



PRO REAL ESTATE INVESTMENT TRUST

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTH PERIODS ENDED JUNE 30, 2018**

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(Unaudited)

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PRO REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

UNAUDITED - CAD \$ thousands

	Note	June 30 2018	December 31 2017
Assets			
Non-current assets			
Investment properties	7,8	\$ 395,307	\$ 356,055
Property and equipment	9	255	145
Intangible assets	6	5,287	-
		400,849	356,200
Current assets			
Deferred acquisition costs		388	349
Receivables and other	10	7,181	5,601
Cash		6,850	3,744
		14,419	9,694
TOTAL ASSETS		\$ 415,268	\$ 365,894
Liabilities and unitholders' equity			
Non-current liabilities			
Debt	11	204,421	191,233
Class B LP Units	12	17,487	15,640
Long-term incentive plan	13	3,442	3,069
		225,350	209,942
Current liabilities			
Credit facility	14	29,882	11,356
Debt	11	13,030	22,951
Accounts payable and other liabilities	15	7,769	5,867
Distributions payable		1,319	1,072
		52,000	41,246
Total liabilities		277,350	251,188
Unitholders' Equity		137,918	114,706
TOTAL LIABILITIES AND UNITHOLDERS' EQUITY		\$ 415,268	\$ 365,894

Approved by the Board

 "signed"
 James W. Beckerleg
 Trustee

 "signed"
 Gérard A. Limoges, CM, FCPA, FCA, Adm.A.
 Trustee

PRO REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME

UNAUDITED - CAD \$ thousands

	Note	3 Months Ended June 30 2018	3 Months Ended June 30 2017	6 Months Ended June 30 2018	6 Months Ended June 30 2017
Property revenue	17,18	\$ 9,075	\$ 7,035	\$ 18,472	\$ 14,518
Property operating expenses	18,19	3,220	2,591	6,726	5,541
Net operating income		5,855	4,444	11,746	8,977
General and administrative expenses	19	472	283	874	570
Long-term incentive plan expense	13	383	309	373	564
Depreciation of property and equipment	9	10	8	21	16
Interest and financing costs	19	2,096	1,598	4,269	3,178
Distributions - Class B LP Units	12	372	188	729	378
Fair value adjustment - Class B LP Units	12	459	71	(153)	267
Fair value adjustment - investment properties	8	444	1,068	1,942	1,198
Debt settlement costs	11	-	-	719	-
Transaction costs	6	475	-	475	-
Settlement of expired warrants		-	-	-	(34)
Net comprehensive income		\$ 1,144	\$ 919	\$ 2,497	\$ 2,840

See accompanying notes to the condensed consolidated interim financial statements

PRO REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN UNITHOLDERS' EQUITY

UNAUDITED - CAD \$ thousands except per unit and per unit amounts

	Note	Number of Units	Units issued	Cumulative distributions	Retained earnings	Total
Balance, January 1, 2018		54,433,216	\$ 108,579	\$ (25,426)	\$ 31,553	\$ 114,706
Net comprehensive income		-	-	-	2,497	2,497
Transactions with Unitholders:						
Distributions declared - \$0.1050 per Unit				(7,055)	-	(7,055)
Issuance of Units, net of issue costs of \$2,671	16	12,500,500	26,080	-	-	26,080
Issuance of Units - distribution reinvestment plan	16	361,855	790	-	-	790
Issuance of Units - acquisition	16	391,305	900	-	-	900
Balance, June 30, 2018		67,686,876	\$ 136,349	\$ (32,481)	\$ 34,050	\$ 137,918

		Number of Units	Units issued	Cumulative distributions	Retained earnings	Total
Balance, January 1, 2017		43,931,990	\$ 87,695	\$ (14,909)	\$ 21,498	\$ 94,284
Net comprehensive income		-	-	-	2,840	2,840
Transactions with Unitholders:						
Distributions declared - \$0.1050 per Unit				(4,815)	-	(4,815)
Issuance of Units, net of issue costs of \$2,592		9,687,100	19,204	-	-	19,204
Issuance of Units - distribution reinvestment plan		269,575	565	-	-	565
Cancellation of Units - normal course issuer bid		(34,000)	(71)	-	-	(71)
Exchange of Class B LP Units for REIT Units		250,000	525	-	-	525
Balance, June 30, 2017		54,104,665	\$ 107,918	\$ (19,724)	\$ 24,338	\$ 112,532

See accompanying notes to the condensed consolidated interim financial statements

PRO REAL ESTATE INVESTMENT TRUST
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOW

UNAUDITED - CAD \$ thousands

	Note	3 Months Ended June 30 2018	3 Months Ended June 30 2017	6 Months Ended June 30 2018	6 Months Ended June 30 2017
Cash provided from (used in):					
Operating activities					
Net comprehensive income		\$ 1,144	\$ 919	\$ 2,497	\$ 2,840
Items not affecting cash:					
Depreciation of property and equipment	9	10	8	21	16
Amortization of financing costs	19	198	188	364	372
Long-term incentive plan expense	13	383	309	373	564
Straight-line rent adjustment	8	(153)	(217)	(359)	(476)
Settlement of expired Warrants		-	-	-	(34)
Fair value adjustment - Class B LP Units	12	459	71	(153)	267
Fair value adjustment - investment properties	8	444	1,068	1,942	1,198
Non-cash portion of debt settlement costs		-	-	243	-
Tenant inducements amortized to revenue		-	55	-	95
Changes in non-cash working capital	20	447	(2,068)	469	(2,522)
Net cash flows provided from operating activities		2,932	333	5,397	2,320
Financing activities					
Proceeds of issuance of Units, net of issue costs	16	-	19,210	26,080	19,204
Repayment of debt		(21,491)	(3,001)	(35,831)	(4,007)
Increase in debt		36,550	2,500	36,550	2,500
Increase in credit facility		29,000	850	30,000	2,350
Repayment of credit facility		-	(11,350)	(11,500)	(11,350)
Financing costs		(460)	(47)	(467)	(101)
Distributions paid on Units		(3,121)	(2,213)	(6,265)	(4,250)
Cancellation of Units - normal course issuer bid		-	(49)	-	(71)
Net cash flows provided from financing activities		40,478	5,900	38,567	4,275
Investing activities					
Acquisition of investment properties	7	(33,847)	-	(33,847)	(105)
Additions to investment properties	8	(1,890)	(1,048)	(3,071)	(1,343)
Net proceeds on disposal of investment property		-	9,835	-	9,835
Leasing commissions	8	(278)	(45)	(483)	(116)
Acquisition of property and equipment	9	(14)	(1)	(18)	(3)
Deferred acquisition costs		(250)	-	(39)	-
Acquisition of the assets of Compass Commercial Realty Limited	6	(3,400)	-	(3,400)	-
Net cash flows provided from (used in) investing activities		(39,679)	8,741	(40,858)	8,268
Change in cash during the period		3,731	14,974	3,106	14,863
Cash, beginning of period		3,119	1,945	3,744	2,056
Cash, end of period		\$ 6,850	\$ 16,919	\$ 6,850	\$ 16,919

Supplemental cash flow information

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See accompanying notes to the condensed consolidated interim financial statements

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2018

UNAUDITED - CAD \$ thousands except per unit and per unit amounts

1. Nature of operations

PRO Real Estate Investment Trust (the "REIT") is an unincorporated open ended real estate investment trust established pursuant to a declaration of trust dated February 7, 2013 and amended on March 11, 2013 (the "Declaration of Trust") and was established under the laws of the Province of Ontario.

The REIT's Units are listed on the TSX Venture Exchange (the "TSXV") under the symbol PRV.UN. The principal, registered and head office of the REIT is located at 2000 Mansfield Street, Suite 920, Montréal, Quebec, H3A 2Z6.

2. Basis of presentation

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and International Financing Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements should be read in conjunction with the REIT's annual audited financial statements and notes thereto prepared for the year ended December 31, 2017.

