EUROPEAN RESIDENTIAL REIT

FINANCIAL REVIEW
FOR THE THREE MONTHS ENDED
MARCH 31, 2019

May 10, 2019

Report to Unitholders

We are pleased to present our first Report to Unitholders as European Residential REIT, Canada's first European-focused multi-residential real estate investment trust. Through a transaction completed on March 29, 2019, we combined 41 multi-residential properties indirectly owned by Canadian Apartment Properties REIT ("CAPREIT") with the three commercial properties owned by European Commercial REIT ("ECREIT"). Results for the three months ended March 31, 2019 include a full quarter's contribution from the multi-residential portfolio and 3 days from the commercial properties and therefore are not representative of future performance. All amounts, unless otherwise noted, are in Euros (€).

For the three months ended March 31, 2019, property revenues were €5.4 million, up from €5.0 million in the first quarter of 2018. The increase is due primarily to improved occupancies and average monthly rents. Occupancy for the multi-residential portfolio was 98.5% at March 31, 2019, up from 98.4% at the same time last year. Occupancy for the commercial at March 31, 2019 was 99.0%, consistent with the prior year. Net Average Monthly Rent ("AMR") for the multi-residential portfolio increased 6.1% to €840 at March 31, 2019 from €792 at the same time last year.

Net Operating Income ("NOI") was €4.0 million for the three months ended March 31, 2019, up from €3.4 million last year due primarily to the increase in revenues and reduced operating expenses. NOI margin strengthened to 73.5% for the three months ended March 31, 2019 from 68.4% last year.

Funds from Operations ("FFO") for the three months ended March 31, 2019 were €2.8 million (€0.034 per Unit) compared to €2.0 million (€0.025 per Unit) in the prior year period. Adjusted Funds from Operations ("AFFO") were €2.5 million (€0.030 per Unit), up from €2.0 million (€0.025 per Unit) in the same prior year period. The increases were primarily due to higher rental revenue in 2019 and lower general and administrative expenses. FFO and AFFO is calculated by excluding the effects of certain non-recurring items such as property management company net losses and interest on related party loans.

At a Special Meeting held on March 21, 2019, Unitholders approved a Special Distribution of €0.33 (C$0.50) per Unit paid on April 24, 2019 to Unitholders of record on April 5, 2019.

On April 22, 2019, the REIT announced an agreement with CAPREIT to acquire two additional portfolios of multi-residential properties located in the Netherlands totaling 1,768 residential suites for total acquisition costs of approximately €333 million. The acquisitions will be financed by €236 million in equity consideration and the assumption of €97 million in mortgages bearing a weighted average fixed interest rate of 1.98% and a 6.8 year weighted average term to maturity. A portion of the equity consideration may be payable through the replacement of up to approximately €60 million of mortgage financing (the "Mortgage Debt") and the drawing down of up to approximately €22 million on a credit facility (the "Credit Facility") anticipated to be available to ERES. ERES expects that both the Mortgage Debt and Credit Facility will be in place prior to the closing of the proposed acquisition. The purchase of the two portfolios is expected to close in late May 2019 and late August 2019.

With our entry into the European multi-residential sector and our new partnership with CAPREIT, we have taken a significant and transformative step in our ability to generate long-term value for our Unitholders. The multi-residential market is very strong and stable in our target geographic markets, and we are confident that our operating performance will increase as we leverage CAPREIT's proven asset and property management platform. In addition, we have gained a strong institutional-quality partner in CAPREIT fully aligned with all Unitholders through their substantial ownership interest in the ERES. We are very excited about the significant benefits this partnership brings to our Unitholders and look to continue building value in the years ahead.

Phillip Burns
Chief Executive Officer

EUROPEAN RESIDENTIAL
REAL ESTATE INVESTMENT TRUST
(FORMERLY EUROPEAN COMMERCIAL REAL ESTATE INVESTMENT TRUST)

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED
MARCH 31, 2019

TABLE OF CONTENTS

SECTION I

BASIS OF PRESENTATION

This Management's Discussion and Analysis ("MD&A") of financial position and results of operations of European Residential Real Estate Investment Trust (together with its subsidiaries, the "REIT") (formerly European Commercial Real Estate Investment Trust, or "ECREIT") dated May 10, 2019 should be read in conjunction with the unaudited consolidated interim financial statements of the REIT and the notes thereto for the three months ended March 31, 2019. The REIT's consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The information contained within this MD&A, including forward-looking information, is based on information available to management as of May 10, 2019.

Financial information presented in this MD&A has been prepared as a continuation of CAPREIT NL Holding B.V.'s ("Holding BV") consolidated financial statements. The results of ECREIT's operations have been included in the REIT's consolidated interim financial statements subsequent to the close of the Acquisition on March 29, 2019. Refer to "The Acquisition" section of this MD&A for additional details.

Unless otherwise stated, all amounts are in thousands of Euros, the functional currency of the REIT. References to "€" refer to Euros and "C$" to Canadian dollars. Prior to the Acquisition, the functional currency of Holding BV was the Euro and the functional currency of ECREIT was the Canadian dollar. Both entities had a presentation currency of the Canadian dollar. Upon closing of the Acquisition, management reassessed the economic facts and conditions of the combined entity and concluded the REIT's functional currency is the Euro, which is also the functional currency of all of its subsidiaries. The REIT's presentation currency has been changed to the Euro. This change has been applied retrospectively with comparative amounts restated in Euros.

Additional information about the REIT is available on SEDAR at www.sedar.com.

