

**REALNORTH OPPORTUNITIES FUND**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**PERIOD ENDED SEPTEMBER 30, 2018**  
**DATED: NOVEMBER 29, 2018**

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**1. BASIS OF PRESENTATION**

The following management's discussion and analysis ("MD&A") of the financial condition and results of operations prepared on November 29, 2018 should be read together with the Trust's audited consolidated financial statements and notes thereto for the period ended December 31, 2017 and unaudited condensed interim consolidated financial statements and notes thereto for the period ended September 30, 2018. All financial information is reported in Canadian dollars and in accordance with IFRS unless otherwise noted.

REALnorth Opportunities Fund (the "Trust") uses International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), as its basis of financial reporting for the unaudited condensed interim consolidated financial statements for the period ended September 30, 2018.

**2. FORWARD-LOOKING DISCLAIMER**

Certain information in this MD&A contains forward-looking information within the meaning of applicable securities laws (also known as forward-looking statements) including, without limitation, statements made or implied under the headings "Liquidity", "Capital Resources", "Risks and Uncertainties", "Performance Summary", "Selected Historical Information" and "Future Accounting Policy Changes" relating to the Trust's objectives, strategies to achieve those objectives, beliefs, plans, estimates, projections and intentions; and similar statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. Forward-looking statements generally can be identified by words such as "outlook", "believe", "expect", "may", "anticipate", "should", "intend", "estimates" and similar expressions.

Forward-looking statements are provided for the purpose of presenting information about management's current expectations and plans relating to the future and readers are cautioned that such statements may not be appropriate for other purposes. Forward-looking statements involve significant risks and uncertainties and should not be read as guarantees of future performance or results. Those risks and uncertainties include, among other things, risks related to availability of cash for distributions, liquidity, credit risk, interest rate and other debt related risk, lease rollover risk, tax risk, ability to access capital markets, competition for real estate property investments, environmental matters, changes in legislation and indebtedness of the Trust.

Management believes that the expectations reflected in forward-looking statements are based upon reasonable assumptions and information currently available; however, management can give no assurance that actual results will be consistent with these forward-looking statements. Factors and assumptions that were applied in drawing conclusions and which could cause actual results, performance, or achievements to differ materially from those expressed or implied by forward-looking statements, include, but are not limited to, general economic conditions, competition for real estate property investments, the availability of new competitive supply of real estate, the Trust's ability to maintain occupancy, tenant defaults, changes in interest rates, changes in governmental regulations and taxation and the Trust's ability to obtain adequate insurance and financing. Readers are cautioned that the foregoing list of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to the Trust, investors and others should carefully consider the foregoing factors and other uncertainties and potential events.

These forward-looking statements are made as of November 29, 2018 and the Trust assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

Additional information about REALnorth Opportunities Fund filed with Canadian securities regulators is available online at [www.sedar.com](http://www.sedar.com).

### 3. DESCRIPTION OF BUSINESS

The Trust is an unincorporated, open-ended investment trust formed pursuant to the Declaration of Trust dated August 27, 2014 under, and governed by, the laws of the Province of British Columbia and resident in Canada. The Trust's head office is located at 910 – 925 West Georgia Street, Vancouver, British Columbia, V6C 3L2.

The Trust was established, among other things, for the purpose of:

- a) acquiring REALnorth Opportunities Master Limited Partnership (the “Master LP”) units;
- b) temporarily holding cash and investments for the purposes of paying the expenses and liabilities of the Trust, paying amounts payable by the Trust in connection with the redemption of any Trust units and making distributions to Trust unitholders;
- c) investing its funds in property (other than real property or interests in real property or an immovable or a real right in an immovable);
- d) acquiring, holding, maintaining, improving, leasing or managing of real property (or interests in real property) or any immovable (or real right in an immovable) that is capital property of the Trust; and
- e) in connection with the undertaking set out above, reinvesting income and gains of the Trust and taking other actions besides the mere protection and preservation of the Trust's property.

The Master LP is a limited partnership formed pursuant to and governed by the laws of the Province of British Columbia and created by the Master LP Agreement on July 31, 2014. The Master LP was established, among other things, to:

- a) issue Master LP units and acquire REALnorth Opportunities (Investments) Limited Partnership (the “Investments LP”) units and REALnorth Opportunities (Developments) Limited Partnership (the “Developments LP”) units; and
- b) temporarily hold cash and investments for the purposes of paying the expenses and liabilities of the Master LP and making distributions to the holders of the Master LP units.

The Investments LP was established on August 28, 2014 pursuant to the laws of the Province of British Columbia for the purposes of owning and operating a diversified portfolio of high quality, revenue-producing properties in northwestern Canada (or proportionate interests in such properties). The principal business of the Investments LP is to issue Investments LP units, to invest the proceeds from such issuance in the properties and to own and operate such properties.

The Developments LP was established on August 29, 2014 pursuant to the laws of the Province of British Columbia for the purposes of developing high quality real estate in northwestern Canada (or proportionate interests in such properties). The principal business of the Developments LP is to issue Developments LP units, to invest the proceeds from such issuance in the properties and to develop such properties.

On August 2, 2018, the Developments LP subscribed for 100 units of FSJ Northwest Limited Partnership (“FSJ Northwest LP”) at \$1 per unit for a total of \$100, which resulted in the Developments LP being the sole limited partner of FSJ Northwest LP. FSJ Northwest LP was established on August 2, 2018 pursuant to the laws of British Columbia for the purposes of acquiring real property, acquiring real property mortgages and other debt and developing and servicing real property for the purposes of leasing or selling.

On September 12, 2014, the Master LP issued 1,938 limited partnership units to the initial limited partners at \$930 per unit for \$1,802,340. The Master LP purchased 1,938 Investments LP units for \$1,802,340 on the same day.

### 3. DESCRIPTION OF BUSINESS (CONTINUED)

On December 30, 2014, the Trust issued 10,623 Trust units at \$1,000 per unit for gross proceeds of \$10,623,000, pursuant to the Trust's prospectus dated December 22, 2014 (the "Prospectus"), and incurred offering costs in the amount of \$849,840. That same day, the Trust purchased 10,623 Master LP units at \$1,000 per unit for \$10,623,000. On February 5, 2015, the Trust issued an additional 2,277 Trust units at \$1,000 per unit for gross proceeds of \$2,277,000 and incurred offering costs in the amount of \$182,160. The Trust purchased an additional 2,277 Master LP units at \$1,000 per unit on the same day. Pursuant to a cost sharing and recovery agreement between the Trust and the Master LP, the Master LP assumed the costs and expenses in connection with the offering of the Trust units.

During the year ended December 31, 2016, the Trust redeemed 100 limited partnership units of the Master LP for total redemption proceeds of \$100,000.