The condensed consolidated interim financial statements have been prepared on a historical cost basis with the exception of investment properties, Class B LP Units and Units under the long-term incentive plan, which are measured at fair value.

The REIT's reporting and functional currency is Canadian dollars.

These condensed consolidated interim financial statements include the financial statements of the REIT and its subsidiaries, including joint operations and partnerships over which the REIT has control.

(i) Subsidiaries and partnerships over which the REIT has control:

Control is present when the REIT has all the following:

- (a) power over the investee;
- (b) exposure, or rights, to variable returns from its involvement with the investee; and
- (c) the ability to use its power over the investee to affect the amount of its returns (the power, directly or indirectly, to control the financial and operational policies of the controlled entity).

(ii) Joint operations:

A joint operation is a type of joint arrangement whereby the parties that have joint control of the arrangement have the rights to the assets and the obligations for the liabilities relating to the arrangement. The REIT records only its share of assets, liabilities and share of the results of the joint operation. The assets, liabilities and results of the joint operation are included within the respective line items of the consolidated statements of financial position and consolidated statements of comprehensive income.

On consolidation, all inter-entity transactions and balances have been eliminated.

These condensed consolidated interim financial statements were authorized for issuance by the Board of Trustees of the REIT on August 15, 2018.

3. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these condensed consolidated interim financial statements are set out below. These policies have been consistently applied to all periods presented, unless otherwise stated.

The REIT has adopted the following accounting policies on January 1, 2018.

- (a) Revenue from Contracts with Customers ("IFRS 15"): The REIT adopted IFRS 15 on a modified retrospective basis as of January 1, 2018. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard leases, insurance contracts and financial instruments. As the REIT's most material revenue stream, rental revenue, is outside the scope of the new standard, the adoption of IFRS 15 did not have a material impact on the condensed consolidated interim financial statements. Service components, including recovery of costs within lease agreements, fall within the scope of IFRS 15; however the REIT has concluded that the pattern of revenue recognition is unchanged.
- (b) Financial Instruments ("IFRS 9"): The REIT adopted IFRS 9 on January 1, 2018 which replaced IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). The adoption of IFRS 9 was generally applied retrospectively, without restatement of comparative information. There was no material impact from the adoption of IFRS 9.

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2018

UNAUDITED - CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

IFRS 9 contains a new classification and measurement approach which requires financial assets to be classified and measured based on the business model in which they are managed and the characteristics of their contractual cash flows. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income and fair value through profit or loss, and eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at fair value through profit or loss ("FVTPL"):

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost as described above are measured at FVTPL.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as fair value through profit or loss are recognized in profit or loss, whereas under IFRS 9 the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss.

The following table summarizes the classification impacts upon adoption of IFRS 9:

Asset/Liability	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost
Accounts payable and other liabilities	Other liabilities at amortized cost	Amortized cost
Credit facility	Other liabilities at amortized cost	Amortized cost
Distribution payable	Other liabilities at amortized cost	Amortized cost
Debt	Other liabilities at amortized cost	Amortized cost
Class B LP Units	Fair value through profit or loss	Fair value through profit or loss
Long-term incentive plan	Fair value through profit or loss	Fair value through profit or loss

For impairment of financial assets, IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model applies to financial assets measured at amortized cost, contract assets and debt investments at fair value through other comprehensive income. Under IFRS 9 credit losses are recognized earlier than under IAS 39.

Financial assets measured at amortized cost are assessed at each reporting date to determine the credit risk of the financial asset to apply the relevant impairment requirements. There are generally 3 stages of credit risk:

1. Financial assets that are expected to perform in line with their contractual terms and which have no signs of increased credit risk;
2. Financial assets that have significantly increased in credit risk since initial recognition but are not credit-impaired; and
3. Credit-impaired financial instruments.

A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the REIT on terms that the REIT would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy.

The REIT considers evidence of impairment of financial assets measured at amortized cost at both a specific asset and collective level. All individually significant financial assets measured at amortized cost are assessed for specific impairment. All individually significant financial assets measured at amortized cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Such assets that are not individually significant are collectively assessed for impairment by grouping together financial assets measured at amortized cost with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortized cost is measured through a loss allowance at an amount equal to:

PRO REAL ESTATE INVESTMENT TRUST
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2018

UNAUDITED - CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

- (i) 12 month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- (ii) Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through comprehensive income.

Property acquisitions and business combinations

Where property is acquired, management considers the substance of the assets and activities acquired in determining whether the acquisition represents the acquisition of a business. The basis of the judgment is set out in Note 4.

Where such acquisitions are not judged to be an acquisition of a business, they are treated as asset acquisitions. The cost to acquire the property is allocated between the identifiable assets and liabilities are acquired based on their relative fair values at the acquisition date, and no goodwill arises.

Where acquisitions are judged to be businesses, they are accounted for using the acquisition method. The acquisition is recognized at the aggregate of the consideration transferred, measured on the acquisition date at fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the REIT measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed in the statement of comprehensive income.

When the REIT acquires a business, it makes an assessment of the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. If the business combination is achieved in stages, the acquisition date fair value of the REIT's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date through the statement of comprehensive income. Any contingent consideration to be transferred by the REIT will be recognized as a liability at fair value at the acquisition date. Subsequent changes to the fair value of any contingent consideration are recognized in the statement of comprehensive income.

Investment properties

Property is determined to be an investment property when it is principally held to earn rental income or capital appreciation or both. It includes land, buildings, leasehold improvements and direct leasing costs. The REIT applies IAS 40 – Investment Property, and has chosen the fair value method of presenting its investment properties in the condensed consolidated interim financial statements.

Investment property is measured initially at cost including transaction costs. Transaction costs include expenses such as transfer taxes, professional fees for legal services and initial leasing commissions to bring the property to the condition necessary for it to be capable of operating. Subsequent to initial recognition, investment property is carried at fair value. Gains or losses arising from changes in fair value are included in the statement of comprehensive income during the period in which they arise.

The REIT measures fair value in accordance with IFRS 13, Fair Value measurement. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The fair value of investment properties shall reflect market conditions at the end of the reporting period. Fair value is time-specific as of a given date. As market conditions could change, the amounts presented as fair value could be incorrect or inadequate at another date. The fair value of investment properties is based on valuation methods performed by management and third-party appraisers who are members of the Appraisal Institute of Canada.

Payments to tenants under lease obligations are included in the carrying cost of the investment properties. Payments that are determined to primarily benefit the tenant are treated as tenant inducements and are amortized as a reduction of rental revenue on a straight line basis over the term of the lease.

Property and equipment

Property and equipment is carried at historical cost less accumulated depreciation and impairment. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

The REIT allocates the amount initially recognized in respect of an item of property and equipment to its significant parts and depreciates each part separately.

Depreciation of property and equipment is provided over the remaining useful lives of the assets using the declining balance method for furniture and fixtures and computer equipment and on the straight-line method for leasehold improvements as follows:

- Furniture and fixtures – 20%
- Computer equipment – 30%
- Leasehold improvements – over the term of the lease

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NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
JUNE 30, 2018

UNAUDITED - CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

Property and equipment (continued)

Depreciation is determined with reference to the asset's cost, estimated useful life and residual value. Subsequent costs are included in the assets carrying amount or recognized as a separate asset, as appropriate and depreciated over their expected useful life. The asset's residual values, depreciation method and useful lives are reviewed annually and adjusted if appropriate. Assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset to its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

Cash

Cash includes balances with banks and funds held in trust.

Deferred acquisition costs

Deferred acquisition costs include transaction costs directly attributable to asset acquisition of investment properties, where it is probable that the acquisition will be completed.