FORWARD-LOOKING DISCLAIMER

Certain statements contained, or contained in documents incorporated by reference, in this MD&A constitute forward-looking statements within the meaning of applicable Canadian securities laws which reflect the REIT's current expectations and projections about future results. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. They include, but are not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and the REIT's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the REIT's plans and objectives of the REIT's board of trustees, or estimates or predictions of actions of tenants, suppliers, competitors or regulatory authorities and statements regarding the REIT's future economic performance. The REIT has based these forward-looking statements on its current expectations about future events relating to the REIT. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to: (i) the intention to grow the business and operations of the REIT; (ii) the REIT's intention to provide stable, sustainable and growing cash flows through investments in multi-residential real estate in Europe and the REIT's other stated objectives; (iii) the REIT's capital expenditure requirements; (iv) the intention to distribute available cash to securityholders and the amount of distributions to be paid by the REIT; (v) the REIT's ability to execute its business and growth strategies with CAPREIT's assistance where applicable, including by making additional acquisitions of properties in Europe when appropriate; (vi) forecast gross income figures or data derived from the REIT's financial forecast relating to individual properties or geography; (vii) the expected tax treatment of the REIT's distributions to Unitholders; and (viii) the REIT's access to available sources of debt and equity financing.

Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the REIT to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such forward-looking statements. The estimates and assumptions, which may prove to be incorrect, include, but are not limited to, the various assumptions set forth in this MD&A as well as the following: (i) the REIT will receive financing on acceptable terms; (ii) the REIT's future level of indebtedness and its future growth potential will remain consistent with its current expectations; (iii) there will be no changes to tax laws adversely affecting the REIT's financing capability, operations, activities, structure or distributions; (iv) the REIT and CAPREIT will retain and continue to attract qualified and knowledgeable personnel as the REIT expands its portfolio and business; (v) the impact of the current economic climate and the current global financial conditions on the REIT's operations, including its financing capability and asset value, will remain consistent with the current expectations; (vi) there will be no material changes to government and environmental regulations adversely affecting the REIT's operations; (vii) the ability of the REIT to collect rent from its tenants; (viii) the continuing concentration of the REIT's tenants; (ix) the fulfillment by tenants of their lease responsibilities as well as their capital expenditures and environmental remediation responsibilities; (x) the level of activity in the multi-residential and commercial real estate markets in Europe; (xi) the state of the real estate industry generally (including property ownership and tenant risks, liquidity of real estate investments, competition, government regulation, environmental matters, and fixed costs, recent market volatility and increased expenses) and the economy generally; (xii) conditions in the European real estate markets, including competition for acquisitions, will be consistent with the current climate; (xiii) there will be no material change in currency exchange rates; and (xiv) capital markets will provide the REIT with readily available access to equity and/or debt financing.

Forward-looking statements are based on certain factors and assumptions regarding expected growth, results of operations, performance, and business prospects and opportunities. The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions that may prove to be incorrect.

Except as specifically required by applicable Canadian securities law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events. These forward looking statements should not be relied upon as representing the REIT's views as of any date subsequent to the date of this MD&A. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the REIT. For more information, please see "Forward Looking Statements" and "Risk Factors" in the REIT's management information circular dated February 22, 2019, as supplemented on March 11, 2019 and the REIT's management information circular dated April 23, 2019 and "Risks and Uncertainties" in this MD&A.

NON-IFRS FINANCIAL MEASURES

The REIT prepares and releases unaudited consolidated interim financial statements and audited consolidated annual financial statements in accordance with IFRS. In this MD&A, the REIT discloses financial measures not recognized under IFRS which do not have standardized meanings prescribed by IFRS. These include Funds From Operations ("FFO"), Adjusted Funds From Operations ("AFFO"), FFO and AFFO per Unit amounts, and Adjusted Cash Generated from Operating Activities (collectively, the "Non-IFRS Measures"). Since these measures are not recognized under IFRS, they may not be comparable to similar measures reported by other issuers. The REIT presents Non-IFRS Measures because management believes Non-IFRS Measures are relevant measures of the ability of the REIT to earn revenue, generate sustainable economic earnings, and to evaluate its performance. A reconciliation of these Non-IFRS Measures to the most comparable IFRS Measures, along with further definitions and discussion, is provided in Section IV under Non-IFRS Financial Measures. The Non-IFRS Measures should not be construed as alternatives to net income or cash flows from operating activities determined in accordance with IFRS as indicators of the REIT's performance or the sustainability of distributions.

OVERVIEW

The REIT is Canada's first European-focused multi-residential real estate investment trust. The REIT owns and operates a portfolio of multi-residential properties, including apartments and townhomes, as well as commercial properties in Europe. It is an unincorporated, open-ended, publicly-traded real estate investment trust listed on the TSX Venture Exchange under the symbol "ERE.UN." The REIT owns and operates 2,091 residential rental suites across the Netherlands and 396,700 square feet of gross leasable area ("GLA") across three commercial properties in Germany and Belgium (the "Commercial Properties").

The REIT is exempt from the SIFT rules as long as it invests only in properties or assets located outside of Canada and does not rely on the real estate investment trust exception under the Income Tax Act (Canada) in order to be exempt from the SIFT rules. As the REIT does not own taxable Canadian property, as defined in the Income Tax Act (Canada), the REIT is not subject to restrictions on ownership by non-Canadian investors.

The REIT was formed subsequent to the reverse acquisition of ECREIT by Holding BV. The transaction resulted in Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") having a majority ownership and control in the REIT. Upon completion of the Acquisition (as defined herein) on March 29, 2019, ECREIT changed its name to European Residential Real Estate Investment Trust. Refer to ("The Acquisition") in Section II for further details of the Acquisition.

