AP Capital REIT
Consolidated Financial Statements
Expressed in Canadian Dollars
Year Ended December 31, 2017

Contents

Expressed in Canadian Dollars
For the year ended December 31, 2017

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Independent Auditors' Report

MNP LLP

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, 2017, 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, 2017, 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

April 13, 2018

MNP LLP

Chartered Professional Accountants

AP Capital REIT
Consolidated Statement of Financial Position
Expressed in Canadian Dollars
As at December 31, 2017

	2017	*2016*
Assets		
Non-current assets		
Investment properties (Note 4)	**72,130,687**	73,084,614
Restricted funds held in trust (Note 5)	**1,792,934**	778,358
	73,923,621	73,862,972
Current assets		
Cash and cash equivalents	**1,051,854**	873,504
Trade and other receivables	**208,797**	742,468
Prepaid expenses and deposits	**485,400**	361,944
	1,746,051	1,977,916
Total assets	**75,669,672**	75,840,888
Liabilities		
Non-current liabilities		
Long-term debt, non-current portion (Note 5)	**30,515,456**	32,707,468
Tenant deposits	**323,804**	552,593
	30,839,260	33,260,061
Current liabilities		
Current portion of long-term debt (Note 5)	**15,314,856**	16,102,287
Loans payable (Note 6)	**-**	767,901
Distributions payable (Note 10)	**-**	783,782
Trade payable and accrued liabilities (Note 15)	**1,142,511**	305,581
	16,457,367	17,959,551
Total liabilities	**47,296,627**	51,219,612
Equity		
Unitholders' equity (Note 7)	**27,060,608**	23,503,257
Non-controlling interests (Note 8)	**1,312,437**	1,118,019
Total equity	**28,373,045**	24,621,276
Total liabilities and equity	**75,669,672**	75,840,888

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, 2017

	2017	*2016*
Revenue		
Rental income	**4,881,753**	4,143,354
Cost recoveries	**1,822,243**	1,804,902
	6,703,996	5,948,256
Operating expenses		
Repairs and maintenance	**558,342**	652,614
Property taxes	**727,729**	521,464
Property management (Note 15)	**291,248**	92,878
Utilities	**290,421**	284,801
Recoverable general and administrative costs	**131,422**	147,506
Janitorial	**145,690**	82,018
	2,144,852	1,781,281
Net operating income	**4,559,144**	4,166,975
Other expenses (revenue)		
Fund management fees	**483,647**	-
Bad debts	**281,162**	-
Professional and consulting fees	**199,365**	255,911
General and administrative	**273,035**	217,850
Distribution and filing fees	**28,761**	50,317
Fair value adjustments to investment properties (Note 4)	**(1,620,798)**	(848,286)
	(354,828)	(324,208)
Net income before finance expenses	**4,913,972**	4,491,183
Interest on long-term debt (Note 12)	**3,118,892**	2,316,108
Net income for the year	**1,795,080**	2,175,075
Other comprehensive loss		
Foreign currency translation loss - unrealized	**(1,037,288)**	(260,590)
Comprehensive income for the year	**757,792**	**1,914,485**
Net earnings attibutable to:		
Unitholders of the REIT	**1,518,637**	2,073,717
Non-controlling interests (Note 8)	**276,443**	101,358
Net income	**1,795,080**	**2,175,075**
Other comprehensive loss attributable to:		
Unitholders of the REIT	**(955,263)**	(203,041)
Non-controlling interests (Note 8)	**(82,025)**	(57,549)
Other comprehensive loss	**(1,037,288)**	**(260,590)**
Net earnings per unit	**59.84**	115.24
Weighted average number of units	**25,380.0084**	17,995.4749

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

AP Capital REIT
Consolidated Statement of Changes in Unitholders' Equity
Expressed in Canadian Dollars
For the year ended December 31, 2017