During the year ended December 31, 2017, the Trust redeemed limited partnership units of the Master LP as follows:

| Redemption Date   | Number of Units Redeemed | Total Redemption Price |
|-------------------|--------------------------|------------------------|
| January 25, 2017  | 15                       | \$ 15,000              |
| February 9, 2017  | 60                       | 60,000                 |
| May 4, 2017       | 27                       | 27,000                 |
| October 3, 2017   | 4                        | 4,000                  |
| November 16, 2017 | 4                        | 4,000                  |
|                   | <u>110</u>               | <u>\$ 110,000</u>      |

During the period ended September 30, 2018, the Trust redeemed limited partnership units of the Master LP as follows:

| Redemption Date   | Number of Units Redeemed | Total Redemption Price |
|-------------------|--------------------------|------------------------|
| March 13, 2018    | 3                        | \$ 3,000               |
| March 15, 2018    | 25                       | 25,000                 |
| March 28, 2018    | 25                       | 25,000                 |
| April 11, 2018    | 30                       | 30,000                 |
| April 25, 2018    | 25                       | 25,000                 |
| May 8, 2018       | 10                       | 10,000                 |
| September 6, 2018 | 1                        | 1,000                  |
|                   | <u>119</u>               | <u>\$ 119,000</u>      |

As at September 30, 2018, the Trust owned 12,571 units of the Master LP, representing an ownership interest of approximately 87%.

Since REALnorth Opportunities Inc. (the "Master GP") is the general partner of the Master LP and owns an interest in the Master LP, the initial limited partners own 1,938 units of the Master LP, the general partner of the Investments LP owns an interest in the Investments LP, the general partner of the Developments LP owns an interest in the Developments LP and the general partner of FSJ Northwest LP owns an interest in FSJ Northwest LP, they represent the non-controlling interest of the Trust.

#### 4. SELECTED HISTORICAL INFORMATION

##### Units subscribed for and issued

| Proceeds of Offering - Gross and Net |                 |                      |
|--------------------------------------|-----------------|----------------------|
| Date of Closing                      | Number of Units | Trust Unit Proceeds  |
| December 30, 2014                    | 10,623          | \$ 10,623,000        |
| February 5, 2015                     | 2,277           | 2,277,000            |
| <b>Gross proceeds</b>                | <b>12,900</b>   | <b>12,900,000</b>    |
| Issuance costs                       | –               | (1,032,000)          |
| <b>Net proceeds</b>                  | <b>12,900</b>   | <b>\$ 11,868,000</b> |

##### Direct property acquisitions

On September 12, 2014, the Master LP, through the Investments LP, completed the acquisition of 3851 22<sup>nd</sup> Avenue, Prince George, British Columbia (“22<sup>nd</sup> Avenue”), for a purchase price of \$6,200,000 plus standard closing costs and adjustments. 22<sup>nd</sup> Avenue is a single tenant, 39,494 square foot industrial facility with a site area of approximately 10.1 acres.

The Trust, through the Investments LP, entered into a lease agreement with the tenant of 22<sup>nd</sup> Avenue. The lease was for seven years, expiring in 2021, and the tenant had the option to renew for two terms of three years each at prevailing market rates. The Trust can recover property tax, insurance and management fees from the tenant. The management fee was 2.0% of the basic rent according to the lease agreement.

##### Acquisition of equity-accounted investments

On May 7, 2015, the Trust, through the Developments LP, subscribed for 262,500 units of WCPG VII LP at \$1 per unit for a total of \$262,500, which resulted in the Trust, through the Developments LP, owning 88.9% of WCPG VII LP. On May 27, 2015, the Trust, through the Developments LP, subscribed for a further 3,737,500 units of WCPG VII LP at \$1 per unit for a total of \$3,737,500 and maintained its ownership interest at 88.9% of WCPG VII LP.

On May 29, 2015, WCPG VII LP acquired approximately 29 acres of residential property (“Garrison Landing”) in Fort St. John, British Columbia, for a purchase price of \$6,200,000 plus standard closing costs and adjustments. Garrison Landing is expected to be developed in multiple phases, and to generate, in aggregate, approximately 153 single family lots which will be offered for sale after servicing is complete. As at September 30, 2018, two phases comprising 55 subdivision lots were substantially complete and 19 of those lots had been sold.

On September 3, 2015, the Trust, through the Developments LP, subscribed for 10 Class B units of FSJ Industrial Properties Limited Partnership (“FSJ Industrial”) at \$1 per unit for a total of \$10. On September 9, 2015, the Trust, through the Developments LP, subscribed for a further 3,076,362 Class B units for a total of \$3,076,362, which resulted in the Trust, through the Developments LP, owning 87.5% of FSJ Industrial. On September 24, 2015, the Trust, through the Developments LP, subscribed for a further 65,625 Class B units for a total of \$65,625 and maintained its ownership interest at 87.5% of FSJ Industrial. On December 21, 2015, the Trust, through the Developments LP, subscribed for an additional 131,250 Class B units for a total of \$131,250 and maintained its ownership interest at 87.5% of FSJ Industrial.

On September 10, 2015, FSJ Industrial acquired approximately 17 acres of industrial property (the “BCR Lands”) in Fort St. John, British Columbia, for a purchase price of \$3,446,000 plus standard closing costs and adjustments. The BCR Lands comprise four lots which are accessible by rail and which may be sold in their current condition or further developed with either build-to-suit options or lay-down yards for industrial users depending upon market demands.

#### 4. SELECTED HISTORICAL INFORMATION (CONTINUED)

On October 20, 2015, the Trust, through the Developments LP, subscribed for 2,300,000 limited partnership units of FSJ Aurora Developments Limited Partnership (“FSJ Aurora LP”) at \$1 per unit for a total of \$2,300,000, thereby acquiring a 50% interest in FSJ Aurora LP. On October 23, 2015, FSJ Aurora LP completed the acquisition of approximately 144 acres of bare land (the “Aurora Lands”) for a purchase price of \$4,500,000 plus standard closing costs and adjustments. During the year ended December 31, 2016, the City of Fort St. John expanded its boundary, with the result that the Aurora Lands are now included within city boundaries. The Aurora Lands are currently in the Agricultural Land Reserve.

#### 5. PERFORMANCE SUMMARY

As at September 30, 2018, the Trust’s assets totaled \$12,621,105, decreasing from \$17,186,723 as at December 31, 2017 primarily due to the sale of 22<sup>nd</sup> Avenue on August 30, 2018. The decrease was offset in part by the acquisition of the mortgage receivable (section 7) in August 2018. Liabilities totaled \$218,350 as at September 30, 2018, decreasing from \$4,441,201 as at December 31, 2017 due to the repayment of the first mortgage on 22<sup>nd</sup> Avenue following the sale of the property.

The Trust earned net rental income of \$464,679 for the nine months ended September 30, 2018, compared to \$518,101 for the nine months ended September 30, 2017. The decrease in net rental income is due to the sale of 22<sup>nd</sup> Avenue in August 2018. The Trust incurred a net loss of \$245,102 after finance expense, other income and its share of the loss of equity-accounted investments for the nine months ended September 30, 2018, compared to a net loss of \$192,894 for the nine months ended September 30, 2017. The increase in net loss is primarily due an increased share of the loss of the Trust’s equity-accounted investments resulting from higher mortgage interest, the loss on sale of investment property and the decrease in net rental income, offset in part by a fair value gain on investment property and an increase in interest income following the acquisition of the mortgage receivable in August 2018.