OUR OBJECTIVES

The REIT's objectives are to:

- Provide Unitholders with long-term, stable and growing cash distributions;
- Grow AFFO and Unit value through the active management of its properties, accretive acquisitions of European residential properties, and strong financial management;
- Invest capital within the property portfolio in order to maximize earnings and cash flow potential and to ensure tenant satisfaction.

To meet its objectives, the REIT has established the following strategies:

Customer Service – The REIT recognizes that it is in a "people business" and strives to be recognized as the landlord of choice in its chosen markets by providing its tenants with safe, secure and comfortable space. It takes a hands-on approach to managing its properties, stressing open and frequent communication to ensure tenants' needs are met efficiently and effectively, thereby maintaining a high occupancy level. CANLiving B.V., a subsidiary of CAPREIT and the REIT's property manager, is at the forefront of providing professional residential property management in the Netherlands, improving the rental experience for the REIT's residential tenants.

Cost Management – While ensuring the needs of its tenants are met, the REIT and CAPREIT, the REIT's asset manager in respect of the residential properties, also carefully monitor operating costs to ensure services to tenants are being delivered both efficiently and cost-effectively. The REIT strives to capture potential economies of scale generated by the growth in its property portfolio.

Capital Investments – The REIT is committed to improving its operating performance by making appropriate capital investments in order to maintain the productive capacity of its property portfolio, convert regulated suites into liberalized suites to maximize returns, and sustain the portfolio's rental income-generating potential over its useful life. The REIT will leverage CAPREIT's innovative technology solutions that enhance productivity as well as environmentally-friendly and energy-saving initiatives that improve net operating income. Along with CAPREIT, the REIT intends to review its portfolio and revise its long-term capital investment plan on an annual basis, to enable management and CAPREIT to ensure capital investments extend the useful economic life of the REIT's properties, enhance tenant safety and satisfaction, maximize earnings and improve the long-term cash flow potential of its portfolio.

Portfolio Growth – The REIT aims to grow and modernize its portfolio over the long term through accretive acquisitions of residential properties in Europe that meet its strategic criteria while capturing economies of scale and cost synergies, thereby increasing net operating income. As a component of this growth strategy, the REIT will monitor its portfolio and, from time to time, identify certain non-core properties for divestiture. The funds from these divestitures will primarily be used to acquire assets better suited to the REIT's portfolio composition and property management objectives or to pay down existing debt.

Financial Management – The REIT takes a conservative approach and strives to manage its exposure to interest rate volatility by proactively managing its mortgage debt portfolio to fix and, where possible, reduce average interest rates, effectively manage the average term to maturity and stagger maturity dates. In addition, the REIT strives to maintain a conservative overall liquidity position.

KEY PERFORMANCE INDICATORS

To assist the REIT's management, CAPREIT, and investors in monitoring and evaluating the achievement of its objectives, the REIT has defined a number of key operating and performance indicators ("KPIs") to measure the success of its operating and financial strategies:

Occupancy – Through a focused, hands-on approach, management strives to achieve occupancies equal to or greater than market conditions in each of the geographic regions in which the REIT operates. Management believes that annual residential occupancies can be maintained in the 97% to 99% range over the long term, and the trend for gradual increases in same-property Net AMR and ABR will continue, providing the basis for sustainable year-over-year increases in revenue.

Net Average Monthly Rent ("Net AMR") – For its residential portfolio, the REIT strives to achieve the highest possible Net AMR in accordance with local market conditions through its active property management strategies, lease administration system and proactive capital investment programs.

Net Average in-place base rent ("Net ABR") – For its commercial portfolio, the REIT strives to achieve a stable net rental rate per square footage by entering into long-term commercial leases that contain contractual rental increases.

Net Operating Income ("NOI") – NOI is a widely used operating performance indicator in the real estate industry and is presented in the consolidated statements of income and comprehensive income as net rental income. Management has chosen to refer to net rental income as NOI in all instances in its MD&A. As a measure of its operating performance, the REIT currently expects to achieve an annual NOI margin in the range of 70% to 75% of operating revenues.

FFO and AFFO – Management believes that FFO and AFFO (as defined in Section IV, "Non-IFRS Financial Measures") are indicative of the REIT's operating performance and economic earnings and is focused on growing these metrics sustainably over the long term.

Payout Ratio – The REIT anticipates its long-term AFFO payout ratio to be between 80% and 90% on an annualized basis, excluding all special distributions. This ratio is not meant to be a measure of the sustainability of the REIT's distributions. Although the REIT intends to continue to sustain and grow distributions, the actual amount of distributions will depend upon a number of factors including, but not limited to, acquisitions made by the REIT, the amount and timing of debt refinancing, tenant inducements, capital expenditures and other factors that may be beyond the control of the REIT. During the quarter, the only distribution declared by the REIT was the one-time special distribution of €0.33 (C$0.50) per REIT Unit to the acquisition. As such, payout ratios are not relevant for the current period, but will be presented in future periods.

THE PORTFOLIO

The REIT's investments in its property portfolio reflect both residential and commercial properties in Europe. As at March 31, 2019, the REIT's portfolio consisted of properties comprising of 2,091 residential suites and 396,700 square feet of GLA of commercial space. Of this total, all 41 of the residential properties are located in the Netherlands, two commercial properties are located in Germany, and one commercial property is located in Belgium.

Throughout this MD&A, the REIT makes reference to two asset classes:

- **Residential**: Growing portfolio well-located in major centres in the Netherlands with stable cash flows and NOI upside through increasing rental rates and occupancy. While three of the residential properties also contain a small portion of commercial space, these properties as a whole are considered residential properties.
- **Commercial**: High-quality, non-prime core assets in two key European markets, designed primarily to deliver long-term, secure income with additional potential for capital appreciation.