Fair Value Hierarchy

The REIT classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7 – Financial Instruments: Disclosures. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 ("L1") – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities; Level 2 ("L2") – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 ("L3") – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

Unitholders' equity

The REIT's Units are redeemable at the option of the holder and, therefore, are considered puttable instruments. Puttable instruments are required to be accounted for as financial liabilities in accordance with IAS 32: Financial Instruments: presentation. In accordance with IAS 32, puttable instruments are to be presented as equity when certain conditions, called the "Puttable Instrument Exemption", are met.

To be presented as equity, the Units must meet all of the following conditions required by the Puttable Instrument Exemption: (i) it must entitle the holder to a pro-rata share of the REIT's net assets in the event of the REIT's dissolution; (ii) it must be in the class of instruments that is subordinate to all other instruments; (iii) all instruments in the class in (ii) must have identical features; (iv) other than the redemption feature, the Units may contain no other contractual obligations that meet the definition of a liability; and (v) the expected cash flows for the Units must be based substantially on the profit or loss of the REIT or change in fair value of the Units.

The Units meet the Puttable Instrument Exemption and are classified and accounted for as equity in the statement of financial position. Distributions on Units, if any, are deducted from unitholders' equity.

Payment of distributions

The determination to declare and make payable distributions from the REIT is at the sole discretion of the Board of Trustees of the REIT, and until declared payable by the Board of Trustees of the REIT, the REIT has no contractual requirement to pay cash distributions to unitholders of the REIT or holders of Class B LP Units.

Class B LP Units

The Class B LP Units issued by one of the REIT's limited partnerships under control, are classified as "financial liabilities", as they are exchangeable into Units of the REIT on a one-for-one basis at any time at the option of the holder. Class B LP Units are measured at fair value and presented as part of non-current liabilities in the statement of financial position, with changes in fair value recorded in the statement of comprehensive income. The fair value of the Class B LP Units is determined with reference to the market price of Units on the date of measurement. Distributions on Class B LP Units are recognized in the statement of comprehensive income when declared.

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UNAUDITED - CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

Long-term incentive plan

The REIT has adopted a long-term incentive plan which provides for the grant of deferred units (“DU”) and restricted units (“RU”) of the REIT to directors, employees, trustees and consultants of the REIT and its subsidiaries. The RUs and DUs are considered to be financial liabilities in the statement of financial position because there is a contractual obligation for the REIT to deliver Units upon conversion of the RUs and DUs. As a result of this obligation, the RUs and DUs are exchangeable into a liability as the Units are a liability by definition in accordance with IAS 32 and the Puttable Instrument Exemption does not apply to IFRS 2 – share-based payment (“IFRS 2”). In accordance with IAS 32, the long-term incentive plan is presented as a liability and is measured at fair value in the statement of financial position in accordance with IAS 39 Financial Instruments: Recognition and Measurement. Fair market value is determined with reference to observable market price of the REIT’s Units.

The compensation expense relating to the long-term incentive plan is recognized over the vesting period based on the fair value of the Units at the end of each reporting period and includes additional compensation expense relating to additional DUs and RUs issued as a result of distributions on the underlying Units. Once vested, the liability is remeasured at the end of each reporting period and at the date of settlement, with any fair value adjustment recognized in the statement of comprehensive income for the period. Distributions declared on vested DUs and RUs are also recorded in the statement of comprehensive income.

Cancellation of Units under the normal course issuer bid

In the event the REIT repurchases its own Units under the normal course issuer bid (“NCIB”), those Units are deducted from unitholders’ equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders’ equity.

Provisions

A provision is a liability of uncertain timing or amount. Provisions are recognized when the REIT has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a discount rate that reflects current market assessments of the time value of money and risks specific to the obligation. Provisions are re-measured at each financial reporting date using the current discount rate. The amount recognized as provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date.

Revenue recognition

The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease; straight-line rent receivable, which is included in the carrying amount of the investment property, is recorded for the difference between the rental revenue recorded and the contractual amount received. Contingent rental income or percentage rents are recognized when the required level of sales has been achieved. Lease cancellation fees are recognized as revenue when the tenant foregoes the rights and obligations from the use of the space. Lease incentives are recognized on a straight-line basis over the term of the lease, even if the payments are not made on such a basis.

Recoveries from tenants for taxes, insurance and other operating expenses are recognized as service charge income in the period in which the applicable costs are incurred. Services charges and other such receipts are included gross of the related costs in property income, as management considers that the REIT acts as principal in this respect. Recoveries for repair and maintenance costs capitalized with investment property are recognized on a straight-line basis over the expected life of the items. Parking and other incidental revenues are recognized when the services are provided.

Joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities, relating to the arrangement. Those parties are called joint operations. The condensed consolidated interim financial statements include the REIT’s proportionate share of the joint operations’ assets, liabilities, revenue and expenses on a line by line basis, from the date that the joint control commences until the date that joint control ceases.

Income and capital taxes

The REIT currently qualifies as a “mutual fund trust” for income tax purposes. The REIT expects to distribute or designate all of its taxable income to unitholders and is entitled to deduct such distributions for income tax purposes. Accordingly, except for the REIT’s subsidiaries, no provision for income taxes payable is required.

The legislation relating to the federal income taxation of a specified investment flow through (“SIFT”) trust or partnership was enacted on June 22, 2007. Under the SIFT rules, certain distributions from a SIFT will not be deductible in computing the SIFT’s taxable income, and the SIFT will be subject to tax on such distributions at a rate that is substantially equivalent to the general tax rate applicable to Canadian corporations. However, distributions paid by a SIFT as returns of capital should generally not be subject to the tax. Under the SIFT rules, the new taxation regime will not apply to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue (the “REIT Conditions”). The REIT has reviewed the SIFT rules and has assessed their interpretation and application to the REIT’s assets and income. While there are uncertainties in the interpretation and application of the SIFT rules, the REIT believes that it meets the REIT Conditions.

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UNAUDITED - CAD \$ thousands except per unit and per unit amounts

3. Summary of significant accounting policies (continued)

Income and capital taxes (continued)

However, certain of the REIT's subsidiaries are incorporated companies. For these companies, the REIT follows the tax liability method for determining income taxes. Under this method, deferred income taxes assets and liabilities are determined according to differences between the carrying amounts and tax bases of specific assets and liabilities. Deferred tax assets and liabilities are measured based on enacted or substantively enacted tax rates and laws at the date of the condensed consolidated interim financial statements for the years in which these temporary differences are expected to reverse. Adjustments to these balances are recognized in the statement of comprehensive income as they occur. It was determined that no current or deferred income tax provisions were required for the periods presented in these condensed consolidated interim financial statements.

4. Significant accounting judgments, estimates and assumptions

The preparation of the REIT's condensed consolidated interim financial statements requires management to make critical judgments, estimates and assumptions that affect the reported amounts of income, expenses, assets and liabilities and the disclosure of contingent liabilities, at the date of the condensed consolidated interim financial statements. The critical estimates and judgments utilized in preparing the REIT's condensed consolidated interim financial statements affect the assessment of net recoverable amounts, net realizable values and fair values, depreciation and amortization rates and useful lives, determination of the degree of control that exists in determining the corresponding accounting basis and the selection of accounting policies. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities in future periods.

Judgments

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

- (i) Business combinations and asset acquisitions – The REIT, in general, acquires investment properties as asset acquisitions but at the time of the acquisition also considers whether 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 investment property. Consideration is made of the extent to which significant processes are acquired and, in particular, the extent of ancillary services provided by the subsidiary (e.g., maintenance, cleaning, security, bookkeeping, etc.). The significance of any process is judged with reference to the guidance in IAS 40 about ancillary services.
- (ii) Impairment of assets – Long-lived assets, which include property and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment is assessed by comparing the carrying amount of an asset with the expected future net discounted cash flows from its use together with its residual value. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds their fair value.
- (iii) Leases – The REIT uses judgment in determining whether certain leases, in particular those tenant leases with long contractual terms where the lessee is the sole tenant, are operating or finance leases. The REIT has determined that all of its leases are operating leases.
- (iv) Income taxes – Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided that its taxable income is fully distributed to unitholders during the year. The REIT is a real estate investment trust if it meets the REIT Conditions. The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REITs assets and revenue, and it has determined that it qualifies as a real estate investment trust.