During the period ended September 30, 2018, the Trust received seven redemption requests which were effective as of the date of receipt, as follows:

| Redemption Date   | Number of Units Redeemed | Total Redemption Price |
|-------------------|--------------------------|------------------------|
| March 13, 2018    | 3                        | \$ 2,462               |
| March 15, 2018    | 25                       | 20,520                 |
| March 28, 2018    | 25                       | 20,520                 |
| April 11, 2018    | 30                       | 24,624                 |
| April 25, 2018    | 25                       | 20,520                 |
| May 8, 2018       | 10                       | 8,208                  |
| September 6, 2018 | 1                        | 821                    |
|                   | <u>119</u>               | <u>\$ 97,675</u>       |

During the period ended September 31, 2017, the Trust received three redemption requests which were effective as of the date of receipt, as follows:

| Redemption Date  | Number of Units Redeemed | Total Redemption Price |
|------------------|--------------------------|------------------------|
| January 25, 2017 | 15                       | \$ 13,538              |
| February 9, 2017 | 60                       | 54,150                 |
| May 4, 2017      | 27                       | 24,368                 |
|                  | <u>102</u>               | <u>\$ 92,056</u>       |

## 5. PERFORMANCE SUMMARY (CONTINUED)

As at September 30, 2018, consideration of \$821 was outstanding and included in accounts payable and accrued liabilities (December 31, 2017 – \$7,220) and there were 12,571 Trust units outstanding (December 31, 2017 – 12,690 Trust units).

## 6. RESULTS OF QUARTERLY OPERATIONS

The following summarizes the results of operations for the Trust for the three months ended September 30, 2018:

- Rental revenues totaling \$114,154 and operating expenses of \$38,378 resulted in net rental income of \$75,776 (three months ended September 30, 2017 – \$173,207; \$55,984 and \$117,223 respectively).
- The Trust earned \$62,867 in interest from bank deposits and loans (three months ended September 30, 2017 – \$29,996).
- The Trust recorded a decrease in the fair value of investment property of \$59 (three months ended September 30, 2017 – decrease of \$1,906).
- The Trust recorded a loss on sale of investment property of \$104,112 (three months ended September 30, 2017 – \$nil).
- The Trust recorded a loss from its equity-accounted investments of \$200,943 (three months ended September 30, 2017 – loss of \$97,629).
- The Trust incurred net loss of \$239,267 attributable to the unitholders after finance and administrative expenses (three months ended September 30, 2017 – net loss attributable to unitholders of \$36,226). The expenses consisted of:
  - a) mortgage interest totaling \$56,739 (three months ended September 30, 2017 – \$44,241);
  - b) debenture interest of \$24 (three months ended September 30, 2017 – \$nil);
  - c) general and administrative expenses totaling \$22,996 (three months ended September 30, 2017 – \$12,301); and
  - d) asset management fees of \$29,931 (three months ended September 30, 2017 – \$32,897).

The following tables summarize the quarterly results for the past eight periods:

| Quarter ended                                       | September 30,<br>2018 | June 30,<br>2018 | March 31,<br>2018 | December 31,<br>2017 |
|-----------------------------------------------------|-----------------------|------------------|-------------------|----------------------|
| Total assets                                        | \$ 12,621,105         | \$ 17,095,386    | \$ 17,118,542     | \$ 17,186,723        |
| Investment property                                 | –                     | 6,750,000        | 6,580,000         | 6,580,000            |
| Equity-accounted investments                        | 8,828,556             | 9,029,499        | 9,117,235         | 9,228,242            |
| Total liabilities                                   | 218,350               | 4,415,659        | 4,469,659         | 4,441,201            |
| Mortgages payable                                   | –                     | 4,195,265        | 4,223,152         | 4,251,115            |
| Unitholders' equity                                 | 10,915,192            | 11,155,280       | 11,135,679        | 11,225,411           |
| Rental income                                       | 114,154               | 175,707          | 174,818           | 173,260              |
| Finance income (expense)                            | 6,104                 | (12,303)         | (13,094)          | (13,581)             |
| Share of loss of equity-accounted investments       | (200,943)             | (135,861)        | (111,006)         | (76,332)             |
| Income (loss) attributable to the Trust unitholders | (239,267)             | 72,953           | (46,230)          | (50,563)             |
| Income (loss) per unit                              | (19.03)               | 5.80             | (3.64)            | (3.98)               |

## 6. RESULTS OF QUARTERLY OPERATIONS (CONTINUED)

| Quarter ended                                          | September 30,<br>2017 | June 30,<br>2017 | March 31,<br>2017 | December 31,<br>2016 |
|--------------------------------------------------------|-----------------------|------------------|-------------------|----------------------|
| Total assets                                           | \$ 17,164,943         | \$ 17,293,890    | \$ 17,509,136     | \$ 17,917,627        |
| Investment property                                    | 6,520,000             | 6,520,000        | 6,520,000         | 6,520,000            |
| Equity-accounted investments                           | 9,304,574             | 9,402,202        | 9,496,577         | 9,612,389            |
| Total liabilities                                      | 4,279,169             | 4,444,895        | 4,549,965         | 4,825,438            |
| Mortgages payable                                      | 4,279,169             | 4,306,566        | 4,333,302         | 4,360,165            |
| Unitholders' equity                                    | 11,283,194            | 11,319,420       | 11,418,261        | 11,542,657           |
| Rental income                                          | 173,207               | 172,723          | 172,171           | 171,575              |
| Finance income (expense)                               | (14,245)              | (16,648)         | (16,611)          | (16,053)             |
| Share of income (loss) of equity-accounted investments | (97,629)              | (124,999)        | (115,813)         | (142,932)            |
| Income (loss) attributable to the Trust unitholders    | (36,226)              | (74,474)         | (56,708)          | (111,862)            |
| Earnings (loss) per unit                               | (2.85)                | (5.86)           | (4.45)            | (8.73)               |

During the period from July 1, 2018 to September 30, 2018, investment property decreased due to the sale of 22<sup>nd</sup> Avenue. Equity-accounted investments decreased due to losses incurred by all three of the Trust's equity-accounted investments, offset in part by a contribution of \$48,125 to FSJ Industrial. Total assets decreased primarily due to the decrease in investment property and equity-accounted investments, offset in part by an increase in mortgage receivable following the acquisition of the mortgage secured by Garrison Landing (section 7), an increase in amounts receivable due to the interest receivable on the mortgage receivable and an increase in amounts due from related parties arising primarily from interest on the loans to WCPG VII LP (section 17). Total liabilities decreased primarily due to the repayment of the mortgages on 22<sup>nd</sup> Avenue following the sale of the property. Unitholders' equity decreased slightly due to the net loss incurred during the period and Trust unit redemptions (section 5).

During the three months ended September 30, 2018, net rental income decreased compared to the three months ended September 30, 2017 due to the sale of 22<sup>nd</sup> Avenue in August 2018. During the same period, finance income increased due to increased interest income resulting from the acquisition of the mortgage receivable in August 2018. The Trust's equity-accounted investments incurred a loss of \$200,943 during the three months ended September 30, 2018 compared to a loss of \$97,629 during the three months ended September 30, 2017. The increase in net loss is primarily due to higher interest expense for WCPG VII LP and increased property tax and general and administrative expense for FSJ Industrial. The Trust incurred loss attributable to the Trust unitholders of \$239,267 during the three months ended September 30, 2018 compared to a loss attributable to the Trust unitholders of \$36,226 during the three months ended September 30, 2017. The increase in loss attributable to the Trust unitholders was primarily due to the increase in the Trust's share of the loss of its equity-accounted investments, the loss on sale of the investment property and the decrease in rental income following the sale of 22<sup>nd</sup> Avenue.