	No. of buildings	No. of residential suites	Liberalized suites as a % of total	GLA of commercial building (sq.ft.)	Fair Value (€'000s)
Residential Properties					
Netherlands					
Utrecht	9	731	46.5%	-	153,450
Zuid-Holland	4	418	42.1%	-	84,300
Noord-Holland	10	297	78.8%	-	91,190
Limburg	6	249	69.5%	-	46,180
Overijssel	4	126	92.1%	-	22,670
Noord-Brabant	4	125	22.4%	-	20,280
Other provinces	4	145	24.8%	-	24,570
Total Residential Properties	**41**	**2,091**	**52.7%**	**-**	**442,640**
Commercial Properties					
Germany & Belgium	3	-	-	396,700	90,580
Total Portfolio	**44**	**2,091**	**-**	**396,700**	**533,220**

SECTION II

SIGNIFICANT EVENTS AND HIGHLIGHTS

The REIT's significant events and highlights for the three months ended March 31, 2019 and subsequent period to May 10, 2019 are as follows:

- On March 29, 2019, the REIT completed the acquisition of 41 multi-residential properties totalling 2,091 residential suites, creating Canada's first European-focused multi-residential REIT.
- Acquisition increased value of property portfolio to €533 million, consisting of €442 million of multi- residential properties located in the Netherlands and €91 million of commercial properties located in Germany and Belgium.
- New name, European Residential Real Estate Investment Trust, reflects strategic focus on investing in high-quality multi-residential real estate properties in Europe.
- Entered into an asset and property management agreement with a subsidiary of CAPREIT
- NOI increased by 17.4% for the three months ended March 31, 2019 compared to the same quarter last year due to higher monthly rents, three days of commercial NOI, and reduced property operating costs driven by lower property management fees and timing of expenses.
- High, stable occupancy rate of 98.5% for residential properties and 99.0% for commercial properties as at March 31, 2019 (98.4% for residential properties as at March 31, 2018).
- Subsequent to quarter-end, a one-time special distribution of €0.33 (C$0.50) was paid to REIT Unitholders (excluding CAPREIT) of record as at April 5, 2019.
- Subsequent to quarter-end, entered into an agreement (conditional on TSX Venture Exchange and Unitholder approval) with CAPREIT pursuant to which the REIT will acquire two portfolios of multi-residential properties located in the Netherlands, comprising 1,768 suites across 47 properties for approximately €333 million.

The table below shows the pro forma statement of financial position after the acquisition of the Warehoused Properties and the Additional Properties as indicated above:

Balance Sheet	**ERES March 31, 2019**	**ERES Including proposed acquisitions**
Investment Properties	533,220	866,716
Goodwill	11,126	11,126
Derivative Financial Instrument	440	440
Other Assets	29,818	29,818
Total Assets	574,604	908,100
		-
Mortgages(1)	252,687	410,187
Credit Facility(2)	-	22,200
Class B LP Units	217,681	371,477
Other Liabilities	38,513	38,513
Total Liabilities	508,881	842,377
Unitholder's Equity	65,723	65,723
Total Liabilities and Unitholders' Equity	574,604	908,100

(1) Includes mortgage assumption of €97.5 million and expected mortgage financing of €60.0 million.

(2) Assumes a €22.2 million draw on a credit facility anticipated to be available to ERES prior to closing of the proposed acquisition.

PERFORMANCE MEASURES

The following table presents an overview of certain IFRS and non-IFRS financial measures of the REIT for the three months ended March 31, 2019 and 2018. Management believes these measures are useful in assessing the REIT's performance in relation to its objectives, and business strategy.

For the Three Months Ended March 31,		2019 (6)		2018 (6)
Portfolio Performance				
Residential Properties				
Residential Occupancy(1)		**98.5%**		98.4%
Residential Net AMR(1)	**€**	**840**		792
Number of residential units(1)		**2,091**		2,091
Commercial Properties				
Commercial Occupancy(1)		**99.0%**		N/A
Commercial Net ABR(1)	**€**	**16.6**		N/A
GLA of commercial properties (sqf)(1)		**396,700**		N/A
Operating Revenues (000s)	**€**	**5,438**	€	4,977
NOI (000s)	**€**	**3,999**	€	3,406
NOI Margin		**73.5%**		68.4%
Financial Performance				
FFO per Unit – Basic(3)	**€**	**0.034**	€	0.025
AFFO per Unit – Basic(3)	**€**	**0.030**	€	0.025
Liquidity and Leverage				
Total Debt to Gross Book Value(1)(2)		**44.0%**		52.7%
Weighted Average Mortgage Effective Interest Rate(1)(4)		**1.98%**		2.02%
Weighted Average Mortgage Term (years)(1)		**5.12**		6.10
Debt Service Coverage (times)(5)		**3.51**		2.96

(1) As at March 31.
(2) Gross book value is defined as the gross book value of ERES's assets as per ERES's financial statements, determined on a fair value basis for investment properties.
(3) These measures are not defined by IFRS, do not have standard meanings and may not be comparable with other industries or companies (see Section I - Non-IFRS Financial Measures). For a reconciliation to IFRS, see Section IV - Non-IFRS Financial Measures.
(4) Includes impact of deferred financing costs and interest rate swaps.
(5) Based on trailing four quarters.
(6) The MD&A is prepared as a continuation of Holding BV, which was not publicly traded prior to March 29, 2019.