	Number of Class A Units	Number of Class B Units	Number of Class C1 Units	Number of Class C2 Units	Number of Class F Units	Number of Class G Units	Number of Class H Units	Total Number of Units	Unitholders' Equity	Accumulated Non-Controlling Interests	Accumulated Distributions	Retained Earnings	Accumulated Other Comprehensive Income	**Total Equity**	Non-Controlling Interests	Unitholders' Equity
Balance as at December 31, 2015	6.0000	10,152.5678	-	101.1733	-	6,378.5563	-	16,638.2974	16,553,547	40	(300,888)	109,614	493,307	16,855,620	40	16,855,580
Net income for the year	-	-	-	-	-	-	-	-	-	-	-	2,175,075	-	2,175,075	101,358	2,073,717
Distributions payable (Note 10)	-	-	-	-	-	-	-	-	-	-	(783,782)	-	-	(783,782)	-	(783,782)
Distributions paid in cash	-	-	-	-	-	-	-	-	-	-	(285,614)	-	-	(285,614)	-	(285,614)
Units issued from distribution														-		-
reinvestment plan (Note 10)	-	539.2506	8.2708	27.4204	24.9345	363.9936	-	963.8699	963,870	-	(963,870)	-	-	-	-	-
Units issued for cash	-	-	733.0000	2,600.0000	1,952.8638	-	-	5,285.8638	5,285,864	10	-	-	-	5,285,874	10	5,285,864
Units cancelled and Class F units issue	-	-	(233.4032)	(301.3771)	1,272.0493	(737.2690)	-	-	-	-	-	-	-	-	-	-
Units issued in settlement of loan payable (Note 8)	-	-	-	-	-	-	-	-	-	1,074,160	-	-	-	1,074,160	1,074,160	-
Units redeemed for cash	-	-	-	-	-	(228.4764)	-	(228.4764)	(228,476)	-	-	-	-	(228,476)	-	(228,476)
Units issued in settlement of accounts payable (Note 15)	-	-	-	-	838.3953	-	-	838.3953	838,395	-	-	-	-	838,395	-	838,395
Issue costs	-	-	-	-	-	-	-	-	(49,386)	-	-	-	-	(49,386)	-	(49,386)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(260,590)	(260,590)	(57,549)	(203,041)
Balance as at December 31, 2016	6.0000	10,691.8184	507.8676	2,427.2166	4,088.2429	5,776.8045	-	23,497.9500	23,363,814	1,074,210	(2,334,154)	2,284,689	232,717	24,621,276	1,118,019	23,503,257
															Net asset value per unit	1,000.23
Balance as at December 31, 2016	**6.0000**	**10,691.8184**	**507.8676**	**2,427.2166**	**4,088.2429**	**5,776.8045**	**-**	**23,497.9500**	**23,363,814**	**1,074,210**	**(2,334,154)**	**2,284,689**	**232,717**	**24,621,276**	**1,118,019**	**23,503,257**
Net income for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**1,795,080**	**-**	**1,795,080**	**276,443**	**1,518,637**
Distributions payable (Note 10)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(145,366)**	**-**	**-**	**(145,366)**	**-**	**(145,366)**
Distributions paid in cash	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(559,863)**	**-**	**-**	**(559,863)**	**-**	**(559,863)**
Distribution bonus reinvested (Note 10)	**-**	**929.1487**	**-**	**-**	**-**	**-**	**-**	**929.1487**	**929,148**	**-**	**-**	**-**	**-**	**929,148**	**-**	**929,148**
Units issued from distribution																
reinvestment plan (Note 10)	**-**	**126.0216**	**36.1571**	**74.8117**	**622.0087**	**343.5044**	**13.7029**	**1,216.2064**	**1,216,206**	**-**	**(1,216,206)**	**-**	**-**	**-**	**-**	**-**
Units issued for cash	**-**	**-**	**934.2183**	**-**	**464.8182**	**-**	**3,100.0000**	**4,499.0365**	**4,499,037**	**-**	**-**	**-**	**-**	**4,499,037**	**-**	**4,499,037**
Units cancelled and Class F units issued	**-**	**(11,582.0200)**	**-**	**-**	**11,585.3101**	**(3.2901)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Units redeemed for cash	**-**	**(164.9687)**	**(2.7690)**	**-**	**(1,234.4556)**	**(209.7482)**	**-**	**(1,611.9415)**	**(1,611,942)**	**-**	**-**	**-**	**-**	**(1,611,942)**	**-**	**(1,611,942)**
Issue costs	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(117,037)**	**-**	**-**	**-**	**-**	**(117,037)**	**-**	**(117,037)**
Other comprehensive income	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(1,037,288)**	**(1,037,288)**	**(82,025)**	**(955,263)**
Balance as at December 31, 2017	**6.0000**	**-**	**1,475.4740**	**2,502.0283**	**15,525.9243**	**5,907.2706**	**3,113.7029**	**28,530.4001**	**28,279,226**	**1,074,210**	**(4,255,589)**	**4,079,769**	**(804,571)**	**28,373,045**	**1,312,437**	**27,060,608**
															Net asset value per unit	**948.48**