## 7. MORTGAGE RECEIVABLE

On August 2, 2018, the Trust, through FSJ Northwest LP, acquired the second mortgage secured by Garrison Landing, which was in default, for proceeds of \$2,117,180, net of a discount of \$200,658 on the interest receivable. The mortgage receivable bears interest at 12.00%. As at September 30, 2018, the principal of \$2,000,000 was included in the mortgage receivable and interest of \$150,975, net of a discount of \$200,658, was included in amounts receivable (December 31, 2017 – \$nil and \$nil respectively).

As at September 30, 2018, the mortgage was in default. FSJ Northwest LP has the right to repossess the property, as the June 20, 2018 deadline to redeem the mortgage under a court order has passed (section 15).

## **7. MORTGAGE RECEIVABLE (continued)**

The mortgage receivable is recorded at amortized cost and bears an effective interest rate of 12.00% (December 31, 2017 – nil%).

## **8. MORTGAGES PAYABLE**

On September 12, 2014, the Master LP, through the Investments LP, financed the acquisition of 22<sup>nd</sup> Avenue with cash and a term loan in the amount of \$4,650,000 bearing interest at 3.72% and maturing in 2019. The term loan was secured by a mortgage on the property.

On August 2, 2018, FSJ Northwest LP obtained a loan of \$2,150,000 from Triple E Ventures Inc., which is related to the Trust by virtue of having trustees/directors in common. The loan was secured by a mortgage on 22<sup>nd</sup> Avenue, bore interest at 6.00% and was repayable upon demand.

On August 31, 2018, following the sale of 22<sup>nd</sup> Avenue, the mortgages were repaid in full.

The mortgages payable were recorded at amortized cost and bore a weighted effective interest rate of nil% as at September 30, 2018 (December 31, 2017 – 3.75%).

The amount of the mortgages payable on September 30, 2018 was \$nil (December 31, 2017 – \$4,251,115). Included in the mortgages payable were the related unamortized mortgage transaction costs of \$nil as at September 30, 2018 (December 31, 2017 – \$29,006), which were amortized over the term of the mortgage using the effective interest rate method.

## **9. DEBENTURES**

On July 31, 2018, the Master LP issued debentures totaling \$6,500 to settle outstanding Trust unit redemption requests in excess of its limit on cash payments for such redemptions (section 15). The debentures are subordinated, unsecured, will mature in July 2023 and pay interest monthly in arrears at an annual interest rate of 2.19%. The Master LP may prepay the debentures at any time.

The debentures were recorded at amortized cost. The carrying value of the debentures on September 30, 2018 was \$3,950 (December 31, 2017 – \$nil). Included in the debentures were the related unamortized debenture transaction costs of \$2,550 as at September 30, 2018 (December 31, 2017 – \$nil), which are amortized over the term of the debentures using the effective interest rate method. The debentures bore an effective interest rate of 13.22% as at September 30, 2018 (December 31, 2017 – nil%).

## **10. LIQUIDITY**

The Trust has financed its acquisitions to date through the issuance of Trust units and mortgages payable on its investment property.

Each investment property acquired in the portfolio is purchased with the expectation that it will generate sufficient cash flows to finance its own operating costs. Each development property acquired in the portfolio is purchased with the expectation that it will generate a return in addition to what could be realized from underlying investment properties.

These statements have been prepared on a going concern basis, which assumes that the Trust will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.



## 11. CAPITAL RESOURCES

The Trust's capital needs primarily relate to any required maintenance to the properties and servicing mortgage principal payments as they become due. It is management's opinion that the existing cash reserve and the operating cash flow from the property portfolio is sufficient to fund any future capital requirements.

## 12. CAPITAL MANAGEMENT

The Trust defines capital as the aggregate of unitholders' equity and the mortgages payable. The Trust's objectives in managing capital are to maintain a level of capital that complies with investment and debt restrictions pursuant to the Prospectus, complies with existing debt covenants, funds its business strategies and builds long-term unitholders' value. The Trust's capital structure is reviewed by the board of trustees of the Trust from time to time.

The Trust monitors on a quarterly basis the "loan-to-value ratio", which is defined as overall mortgage loans divided by the purchase price of the properties plus the amount of any property improvement reserve account approved by the lenders as a whole and which serves as an indicator of the Trust's financial leverage. The overall loan-to-value ratio is targeted at not more than 70%, as indicated in the Prospectus. However, if deemed appropriate by the Trust, having regard to all of the circumstances including the potential value of the properties identified for investment, the Trust may cause the overall loan-to-value ratio of the mortgage loans to exceed this threshold. The Trust's loan-to-value ratio was nil% as at September 30, 2018 (December 31, 2017 – 69%). The Trust was in compliance with all restrictions during the periods ended September 30, 2018 and September 30, 2017.

The Trust's capital structure consisted of the following components at September 30, 2018 and December 31, 2017:

|                     | September 30, 2018 | December 31, 2017 | Change         |
|---------------------|--------------------|-------------------|----------------|
| Capital             |                    |                   |                |
| Mortgages payable   | \$ –               | \$ 4,251,115      | \$ (4,251,115) |
| Unitholders' equity | 10,915,192         | 11,225,411        | (310,219)      |
| Total capital       | \$ 10,915,192      | \$ 15,476,526     | \$ (4,561,334) |

During the nine months ended September 30, 2018, the Trust's total capital decreased due to the repayment of the mortgage loans, redeeming Trust units (section 5) and the net loss incurred during the period.

## 13. CRITICAL ACCOUNTING ESTIMATES

The preparation of the Trust's consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Trust's significant accounting policies are described in note 3 to the audited consolidated financial statements for the year ended December 31, 2017 and unaudited condensed interim consolidated financial statements for the period ended September 30, 2018.

The policies that are most subject to estimation and judgement are outlined below.

### Valuation of investment properties

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

### 13. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

#### Valuation of investment properties (continued)

The determination of the fair value of investment properties 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.

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. Where an appraisal is not obtained at the reporting date, management uses similar valuation methods to evaluate each investment property and estimates the fair value.

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.

The fair value hierarchy of investment property measured at fair value on the consolidated statements of financial position was as follows:

|                     | September 30, 2018 |         |         | December 31, 2017 |         |              |
|---------------------|--------------------|---------|---------|-------------------|---------|--------------|
|                     | Level 1            | Level 2 | Level 3 | Level 1           | Level 2 | Level 3      |
| Investment property | \$ –               | \$ –    | \$ –    | \$ –              | \$ –    | \$ 6,580,000 |

#### Lease contracts

The Trust indirectly entered into a property lease on its investment property. The Trust makes judgments in determining whether certain leases, particularly those leases with long contractual terms, are operating or finance leases. The Trust must assess each lease separately against land and building. The Trust determined that its lease of the land and building of its investment property was an operating lease. As at September 30, 2018, the Trust has no lease contracts due to the sale of 22<sup>nd</sup> Avenue in August 2018.