Other		2019	2018
Weighted Average Number of Units - Basic (000s)		**82,207**	81,641
Closing Price of REIT Units(1)(2)	**€**	**2.67**	N/A
Closing Price of REIT Units (in C$)(1)(2)(3)	**$**	**4.00**	N/A
Market Capitalization (millions)(1)	**€**	**263**	N/A
Market Capitalization (millions in C$)(1)(2)	**$**	**394**	N/A

(1) As at March 31.
(2) Based on the foreign exchange rate of 1.5002 on March 31, 2019.
(3) Adjusted closing price of REIT Units for special distribution (as defined herein) of C$0.50.

THE ACQUISITION

On March 29, 2019, Holding BV completed the reverse acquisition of ECREIT (the "Acquisition"), creating Canada's first European-focused multi-residential real estate investment trust. The Acquisition brought the REIT's total portfolio to approximately €533 million, representing €442 million of multi-residential properties located in the Netherlands and €91 million of commercial properties located in Germany and Belgium. Following the closing of the Acquisition and to reflect its new focus on residential properties, the REIT changed its name to" European Residential Real Estate Investment Trust".

The Acquisition was financed by the issuance of 81,641,210 class B limited partnership units of ERES Limited Partnership, a wholly-owned subsidiary of the REIT ("Class B LP Units" and together with the REIT Units, the "Units"), to CAPREIT in exchange for all of the issued and outstanding shares of Holding BV. The Class B LP Units are entitled to distributions, to the greatest extent practicable, economically equivalent to the distributions made to the Unitholders, and they can be exchanged solely for REIT Units on a one-for-one basis, at any time at the option of the holder. The acquisition resulted in CAPREIT owning approximately 82.8% of the issued and outstanding REIT Units, if such Class B LP Units were exchanged for REIT Units. Holding BV, now a wholly-owned subsidiary of the REIT, has been identified for accounting purposes as the acquirer, and accordingly the REIT is considered to be a continuation of Holding BV. As such, all of ECREIT's revenues and and expenses relating to the period prior to March 29, 2019 have not been included in net income.

The following table summarizes the provisional purchase price allocation in respect of consideration paid, the fair value of assets acquired and liabilities assumed, and the goodwill at the acquisition date.

	Units	€
Fair value of REIT Units held by existing ECREIT Unitholders(1)	16,969,764	45,247
Distributions payable		5,656
Total consideration transferred		50,903
Recognized amounts of identifiable assets acquired and liabilities assumed		
Investment Properties		90,580
Cash and Cash Equivalents		6,045
Other Current Assets		1,426
Derivative Financial Assets		440
Mortgages Payable		(48,975)
Accounts Payable and Other Liabilities		(7,618)
Unit-based Compensation Financial Liabilities		(325)
Current and Deferred Income Tax Liabilities		(465)
Derivative Financial Liabilities		(1,331)
Total Identifiable Assets and Liabilities		39,777
Goodwill		11,126
Total		50,903

(1) Unitholders of ECREIT as at March 29, 2019.

Management has recognized the residual of the considerations transferred over fair value of net assets acquired of €11,126 as goodwill on the statement of financial position as at March 31, 2019.

The fair value of total consideration transferred on completion of the Acquisition was €50,903, comprising of €45,247 of REIT Units and €5,656 of distributions payable relating to a one-time special distribution. The fair value of the REIT Units was calculated to be €45,247 based on a fair value of €2.67 (C$4.00) per REIT unit using the closing market price of the REIT Units on March 29, 2019, adjusted for the special distribution of €0.33 (C$0.50).

SECTION III

RENTAL RATES

Net and occupied average monthly rents or average in-place base rent and occupancy

Net AMR is defined as actual monthly residential rents including service charge income, net of vacancies, divided by the total number of suites, and does not include revenues from parking, laundry or other sources.

Occupied AMR is defined as actual monthly residential rents including service charge income, net of vacancies, divided by the total number of occupied suites, and does not include revenues from parking, laundry or other sources.

Net ABR is defined as annual actual commercial rents, net of vacancies, divided by the total gross leasable square footage, and does not include property tax recoveries and operating cost recoveries.

Occupied ABR is defined as annual actual commercial rents, net of vacancies, divided by the total occupied leasable square footage, and does not include property tax recoveries and operating cost recoveries.

Net AMR and ABR, Occupied AMR and ABR and Occupancy by Region and Asset Class

	Net AMR/ABR			Occupied AMR/ABR			Occupancy %	
As at March 31,	**2019 €**	**2018 €**	**AMR % Change**	**2019 €**	**2018 €**	**AMR % Change**	**2019**	**2018**
Residential Properties								
Netherlands								
Utrecht	**807**	745	8.3	**823**	763	7.9	**97.9**	97.5
Zuid- Holland	**853**	797	7.0	**858**	811	5.8	**99.5**	98.3
Noord-Holland	**998**	959	4.1	**1026**	962	6.7	**97.3**	99.7
Limburg	**833**	806	3.3	**847**	812	4.3	**98.4**	99.2
Overijssel	**826**	761	8.5	**826**	767	7.7	**100.0**	96.8
Noord-Brabant	**750**	741	1.2	**762**	741	2.8	**98.4**	100.0
Other provinces	**750**	718	4.5	**755**	728	3.7	**99.3**	98.6
Total Residential Properties	**840**	792	6.1	**853**	804	6.1	**98.5**	98.4
Total Residential Properties Excluding Service Charge Income (2)	**790**	744	6.2	**802**	755	6.2	**98.5**	98.4
Commercial Properties								
Germany & Belgium(1)	**16.6**	N/A	N/A	**16.7**	N/A	N/A	**99.0**	N/A

(1) Converted to square meters, Net ABR and Occupied ABR was €179 and €180 respectively, as at March 31, 2019
(2) Represents the current actual monthly residential rents excluding service charge income.

