AP Capital REIT
Consolidated Financial Statements
Expressed in Canadian Dollars
Year Ended December 31, 2019

Independent Auditor's Report

To the Unitholders of AP Capital REIT:

Opinion

We have audited the consolidated financial statements of AP Capital REIT (the "REIT"), which comprise the consolidated statements of financial position as at December 31, 2019 and December 31, 2018, and the consolidated statements of income and other comprehensive income, changes in unitholder's equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

Vancouver, British Columbia

June 9, 2019

MNP LLP

Chartered Professional Accountants

AP Capital REIT
Consolidated Statement of Financial Position

Expressed in Canadian Dollars

As at December 31, 2019

	2019	*2018*
Assets		
Non-current assets		
Investment properties (Note 4)	**70,458,161**	74,629,421
Restricted funds held in trust (Note 5)	**391,948**	1,096,421
Deferred lease inducement	**233,420**	-
	71,083,529	75,725,842
Current assets		
Cash and cash equivalents	**2,095,240**	1,037,972
Trade and other receivables	**522,930**	492,143
Prepaid expenses and deposits	**428,810**	416,086
	3,046,980	1,946,201
Total assets	**74,130,509**	77,672,043
Liabilities		
Non-current liabilities		
Long-term debt, non-current portion (Note 5)	**34,819,374**	33,235,644
Tenant deposits	**484,542**	519,457
	35,303,917	33,755,101
Current liabilities		
Current portion of long-term debt (Note 5)	**14,351,391**	14,957,158
Trade payable and accrued liabilities (Note 14)	**1,651,084**	1,845,310
	16,002,475	16,802,468
Total liabilities	**51,306,392**	50,557,569
Equity		
Unitholders' equity (Note 6)	**21,062,347**	25,645,306
Non-controlling interests (Note 7)	**1,761,770**	1,469,168
Total equity	**22,824,117**	27,114,474
Total liabilities and equity	**74,130,509**	77,672,043

Approved on behalf of the Board

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Director **Director**

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

Consolidated Statement of Income and Other Comprehensive Income

Expressed in Canadian Dollars

For the year ended December 31, 2019

	2019	*2018*
Revenue		
Rental income	**5,440,287**	5,110,872
Cost recoveries	**1,836,076**	1,770,097
	7,276,363	6,880,969
Operating expenses		
Property taxes	**742,423**	700,894
Repairs and maintenance	**764,225**	471,194
Utilities	**285,081**	327,712
Property management (Note 14)	**226,198**	311,872
Janitorial	**252,952**	207,905
Recoverable general and administrative costs	**127,905**	129,756
	2,398,783	2,149,333
Net operating income	**4,877,580**	4,731,636
Other expenses (revenue)		
Fair value adjustments to investment properties (Note 4)	**2,320,843**	3,309,579
General and administrative	**549,842**	476,614
Fund management fees (Note 14)	**237,499**	253,219
Professional and consulting fees	**179,045**	181,828
Distribution and filing fees	**24,141**	20,219
	3,311,370	4,241,459
Net income before finance expenses	**1,566,210**	490,177
Interest on long-term debt	**2,790,116**	2,521,754
Net loss for the year	**(1,223,906)**	(2,031,577)
Other comprehensive income (loss)		
Foreign currency translation gain (loss) - unrealized	**(862,079)**	1,467,052
Comprehensive loss for the year	**(2,085,985)**	(564,525)
Net earnings (loss) attibutable to:		
Unitholders of the REIT	**(1,581,424)**	(2,073,886)
Non-controlling interests (Note 7)	**357,517**	42,309
Net loss	**(1,223,906)**	(2,031,577)
Other comprehensive income (loss) attributable to:		
Unitholders of the REIT	**(797,164)**	1,352,630
Non-controlling interests (Note 7)	**(64,915)**	114,422
Other comprehensive income (loss)	**(862,079)**	1,467,052
Net loss per unit	**(53.54)**	(71.17)
Weighted average number of units	**29,535.3865**	29,138.1327

