

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The REIT is exposed to foreign currency risk since the US LP and the Cobblestone LP are United States Partnerships which were formed in Arizona. The carrying value of the assets and liabilities, as well as the net income and other comprehensive income, are subject to foreign exchange fluctuation. Management's objective in mitigating this risk is to preserve the REIT's capital invested in the United States and to minimize the impact of adverse changes to future cash flows from the income-producing property from depreciation in the U.S. dollar relative to the Canadian dollar.

The REIT also manages its foreign currency risk by hedging its exposure to fluctuations on the translation into U.S dollars by borrowing debt in U.S. dollars.

As at December 31, 2016, the REIT's U.S. dollar denominated net assets are \$15,002,050 therefore a 1% change in the value of the U.S. dollar will result in a gain or loss through other comprehensive income of approximately \$150,021.

*d. Liquidity risk*

Liquidity risk is the risk that the REIT will not be able to meet its financial obligations as they fall due. Real estate property investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for and the perceived desirability of such investments. Such illiquidity may tend to limit the REIT's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the REIT was required to liquidate a real estate property investment, the proceeds to the REIT might be significantly less than the aggregate carrying value of such property.

The REIT's approach to managing liquidity is to ensure that it will have sufficient cash available to meet its liabilities when due.

The following are the contractual maturities of financial liabilities as at December 31, 2016.

	Amortized cost	Due in 1 year	Over 1 year
Trade payable and accrued liabilities	305,581	305,581	-
Distributions payable (Note 10)	89,575	89,575	-
Loans payable	767,901	767,901	-
Long-term debt	48,809,755	16,102,287	32,707,468
	49,972,812	17,265,344	32,707,468

#### **14. FINANCIAL INSTRUMENTS (continued)**

##### **Financial risk management (continued)**

###### *e. Environmental risk*

The REIT is subject to various federal, provincial/state and municipal laws relating to the environment. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in investment properties, or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware of any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, the properties. The REIT has policies and procedures to review and monitor environmental exposure, and has made, and will continue to make, the necessary capital expenditures for compliance with environmental laws and regulations. Environmental laws and regulations can change rapidly and the REIT may become subject to more stringent environmental laws and regulations that could have an adverse effect on the financial condition or results of operations.

###### *f. Redemption risk*

The total amount payable by the REIT by cash payment in respect of the redemption of units in any fiscal year or the REIT will not exceed the redemption price payable in respect of 10% of the issued and outstanding units. The Trustee may, in its sole discretion, redeem by cash payment such excess units, if in the opinion of the Trustee, doing so will adversely affect the REIT.

#### **15. RELATED PARTY TRANSACTIONS**

The REIT's related parties consist of its subsidiaries and key members of management. These transactions were in the normal course of operations and were measured at fair value, which represented the amount of consideration established and agreed to by the related parties.

##### **Transactions with AP Capital REIT Services Ltd. (the "Manager")**

The Manager is related to the REIT by virtue of having officers and directors in common with the REIT.

In connection with the services provided by the Manager under the Management Fee Agreements with the CDN LP and AP Capital REIT (CDN/US) Limited Partnership, the following amounts will be payable to the Manager:

- a.* An acquisition fee equal to 0.75% (2015 - 1.5%) of the gross purchase price of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the purchase of each such property (or interest in a property).

For the year ended December 31, 2016, the costs of these services amounted to \$112,787 (2015 - \$831,237). The REIT has capitalized this amount with the initial cost of the investment properties.

In 2016, the Manager waived the acquisition fee on the Morrison property of \$375,000 (Note 4).

- b.* A disposal fee equal to 0.45% of the gross proceeds from the sale of each property (or interest in a property), plus GST if applicable, payable to the Manager upon completion of the sale of each property (or interest in a property) provided that the disposal fee payable on the sale of any proportionate interest in a property will be proportionate to such interest in the property.

For the year ended December 31, 2016, the costs of these services amounted to \$nil (2015 - \$nil).

**15. RELATED PARTY TRANSACTIONS (continued)**

- c.* An asset management fee equal to 1.0% (2015 - 1.5%) of the Annual Portfolio Value (as defined under the Management Fee Agreements), payable monthly on the last day of each month during the Term in an amount equal to 0.083% of the Annual Portfolio Value as at the beginning of each month, plus an amount equal to the amount of any portion of the asset management fee for a previous year or years of the Term of the agreement, payable within 30 days of the presentation by Manager of an invoice therefor.

For the year ended December 31, 2016, the Manager was entitled to these fees totaling \$1,054,616 (2015 - \$287,156) of which \$961,738 (2015 - \$nil) was waived.

The Manager also redeemed 737.2896 Class G units for Class F units of \$737,290.

During the year ended December 31, 2016, the REIT issued 838.3953 Class F units in the amount of \$838,395 to the Manager to settle accounts payable.

- d.* As at December 31, 2016, the amount receivable by the REIT from the Manager of \$200,216 (2015 - payable to the Manager of \$942,986) was included in trade payable and accrued liabilities.

**Transactions with Tandem Assets 1 Limited Partnership (“Tandem”)**

Tandem is related to the REIT by virtue of having officers and directors in common with the REIT.

During the year ended December 31, 2016, the loan payable to Tandem of \$1,074,160 (USD \$800,000) was converted to 8,000 Class A units of the US LP. The conversion has given rise to Tandem having a 11.94% interest in the US LP.