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, 2017

	2017	*2016*
Cash flows from operating activities		
Operating net income for the year	**1,795,080**	2,175,075
Items not affecting cash		
Amortization of mortgage transaction costs	**454,516**	227,034
Changes in fair value adjustments to investment properties	**(1,620,798)**	(848,286)
	628,798	1,553,823
Changes in non-cash working capital items:		
(Increase) decrease in trade and other receivables	**533,671**	(693,544)
(Increase) decrease in prepaid expenses and deposits	**(123,456)**	(91,803)
Increase (decrease) in trade payable and accrued liabilities	**836,930**	(860,285)
Increase (decrease) in tenant deposits	**(228,789)**	214,877
	1,647,154	123,068
Cash flows from financing activities		
Proceeds from issuance of units, net of issue costs	**4,382,000**	6,074,873
Distributions to unitholders, net of reinvested distributions	**(559,863)**	(285,614)
Units redeemed for cash	**(1,611,942)**	(228,476)
General Partners' contributions	**-**	10
Proceeds from long-term debt	**21,953,750**	10,003,115
Repayments of long-term debt	**(22,693,057)**	(437,773)
Payments of mortgage transaction costs	**(499,303)**	(257,600)
Proceeds from (repayment of) loans payable	**(767,901)**	767,901
	203,684	15,636,436
Cash flow from investing activities		
Investment in Cobblestone property	**-**	(15,232,396)
Capital additions	**(525,547)**	(59,938)
Restricted funds held in trust	**(1,014,576)**	(778,358)
	(1,540,123)	(16,070,692)
Net effect of translation of foreign currency	**(132,365)**	(13,005)
Net change in cash and cash equivalents	**178,350**	(324,193)
Cash and cash equivalents, beginning of year	**873,504**	1,197,697
Cash and cash equivalents, end of year	**1,051,854**	873,504

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, 2017.

These consolidated financial statements for the year ended December 31, 2017 were authorized for issue by the Board of Directors of the Trustee (the "Board") on April 13, 2018.

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 year unless exchange rates fluctuate significantly during the year 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.

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.

3. Significant accounting policies (continued)

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.

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
Trade payable and accrued liabilities	Other financial liabilities
Loans payable	Other financial liabilities
Long-term debt	Other financial liabilities

3. Significant accounting policies (continued)

j. Financial instruments (continued)

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, 2017, the temporary difference is insignificant; therefore a deferred income tax liability was not recorded.

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.

3. Significant accounting policies (continued)

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.

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:

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.

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.

Estimates

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 changes in accounting policies

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2017 reporting period. Those which may be relevant to the REIT are set out below. Management has decided against early adoption of these standards.