The REIT expects to qualify as a real estate investment trust under the Income Tax Act (Canada); however, should it no longer qualify it would not be able to flow through its taxable income to unitholders and the REIT would, therefore, be subject to tax.

- (v) Joint arrangements – The REIT makes judgments in determining whether a joint arrangement structured through a separate vehicle is a joint operation by assessing the legal form of the separate vehicle, including the determination on whether the REIT's interest represents an interest in the assets and liabilities (joint operation) or in its net assets (a joint venture).

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4. Significant accounting judgments, estimates and assumptions (continued)

Estimates and assumptions

In the process of applying the REIT's accounting policies, management has made the following estimates and assumptions which have the most significant effect on the amounts recognized in the condensed consolidated interim financial statements:

- (i) Valuation of investment properties – Investment properties are presented at fair value at the reporting date. Currently, any change in fair value is determined by management and by independent real estate valuation experts using recognized valuation techniques. The techniques used by management and by independent real estate valuation experts comprise of the discounted cash flow and direct capitalization methods of valuation and includes estimating, among other things, capitalization rates and future net operating income and discount rates and future cash flows applicable to investment properties, respectively.
- (ii) Fair value of financial instruments – Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flow model. Inputs to these models are taken from observable markets where possible, but where this is not feasible a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of condensed consolidated interim financial instruments.

5. Future applicable accounting standards

Accounting standards issued but not yet applied

The IASB and the IFRIC have issued a number of standards and interpretations with an effective date after the date of these condensed consolidated interim financial statements. Set out below are only those standards that may have a material impact on the condensed consolidated interim financial statements in future periods.

- (i) IFRS 16 – Leases (“IFRS 16”) was issued by the IASB on January 13, 2016. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, Leases, while requiring enhanced disclosures to be provided by lessors. The new standard is effective for on January 1, 2019 with earlier adoption permitted. The REIT has assessed the impact of the new standard and there are no significant changes expected to the condensed consolidated interim financial statements.

6. Business combination

On June 27, 2018, the REIT acquired the assets of Compass Commercial Realty Limited (“Compass”), a property management firm headquartered in Halifax, Nova Scotia. Compass is a property manager with approximately 60 properties under management, totaling more than approximately 3.7 million square feet of GLA. It currently manages 25 of the REIT's properties in the Maritimes representing approximately 20% of the total revenues of Compass. The purchase price for the acquisition was \$5.4 million excluding transaction costs. In connection with the acquisition of Compass, the REIT issued 869,565 Class B LP Units at a price of \$2.30 per Unit. The balance of the purchase price was settled from cash on hand.

The acquisition was accounted for by the REIT using the acquisition method. Transaction costs expensed for the three and six month periods ended June 30, 2018 were \$475.

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6. Business combination (continued)

The fair value was allocated on a preliminary basis to the net identifiable assets acquired as follows:

	Preliminary purchase price allocation
Property and equipment	\$ 113
Intangible assets	5,287
	\$ 5,400
Consideration given by the REIT:	
Cash	\$ 3,400
Class B LP Units issued (note 12)	2,000
	\$ 5,400

The REIT's preliminary estimates of the expected future cash flows are based on significant management judgments and as in a business combination, it generally takes time to obtain the information necessary to measure the fair values of the assets acquired and any potential goodwill, if any. Management anticipates the intangible assets will include, but may not be limited to, customer lists and customer relationships. Changes to the provisional measurement of the assets may be retrospectively adjusted when new information is obtained until the final measurements are determined.

7. Investment property acquisitions

During the six month period ended June 30, 2018, the REIT acquired the following investment properties:

Investment Property	Location	Property Type	Acquisition Date	Interest Acquired
598 Union Street	Fredericton, New Brunswick	Retail	June 14, 2018	100%
1750 Jean-Berchmans-Michaud Street	Drummondville, Quebec	Industrial	June 28, 2018	50%
10 & 20 Bentall Street	Winnipeg, Manitoba	Industrial	June 29, 2018	100%
1305 Kind Edward Street	Winnipeg, Manitoba	Industrial	June 29, 2018	100%
1313 Kind Edward Street	Winnipeg, Manitoba	Industrial	June 29, 2018	100%
1410 Mountain Avenue	Winnipeg, Manitoba	Commercial Mixed Use	June 29, 2018	100%
1455 Mountain Avenue	Winnipeg, Manitoba	Industrial	June 29, 2018	100%
1791 Dublin Avenue	Winnipeg, Manitoba	Industrial	June 29, 2018	100%

The 50% undivided interest acquisition of 1750 Jean-Berchmans-Michaud Street is considered to be a related party transaction given the vendor of the 50% undivided interest in the property was a trust in which a trustee of the REIT directly or indirectly had an interest. The REIT now owns 100% of this property which was previously accounted for as a joint operation.

The property acquisitions were all determined to be asset acquisitions.

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7. Investment property acquisitions (continued)

The fair values of the investment properties acquired and related consideration paid, at their respective dates of acquisition, can be broken down as follows:

	June 30 2018
Assets	
Investment properties	\$ 37,281
Other assets	321
	\$ 37,602
Liabilities	
Assumed mortgages	2,434
Accounts payable and other liabilities	421
	2,855
Fair value of investment properties acquired	\$ 34,747
Consideration paid by the REIT:	
Cash	\$ 11,797
Units issued (note 16)	900
New mortgage financing	22,050
	\$ 34,747

8. Investment properties

	June 30 2018	December 31 2017
Balance, beginning of period	\$ 356,055	\$ 251,503
Acquisitions	37,281	116,339
Disposal	-	(21,680)
Additions	3,071	5,393
Leasing commissions	483	873
Straight-line rent adjustment	359	507
Fair value adjustment	(1,942)	3,120
Balance, end of period	\$ 395,307	\$ 356,055

The fair value is determined on the basis of valuations made by management and by independent external appraisers having appropriate professional qualifications, using recognized valuation techniques, comprising of the discounted cash flow and direct capitalization methods. These methods require certain key assumptions, including rental income, market rents, operating expenses, vacancies, inflation rates, capitalization rates, terminal capitalization rates and discount rates. These rates are determined for each property based on available market information related to the sale of similar buildings within the same geographical locations.

At June 30, 2018, external appraisals were obtained for investment properties with an aggregate fair value of \$392,055 (December 31, 2017 - \$354,415) and management's internal valuations were used for investment properties with an incremental aggregate fair value of \$3,252 (December 31, 2017 - \$1,640).

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8. Investment properties (continued)

Significant assumptions made to determine the fair value of the investment properties are set out as follows:

At June 30, 2018	Retail	Office	Commercial Mixed Use	Industrial
Capitalization rate	5.3% - 8.8%	7.3% - 10.0%	6.2% - 8.3%	6.3% - 7.8%
Terminal capitalization rate	5.5% - 8.5%	7.0% - 9.0%	6.3% - 7.8%	6.3% - 8.0%
Discount rate	6.0% - 9.5%	7.5% - 9.8%	6.8% - 8.5%	7.0% - 8.3%

At December 31, 2017	Retail	Office	Commercial Mixed Use	Industrial
Capitalization rate	5.3% - 8.8%	7.3% - 10.0%	6.2% - 8.3%	6.3% - 7.8%
Terminal capitalization rate	5.5% - 8.5%	7.0% - 9.0%	6.3% - 7.8%	6.5% - 8.0%
Discount rate	6.0% - 9.5%	7.5% - 9.8%	6.8% - 8.5%	7.0% - 8.3%

The fair values of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the capitalization rates, terminal capitalization rates and discount rates would result in a change to the fair value of the REIT's investment properties as set out in the following table:

	Impact of 25-basis points			
	June 30, 2018		December 31, 2017	
	Increase	Decrease	Increase	Decrease
Capitalization rate	\$ (13,695)	\$ 14,730	\$ (12,205)	\$ 13,115
Terminal capitalization rate	\$ (11,270)	\$ 3,610	\$ (8,465)	\$ 4,870
Discount rate	\$ (11,068)	\$ 2,860	\$ (8,380)	\$ 4,240

9. Property and equipment

Cost	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Balance, January 1, 2018	\$ 64	\$ 143	\$ 72	\$ 279
Additions	63	68	-	131
Balance, June 30, 2018	127	211	72	410
Accumulated depreciation				
Balance, January 1, 2018	18	50	66	134
Depreciation	2	14	5	21
Balance, June 30, 2018	20	64	71	155
Carrying value, June 30, 2018	\$ 107	\$ 147	\$ 1	\$ 255

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9. Property and equipment (continued)

Cost	Furniture and fixtures	Computer equipment	Leasehold improvements	Total
Balance, January 1, 2017	\$ 81	\$ 96	\$ 72	\$ 249
Additions	-	50	-	50
Balance, December 31, 2017	81	146	72	299
Accumulated depreciation				
Balance, January 1, 2017	20	35	54	109
Depreciation	15	19	11	45
Balance, December 31, 2017	35	54	65	154
Carrying value, December 31, 2017	\$ 46	\$ 92	\$ 7	\$ 145

10. Receivables and other

	June 30 2018	December 31 2017
Accounts receivable	\$ 2,024	\$ 1,888
Prepaid taxes	2,945	983
Prepaid other	576	1,033
Deposits	96	151
Other receivables (note 24)	1,540	1,546
	\$ 7,181	\$ 5,601

11. Debt

	June 30 2018	December 31 2017
Mortgages payable (net of financing costs of \$2,032)	\$ 205,882	\$ 197,711
Term loans (net of financing costs of \$231)	11,569	16,473
Total	217,451	214,184
Debt (current)	13,030	22,951
Non-current debt	\$ 204,421	\$ 191,233

As at June 30, 2018, all mortgages payable were at fixed rates with a weighted average contractual rate of approximately 3.80% (December 31, 2017 – 3.73%). The mortgages payable are secured by first charges on certain investment properties with a fair value of approximately \$350,307 at June 30, 2018 (December 31, 2017 - \$343,855).

The REIT's first term loan is to finance acquisitions and fund deposits on future acquisitions with a maximum available of \$15 million. The term loan is interest bearing only at the rate greater of 7.95% or the financial institution prime rate plus 4.50% per annum and matures February 2020. At June 30, 2018, advances under the term loan amounted to \$10,000 (December 31, 2017 - \$5,000). The term loan is secured by a pool of second and third charges on certain investment properties with a fair value of approximately \$66,650 at June 30, 2018 (December 31, 2017 - \$66,550).

The REIT's second term loan is in the amount of \$1.8 million bearing interest only at 6.25% per annum with a January 2022 maturity date. This term loan is secured by a second charge on an investment property with a fair value of approximately \$7,280 (December 31, 2017 - \$7,280).

In connection with the acquisition of 19 properties in Q4 2017, the REIT entered into a third term loan in the amount of \$10.0 million bearing interest only at 8.00% per annum with an April 2019 maturity date. This loan was repaid in full February 1, 2018. In connection with this prepayment, the REIT incurred debt settlement costs of \$719.

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11. Debt (continued)

Interest expense was \$1,894 and \$3,874 for the three and six month periods ended June 30, 2018 (\$1,323 and \$2,640 for the three and six month periods ended June 30, 2017). The REIT is required under the terms of specific debt agreements to maintain debt to service coverage ratios. The REIT was in compliance at June 30, 2018.

The debt is repayable no later than 2033 as follows:

	Due within						Total
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later	
Principal instalments	\$ 5,968	\$ 5,731	\$ 5,714	\$ 5,278	\$ 3,555	\$ 10,600	\$ 36,846
Principal maturities	7,063	23,888	-	38,162	40,603	73,152	182,868
Sub-total debt	13,031	29,619	5,714	43,440	44,158	83,752	219,714
Financing costs	(581)	(483)	(403)	(345)	(184)	(267)	(2,263)
Total	\$ 12,450	\$ 29,136	\$ 5,311	\$ 43,095	\$ 43,974	\$ 83,485	\$ 217,451

12. Class B LP Units

	June 30, 2018		December 31, 2017	
	Class B LP Units	Amount	Class B LP Units	Amount
Outstanding, beginning of period	6,799,950	\$ 15,640	3,444,129	\$ 7,302
Issuance of Class B LP Units - acquisition (note 6)	869,565	2,000	3,605,821	8,113
Exchange of Class B LP Units for REIT Units	-	-	(250,000)	(525)
Fair value adjustment	-	(153)	-	750
Outstanding, end of period	7,669,515	\$ 17,487	6,799,950	\$ 15,640

The Class B LP Units are exchangeable into Units on a one-for-one basis for Units at any time at the option of the holder. During the three and six month periods ended June 30, 2018, Nil Class B Units in issue were exchanged into REIT Units.

The Class B LP Units are entitled to distributions equal to distributions declared on Units, on a one-to-one basis. Distributions on Class B LP Units are recognized in the statement of comprehensive income when declared. Distributions of \$0.0525 and \$0.1050 per Class B LP Unit were declared during the three and six month periods ended June 30, 2018 respectively (\$0.0525 and \$0.1050 for the three and six month periods ended June 30, 2017 respectively).

13. Long-term incentive plan

	Number of Restricted Units (RUs)	Number of Deferred Units (DUs)	Total
At January 1, 2017	-	1,116,152	1,116,152
Restricted Units and Deferred Units granted	-	301,290	301,290
Reinvested distributions	-	144,165	144,165
At December 31, 2017	-	1,561,607	1,561,607
Restricted Units and Deferred Units granted	-	401,432	401,432
Reinvested distributions	-	87,346	87,346
At June 30, 2018	-	2,050,385	2,050,385
Vested	-	1,309,562	1,309,562
Unvested	-	740,823	740,823
Total	-	2,050,385	2,050,385

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13. Long-term incentive plan (continued)

	3 Months Ended June 30 2018	6 Months Ended June 30 2018	Year Ended December 31 2017
At fair value, beginning of period	\$ 3,059	\$ 3,069	\$ 1,908
Amortization, RUs and DUs:			
Amortization, RUs and DUs	228	306	697
Reinvested distributions, RUs and DUs	52	91	259
Fair value adjustment, RUs and DUs	103	(24)	205
Total expense - unvested RUs and DUs	383	373	1,161
At fair value, end of period	\$ 3,442	\$ 3,442	\$ 3,069

For the three and six month periods ended June 30, 2018, 42,062 and 450,668 DUs were granted to Trustees and key management personnel. For the three and six month periods ended June 30, 2017, 30,691 and 329,904 DUs were granted to Trustees and key management personnel.

The REIT has adopted a long-term incentive plan which provides for the grant of DUs and RUs of the REIT to directors, employees, trustees and consultants of the REIT and its subsidiaries. The maximum number of units permitted to be issued under the long-term incentive plan is 7,390,586.

Each RU represents the right to receive one Unit upon vesting of the RU. Vesting of the RUs will occur in full at the end of a three year period as follows: one-third of the RUs granted in any year will vest at the start of the fiscal year immediately following the grant ("initial vesting date"), subject to provisions for earlier vesting upon the occurrence of certain events; one-third will vest on the first anniversary of the initial vesting date; the final one-third will vest on the 2nd anniversary of the initial vesting period. Upon vesting of the RUs the holder of the RUs will receive one Unit in respect of each vested RU.