**Transactions with 1576697 Alberta Ltd.**

1576697 Alberta Ltd. is related to the REIT by virtue of having directors and officers in common with the REIT. On June 30, 2015, the REIT acquired the Morrison property, through AP Capital REIT Limited Partnership, from 1576697 Alberta Ltd. (Note 4). The acquisition was partly funded by issuance of 6,280.958 Class G units, with a total value of \$6,280,958

1576697 Alberta Ltd. also paid certain of Morrison’s operating expenses and received certain rental revenues on behalf of the REIT totaling \$nil (2015 - \$494,784) and \$8,141 (2015 - \$335,050), respectively. As at December 31, 2016, \$151,593 (2015 - \$159,734) was included in accounts payable and accrued liabilities.

**Transactions with AP Capital Mortgage Investment Corporation**

AP Capital Mortgage Investment Corporation is related to the REIT by virtue of having directors and officers in common with the REIT.

During the period ended December 31, 2015, the REIT issued 30.328 units to AP Capital Mortgage Investment Corporation for total gross proceeds of \$30,328 which was included in trade and other receivables. For the year ended December 31, 2016, these units were redeemed for cash (Note 7).

**15. RELATED PARTY TRANSACTIONS (continued)**

**Dominion Properties LLC**

Dominion Properties LLC is related to the REIT by virtue of having directors and officers in common with the REIT.

During the year ended December 31, 2016, Dominion Properties LLC loaned the REIT \$590,788 (USD \$440,000). As at December 31, 2016, the principal outstanding on the loan was \$429,664 (USD \$320,000). The REIT paid interest expense and financing fees of \$16,061 (USD \$11,962) and \$12,353 (USD \$9,200), respectively. The total amount due to Dominion Properties LLC was \$458,078 (USD \$341,162).

**16. SEGMENTED DISCLOSURE**

The REIT's segments include two classifications of investment properties – Commercial Mixed Use and Retail, which are located in two geographical segments, Canada and USA, respectively. The accounting policies followed by each segment are the same as those disclosed in Note 3. Operating performance is evaluated by the REIT's management primarily based on net operating income, which is defined as property revenue less property operating expenses, certain advertising and promotion, bank charges and office expenses.

Year ended December 31, 2016	Commercial mixed use - Canada	Retail - USA
Property revenue	2,271,990	3,676,266
Property operating expenses	(596,344)	(1,184,937)
<b>Net operating income</b>	<b>1,675,646</b>	<b>2,491,329</b>

As at December 31, 2016	Commercial mixed use - Canada	Retail - USA
Cash and cash equivalents, trade and other receivable and prepaid expenses	724,816	1,405,131
Restricted funds held in trust	-	778,358
Investment properties	25,570,000	47,514,614
<b>Segmented assets</b>	<b>26,294,816</b>	<b>49,698,103</b>
Trade payable and accrued liabilities, loans payable and tenant deposits	447,097	1,864,310
Long-term debt	15,978,012	32,831,743
<b>Segmented liabilities</b>	<b>16,426,109</b>	<b>34,696,053</b>

**AP Capital REIT**  
**Notes to Consolidated Financial Statements**  
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**16. SEGMENTED DISCLOSURE (continued)**

Period ended December 31, 2015	Commercial mixed use - Canada (6 months)	Retail - USA (2 months)
Property revenue	1,177,368	482,971
Property operating expenses	(413,711)	(301,198)
<b>Net operating income</b>	<b>763,657</b>	<b>181,773</b>
As at December 31, 2015	Commercial mixed use - Canada	Retail - USA
Cash and cash equivalents, trade and other receivables and prepaid expenses	404,360	877,145
Investment properties	25,414,078	32,886,277
<b>Segmented assets</b>	<b>25,818,438</b>	<b>33,763,422</b>
Trade payable and accrued liabilities, loan payable and tenant deposits	762,964	2,147,769
Long-term debt	16,413,888	23,561,826
<b>Segmented liabilities</b>	<b>17,176,852</b>	<b>25,709,595</b>

**17. COMPARATIVE FIGURES**

- a. Comparative figures in the consolidated statement of income and other comprehensive income have been reclassified to conform to the current year presentation. The REIT made this reclassification to better illustrate operations at the property level. The reclassifications are as follows:

	<b>Initial Period from June 25, 2015 to December 31, 2015</b>	Initial Period from June 25, 2015 to December 31, 2015 – Reclassified		
		Fund management fees	General and administrative	Distribution fees
Advertising and promotion	<b>112,558</b>	72,975	31,704	7,879
Bad debts	<b>7,500</b>	-	7,500	-
Insurance	<b>18,235</b>	-	18,235	-
Interest and bank charges	<b>3,696</b>	-	3,696	-
Office	<b>75,413</b>	-	75,113	300
Telephone	<b>1,390</b>	-	1,390	-
<b>Total presented on the consolidated statement of income and other comprehensive income</b>	<b>218,792</b>	<b>72,975</b>	<b>137,638</b>	<b>8,179</b>

- b. In 2015, prepaid insurance and property taxes of \$196,983 were included in unamortized mortgage transaction costs. The comparative figures have been reclassified to conform with the current year presentation, resulting in an increase in the 2015 prepaid expenses and a decrease in the unamortized mortgage transaction costs by \$196,983. There was no effect to the 2015 net income for the period.



**SCHEDULE A**  
**FORM OF SUBSCRIPTION AGREEMENT**