Overall Net AMR for the residential properties increased to €840 at March 31, 2019 from €792 at March 31, 2018, resulting in a 6.1% increase. The increases are primarily due to increased rents on annual indexation and conversion of regulated suites to liberalized suites. Occupancy for the residential properties increased to 98.5% as at March 31, 2019 compared to 98.4% for the same period last year.

Netherlands residential rental regulatory environment

In the Netherlands, rental properties fall under the housing evaluation system, which determines whether a suite is classified as a liberalized suite or a regulated suite. Regulated suites are subject to rent control, limiting the amount of rent that can be charged, as well as limiting the amount of annual rent increases. The housing evaluation system assigns points to each rental suite, based on a home valuation system. Various factors are considered in determining the amount of points allocated to each suite. The factors that are evaluated to determine the number of points allocated to each suite include suite size, suite value, energy efficiency, number of bathrooms, appliances in the kitchen, renovations completed, and various other measures. Landlords can execute upgrades in a suite to increase the amount of points associated with the suite.

Effective July 1, 2019, the rental control ceiling is €721.24. If a suite is allocated 141 points (or less), then the current maximum starting rent is €715.92, as a result of which it would be considered a regulated suite, and would be subject to rent control. However, a suite with 142 points may have a maximum starting rent of €721.24, which is over the aforementioned rent control ceiling. As a result, if a suite has 142 points (or more) and its commencement rent is over €721.24, such suite would be considered a liberalized suite. The number of points associated with a regulated suite would determine the maximum rent that can be charged. The maximum rent for each point level is generally increased annually by CPI, which the landlord can realize through annual rent increases charged to the tenant. In suites where the rent is below the maximum rent, the landlord can increase the existing rent by up to a maximum of 5.6% per year based on the tenant's income level to catch up to the maximum rent.

The number of points assigned to a regulated suite can also increase while a tenant is living in the suite (for example if the landlord upgrades the tenant's appliances), which would increase the maximum rent that can be charged for that suite. At the next annual rent increase, the maximum rent associated with the suite would increase based on the new amount of points associated, and the landlord would be able to charge an increase of up to 5.6% per year based on the tenant's income level to catch up to the new maximum rent.

If a suite is allocated 142 points or more and has a starting rent above €721.24, it would be considered a liberalized suite, and would not be subject to rent control. A liberalized suite would have no restriction on the initial rent that can be charged, and would have no legal restriction on the amount of rent increases that can be charged. Market practice for rental contracts for liberalized suites is to include a rental increase limitation of CPI + 5% per year, generally on July 1st. Properties can only convert from regulated suites to liberalized suites on turnover. On turnover, the owner has the opportunity to assess the required investment of increasing the points to 142 or higher, and compare the cost of the investment to the benefits described above. In some instances, there are regulated suites that already have more than 142 points that will instantly convert to liberalized suites when a tenant turns over.

During the three months ended March 31, 2019, €294 thousand of capital expenditures were incurred to convert 6 regulated suites to liberalized suites. The average investment that the REIT made was approximately €49 thousand per suite. The increase in rents on conversion of regulated suites to liberalized suites represents approximately 7.0% annual return on investment. In addition to increased rent, liberalized suites benefit from lower maintenance costs and a higher growth profile going forward on a short to medium term.

<u>Suite Turnovers</u>

The tables below summarize the changes in the monthly rent in the residential portfolio acquired by the REIT pursuant to the acquisition due to suite turnover compared to the same quarter prior year.

For the Three Months Ended March 31,	**2019**			**2018**		
	Change in AMR		**Turnovers(2)**	**Change in AMR**		**Turnovers(2)**
	€	**%**	**%**	**€**	**%**	**%**
Regulated Suites Turnover (1)	**10**	**1.5**	**0.8**	7	1.2	0.4
Liberalized Suites Turnover (1)	**97**	**10.2**	**1.8**	108	11.7	1.4
Regulated Suites converted to Liberalized Suites (1)	**279**	**39.7**	**0.3**	295	43.9	0.6
Weighted Average of Turnovers (1)	**90**	**10.7**	**2.9**	134	16.6	2.4
Weighted Average of Turnovers Excluding Service Charge Income (3)	**90**	**11.3**	**2.9**	134	17.5	2.4

(1) Represents the percentage increase in AMR inclusive of service charge income.
(2) Percentage of suites turned over during the period based on the weighted average number of residential suites held during the
(3) Represents the percentage increase in AMR excluding service charge income.

Suite turnovers in the residential suite portfolio during the three months ended March 31, 2019 resulted in AMR increasing by approximately €90 or 10.7% compared to an increase of €134 or three months ended 16.6% same quarter last year.

There were no suite turnovers or lease renewals for the REIT's commercial portfolio during the three months ended March 31, 2019.

Suite Renewals

Residential lease renewals generally occur on July 1st for residential suites. As such, there were no suite renewals during the three months ended March 31, 2019 and March 31, 2018.

OPERATING REVENUES

Total Operating Revenues by Region and Asset Class

For the Three Months Ended March 31,	**2019**		**2018**	
(€ Thousands)	**€**	**%**	€	%
Residential Properties				
Netherlands				
Utrecht	**1,791**	**32.9**	1,653	33.2
Zuid-Holland	**1,084**	**19.9**	995	20.0
Noord-Holland	**904**	**16.6**	816	16.4
Limburg	**636**	**11.7**	602	12.1
Overijssel	**307**	**5.6**	306	6.1
Noord-Brabant	**287**	**5.3**	267	5.4
Other Provinces	**363**	**6.7**	338	6.8
Total Residential Properties	**5,372**	**98.8**	4,977	100.0
Commercial Properties				
Germany & Belgium	**66**	**1.2**	-	-
Total Portfolio	**5,438**	**100.0**	4,977	100.0

Estimated Operating Revenue Run-Rate

The table below shows the estimated operating revenue run-rate (net of average historical vacancy loss, tenant inducements and bad debt) based on Net AMRs and Net ABRs in place for the REIT's residential and commercial properties as at March 31, 2019 and 2018.