IFRS 9 Financial Instruments (Amendments)

In October 2017, the International Accounting Standards Board (IASB) issued amendments to IFRS 9 Financial Instruments, incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in November 2017, to address the classification of certain prepayable financial assets. The amendments clarify that a financial asset that would otherwise have contractual cash flows that are solely payments of principal and interest but do not meet that condition only as a result of a prepayment feature with negative compensation may be eligible to be measured at either amortized cost or fair value through other comprehensive income. This classification is subject to the assessment of the business model in which the particular financial asset is held as well as consideration of whether certain eligibility conditions are met. The amendments are effective for annual periods beginning on or after January 1, 2018. The REIT has reviewed the amendment and concluded that there is no material impact to the financial statements upon adoption of the accounting pronouncement.

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. This standard would be effective for annual periods beginning on or after January 1, 2018. The REIT has reviewed the policy and concluded that there is no material impact to the financial statements upon adoption of the accounting pronouncement.

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.

Expressed in Canadian Dollars

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:

	2017	*2016*
Balance, beginning of year	**73,084,614**	58,300,355
Acquisitions	-	15,232,396
Capital additions	**525,547**	59,938
Change in unrealized foreign exchange gain (loss) since initial purchase	**(3,100,272)**	(981,361)
Waived acquisition fee on Morrison (Note 15)	-	(375,000)
Changes in fair value adjustments to investment properties	**1,620,798**	848,286
Balance, end of year	**72,130,687**	73,084,614

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.

Subsequent to December 31, 2017, the REIT listed its Cobblestone property on the market for $15.6 million.

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 $72,144,070 and $72,130,687 (2016 - $71,618,523 and $73,084,614), 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.

Expressed in Canadian Dollars

5. Long-term debt (continued)

	2017	2016
Servus Credit Union Demand Term Loan ("Servus"), bearing interest at prime rate plus 0.75% per annum, payable in monthly blended installment payments of $98,132, with term expiring on May 1, 2019, secured by the Morrison property	**15,401,705**	16,013,715
Less: unamortized mortgage transaction costs	**(33,807)**	(35,703)
	15,367,898	15,978,012
Midcap Financial Trust Term Loan ("Midcap"), bearing interest at 6.59% per annum (2016 - 5.97%), interest only payments secured by the Greenway property, payable in USD $17,500,000, repaid in 2017	-	23,497,250
Less: unamortized mortgage transaction costs	-	(413,167)
	-	23,084,083
Churchill Commercial Capital, Inc. ("Churchill"), bearing interest at 5.60% per annum, interest only payments due December 1, 2020, secured by the Greenway property, payable in USD $17,500,000	**21,953,750**	-
Less: unamortized mortgage transaction costs	**(499,303)**	-
	21,454,447	-
Wells Fargo Bank Loan ("Wells Fargo"), bearing interest at 5.306% per annum, payable in monthly blended installment payments of $51,945 (USD $41,407), with term expiring on December 6, 2026, secured by the Cobblestone property, payable in USD $7,450,000	**9,222,573**	10,003,115
Less: unamortized mortgage transaction costs	**(214,606)**	(255,455)
	9,007,967	9,747,660
	45,830,312	48,809,755
Less: Current portion of long-term debt	**15,314,856**	16,102,287
Long-term debt, non-current portion	**30,515,456**	32,707,468

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, 2017, all bank covenants were met.

In accordance with the loan agreement with Churchill and Wells Fargo, the REIT is required to set aside funds for future capital expenditures and tenant improvements. As at December 31, 2017, $1,584,366 and $208,568 of funds were set up aside by Churchill and Wells Fargo, for a total of $1,792,934 (2016 – $778,358). These funds have been classified as restricted funds held in trust.

Principal repayments, as of December 31, 2017, based on scheduled repayments to be made on the long-term debt are as follows:

2018	562,002
2019	14,707,286
2020	21,916,062
2021	137,055
2022	145,815
Thereafter	8,362,092
	45,830,312

Expressed in Canadian Dollars

6. Loans payable

Loans payable consist of the following:

	2017	*2016*
Dominion Properties LLP, loan payable in USD $341,162, bearing interest at 10% per annum, interest only payments, unsecured and due on demand	**-**	458,078
DDH Consulting, loan payable in USD $230,746, bearing interest at 10% per annum, interest only payments, unsecured and due on demand	**-**	309,823
	-	767,901

During the year ended December 31, 2017, the REIT repaid its loans payable to Dominion Properties LLP and DDH Consulting in full.