Each DU represents the right to receive one Unit upon the holder of the DU ceasing to be employed by the REIT, provided that the DU is vested (or is deemed to be vested) at such time. Vesting of the DUs will occur in full at the end of a three year period as follows: one-third of the DUs granted in any year will vest at the start of the fiscal year immediately following the grant ("initial vesting date"), subject to provisions for earlier vesting upon the occurrence of certain events; one-third will vest on the first anniversary of the initial vesting date; the final one-third will vest on the 2nd anniversary of the initial vesting period.

For the six month period ended June 30, 2018, 488,778 DUs were granted at an average unit price of \$2.29. For the six month period ended June 30, 2017, 368,324 DUs were granted at an average unit price of \$2.23.

14. Credit facility

The REIT has a revolving credit facility of \$30.0 million which bears interest at prime plus 150.0 basis points or bankers' acceptance rate plus 250.0 basis points. The facility was increased to \$30.0 million in June of 2018 from \$11.5 million. The credit facility is secured by a pool of first and second charges on certain investment properties with a fair value of approximately \$58,450 at June 30, 2018 (December 31, 2017 - \$25,650). At June 30, 2018, the REIT had \$30,000 outstanding on the revolving credit facility and unamortized financing costs of \$118.

The REIT is required under the credit facility agreement to maintain certain financial ratios at the end of each reporting period and a minimum unitholders' equity at all times. At June 30, 2018, the REIT was compliant with all financial covenants under the revolving credit facility.

15. Accounts payable and other liabilities

	June 30 2018	December 31 2017
Accounts payable	\$ 2,095	\$ 1,954
Accrued liabilities	3,542	2,404
Tenant deposits	1,011	679
Prepaid rent	1,121	830
	\$ 7,769	\$ 5,867

Included in accounts payable as at June 30, 2018, is an amount of \$611 (December 31, 2017 - \$235) payable to a company controlled by the REIT's management.

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16. Unitholders' equity

	Number of Issued Units	Amount
At January 1, 2017	43,931,990	\$ 87,695
Issuance of Units - distribution reinvestment plan	598,126	1,273
Issuance of Units - June 13, 2017 - public offering	9,687,100	21,796
Less: issue costs		(2,639)
Exchange of Class B LP Units for REIT Units (note 12)	250,000	525
Cancellation of Units - normal course issuer bid	(34,000)	(71)
At December 31, 2017	54,433,216	108,579
Issuance of Units - distribution reinvestment plan	361,855	790
Issuance of Units - January 29, 2018 - public offering	12,500,500	28,751
Less: issue costs		(2,671)
Issuance of Units - acquisition (note 7)	391,305	900
At June 30, 2018	67,686,876	\$ 136,349

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units (the "Special Voting Units"). Each Unit confers the right to one vote at any meeting of unitholders and to participate pro rata in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders have the right to require the REIT to redeem their Units on demand. The Units have no par value. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall cease and the holder thereof shall be entitled to receive a price per Unit ("Redemption Price"), as determined by a formula outlined in the Declaration of Trust. The Redemption Price will be paid in accordance with the conditions provided for in the Declaration of Trust.

The Board of Trustees of the REIT (the "Trustees") has discretion in respect to the timing and amounts of distributions.

Units are redeemable at any time, in whole or in part, on demand by the unitholders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the unitholder shall be entitled to receive a price per Unit equal to the lesser of:

- 90% of the "market price" of the Units on the TSXV or market on which the Units are listed or quoted on the trading day prior to the date on which the Units were surrendered for redemption; and
- 100% of the "closing market price" on the TSXV or market or on which the Units are listed or quoted for trading on the redemption date.

The total amount payable by the REIT, in respect of any Units surrendered for redemption during any calendar month, shall not exceed \$50 unless waived at the discretion of the Trustees and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price payable in respect of Units surrendered for redemption exceeds \$50 in any given month unless waived at the discretion of the Trustees, such excess will be redeemed for cash, and by a distribution *in specie* of assets held by the REIT on a pro rata basis.

Special Voting Units have no economic entitlement in the REIT, but entitle the holder to one vote per Special Voting Unit at any meeting of the Unitholders of the REIT. Special Voting Units may only be issued in connection with or in relation to Class B LP Units, for the purpose of providing voting rights with respect to the REIT to the holders of Class B LP Units. A Special Voting Unit will be issued in tandem with each Class B LP Unit issued. The Class B LP Units are entitled only to receive distributions equal to those provided to holders of Units. The Class B LP Units are indirectly exchangeable on a one-for-one basis for Units at any time at the option of their holder, unless the exchange would jeopardize the REIT's status as a "mutual fund trust" under the Income Tax Act (Canada). In addition, PRLP will be entitled to require the redemption of the Class B LP Units in certain specified circumstances. The Class B LP Units are presented as a financial liability.

On June 13, 2017, the REIT announced the closing of a public offering of Units, on a bought deal basis, at a price of \$2.25 per Unit resulting in 9,687,100 Units being issued for a total gross proceeds of \$21,796 million. Total underwriting fees and other directly related expenses of approximately \$2.6 million attributable to the issuance of Units was recorded as a reduction of unitholders' equity.

On January 29, 2018, the REIT announced the closing of a public offering of Units, on a bought deal basis, at a price of \$2.30 per Unit resulting in 12,500,500 Units being issued for a total gross proceeds of \$28,751 million including 1,630,500 Units issued pursuant to the full exercise of the over-allotment option. Total underwriting fees and other directly related expenses of approximately \$2.7 million attributable to the issuance of Units was recorded as a reduction of unitholders' equity.

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16. Unitholders' equity (continued)

On June 14, 2018, the REIT closed a previously announced acquisition of the property located at 598 Union Street in Fredericton, New Brunswick for a purchase price of \$4.5 million excluding closing costs. In connection with this acquisition, the REIT issued 391,305 Units at a price of \$2.30 per Unit and for which a standard statutory four-month hold period applies. The remainder of the purchase price was satisfied by a new 4.15% five year mortgage of \$3.2 million and from cash on hand.

Distribution reinvestment plan

The REIT has implemented a distribution reinvestment plan ("DRIP") pursuant to which holders of Units or Class B LP Units may elect to have their cash distributions of the REIT or PRLP automatically reinvested in additional Units at a 3% discount to the weighted average closing price of the Units for the last five trading days preceding the applicable distribution payment date on which trades of the Units were recorded. 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. Unitholders resident outside of Canada will not be entitled to participate in the DRIP. Upon ceasing to be a resident of Canada, a unitholder must terminate the unitholder's participation in the DRIP.

NCIB

Pursuant to a notice accepted by the TSXV, the REIT may, during the period commencing August 25, 2017 and ending August 24, 2018, purchase for cancellation, through the facilities of the TSXV and at the market price of the REIT's Units at the time of purchase, up to 2,707,803 Units, representing 5% of the REIT's issued and outstanding Units. The actual number of Units that may be purchased and the timing of any such purchases will be determined by the REIT, and will be made in accordance with the requirements of the TSXV. The REIT repurchased and cancelled Nil Units for the three and six month periods ended June 30, 2018. For the three and six month periods ended June 30, 2017, the REIT repurchased and cancelled 24,000 and 34,000 Units for \$49 and \$71 respectively.

17. Operating leases - REIT as lessor

The REIT has entered into leases with tenants on its investment property portfolio. Commercial property leases typically have initial lease terms ranging between five and twenty years with periodic upward revision of the rental charge according to prevailing market conditions.

	June 30 2018	December 31 2017
Future minimum rentals receivable under operating leases		
Within one year	\$ 26,844	\$ 23,790
Between one and five years	103,900	94,082
After five years	50,551	49,984
	\$ 181,295	\$ 167,856

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18. Segmented disclosure

The REIT's segments include four classifications of investment properties – Retail, Office, Commercial Mixed Use and Industrial. All of the REIT's activities are located in one geographical segment – Canada. 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. General and administrative expenses, depreciation and amortization, interest and financing costs are not allocated to operating segments. Segment assets include investment properties; segment liabilities include mortgages attributable to specific segments, but excludes the REIT's term loans, credit facility and their respective unamortized financing costs. Other assets and liabilities are not attributed to operating segments.