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, 2019

	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, 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 income for the year	-	-	-	-	-	-	-	-	-	-	-	(2,031,577)	-	(2,031,577)	42,309	(2,073,886)
Distributions payable (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions paid in cash	-	-	-	-	-	-	-	-	-	-	(597,001)	-	-	(597,001)	-	(597,001)
Distribution bonus reinvested (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units issued from distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dı reinvestment plan (Note 9)	-	-	42.3091	123.7256	797.8203	316.9285	62.7340	1,343.5175	1,343,518	-	(1,343,518)	-	-	-	-	-
Units issued for cash	-	-	297.0000	-	329.0000	-	-	626.0000	626,000	-	-	-	-	626,000	-	626,000
Units cancelled and Class F units issued	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units redeemed for cash	-	-	-	-	(69.1530)	(658.8325)	-	(727.9855)	(700,825)	-	-	-	-	(700,825)	-	(700,825)
Issue costs	-	-	-	-	-	-	-	-	(22,220)	-	-	-	-	(22,220)	-	(22,220)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	1,467,052	1,467,052	114,422	1,352,630
Balance as at December 31, 2018	6.0000	-	1,814.7831	2,625.7539	16,583.5916	5,565.3666	3,176.4369	29,771.9321	29,525,699	1,074,210	(6,196,108)	2,048,192	662,481	27,114,474	1,469,168	25,645,306
														Net asset value per unit		861.39
Balance as at December 31, 2018	6.0000	-	1,814.7831	2,625.7539	16,583.5916	5,565.3666	3,176.4369	29,771.9321	29,525,699	1,074,210	(6,196,108)	2,048,192	662,481	27,114,474	1,469,168	25,645,306
Net income (loss) for the year	-	-	-	-	-	-	-	-	-	-	-	(1,223,906)	-	(1,223,906)	357,517	(1,581,423)
Distributions payable (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Distributions paid in cash	-	-	-	-	-	-	-	-	-	-	(525,257)	-	-	(525,257)	-	(525,257)
Distribution bonus reinvested (Note 9)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units issued from distribution	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
reinvestment plan (Note 9)	-	-	12.4683	10.9671	204.6673	83.9151	18.2628	330.2806	330,281	-	(330,281)	-	-	-	-	-
Units issued for cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Units cancelled and Class F	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
units issued (Note 6)	-	-	-	-	1,778.6796	-	(1,532.1368)	246.5428		-	-	-	-	-	-	-
Units redeemed for cash	-	-	-	-	-	-	(1,662.5629)	(1,662.5629)	(1,662,563)	-	-	-	-	(1,662,563)	-	(1,662,563)
Issue costs	-	-	-	-	-	-	-	-	(16,552)	-	-	-	-	(16,552)	-	(16,552)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	(862,079)	(862,079)	(64,915)	(797,164)
Balance as at December 31, 2019	**6.0000**	**-**	**1,827.2514**	**2,636.7210**	**18,566.9385**	**5,649.2817**	**-**	**28,686.1926**	**28,176,865**	**1,074,210**	**(7,051,646)**	**824,286**	**(199,598)**	**22,824,117**	**1,761,770**	**21,062,347**
														Net asset value per unit		**734.23**