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 ten classes of units being Class A, Class B, Class C1, Class C2, Class D1, Class D2, Class E, Class F, Class G, and Class H 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 years ended December 31, 2017 and 2016.

The price per Class A unit is $1,000.

b. Class B units

The REIT issued 126.0216 Class B units (2016 – 539.2506) as part of the dividend reinvestment plan ("DRIP") (Note 10).

The REIT issued 929.1487 Class B units (2016 – nil) as part of a one-time bonus distributions payable, totalling $929,148 (2016 - $nil), to eligible Class B unitholders as per the terms outlined in the Declaration of Trust.

The unitholders redeemed 164.9687 Class B units (2016 – nil) for gross proceeds of $164,969 (2016 - $nil).

The REIT cancelled 11,582.0200 Class B units (2016 – nil) and reissued them as Class F units.

The price per Class B unit is $1,000.

c. Class C1 units

The REIT issued 36.1571 Class C1 units (2016 – 8.2708) as part of the DRIP (Note 10).

The REIT issued 934.2183 Class C1 units (2016 – 733.0000) for gross proceeds of $934,218 (2016 - $733,000).

The unitholders redeemed 2.7690 Class C1 units (2016 – nil) for gross proceeds of $2,769 (2016 - $nil).

The REIT cancelled nil Class C1 units (2016 – 233.4032) 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 74.8117 Class C2 units (2016 – 27.4204) as part of the DRIP (Note 10).

The REIT issued nil Class C2 units (2016 – 2,600.0000) for gross proceeds of $nil (2016 - $2,600,000).

The REIT cancelled nil Class C2 units (2016 – 301.3771) and reissued them as Class F units.

The price per Class C2 unit is $1,000.

e. Class F units

The REIT issued 622.0087 Class F units (2016 – 24.9345) as part of the DRIP (Note 10).

The REIT issued 464.8182 Class F units (2016 – 1,952.8638) for gross proceeds of $464,818 (2016 - $1,952,864).

The REIT issued nil Class F units (2016 – 838.3953) to settle accounts payable (Note 15).

The unitholders redeemed 1,234.4556 Class F units (2016 – nil) for gross proceeds of $1,234,456 (2016 - $nil).

The REIT issued 11,585.3101 Class F units (2016 - 1,272.0493) after cancelling certain Class B and G units (2016 – Class C1, Class C2 and Class G units).

The price per Class F unit is $1,000.

f. Class G units

The REIT issued 343.5044 Class G units (2016 – 363.9936) as part of the DRIP ((Note 10).

The REIT cancelled 3.2901 Class G units (2016 – 737.2690) and reissued them as Class F units.

The unitholders redeemed 209.7482 Class G units (2016 – 228.4764) for gross proceeds of $209,748 (2016 - $228,476).

The price per Class G unit is $1,000.

g. Class H units

The REIT issued 13.7029 Class H units (2016 – nil) as part of the DRIP (Note 10).

The REIT issued 3,100.000 Class H units (2016 – nil) for gross proceeds of $3,100,000 (2016 - $nil).

The price per Class H 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 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:

7. Unitholders' equity (continued)

Redemption rights (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 one-time bonus distributions payable totalled $929,148 of which $783,782 was accrued and charged to equity as distributions in 2016. The balance of $145,366 was recorded in 2017. The bonus distributions payable of $929,148 was reinvested in Class B units in 2017.

b. Class C1 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. There were no penalties charged on the 2.7690 units (2016 – nil) redeemed in 2017.

c. Class C2 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 209.7482 units (2016 – 228.4764) redeemed in 2017.

f. Class H units

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

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.