As at March 31, (€ Thousands)		**2019**	**%**		**2018**	%
Residential Rent Roll	**€**	**21,314**	**76.1**	**€**	19,468	100.0
Commercial Rent Roll		**6,705**	**23.9**		N/A	N/A
Annualized Net Rental Run-Rate	**€**	**28,019**	**100.0**	**€**	19,468	100.0

The estimated annualized net rental revenue run-rate grew by 44% to €28,019 from €19,468, primarily as a result of the Acquisition and lower vacancy and bad debt expense compared to the prior period.

NOI

For the Three Months Ended March 31, (€ Thousands)		**2019**	**% (1)**		**2018**	**% (1)**
Operating Revenues						
Revenue from investment properties	**€**	**5,123**	**94.2**	€	4,677	94.0
Operating costs recoveries		**315**	**5.8**		300	6.0
Total Operating Revenues	**€**	**5,438**	**100.0**	€	4,977	100.0
Operating Expenses						
Property operating costs		**(1,337)**	**24.6**		(1,479)	29.7
Property Taxes		**(102)**	**1.9**		(92)	1.8
Total Operating Expenses	**€**	**(1,439)**	**26.5**	€	(1,571)	31.6
NOI	**€**	**3,999**	**73.5**	€	3,406	68.4

(1) As a percentage of total operating revenues.

Operating Revenues

For the three months ended March 31, 2019, total operating revenues increased by 9.3% compared to last year, due to the increased AMR and continuing high occupancies.

The following table shows bad debt expense as a percentage of total operating revenues:

For the Three Months Ended March 31, (€ Thousands)		**2019**	**%(1)**		**2018**	**%(1)**
Bad Debt Expense(2)	**€**	**-**	**-**	€	127	2.6

(1) As a percentage of total operating revenues.
(2) Bad Debt Expense is calculated based on a change of Bad Debt provision. For the three months ended March 31, 2019 there was no change to Bad Debt provision

Operating Expenses

Property Operating Costs

Property operating costs include repairs and maintenance ("R&M") costs, property management fees, utilities, insurance, service charge expenses, and advertising expenses. For the three months ended March 31, 2019, property operating expenses improved as a percentage of operating revenues to 24.6% from 29.7% last year, primarily due to lower R&M costs and property management fees.

Property Taxes

For the three months ended March 31, 2019, realty taxes as a percentage of operating revenues increased to 1.9% compared to 1.8% last year as a result of higher assessed property values.

NOI Margin

For the three months ended March 31, 2019, the NOI margin on the total portfolio was 73.5% compared to 68.4% last year. The increase in the NOI margin was due to (i) higher monthly rents, (ii) lower vacancies and (iii) lower R&M costs and property management fees.

NOI BY REGION AND ASSET CLASS

Management believes NOI is a key indicator of operating performance in the real estate industry. NOI includes all rental revenues, recovery revenues including service charge income, and other related ancillary income generated at the property level, less: (i) related direct costs such as utilities, realty taxes, insurance, R&M costs, service charge expenses, and on-site wages and salaries; and (ii) property management fees, and is presented in the statement of net and comprehensive income as net rental income. It may not, however, be comparable to similar measures presented by other real estate trusts or companies.

The following table shows each region's NOI and NOI margin for the three months ended March 31, 2019 and 2018.

For the Three Months Ended March 31,	**2019**			**2018**			**Increase (Decrease)**
(€ Thousands)	**NOI**	**NOI %(1)**	**NOI Margin (%) (2)**	**NOI**	**NOI %(1)**	**NOI Margin (%) (2)**	**NOI Change (%)**
Residential Properties							
Netherlands							
Utrecht	**€ 1,394**	**34.9**	**77.8**	€ 1,127	33.1	68.2	23.7
Zuid-Holland	**700**	**17.5**	**64.6**	659	19.3	66.2	6.2
Noord-Holland	**688**	**17.2**	**76.1**	575	16.9	70.5	19.7
Limbur	**465**	**11.6**	**73.1**	403	11.8	66.9	15.4
Overijssel	**237**	**5.9**	**77.2**	219	6.4	71.6	8.2
Noord-Brabant	**220**	**5.5**	**76.7**	182	5.3	68.2	20.9
Other Provinces	**243**	**6.1**	**66.9**	241	7.1	71.3	0.8
Total Residential Properties	**€ 3,947**	**98.7**	**73.5**	€ 3,406	100.0	68.4	15.9
Commercial Properties							
Germany & Belgium	**52**	**1.3**	**78.8**	-	-	-	N/A
Total Portfolio	**€ 3,999**	**100**	**73.5**	€ 3,406	100.0	68.4	17.4

(1) Represents percentage of the portfolio by NOI.

(2) Excluding recovery revenue, the NOI margin for residential and commercial properties is 77.9% and 93.3% (2018 - 72.8% and n/a, respectively.

The significant improvement in the NOI contribution was primarily the result higher operating revenues and reduced operating expenses in certain regions in the current period. The REIT remains focused on continuing to further improve NOI and NOI margin through a combination of accretive and value-enhancing acquisitions, successful sales and marketing strategies to further improve revenues, and investment in capital programs to further reduce costs and enhance the quality and value of its portfolio.