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

Consolidated Statement of Cash Flows

Expressed in Canadian Dollars

For the year ended December 31, 2019

	2019	***2018***
Cash flows from operating activities		
Operating net loss for the year	**(1,223,906)**	(2,031,577)
Items not affecting cash		
Amortization of mortgage transaction costs	**400,997**	169,477
Changes in fair value adjustments to investment properties	**2,320,843**	3,309,579
Interest expense	**2,357,177**	2,327,418
Deferred lease inducement	**(233,420)**	-
	3,621,691	3,774,897
Changes in non-cash working capital items:		
Increase in trade and other receivables	**(30,787)**	(283,346)
(Increase) decrease in prepaid expenses and deposits	**(12,724)**	69,314
Increase (decrease) in trade payable and accrued liabilities	**(194,225)**	702,799
Increase (decrease) in tenant deposits	**(34,915)**	195,653
	3,349,040	4,459,317
Cash flows from financing activities		
Proceeds from issuance of units, net of issue costs	**(16,552)**	603,780
Distributions to unitholders, net of reinvested distributions	**(525,257)**	(597,001)
Units redeemed for cash	**(1,662,563)**	(700,825)
Proceeds from (repayments of) long-term debt	**3,151,311**	(512,341)
Interest paid on long-term debt	**(2,316,483)**	(2,317,244)
Payments of mortgage transaction costs	**(912,339)**	-
	(2,281,883)	(3,523,631)
Cash flow from investing activities		
Capital additions	**(561,776)**	(1,828,033)
Decrease in restricted funds held in trust	**704,473**	696,513
	142,697	(1,131,520)
Net effect of translation of foreign currency	**(152,586)**	181,953
Net change in cash and cash equivalents	**1,057,268**	(13,882)
Cash and cash equivalents, beginning of year	**1,037,972**	1,051,854
Cash and cash equivalents, end of year	**2,095,240**	1,037,972

Supplementary cash flow information in Note 11.

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 Suite 1795 - 555 Burrard Street, Vancouver, British Columbia.

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, 2019.

These consolidated financial statements for the year ended December 31, 2019 were authorized for issue by the Board of Directors of the Trustee (the “Board”) on June 9, 2020.

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 of foreign operations are translated at the rate of exchange in effect at the balance sheet date. Revenue and expense items are translated at the average exchange rate for the period. Gains or losses on translation are included in other comprehensive income as foreign currency translation gains or losses. When there is a reduction in the net investment as a result of dilution or sale, or reduction in the equity of the foreign operation as a result of a capital transaction, amounts previously recognized in accumulated other comprehensive income are reclassified into net 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, its 88.06% owned subsidiary, AP Capital REIT (USA) Limited Partnership and AP Capital Holdings Limited Partnership (collectively, the "Limited Partnerships").

The REIT has entered into four agreements with these parties in the form of limited partnerships. The REIT determined that it has control over the Limited Partnerships. The REIT consolidates these entities and recognizes the non-controlling interests (Note 7) 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 redemptions

Issuances of units are recorded as increases in equity equal to the gross proceeds received while redemptions of units are recorded as decreases in equity equal to its redemption value. 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. Lease inducements offered by the REIT are amortized on a straight-line basis over the lease term and are recognized as an offset against rental revenue.

i. Net earnings per unit

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

j. Net asset value

The net asset value per unit has been calculated based on the number of units outstanding as at year-end. The value has been applied equally across all shares.

k. Financial instruments

Financial assets

Recognition and initial measurement

The REIT recognizes financial assets when it becomes party to the contractual provisions of the instrument. Financial assets are measured initially at their fair value plus, in the case of financial assets not subsequently measured at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to their acquisition. Transaction costs attributable to the acquisition of financial assets subsequently measured at fair value through profit or loss are expensed in profit or loss when incurred.

3. Significant accounting policies (continued)

k. Financial instruments (continued)

Classification and subsequent measurement

Subsequent to initial recognition, all financial assets are classified and subsequently measured at amortized cost. Interest revenue, if any, is calculated using the effective interest method and gains or losses, if any, arising from impairment, foreign exchange and derecognition are recognized in profit or loss. Financial assets measured at amortized cost consist of cash and cash equivalents, trade and other receivables and restricted funds held in trust.

Impairment

The REIT assesses whether a financial asset is credit-impaired at the reporting date. Regular indicators that a financial instrument is credit-impaired include significant financial difficulties as evidenced through breaches of lease agreements.

Provisions for bad debts are presented in the consolidated statement of financial position as a deduction from the gross carrying amount of the financial assets.

Financial assets are written off when the REIT has no reasonable expectations of recovering all or any portion thereof.

Derecognition of financial assets

The REIT derecognizes a financial asset when its contractual rights to the cash flows from the financial asset expire.