### 14. FINANCIAL INSTRUMENTS

Financial instrument assets include cash, cash held in trust, amounts receivable, amounts due from related parties and the mortgage receivable, which are classified and measured at amortized cost. Financial instrument liabilities include the mortgages payable, the debentures and accounts payable and accrued liabilities, which are classified and measured at amortized cost. There are no financial instruments measured at fair value through profit and loss or fair value through other comprehensive income.

#### Fair value of financial instruments

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.

## 14. FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value of financial instruments (continued)

The following table presents the carrying amounts and fair values of the Trust's financial instruments:

| Financial instruments                    | Fair value hierarchy | September 30, 2018 |            | December 31, 2017 |            |
|------------------------------------------|----------------------|--------------------|------------|-------------------|------------|
|                                          |                      | Carrying Amount    | Fair Value | Carrying Amount   | Fair Value |
| Cash                                     | Level 2              | \$ 345,544         | \$ 345,544 | \$ 258,682        | \$ 258,682 |
| Cash held in trust                       | Level 2              | 32,820             | 32,820     | –                 | –          |
| Amounts receivable                       | Level 2              | 187,755            | 187,755    | 384               | 384        |
| Due from related parties                 | Level 2              | 1,223,314          | 1,223,314  | 1,099,827         | 1,099,827  |
| Mortgage receivable                      | Level 2              | 2,000,000          | 2,000,000  | –                 | –          |
| Accounts payable and accrued liabilities | Level 2              | 214,400            | 214,400    | 190,086           | 190,086    |
| Mortgages payable                        | Level 2              | –                  | –          | 4,251,115         | 4,494,005  |
| Debentures                               | Level 2              | 3,950              | 7,182      | –                 | –          |

The valuation techniques and inputs for the Trust's financial instruments are as follows:

(i) *Mortgages payable and debentures*

The fair value of amounts due for the mortgages payable and the debentures are determined by discounting the future contractual cash flow under current financing arrangements at discount rates which represent borrowing rates presently available to the Trust for loans with similar terms and maturity and are measured under level 2 of the fair value hierarchy since the discount rates are either provided by the lenders or are observable on the open market (section 13).

(ii) *Other financial assets and liabilities*

The carrying values of financial assets and financial liabilities not measured at fair value, including cash, cash held in trust, amounts receivable, the mortgage receivable, due from related parties and accounts payable and accrued liabilities, approximate their fair values due to the immediate or short-term maturity of these financial instruments or because they are receivable or payable on demand.

## 15. RISKS AND UNCERTAINTIES

All real estate property investments are subject to a degree of risk and uncertainty. They are affected by various factors including general market conditions and local market circumstances. An example of general market conditions would be the availability of long-term financing, whereas local conditions would relate to factors affecting specific properties in a particular geographic location, such as changes in market lease rates as a result of an over-supply of space or a reduction in demand for real estate.

The board of trustees of the Trust has the overall responsibility for the establishment and oversight of the Trust's risk management framework. The Trust's risk management policies are established to identify and analyze the risks faced by the Trust, 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 Trust's activities.

## 15. RISKS AND UNCERTAINTIES (CONTINUED)

In the normal course of business, the Trust, through the Master LP, is exposed to a number of risks that can affect its operating performance. These risks, and the actions taken to manage them, include the following:

### Credit risk

Credit risk is the risk of financial loss to the Trust if a tenant or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the Trust's receivables from tenants and related parties. As at September 30, 2018, the Trust no longer has any tenants following the sale of 22<sup>nd</sup> Avenue.

The Trust's exposure to credit risk is influenced by the individual characteristics of parties to whom it lends funds. The Trust currently faces increased credit risk related to loans made to WCPG VII LP. As at September 30, 2018, WCPG VII LP is in default on a second mortgage in the principal amount of \$2,000,000 which is secured by WCPG VII LP's residential property in Fort St. John, British Columbia. In December 2017, the lender obtained a court order under which WCPG VII LP had until June 20, 2018 to redeem the mortgage, failing which the property could be repossessed. In August 2018, the Trust, through FSJ Northwest LP, mitigated the risk by acquiring the mortgage from the lender (section 7).

On August 3, 2018, the holder of the first mortgage secured by WCPG VII LP's residential property in Fort St. John, British Columbia, demanded repayment. On September 10, 2018, the loan was assigned to WCPG Fort St. John Homes 2 Ltd., which is related to the other limited partner of WCPG VII LP by virtue of having common control. As at September 30, 2018, the mortgage was still due and outstanding. The Trust is currently working to refinance the mortgage.

### Liquidity risk

Liquidity risk is the risk that the Trust 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 Trust's ability to vary its portfolio promptly in response to changing economic or investment conditions. If the Trust were required to liquidate a real estate property investment, the proceeds to the Trust might be significantly less than the aggregate carrying value of such property.

The Trust's approach to managing liquidity risk is to ensure that it will have sufficient cash available to meet its liabilities when due.

The following table provides the future non-discounted scheduled payments of financial liabilities, including estimated interest payments:

|                                          | 2018       | 2019   | 2020   | 2021   | 2022   | 2023 and thereafter |
|------------------------------------------|------------|--------|--------|--------|--------|---------------------|
| Debentures (principal and interest)      | \$ 36      | \$ 142 | \$ 142 | \$ 142 | \$ 142 | \$ 6,583            |
| Accounts payable and accrued liabilities | 214,400    | –      | –      | –      | –      | –                   |
|                                          | \$ 214,436 | \$ 142 | \$ 142 | \$ 142 | \$ 142 | \$ 6,583            |

### Currency risk

The Trust is not exposed to currency risk since there are no foreign subsidiaries and the Trust does not enter into foreign currency transactions.

### Lease rollover risk

Lease rollover risk arises from the possibility that the Trust may experience difficulty renewing leases as they expire or in re-leasing space vacated by tenants upon lease expiry. As at September 30, 2018, the Trust no longer has any leases due to the sale of 22<sup>nd</sup> Avenue and is therefore not currently exposed to lease rollover risk.

## 15. RISKS AND UNCERTAINTIES (CONTINUED)

### Income tax risk

*Mutual Fund Trust* – If the Trust does not qualify or ceases to qualify as a “mutual fund trust” under the *Income Tax Act (Canada)* (the “Tax Act”), adverse consequences may arise including that: (i) the Trust may become liable to pay certain additional tax liabilities (with the result that the amount of cash available for distribution by the Trust would be reduced and Trust unitholders may otherwise be adversely affected), and (ii) the Trust units may not be or may cease to be qualified investments for RRSP or similar plans (with the result that a plan, its annuitant, beneficiary thereunder or its holder thereat will generally become subject to additional tax or penalties or may be otherwise adversely affected).