	Retail	Office	Commercial Mixed Use	Industrial	Total
Three month period ended June 30, 2018					
Property revenue	\$ 4,971	\$ 840	\$ 1,212	\$ 2,052	\$ 9,075
Property operating expenses	1,675	406	500	639	3,220
Net operating income	\$ 3,296	\$ 434	\$ 712	\$ 1,413	\$ 5,855
Six month period ended June 30, 2018					
Property revenue	\$ 10,087	\$ 1,678	\$ 2,465	\$ 4,242	\$ 18,472
Property operating expenses	3,377	882	1,047	1,420	6,726
Net operating income	\$ 6,710	\$ 796	\$ 1,418	\$ 2,822	\$ 11,746
At June 30, 2018					
Investment properties	\$ 204,504	\$ 21,560	\$ 54,292	\$ 114,951	\$ 395,307
Mortgages payable	\$ 109,332	\$ 4,926	\$ 16,552	\$ 75,072	\$ 205,882
Three month period ended June 30, 2017					
Property revenue	\$ 3,730	\$ 835	\$ 905	\$ 1,565	\$ 7,035
Property operating expenses	1,319	437	338	497	2,591
Net operating income	\$ 2,411	\$ 398	\$ 567	\$ 1,068	\$ 4,444
Six month period ended June 30, 2017					
Property revenue	\$ 7,657	\$ 1,669	\$ 1,934	\$ 3,258	\$ 14,518
Property operating expenses	2,826	909	743	1,063	5,541
Net operating income	\$ 4,831	\$ 760	\$ 1,191	\$ 2,195	\$ 8,977
At December 31, 2017					
Investment properties	\$ 199,762	\$ 21,460	\$ 48,332	\$ 86,501	\$ 356,055
Mortgages payable	\$ 116,764	\$ 4,987	\$ 21,573	\$ 54,387	\$ 197,711

19. Supplemental comprehensive income information

Property operating expenses include property taxes, utility costs, repairs and maintenance expenses and other costs directly associated with the operation and leasing of investment properties to tenants.

General and administrative expenses include corporate expenses, office expenses, legal and professional fees, asset management fees and other overhead expenses which are indirectly associated with the operation and leasing of investment properties.

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19. Supplemental comprehensive income information (continued)

The following table provides an analysis of total interest and financing costs:

	3 Months Ended June 30 2018	3 Months Ended June 30 2017	6 Months Ended June 30 2018	6 Months Ended June 30 2017
Interest and financing costs				
Amortization of financing costs	\$ 198	\$ 188	\$ 364	\$ 372
Other interest and financing costs	1,898	1,410	3,905	2,806
	\$ 2,096	\$ 1,598	\$ 4,269	\$ 3,178

20. Supplemental cash flow information

	3 Months Ended June 30 2018	3 Months Ended June 30 2017	6 Months Ended June 30 2018	6 Months Ended June 30 2017
Change in non-cash working capital				
Receivable and other	\$ 177	\$ (2,125)	\$ (1,259)	\$ (3,888)
Accounts payable and other liabilities	270	57	1,728	1,366
	\$ 447	\$ (2,068)	\$ 469	\$ (2,522)
Interest paid	\$ 1,980	\$ 1,404	\$ 4,022	\$ 2,573

21. Financial instruments

The REIT does not acquire, hold or issue derivative financial instruments for trading purposes. The following table presents the classification, measurement subsequent to initial recognition, carrying values and fair values (where applicable) of financial assets and liabilities.

Classification	Measurement	Carrying Value June 30 2018	Fair Value June 30 2018	Carrying Value December 31 2017	Fair Value December 31 2017
Loans and Receivables					
Cash (a)	Amortized cost	\$ 6,850	\$ 6,850	\$ 3,744	\$ 3,744
Receivables and other excluding prepaid expenses, deposits, deferred acquisition costs and other receivables (a)	Amortized cost	2,024	2,024	1,888	1,888
		\$ 8,874	\$ 8,874	\$ 5,632	\$ 5,632
Financial Liabilities Through Profit and Loss					
Class B LP Units	Fair value (L2)	\$ 17,487	\$ 17,487	\$ 15,640	\$ 15,640
Long-term incentive plan	Fair value (L2)	3,442	3,442	3,069	3,069
		\$ 20,929	\$ 20,929	\$ 18,709	\$ 18,709
Other Financial Liabilities					
Accounts payable and other liabilities (a)	Amortized cost	\$ 7,769	\$ 7,769	\$ 5,867	\$ 5,867
Credit facility (a)	Amortized cost	29,882	29,882	11,356	11,356
Distributions payable (a)	Amortized cost	1,319	1,319	1,072	1,072
Debt (b)	Amortized cost	217,451	217,451	214,184	214,184
		\$ 256,421	\$ 256,421	\$ 232,479	\$ 232,479

(a) Short-term financial instruments, comprising cash, accounts receivable, accounts payable and other liabilities, credit facility and distributions payable are carried at amortized cost which, due to their short-term nature, approximates their fair value.

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21. Financial instruments (continued)

- (b) Long-term financial instruments consist of debt. The fair value of debt is based upon discounted future cash flows using discount rates, adjusted for the REIT's own credit risk, that reflect current market conditions for instruments with similar terms and risks. Such fair value estimates are not necessarily indicative of the amounts the REIT might pay or receive in actual market transactions.

The fair value of the Class B LP Units and long-term incentive plan are estimated based on the market trading prices of the Units (Level 2).

22. Risk management

The REIT's principal financial liabilities are loans and borrowings. The main purpose of the loans and borrowings is to finance the acquisition and development of the REIT's property portfolio. The REIT has tenants and other receivables, accounts payable and accrued liabilities and cash that arise directly from its operations. In the normal course of its business, the REIT is exposed to market risk, credit risk and liquidity risk that can affect its operating performance.

The REIT's senior management oversees the management of these risks and the Board of Trustees reviews and approves policies for managing each of these risks which are summarized below.

Liquidity risk

Liquidity risk is the risk that the REIT will encounter difficulty meeting its obligations associated with the maturity of financial obligations. The REIT's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate levels of financing. Liquidity risk also relates to the potential required early retirement of debt.

Management's strategy to managing liquidity risk is to ensure, to the extent possible, that it will always have sufficient financial assets to meet its financial liabilities as they fall due, by forecasting cash flows from operations and anticipated investing and financing activities. Wherever possible, the REIT enters into long-term leases with creditworthy tenants which assist in maintaining a predictable cash flow. Management's policy is to ensure adequate funding is available from operations, established lending facilities and other sources, as required.

The following table presents the REIT's contractual obligations at June 30, 2018:

Contractual Obligations	Due within					
	1 Year	1-2 Years	2-3 Years	3-4 Years	4-5 Years	Later
Debt principal instalments	\$ 5,968	\$ 5,731	\$ 5,714	\$ 5,278	\$ 3,555	\$ 10,600
Debt principal maturities	7,063	23,888	-	38,162	40,603	73,152
Debt interest	8,010	7,249	6,673	5,926	4,049	10,082
Credit facility	30,000	-	-	-	-	-
Accounts payable and other liabilities	7,769	-	-	-	-	-
Rent	40	40	30	-	-	-
	\$ 58,850	\$ 36,908	\$ 12,417	\$ 49,366	\$ 48,207	\$ 93,834

Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The REIT's financial condition and results of operations could be adversely affected if it were not able to obtain appropriate terms for its financing. Management has determined that any reasonably likely fluctuation in interest rates on floating rate debt would be insignificant to comprehensive income as most long-term debt is fixed rate.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The REIT's principal assets are commercial properties. Credit risk on tenant receivables comprising accounts receivable of \$2,024 arises from the possibility that tenants may not fulfill their lease obligations. Management mitigates this credit risk by performing credit checks on prospective tenants, having a large diverse tenant base with varying lease expirations, requiring security deposits on high risk tenants and ensuring that a considerable portion of its property income is earned from national and large anchor tenants. Accounts receivable are comprised primarily of current balances owing and the REIT has not experienced any significant receivable write offs. The REIT performs monthly reviews of its receivables and has determined there is no significant provision for doubtful accounts at June 30, 2018.