Financial liabilities

Recognition and initial measurement

The REIT recognizes a financial liability when it becomes party to the contractual provisions of the instrument. At initial recognition, the REIT measures financial liabilities at their fair value plus transaction costs that are directly attributable to their issuance, with the exception of financial liabilities subsequently measured at fair value through profit or loss for which transaction costs are immediately recorded in profit or loss.

Classification and subsequent measurement

Subsequent to initial recognition, all financial liabilities are measured at amortized cost using the effective interest rate method. Interest and gains and losses relating to a financial liability are recognized in profit or loss. Financial liabilities measured at amortized cost consist of trade payable and accrued liabilities and long-term debt.

Derecognition of financial liabilities

The REIT derecognizes a financial liability only when its contractual obligations are discharged, cancelled or expire.

Interest on financial assets and financial liabilities

Interest income and expense, which are recognized in profit or loss, are calculated by applying the effective interest rate to the gross carrying amount of the financial asset (when the asset is not credit-impaired) or the amortized cost of the financial liability.

The ‘effective interest rate’ is the rate that exactly discounts estimated future cash payments over the expected life of the financial instrument to the gross carrying amount of the financial asset or the amortized cost of the financial liability. The effective interest rate is calculated considering all contractual terms of the financial instruments, except for the expected credit losses of financial assets.

3. Significant accounting policies (continued)

k. Financial instruments (continued)

The ‘amortized cost’ of a financial asset or financial liability is the amount at which the instrument is measured on initial recognition minus principal repayments, plus or minus any cumulative amortization using the effective interest method of any difference between the initial amount and maturity amount and adjusted for any expected credit loss allowance. The ‘gross carrying amount’ of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit losses.

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, 2019, 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.

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.).

3. Significant accounting policies (continued)

n. Significant accounting judgments and estimates (continued)

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.

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. Changes in accounting policies

Standards and Interpretations adopted in the current period

Effective January 1, 2019 (hereafter referred to as the “date of initial application”), the REIT adopted IFRS 16 Leases as issued by the IASB in January 2016. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and lessor. The standard supersedes the requirements in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC 15 Operating Leases - Incentives, and SIC 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

Initial application of IFRS 16 Leases

The REIT assesses at lease inception whether a lease should be classified as either an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset; otherwise it is classified as an operating lease.

Under this standard, the REIT is a lessor and classifies its leases as operating leases. Therefore, the REIT is not required to make any adjustments on transition for leases in which it is a lessor, except for where the lessor is an intermediate lessor in a sublease.

At the date of transition, management has determined there is no material impact on the consolidated financial statements from the application of IFRS 16 Leases.

q. Future changes in accounting policies

The REIT has not yet applied the following new standards, interpretations and amendments to standards that have been issued as at December 31, 2019 but are not yet effective. Unless otherwise stated, the REIT does not plan to early adopt any of these new or amended standards and interpretations.

IFRS 3 Business Combinations

Amendments to IFRS 3, issued in October 2018, provide clarification on the definition of a business. The amendments permit a simplified assessment to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

The amendments are effective for transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020. The REIT does not expect the amendments to have a material impact on its 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 14). 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:

For the year ended December 31, 2019	Morrison	Greenway	Cobblestone	**Total**
Balance, January 1, 2019	19,925,001	36,833,400	17,871,020	**74,629,421**
Capital additions	-	519,153	42,623	**561,776**
Change in unrealized foreign exchange gain (loss)	-	(1,638,563)	(773,630)	**(2,412,193)**
Changes in fair value adjustments to properties	(5,575,000)	2,470,730	783,427	**(2,320,843)**
Balance, December 31, 2019	**14,350,001**	**38,184,720**	**17,923,440**	**70,458,161**

For the year ended December 31, 2018	Morrison	Greenway	Cobblestone	**Total**
Balance, January 1, 2018	22,265,001	32,929,936	16,935,750	**72,130,687**
Capital additions	362,273	1,311,361	155,115	**1,828,748**
Change in unrealized foreign exchange gain (loss)	-	2,688,347	1,291,218	**3,979,565**
Changes in fair value adjustments to properties	(2,702,273)	(96,244)	(511,063)	**(3,309,579)**
Balance, December 31, 2018	**19,925,001**	**36,833,400**	**17,871,020**	**74,629,421**

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.