*SIFT Rules* – The Tax Act contains rules regarding the taxation of certain types of publicly listed or traded trusts and partnerships in a manner similar to corporations and which tax certain distributions from such trusts and partnerships as taxable dividends from a taxable Canadian corporation (the “SIFT Rules”). The exposure of the Trust to tax imposed by the SIFT Rules depends in part on whether or not the Trust units, Master LP units or units of any other subsidiary partnerships are listed or traded on a stock exchange or other public market. Where the Trust units, the Master LP units or units of any other subsidiary partnerships are listed or traded on a stock exchange or public market, adverse consequences could arise including that the non-deductible distributions amount or the taxable non-portfolio earnings could be taxable to the Trust, to the Master LP or such subsidiary partnerships, as the case may be (with the result that the amount of cash available for distribution by the Trust would be reduced), and such amount would also, depending on the circumstances, be included in the income of Trust unitholders for purposes of the Tax Act as taxable dividends.

*Changing Tax Laws* – There can be no assurance that income tax laws (or the judicial interpretation thereof or the administrative and assessing practices of Canada Revenue Agency) and/or the treatment of “mutual fund trusts” or SIFTS will not be changed in a manner which would adversely affect the Trust unitholders, including on a retroactive basis.

### 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 Trust is exposed to interest rate risk from the interest rate differentials between the market rate and the rates used on these financial instruments.

The Trust manages its financial instruments and interest rate risks based on its cash flow needs and with a view to minimizing interest expense. Whenever possible, the Trust tries to obtain fixed rate mortgages to mitigate its interest rate risk. Since the Trust’s mortgage receivable and debentures bear interest at a fixed rate and it has no mortgages payable as at September 30, 2018, the Trust is not exposed to significant interest rate risk.

The interest rate profile of the Trust’s interest-bearing financial instruments was:

|                                | Face Value         |                   |
|--------------------------------|--------------------|-------------------|
|                                | September 30, 2018 | December 31, 2017 |
| <b>Fixed rate instruments</b>  |                    |                   |
| Fixed rate mortgages payable   | \$ –               | \$ 4,280,121      |
| Fixed rate mortgage receivable | 2,000,000          | –                 |
| Fixed rate debentures          | 6,500              | –                 |

### Environmental risk

The Trust, through the Investments LP, the Developments LP and certain equity-accounted investments, is subject to various provincial and municipal laws relating to the environment. Prior to acquisition, the Trust conducts environmental inspections of its properties and appropriate testing by qualified environmental consultants when required to ensure compliance with all applicable environmental laws.

## **15. RISKS AND UNCERTAINTIES (CONTINUED)**

### **Redemption risk**

The Trust unitholders are entitled to have their units redeemed at any time on demand. The aggregate redemption price payable by the Trust is subject to limitations. The Trust will not be required to pay the redemption price by way of a cash payment if the total amount payable by the Trust in any quarter will exceed \$100,000 or if the amount payable in any twelve month period ending at the end of that quarter will exceed 0.75% of the aggregate subscription price of all Trust units that were issued and outstanding at the start of such twelve month period.

During the nine months ended September 30, 2018, the Trust redeemed 119 units for total consideration of \$97,675 (nine months ended September 30, 2017 – 102 units for total consideration of \$92,055) (section 5). During the twelve month period ending September 30, 2018, the Trust redeemed 127 units for total consideration of \$104,895, which represented 0.83% of the aggregate subscription price of all Trust units that were issued and outstanding as at September 30, 2017 (twelve month period ended September 30, 2017 – 106 units redeemed for consideration of \$95,893, which represented 0.75% of the aggregate subscription price of all Trust units that were issued and outstanding as at September 30, 2016). The total consideration paid for redemptions during the nine months ended September 30, 2018 included the issuance of debentures by the Master LP totaling \$6,500 (nine months ended September 30, 2017 – \$nil) (section 9).

## **16. OFF-BALANCE SHEET TRANSACTIONS**

The Trust has no off-balance sheet arrangements.

## **17. RELATED PARTY TRANSACTIONS**

### **Transactions with Pure Commercial Real Estate Advisors Inc.**

Pure Commercial Real Estate Advisors Inc. (“Pure Commercial”) is related to the Trust by virtue of having officers and directors/trustees in common. The Trust, through the Master LP, has entered into an asset management agreement with Pure Commercial, whereby Pure Commercial provides asset management, administrative and reporting services to the Trust. In consideration of these services, the Trust pays to Pure Commercial an annual asset management fee equal to 1.0% of net asset value plus any applicable taxes. Net asset value is equal to the greater of the total gross cash proceeds from all the Trust’s public offerings and the total purchase price of the properties including all fees, expenses and cash reserves, less outstanding mortgage debt. During the three and nine months ended September 30, 2018, Pure Commercial charged the Trust asset management fees of \$29,931 and \$93,264 respectively (three and nine months ended September 30, 2017 – \$32,897 and \$100,299 respectively). As at September 30, 2018, asset management fees of \$131,379 (December 31, 2017 – \$33,360) were included in accounts payable and accrued liabilities.

The Trust, through the Investments LP, entered into a property management agreement with Pure Commercial, whereby Pure Commercial provided property management services to 22<sup>nd</sup> Avenue and collected 2.0% of the basic annual rent as a property management fee. During the three and nine months ended September 30, 2018, Pure Commercial charged the Trust property management fees of \$1,513 and \$6,204 respectively (three and nine months ended September 30, 2017 – \$2,309 and \$6,908 respectively).

During the three and nine months ended September 30, 2018, Pure Commercial advanced \$nil and \$21,000 respectively to WCPG VII LP on the Developments LP’s behalf. As at September 30, 2018, \$21,000 was owing to Pure Commercial and included in accounts payable and accrued liabilities (December 31, 2017 – \$nil).

## **17. RELATED PARTY TRANSACTIONS (CONTINUED)**

### **Transactions with Sui Generis Investments Ltd.**

Sui Generis Investments Ltd. (“Sui Generis”) is related to the Trust by virtue of having officers in common. The Master LP has entered into an agreement whereby Sui Generis provides certain consulting and advisory services for a fee of \$15,000 per annum plus any applicable taxes, payable quarterly. During the three and nine months ended September 30, 2018, Sui Generis charged the Master LP fees of \$3,938 and \$11,813 respectively (three and nine months ended September 30, 2017 – \$3,938 and \$11,813 respectively). As at September 30, 2018, \$23,625 was included in accounts payable and accrued liabilities (December 31, 2017 – \$11,813).

### **Transactions with In Re Capital Inc.**

In Re Capital Inc. (“In Re Capital”) is related to the Trust by virtue of having officers in common. On October 24, 2017, WCPG VII LP sold a lot at Garrison Landing to In Re Capital for a sale price of \$100,000 plus adjustments of \$191 in order to fund working capital requirements. The full amount of \$100,191 was received on the date of sale and used to reduce mortgage debt secured by Garrison Landing and to fund working capital requirements.

### **Transactions with the Master GP**

The Master GP is related to the Trust by virtue of having officers and directors/trustees in common. The Master GP held cash on behalf of the Master LP before the Master LP opened its bank account. During the year ended December 31, 2015, the Trust paid a \$148 expense on behalf of the Master GP and the Master GP received interest on funds held on the Master LP’s behalf in the amount of \$90. The Master LP received \$88 from the Master GP in April 2015. As at September 30, 2018, \$151 was still outstanding and included in due from related parties (December 31, 2017 – \$151).