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22. Risk management (continued)

Concentration risk

Concentration risk relates to the risk associated with having a significant amount of investment property leased to a single tenant. Concentration risk is mitigated by entering into long-term leases; reviewing the financial stability of the tenant and obtaining security or guarantees where appropriate; and seeking geographic and industry diversity of tenants. The REIT also maintains its assets to a quality standard that would support timely leasing of vacant space. At June 30, 2018, the REIT's largest tenant accounted for approximately 10.1% of property revenue under lease which expires between 2023 and 2034.

Environmental risk

As an owner of real estate properties, the REIT is subject to various Canadian federal, provincial and municipal laws relating to environmental matters. These laws could result in liability for the costs of removal and remediation of certain hazardous substances or wastes released or deposited on or in investment properties, or disposed of at other locations. Failure to remove or remediate such substances, if any, could adversely affect the ability to sell real estate, or to borrow using real estate as collateral, and could potentially result in claims or other proceedings. The REIT is not aware of any material non-compliance with environmental laws at any properties. The REIT is also not aware of any material pending or threatened investigations or actions by environmental regulatory authorities in connection with, or conditions at, 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 in the future. Compliance with stringent environmental laws and regulations could have an adverse effect on the financial condition or results of operations.

23. Capital management

The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

The REIT's objective is to maintain a combination of short, medium and long-term debt maturities that are appropriate for the overall debt level of its portfolio, taking into account availability of financing and market conditions, and the financial characteristics of each property.

The REIT's other objectives when managing capital on a long-term basis include enhancing the value of the assets and maximizing unit value through the ongoing active management of the REIT's assets, expanding the asset base through acquisitions of additional properties and the re-development of projects which are leased to creditworthy tenants, and generating sufficient returns to provide unitholders with stable and growing cash distributions. The REIT's strategy is driven by policies as set out in the Declaration of Trust, as well as requirements from certain lenders. The requirements of the REIT's operating policies as outlined in the Declaration of Trust include requirements that the REIT will not:

- (a) incur or assume indebtedness on properties in excess of 75% of the property's market value; and
- (b) incur or assume indebtedness which would cause the total indebtedness of the REIT to exceed 70% of Gross Book Value

Gross Book Value is calculated as follows:

	June 30 2018
Total assets, including investment properties stated at fair value	\$ 415,268
Accumulated depreciation on property and equipment	155
Gross Book Value	415,423
Debt, excluding unamortized financing costs	219,714
Credit facility, excluding unamortized financing costs	30,000
Debt	\$ 249,714
Debt, as above, as a percentage of Gross Book Value	60.11%

The REIT was in compliance with the above requirements as well as all required financial covenants at June 30, 2018.

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24. Related party transactions

The REIT engaged Labec Realty Advisors Inc. (the "Manager") to perform certain services as outlined below under a management agreement (the "Management Agreement"). The Manager is controlled by the President and Chief Executive Officer and Chief Financial Officer of the REIT.

In connection with the services provided by the Manager under the Management Agreement, the following amounts will be payable to the Manager, in cash:

- (a) an annual advisory fee payable quarterly, equal to 0.25% of the Adjusted Cost Base of REIT's assets, prorated to take into account any acquisitions or dispositions during any monthly period, where "Adjusted Cost Base" means the book value of the assets of the REIT, as shown on its most recent condensed consolidated interim statement of financial position, plus the amount of accumulated depreciation and amortization shown thereon, less cash raised by REIT in equity issues which is not yet invested in properties or other assets.

For the three and six month periods ended June 30, 2018, the costs of these services amounted to \$199 and \$396 respectively (\$141 and \$281 for the three and six month periods ended June 30, 2017 respectively).

- (b) an acquisition fee equal to (i) 1.00% of the purchase price paid by the REIT for the purchase of a property, on the first \$100,000 of properties acquired in each fiscal year; (ii) 0.75% of the purchase price paid by the REIT for the purchase price of a property on the next \$100,000 of properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by the REIT for the purchase of a property, on properties in excess of \$200,000 acquired in each fiscal year.

For the three and six month periods ended June 30, 2018, the costs of these services amounted to \$318 (\$Nil and \$30 for the three and six month periods ended June 30, 2017 respectively).

- (c) a property management fee equal to the then applicable market rate for property management services when such services are not otherwise delegated or subcontracted to third parties.

For the three and six month periods ended June 30, 2018, the costs of these services amounted to \$11 and \$22 respectively (\$8 and \$16 for the three and six month periods ended June 30, 2017 respectively).

During the three and six month periods ended June 30, 2018, the REIT reimbursed the Manager approximately \$27 for out-of-pocket expenses for services directly related to property acquisitions of the REIT (\$13 for the three and six month periods ended June 30, 2017).

During the three and six month periods ended June 30, 2018, the REIT also paid a fee of \$220,000 to the Manager for services provided in addition to those referred to in the Management Agreement in connection with the internalization of the REIT's property management function and the acquisition of the assets of Compass. The fees for such services, which included all services required to review the internalization of the REIT's property management function and ultimately complete the acquisition of the assets of Compass, were agreed upon with the Manager, in accordance with the Management Agreement.

On September 30, 2014, the REIT entered into a strategic investment agreement (the "Strategic Investment Agreement") with Lotus Crux Acquisition LP ("Lotus Crux Acquisition"). Pursuant to the Strategic Investment Agreement, Lotus Crux Acquisition will receive a fee of 0.875% of the purchase cost from the REIT on acquisitions of certain properties owned by Lotus Crux Acquisition or related parties. Lotus Crux Acquisition LP and its related parties have an effective interest in the REIT.

Fees of approximately \$Nil were paid in the three and six month periods ending June 30, 2018 (\$26 for the three and six month periods ended June 30, 2017).

Pursuant to the Strategic Investment Agreement, the REIT advanced \$1.5 million as a secured loan to two related parties to Lotus Crux as part of the financing for the acquisition of a 74,000 square feet multi-tenant commercial building well located in Greater Ottawa (note 10). The loan is on market terms as negotiated between parties acting at arm's length, bears interest at 9% per annum and matures November 2019. In accordance with the terms of the Strategic Investment Agreement, and as a result of the loan, the REIT has been granted an option to purchase the property.

The acquisition of the remaining 50% interest in a property located in Drummondville, Quebec on June 28, 2018 is considered to be a related party transaction given the vendor of the 50% undivided interest in the property was a trust in which a trustee of the REIT, Peter Aghar, was a trustee and in which directly or indirectly had an interest.

25. Commitment

The REIT has a lease commitment relating to office space which expires on May 31, 2021. The current commitment in respect of this lease is \$40 per annum.

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26. Subsequent events

- (a) On June 5, 2018, the REIT announced that it signed an agreement to acquire four properties located in Montreal, Sherbrooke, Laurier Station and Lévis, in Quebec. The transaction closed on August 15, 2018. The properties are 100% leased to Couche Tard convenience stores and include a Tim Hortons. The four buildings contain 13,606 square feet and were acquired for \$8.95 million excluding closing costs from vendors of which a Trustee of the REIT, Vincent Chiara, is considered a related party. The consideration of the acquisition comprises a cash portion of \$6.67 million which will be financed by the assumption of existing mortgage debt, new first mortgages, the REIT's lines of credit, and the issuance of approximately \$2.28 million of Class B LP Units at a price of \$2.30 per unit.
- (b) On July 19, 2018, the REIT announced a cash distribution of \$0.0175 per Unit for the month of July 2018. The distribution was paid on August 15, 2018 to unitholders of record as at July 31, 2018.