Expressed in Canadian Dollars

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 $73,619,499 and $70,458,161 (2018 - $75,469,916 and $74,629,421), 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.

	2019	*2018*
Servus Credit Union Demand Term Loan ("Servus"), bearing interest at 4.50% per annum, payable in monthly blended installment payments of $112,655 with term expiring on May 7, 2020, secured by the Morrison property	**14,339,887**	15,023,901
Less: unamortized mortgage transaction costs	**(30,016)**	(31,912)
	14,309,871	14,991,989
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	**-**	23,873,500
Less: unamortized mortgage transaction costs	**-**	(352,882)
	-	23,520,618
Wells Fargo Bank Loan ("Wells Fargo Greenway"), bearing interest at 3.80% per annum, interest only payments until September 30, 2022, due October 1, 2029, secured by the Greenway property, payable in USD $20,500,000.	26,625,400	-
Less: unamortized mortgage transaction costs	(863,251)	-
	25,762,149	-
Wells Fargo Bank Loan ("Wells Fargo Cobblestone"), bearing interest at 5.306% per annum, payable in monthly blended installment payments of $53,768 (USD $41,398), with term expiring on December 6, 2026, secured by the Cobblestone property, payable in USD $7,450,000 (2018 – USD $7,450,000)	9,271,094	9,271,094
Less: unamortized mortgage transaction costs	(172,349)	(207,199)
	9,098,745	9,680,194
	49,170,765	48,192,802
Less: Current portion of long-term debt	**14,351,391**	14,957,158
Long-term debt, non-current portion	**34,819,374**	33,235,644

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 Cobblestone 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, 2019, the REIT did not meet its covenants related to the Servus Credit Union Demand Term Loan, which is presented as a current liability, however, all other bank covenants were met. Subsequent to year end, the Servus loan was renewed and the covenant was waived.

In accordance with the loan agreements with Wells Fargo Greenway and Wells Fargo Cobblestone, the REIT is required to set aside funds for future capital expenditures and tenant improvements. As at December 31, 2019, $344,045 and $47,903 of funds were set aside for Wells Fargo Greenway and Wells Fargo Cobblestone, for a total of $391,948 (2018 – $1,096,421). These funds have been classified as restricted funds held in trust.

Expressed in Canadian Dollars

5. Long-term debt (continued)

Principal repayments, as of December 31, 2019, based on scheduled repayments to be made on the long-term debt are as follows:

2020	14,351,391
2021	50,122
2022	792,707
2023	2,329,588
2024	2,424,588
Thereafter	29,222,369
	49,170,765

6. 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 (loss) and net realized capital gains (loss), if any.

a. Class A units

No Class A units were issued during the year ended December 31, 2019 and 2018.

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

b. Class B units

No Class B units were issued during the year ended December 31, 2019 and 2018.

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

c. Class C1 units

The REIT issued 12.4683 Class C1 units (2018 – 42.3091) as part of the DRIP (Note 9).

The REIT issued nil Class C1 units (2018 – 297.0000) for gross proceeds of $nil (2018 - $297,000).

The price per Class C1 unit is $1,000.

d. Class C2 units

The REIT issued 10.9671 Class C2 units (2018 – 123.7256) as part of the DRIP (Note 9).

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

e. Class F units

The REIT issued 204.6673 Class F units (2018 – 797.8203) as part of the DRIP (Note 9).

The REIT issued nil Class F units (2018 – 329.0000) for gross proceeds of $nil (2018 - $329,000).

The unitholders redeemed nil Class F units (2018 – 69.1530) for gross proceeds of $nil (2018 - $69,153).

The REIT issued 1,778.6796 Class F units after cancelling 1,532.1368 Class H units (2018 – nil).