### **Transactions with WCPG VII LP**

WCPG VII LP is related to the Trust by virtue of the fact that the Trust, through the Developments LP, holds an 88.9% ownership interest in WCPG VII LP (section 4).

The Trust, through the Developments LP, has loaned funds to WCPG VII LP to fund working capital requirements. The loans bore interest at 10% per annum until July 1, 2016, at which time the rate increased to 15% per annum. The loans matured in June 2017 and are payable on a demand basis.

As at September 30, 2018, total loans and interest of \$688,348 were included in due from related parties and secured by a loan on Garrison Landing (December 31, 2017 – \$640,840). The loan is repayable from the proceeds from sales of subdivision lots at Garrison Landing, after repayment of mortgages ranking in priority to this mortgage. During the three and nine months ended September 30, 2018, the Trust earned interest income of \$16,010 and \$47,508 respectively on the loan (three and nine months ended September 30, 2017 – \$15,665 and \$46,047 respectively) and advanced funds of \$nil and \$nil respectively to WCPG VII LP (three and nine months ended September 30, 2017 – \$15,000 and \$15,000 respectively).

During the three and nine months ended September 30, 2018, the Trust, through the Developments LP and Pure Commercial, advanced \$nil and \$21,000 respectively to fund working capital requirements (three and nine months ended September 30, 2017 – \$nil and \$50,000 respectively). During the three and nine months ended September 30, 2018, the Trust, through the Developments LP, paid invoices on WCPG VII LP’s behalf totaling \$1,981 and \$9,526 (three and nine months ended September 30, 2017 – \$nil and \$nil respectively). As at September 30, 2018, unsecured loans and interest of \$499,815 were included in due from related parties (December 31, 2017 – \$426,596). During the three and nine months ended September 30, 2018, the Trust earned interest income of \$14,517 and \$42,694 respectively on the loans (three and nine months ended September 30, 2017 – \$13,384 and \$36,038 respectively).

## **17. RELATED PARTY TRANSACTIONS (CONTINUED)**

### **Transactions with WCPG VII LP (continued)**

On August 2, 2018, the Trust, through FSJ Northwest LP, acquired the second mortgage secured by Garrison Landing which is in default for proceeds of \$2,117,180, net of a discount of \$200,658 on interest receivable. The mortgage bears interest at 12.00%. As at September 30, 2018, the principal of \$2,000,000 was included in the mortgage receivable and interest of \$150,971 was included in amounts receivable (December 31, 2017 – \$nil and \$nil respectively). During the three and nine months ended September 30, 2018, the Trust earned interest income of \$33,795 and \$33,795 respectively on the mortgage (three and nine months ended September 30, 2017 – \$nil and \$nil respectively).

### **Trustee Compensation**

Each trustee of the Trust, other than Stephen Evans, is entitled to an annual fee of \$12,500. During the three and nine months ended September 30, 2018, the Trust paid accrued trustee fees of \$nil and \$25,000 respectively (three and nine months ended September 30, 2017 – \$nil and \$nil respectively). As at September 30, 2018, trustee fees of \$nil were included in accounts payable and accrued liabilities (December 31, 2017 – \$25,000).

### **Transactions with FSJ Aurora LP**

FSJ Aurora LP is related to the Trust by virtue of the fact that the Trust, through the Developments LP, holds a 50% interest in FSJ Aurora LP (section 4). The remaining 50% of FSJ Aurora LP is indirectly owned by officers and trustees or directors of the Trust and the Master GP. During prior years, the Trust, through the Developments LP, advanced funds to FSJ Aurora LP to cover working capital requirements. During the three and nine months ended September 30, 2018, the Trust, through the Developments LP, advanced a further \$nil and \$2,759 respectively to FSJ Aurora to cover working capital requirements (three and nine months ended September 30, 2017 – \$nil and \$nil respectively). During the three and nine months ended September 30, 2018, the Trust, through the Developments LP, paid invoices totaling \$nil and \$205 respectively on FSJ Aurora LP's behalf (three and nine months ended September 30, 2017 – \$1,220 and \$1,461 respectively). During the three and nine months ended September 30, 2018, FSJ Aurora repaid \$205 and \$205 respectively to the Trust (three and nine months ended September 30, 2017 – \$nil and \$nil respectively). The total loan of \$35,000 is non-interest bearing, repayable on demand and was included in due from related parties as at September 30, 2018 (December 31, 2017 – \$32,241).

### **Transactions with Triple E Ventures Inc.**

On August 2, 2018, Triple E Ventures Inc., which is related to the Trust by virtue of having trustees/directors in common, loaned \$2,150,000 to FSJ Northwest LP. The loan was secured by a mortgage on 22<sup>nd</sup> Avenue, bore interest at 6.00% and was repayable upon demand. The mortgage was repaid on August 31, 2018, following the sale of 22<sup>nd</sup> Avenue.

## **18. SEGMENTED INFORMATION**

The Trust operates in two business segments in a single geographic location, being the owner and operator of investment properties and the owner and developer of development properties in northwestern Canada. For each of the business segments, the Acting Chief Executive Officer reviews operations based on earnings from property operations and sales. As at September 30, 2018, the Trust had interests in one investment property and two development properties through its equity-accounted investments (section 4). As at September 30, 2017, the Trust operated one investment property and had interests in one additional investment property and two development properties through its equity-accounted investments. Assets and liabilities are reviewed on a total basis by management and therefore are not included in the following segmented disclosure.



**18. SEGMENTED INFORMATION (CONTINUED)**

The following summarizes the results of operations for the Trust's segments for the three months ended September 30, 2018:

|                                               | <b>Development</b> | <b>Investment</b> | <b>Trust</b> | <b>Total</b> |
|-----------------------------------------------|--------------------|-------------------|--------------|--------------|
| Rental revenues                               | \$ –               | \$ 114,154        | \$ –         | \$ 114,154   |
| Operating expenses                            | –                  | (38,378)          | –            | (38,378)     |
| Net rental income                             | –                  | 75,776            | –            | 75,776       |
| Interest income                               | 30,783             | 668               | 31,416       | 62,867       |
| Debenture interest                            | –                  | –                 | (24)         | (24)         |
| Mortgage interest                             | –                  | (46,427)          | (10,312)     | (56,739)     |
| General and administrative expenses           | (1,492)            | (1,058)           | (20,446)     | (22,996)     |
| Asset management fees                         | –                  | –                 | (29,931)     | (29,931)     |
| Decrease in fair value of investment property | –                  | (59)              | –            | (59)         |
| Loss on sale of investment property           | –                  | (104,112)         | –            | (104,112)    |
| Share of loss of equity-accounted investments | (199,071)          | (1,872)           | –            | (200,943)    |
| Loss and comprehensive loss                   | (169,780)          | (77,084)          | (29,297)     | (276,161)    |