Expressed in Canadian Dollars

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.

During the year ended December 31, 2016, the loan payable to Tandem of $1,074,160 (USD $800,000) 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:

	2017	*2016*
Current assets	**85,441**	103,332
Non-current assets	**4,121,008**	3,854,497
Total assets	**4,206,449**	3,957,829

	2017	*2016*
Current liabilities	**131,381**	78,480
Non-current liabilities	**2,561,661**	2,756,240
Total liabilities	**2,693,042**	2,834,720

	2017	*2016*
Revenues	**379,488**	407,193
Expenses	**103,045**	305,835
Net income before other comprehensive loss	**276,443**	101,358
Other comprehensive loss	**(82,025)**	(57,549)

9. Distributions

The REIT's Declaration of Trust endeavours to maintain monthly distribution payments to unitholders payable on or about the 15th 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.

Expressed in Canadian Dollars

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, 2017, 126.0216 of Class B units (2016 - 539.2506), 36.1571 of Class C1 units (2016 – 8.2708), 74.8117 of Class C2 units (2016 - 27.4204), 622.0087 of Class F units (2016 – 24.9345), 343.5044 of Class G units (2016 - 363.9936), and 13.7029 of Class H units (2016 – nil) were issued under the DRIP at $1,000 per unit, for $126,021 (2016 - $539,250), $36,157 (2016 – $8,271), $74,812 (2016 - $27,420), $622,009 (2016 - $24,935), $343,504 (2016 - $363,994), and $13,703 (2016 - $nil), respectively, for a total of $1,216,206 (2016 - $963,871).

In accordance with the terms outlined in the Declaration of Trust, the REIT declared a one-time bonus distributions payable, totalling $929,148, to eligible Class B unitholders, of which $783,782 was accrued and charged to equity as distributions in 2016. The balance of $145,366 was recorded in 2017. The bonus distributions payable of $929,148 was reinvested in Class B units in 2017 and subsequently cancelled and reissued as Class F units (Note 7).

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:

	2017	*2016*
Within one year	**4,786,794**	3,722,989
Two to five years	**13,606,601**	9,801,347
Over five years	**6,476,028**	3,306,991
	24,869,423	16,831,327

12. Supplementary cash flow information

a. Interest on long-term debt

	2017	*2016*
Interest expense, incurred	**2,664,376**	2,089,074
Amortization of mortgage transaction costs	**454,516**	227,034
Interest expense	**3,118,892**	2,316,108
Add:		
Interest accrued in the prior year	**46,922**	-
Deduct:		
Amortization of mortgage transaction costs	**(454,516)**	(227,034)
Interest accrued for the current year	**(88,077)**	(46,921)
Cash interest paid	**2,623,221**	2,042,153

Expressed in Canadian Dollars

12. Supplementary cash flow information (continued)

b. Non-cash transactions

a) The REIT issued 1,216.2064 units (2016 – 963.8699 units) at a value of $1,000 per unit for a total of $1,216,206 (2016 - $963,870) as distribution reinvestment.

13. Capital management

The REIT defines capital as the aggregate of unitholders' equity, loans payable, if any, 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, and trade payable and accrued liabilities, 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:

	2017		*2016*	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Cash and cash equivalents	**1,051,854**	**1,051,854**	873,504	873,504
Restricted funds held in trust	**1,792,934**	**1,792,934**	778,358	778,358
Trade and other receivables	**208,797**	**208,797**	742,468	742,468
Trade payable and accrued liabilities	**1,142,511**	**1,142,511**	305,581	305,581
Loans payable	-	-	767,901	767,901
Long-term debt	**45,830,312**	**45,830,312**	48,809,755	48,809,755

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, 2017.

The REIT places its cash and cash equivalents with 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 $45,830,312 (2016 - $48,809,755), 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 $229,152 (2016 - $247,570) 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.

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, 2017, the REIT's U.S. dollar denominated net assets are $20,931,274 (2016 - $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 $209,313 (2016 - $150,021).