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

6. Unitholders' equity (continued)

f. Class G Units

The REIT issued 83.9151 Class G units (2018 – 316.9285) as part of the DRIP (Note 9).

The unitholders redeemed nil Class G units (2018 – 658.8325) for gross proceeds of $nil (2018 - $631,673).

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

g. Class H units

The REIT issued 18.2628 Class H units (2018 – 62.7340) as part of the DRIP (Note 9).

The unitholders redeemed 1,662.5629 Class H units (2018 – nil) for gross proceeds of $1,662,562.89 (2018 - $nil).

The REIT cancelled 1,532.1368 Class H units (2018 – nil) and reissued them as 1,778.6796 Class F units.

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.

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. There were no transactions to Class B units during the year and no outstanding shares at December 31, 2019.

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.

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.

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.

Expressed in Canadian Dollars

7. 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:

	2019	*2018*
Current assets	**255,574**	105,709
Non-current assets	**4,628,205**	4,510,200
Total assets	**4,883,779**	4,615,909

	2019	*2018*
Current liabilities	**92,228**	156,811
Non-current liabilities	**3,076,001**	2,808,362
Total liabilities	**3,168,229**	2,965,173

	2019	*2018*
Revenues	**461,671**	392,546
Expenses	**104,154**	350,236
Net income before other comprehensive income	**357,517**	42,309
Other comprehensive income (loss)	**(64,915)**	114,422

8. 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

9. 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, 2019, the following units were issued under the DRIP at $1,000 per unit:

- 12.4683 of Class C1 units (2018 – 42.3091) for $12,468 (2018 – $42,309),
- 10.9671 of Class C2 units (2018 – 123.7256) for $10,967 (2018 – $123,726),
- 204.6673 of Class F units (2018 – 797.8203) for $204,667 (2018 – $797,820),
- 83.9151 of Class G units (2018 – 316.9285) for $83,915 (2018 – $316,929), and
- 18.2628 of Class H units (2018 – 62.7340), for $18,263 (2018 – $62,734)

For a total amount of $330,280 (2018 - $1,343,518).

10. 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:

	2019	*2018*
Within one year	**4,764,660**	4,754,830
Two to five years	**13,413,139**	12,809,401
Over five years	**7,178,263**	4,433,652
	25,356,062	21,997,883

11. Supplementary cash flow information

Non-cash transaction

The REIT issued 330.2806 units (2018 – 1,343.5175 units) at a value of $1,000 per unit for a total of $330,280 (2018 - $1,343,518) as distribution reinvestment (Note 9).

12. 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.

The REIT's capital management objectives and strategies are unchanged since June 26, 2015, the date of commencement of operations.

Expressed in Canadian Dollars

13. 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 amortized costs and fair values of the REIT's financial instruments:

	2019		*2018*	
	Amortized Cost	**Fair Value**	Amortized Cost	Fair Value
Cash and cash equivalents	**2,095,240**	**2,095,240**	1,037,972	1,037,972
Restricted funds held in trust	**391,948**	**391,948**	1,096,421	1,096,421
Trade and other receivables	**522,930**	**522,930**	492,143	492,143
Trade payable and accrued liabilities	**1,651,084**	**1,651,084**	1,845,309	1,845,309
Long-term debt	**49,170,765**	**49,170,765**	48,192,802	48,192,802

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. The actions taken to manage risks are unchanged since June 26, 2015, the date of commencement of operations.

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, which 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, 2019.

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.

13. Financial instruments (continued)

a. 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.

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 $49,170,765 (2018 - $48,192,802), 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 $245,854 (2018 - $240,964) 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.

b. 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, 2019, the REIT's U.S. dollar denominated net assets are $23,455,567 (2018 - $22,414,788) 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 $234,556 (2018 - $224,148).

c. 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, 2019.

	Amortized cost	Due in 1 year	Over 1 year
Trade payable and accrued liabilities	1,651,084	1,651,084	-
Long-term debt	49,170,765	14,351,391	34,819,374
	50,670,289	15,850,915	34,819,374

13. Financial instruments (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 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 not adversely affect the REIT.