The following summarizes the results of operations for the Trust's segments for the three months ended September 30, 2017:

|                                               | <b>Development</b> | <b>Investment</b> | <b>Trust</b> | <b>Total</b> |
|-----------------------------------------------|--------------------|-------------------|--------------|--------------|
| Rental revenues                               | \$ –               | \$ 173,207        | \$ –         | \$ 173,207   |
| Operating expenses                            | –                  | (55,984)          | –            | (55,984)     |
| Net rental income                             | –                  | 117,223           | –            | 117,223      |
| Interest income                               | 29,750             | 172               | 74           | 29,996       |
| Mortgage interest                             | –                  | (44,241)          | –            | (44,241)     |
| General and administrative expenses           | (1,504)            | (136)             | (10,661)     | (12,301)     |
| Asset management fees                         | –                  | –                 | (32,897)     | (32,897)     |
| Decrease in fair value of investment property | –                  | (1,906)           | –            | (1,906)      |
| Share of loss of equity-accounted investments | (95,916)           | (1,713)           | –            | (97,629)     |
| Income (loss) and comprehensive income (loss) | (67,670)           | 69,399            | (43,484)     | (41,755)     |

The development segment's share of the loss of its equity-accounted investments was \$199,071 during the three months ended September 30, 2018 (three months ended September 30, 2017 – loss of \$95,916). The increase in loss on equity-accounted investments is primarily due to an increase in interest expense for WCPG VII LP as a result of an increase in the interest rate on its second mortgage and increased borrowing; increased property tax expense and general and administrative expense for WCPG VII LP; and increased property tax and professional fees for FSJ Industrial. Interest income increased from \$29,750 for the three months ended September 30, 2017 to \$30,783 for the three months ended September 30, 2018 primarily due to additional loans made to WCPG VII LP (section 17). After interest income and general and administrative expenses, the development segment incurred a loss and comprehensive loss of \$169,780 for the three months ended September 30, 2018 (three months ended September 30, 2017 – loss and comprehensive loss of \$67,670).

## 18. SEGMENTED INFORMATION (CONTINUED)

During the three months ended September 30, 2018, the investment segment operated one investment property, producing rental revenues of \$114,154, operating expenses of \$38,378 and net rental income of \$75,776 (three months ended September 30, 2017 – \$173,207; \$55,984 and \$117,223 respectively). The investment segment’s share of the loss from its equity-accounted investment, FSJ Aurora LP, was \$1,872 for the three months ended September 30, 2018, increasing from a loss of \$1,713 for the three months ended September 30, 2017 primarily due to an increase in property taxes. After interest income, mortgage interest, general and administrative expenses, the fair value adjustment to investment property and the loss on sale of investment property, the investment segment incurred a net loss of \$77,084 for the three months ended September 30, 2018 (three months ended September 30, 2017 – net income of \$69,399).

During the three months ended September 30, 2018, the Trust segment earned interest income of \$31,416 and incurred debenture interest of \$24, mortgage interest of \$10,312, general and administrative expenses of \$20,446 and asset management fees of \$29,931, resulting in a loss and comprehensive loss of \$29,297 (three months ended September 30, 2017 – \$74; \$nil; \$nil; \$10,661; \$32,897; and loss and comprehensive loss of \$43,484 respectively). Interest income increased significantly for the three months ended September 30, 2018 compared to the three months ended September 30, 2017 due to the acquisition of the mortgage receivable by FSJ Northwest LP. Debenture interest increased during the same period due to the issuance of the debentures by the Master LP. Mortgage interest increased due to FSJ Northwest LP borrowing funds from Triple E Ventures Inc. (section 17) in August 2018, secured by a mortgage on 22<sup>nd</sup> Avenue. General and administrative expense decreased during the same period primarily due to lower professional fees.

## 19. CURRENT AND FUTURE ACCOUNTING POLICY CHANGES

### IFRS 9 Financial Instruments

On July 24, 2014, the IASB issued the complete IFRS 9, *Financial Instruments* (“IFRS 9”), replacing IAS 39, *Financial Instruments: Recognition and Measurement* (“IAS 39”), and related interpretations. IFRS 9 introduces new requirements for the classification and measurement of financial assets. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Trust implemented the new requirements for classification and measurement, impairment and hedging on January 1, 2018, retrospectively with no restatement of comparative periods.

IFRS 9 sets out a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on three categories: amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit and loss (“FVTPL”). Financial liabilities are classified and measured based on two categories: amortized cost and FVTPL.

The following table summarizes the classification impact upon adoption of IFRS 9. The adoption of the new classification requirements under IFRS 9 did not result in changes in measurement or the carrying amount of financial assets and liabilities.

| Financial Instrument                     | Classification under IAS 39 | Classification under IFRS 9 |
|------------------------------------------|-----------------------------|-----------------------------|
| Cash                                     | Loans and receivables       | Amortized cost              |
| Amounts receivable                       | Loans and receivables       | Amortized cost              |
| Due from related parties                 | Loans and receivables       | Amortized cost              |
| Accounts payable and accrued liabilities | Other financial liabilities | Amortized cost              |
| Mortgage payable                         | Other financial liabilities | Amortized cost              |

## 19. CURRENT AND FUTURE ACCOUNTING POLICY CHANGES (CONTINUED)

### IFRS 9 Financial Instruments (continued)

Financial assets are not reclassified subsequent to their initial recognition unless the objective of the business model used to manage the financial assets changes. In such an event, the classification of financial assets would be reassessed. Financial liabilities are not reclassified.

Impairment of financial assets carried at amortized cost is assessed using the expected credit loss model. Expected credit losses for the next 12 months are used to assess impairment unless there is evidence that a financial asset has experienced a significant increase in credit risk since initial recognition, in which case lifetime expected credit losses are used. Lifetime expected credit losses are also used for trade receivables and contract assets without a significant financing component.

The Trust defines a significant increase in credit risk as an increase from low risk to medium or high risk or from medium risk to high risk. In assessing credit risk, the Trust considers historical and forecasted credit losses, external indicators of credit risk, actual or expected changes in operational results of the borrower and economic conditions that will impact the risk of default. The Trust considers a financial asset to be in default when a contractual payment is 90 days past due.

### IFRS 15 Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers* (“IFRS 15”), replacing IAS 11 *Construction Contracts*, IAS 18 *Revenue*, IFRIC 13 *Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate*, IFRIC 18 *Transfers of Assets from Customers* and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*.

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 is effective for annual periods beginning on or after January 1, 2018. Rental revenue is outside the scope of IFRS 15.

The Trust adopted IFRS 15 on January 1, 2018 and applied the requirements of the standard retrospectively. The implementation of IFRS 15 did not have any impact on the Trust’s revenue.

### IFRS 16 Leases

On January 13, 2016, the IASB issued IFRS 16 *Leases* (“IFRS 16”). The new standard is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply IFRS 15 at or before the date of initial adoption of IFRS 16. IFRS 16 will replace IAS 17 *Leases* (“IAS 17”).

This 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, while requiring enhanced disclosures to be provided by lessors.

Other areas at the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided.

The Trust intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. Adoption of the standard is not expected to have an impact on the Trust’s consolidated financial statements.

**20. SUBSEQUENT EVENTS**

On October 31, 2018, the Trust paid the outstanding redemption amount of \$821 related to the redemption request submitted in September 2018 for one Trust unit (section 5).