Expressed in Canadian Dollars

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, 2017.

	Amortized cost	Due in 1 year	Over 1 year
Trade payable and accrued liabilities	1,142,511	1,142,511	-
Long-term debt	45,830,312	15,314,856	30,515,456
	46,972,823	16,457,367	30,515,456

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 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. The related party transactions were in the normal course of operations and were measured at 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% 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, 2017, the costs of these services amounted to $nil (2016 - $112,787). 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, 2017, the costs of these services amounted to $nil (2016 - $nil).

c. An asset management fee equal to 1.5% (2016 - 1%) of the Net Asset Value (2016 – Annual Portfolio Value), payable monthly on the last day of each month during the Term in an amount equal to 0.125% of the Net Asset Value (2016 – Annual Portfolio Value) as at the beginning of each month, plus an amount equal to the amount of any portion of the asset management fees waived 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, 2017, the Manager received fees totaling $507,654, comprising of asset management fees totaling $263,017 and portion of prior year's waived fees of $244,637. For the year ended December 31, 2016, the Manager was entitled to these fees totaling $1,054,616 of which $961,738 was waived.

The Manager redeemed nil Class G units (2016 - 737.2896) for Class F units of $nil (2016 - $737,290).

For the year ended December 31, 2017, the Manager was issued nil Class F units (2016 – 838.3953) in the amount of $nil (2016 - 838,395) to settle accounts payable to it.

d. As at December 31, 2017, the amount payable to the Manager of $286,832 (2016 - amount receivable by the REIT from the Manager of $200,216) was included in trade payable and accrued liabilities.

15. Related party transactions (continued)

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 (Note 7).

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, in 2015.

1576697 Alberta Ltd. also paid certain of Morrison's operating expenses and received certain rental revenues on behalf of the REIT totaling $nil (2016 - $nil) and $nil (2016 - $8,141), respectively. As at December 31, 2017, $151,593 (2016 - $151,593) was included in trade 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.

As at December 31, 2017, AP Capital Mortgage Investment Corporation held 690.0293 Class G Units (2016 – 643.5121 units). The REIT issued 46.5172 Class G units (2016 - 46.9301) as part of the DRIP.

Transactions with 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 balance outstanding on the loan was $458,078 (USD $341,162) which included accrued interest and financing fees of $16,061 (USD $11,962) and $12,353 (USD $9,200), respectively. The loan was repaid in 2017, including interest and financing fees of $22,320 (USD $17,188) and $12,466 (USD $9,600).

Expressed in Canadian Dollars

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, 2017	Commercial mixed use - Canada	Retail - USA
Property revenue	2,146,305	4,557,643
Property operating expenses	(632,871)	(1490,369)
Net operating income	**1,513,433**	**3,067,274**

As at December 31, 2017	Commercial mixed use - Canada	Retail - USA
Cash and cash equivalents, trade and other receivable and prepaid expenses	293,137	1,074,611
Restricted funds held in trust	-	1,792,934
Investment properties	22,265,000	49,865,687
Segmented assets	**22,558,137**	**52,733,231**
Trade payable and accrued liabilities, and tenant deposits	153,253	1,339,562
Long-term debt	15,367,898	30,462,414
Segmented liabilities	**15,521,151**	**31,801,976**

Expressed in Canadian Dollars

16. Segmented disclosure (continued)

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)
Net operating income	**1,675,646**	**2,491,329**

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
Segmented assets	**26,294,816**	**49,698,103**
Trade payable and accrued liabilities, loans payable and tenant deposits	447,097	1,864,310
Long-term debt	15,978,012	32,831,743
Segmented liabilities	**16,426,109**	**34,696,053**

17. Subsequent event

Subsequent to December 31, 2017, there was a flooding which occurred at the REIT's Morrison property. An insurance claim has been opened to cover the cost of repairs. Other than the $5,000 insurance deductible, no gains or losses are expected from this event.