14. 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, 2019, the costs of these services amounted to $nil (2018 - $nil).

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, 2019, the costs of these services amounted to $nil (2018 - $nil).

c. An asset management fee equal to 1.5% (2018 – 1.5%) of the Net Asset 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 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 therefore.

For the year ended December 31, 2019, the Manager received asset management fees of $237,499 (2018 - $253,219).

14. Related party transactions (continued)

d. A property management fee is also paid to the Manager on a monthly basis and equal to various amounts as determined by the Manager for each property. The property management fee is equal to $5,000 per month for the Morrison property, 4% of net rental income for the Greenway property and 3% of net rental income for the Cobblestone property.

For the year ended December 31, 2019, the REIT paid property management fees of $226,198 (2018 –$311,872).

e. As at December 31, 2019, the amount payable to the Manager of $398,610 (2018 - $901,442) 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 a prior 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.

As at December 31, 2019, $151,593 (2018 - $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, 2019, AP Capital Mortgage Investment Corporation held 185.5644 Class G Units (2018 – 181.9110 units). During the year no units were redeemed (2018 – 527.1600) for $nil (2018 – $500,000) and 3.6534 Class G units (2018 – 19.0418) were received as part of the DRIP.

Transactions with AP Capital MIC Management Corporation

AP Capital MIC Management Corporation is related to the REIT by virtue of having directors and officers in common with the REIT.

During the year, AP Capital MIC Management Corporation paid for certain operating expenses on behalf of the REIT totaling $3,279 (2018 - $8,578). As at December 31, 2019, $1,326 (2018 - $1,198) was included in trade payable and accrued liabilities.

Expressed in Canadian Dollars

15. 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, 2019	Commercial mixed use - Canada	Retail - USA
Property revenue	1,697,969	5,578,394
Property operating expenses	(500,309)	(1,884,465)
Net operating income	**1,197,660**	**3,693,928**

As at December 31, 2019	Commercial mixed use - Canada	Retail - USA
Cash and cash equivalents, trade and other receivable and prepaid expenses	222,681	2,720,780
Restricted funds held in trust	-	391,948
Deferred lease inducement		233,420
Investment properties	14,350,001	56,108,160
Segmented assets	**14,572,682**	**59,454,308**
Trade payable and accrued liabilities, and tenant deposits	493,568	1,137,847
Long-term debt	14,309,871	34,860,895
Segmented liabilities	**14,803,439**	**35,998,742**

Year ended December 31, 2018	Commercial mixed use - Canada	Retail – USA
Property revenue	1,999,848	4,878,745
Property operating expenses	(706,107)	(1,426,690)
Net operating income	**1,293,741**	**3,452,055**

As at December 31, 2018	Commercial mixed use - Canada	Retail – USA
Cash and cash equivalents, trade and other receivable and prepaid expenses	336,259	1,528,404
Restricted funds held in trust	-	1,096,420
Investment properties	19,925,000	54,704,420
Segmented assets	**20,261,259**	**57,329,244**
Trade payable and accrued liabilities, loans payable and tenant deposits	416,106	1,713,643
Long-term debt	14,991,989	33,200,812
Segmented liabilities	**15,408,095**	**34,914,455**

16. Key management personnel compensation

The compensation of the senior management of the REIT is paid through the asset management fees and property management fees paid to the Manager (Note 14).

17. Subsequent Events

Subsequent to year-end, there was a global outbreak of COVID-19 (coronavirus), which has had a significant impact on businesses through the restrictions put in place by the Canadian, provincial and municipal governments regarding travel, business operations and isolation/quarantine orders. At this time, it is unknown the extent of the impact the COVID-19 outbreak may have on the REIT as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence.

These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. While the extent of the impact is unknown, we anticipate this outbreak may cause reduced customer demand for tenants and increased government regulations, which may negatively impact the REIT’s business and financial condition.