NET INCOME AND COMPREHENSIVE INCOME

For the Three Months Ended March 31,		2019		2018
NOI	€	**3,999**	€	3,406
(Less) Plus:				
General and Administrative Expenses		**(131)**		(443)
Transaction costs		**(511)**		-
Interest and other financing costs		**(2,504)**		(3,614)
Fair Value Adjustments of Investment Properties		**7,405**		7,636
Foreign Exchange		**37**		-
Net Income Before Income Taxes	€	**8,295**	€	6,985
Income Tax Expense		**(1,857)**		(2,037)
Net Income and Comprehensive Income	€	**6,438**	€	4,948

General and Administrative Expenses

General and administrative expenses include costs directly attributable to head office, trustee fees, professional fees for legal and advisory services, asset management services (as described in the Related Party Transaction Section), and other general and administrative expenses. General and administrative expenses decreased for the three months ended March 31, 2019 to €131 thousand from €443 thousand same quarter last year, primarily due to costs associated to CANLiving B.V., the property management company which was fully consolidated into Holding BV in 2018 until it was restructured and sold to CAPREIT in December 2018 and higher consulting fees of €291 thousand in 2018.

The following table shows general and administrative expenses excluding non-recurring expenses for the three months ended March 31, 2019:

For the Three Months Ended March 31,		2019		2018
General and Administrative Expenses	€	**131**	€	443
Adjustments:				
CANLiving B.V. Expenses		**-**		(25)
Consulting fees		**-**		(291)
Adjusted General and Administrative Expenses	€	**131**	€	127

Also included in general and administrative expenses for the three months ended March 31, 2019, are three days of asset management fees under the new asset management agreement with CAPREIT LP and CAPREIT entered into on March 29. 2019 (“the New Asset Management Agreement”), representing the number of days from closing of the Acquisition to quarter end. The New Asset Management agreement provides, among other things, for an annual asset management fee in the amount of 0.35% of the historical purchase price of the REIT’s properties excluding the Commercial Properties, plus HST / VAT. Refer to the “Related Party Transactions” section for further details. The annualized asset management fee relating to the REIT’s properties excluding the Commercial Properties as at March 31, 2019, would be €1,476, plus HST / VAT. For the three months ended March 31, 2019, General and Administrative expenses do not reflect costs associated with being a public company. Please refer to “Future Outlook” in Section VI for management’s best estimate of normalized General and Administrative expenses.

Transaction Costs

Transaction costs of €511 consists of non-recurring legal, consulting, and accounting associated to the Acquisition for the three months ended March 31, 2019.

Interest and Other Financing Costs

Interest and other financing costs decreased by €1,110 to €2,504 for the three months ended March 31, 2019 from €3,614 in the same quarter last year, primarily due to €1,059 of redemption liability accretion in the prior period. The redemption liability was settled in full in December 2018.

For the Three Months Ended March 31,		**2019**		**2018**
Interest on mortgages payable	**€**	**996**	€	1,008
Interest on due to related party		**1,508**		1,547
Accretion of redemption liability		**-**		1,059
Interest and other financing costs	**€**	**2,504**	€	3,614

Net Movement in Fair Value of Investment Properties

The REIT recognizes its investment properties at fair value at each reporting period, with any unrealized gain or loss upon remeasurement recognized in the consolidated statement of income and comprehensive income for the period. A description of the key components of the change in the fair value of investment properties is included in the "Investment Properties" section.

Income tax expense

The REIT has a number of foreign subsidiaries that are subject to varying statutory rates of taxation. During the three months ended March 31, 2019, income tax expenses decreased to €1,857 from €2,037 in the same quarter last year, primarily due to a lower fair value adjustment on investment properties.

SECTION IV

WEIGHTED AVERAGE NUMBER OF UNITS

As a result of the REIT being an open-ended mutual fund trust, Unitholders are entitled to redeem their REIT Units, subject to certain restrictions. The impact of this redemption feature causes the REIT Units to be treated as financial liabilities under IFRS. Consequently, all per Unit calculations are considered non-IFRS measures.

As part of the Acquisition, the REIT indirectly acquired all of the issued and outstanding shares of Holding BV for an aggregate purchase price of €421.8 million subject to certain purchase price adjustments, of which approximately €217.7 million was satisfied through the issuance of 81,641,210 Class B LP Units to CAPREIT at a price of C$4.00 per Class B LP Unit. For calculating the weighted average number of Units, the number and type of Units held by Holding BV have been retrospectively adjusted to March 31, 2018.

The following table explains the number of Units used in calculating non-IFRS financial measures on a per Unit basis:

For the Three Months Ended March 31,	**2019**	**2018**	**2019**
	Weighted Average Number of Units(2)		**Outstanding Number of Units**
(Thousands)			
REIT Units	**566**	81,641	**16,970**
Class B LP Units(1)	**81,641**		**81,641**
Basic Number of Units	**82,207**	81,641	**98,611**
Plus:			
Dilutive Unexercised Unit Options	**2**	-	**-**
Diluted Number of Units	**82,209**	81,641	**98,611**

(1) See note 12 to the accompanying the consolidated interim financial statements for the three months ended March 31, 2019 for details of Class B LP Units.

(2) During the three months ended March 31, 2019 and pursuant to the Acquisition, the REIT indirectly acquired all of the issued and outstanding shares of Holding BV for an aggregate purchase price of €421.8 million, subject to certain purchase price adjustments, of which approximately €217.7 million was satisfied through the issuance of 81,641,210 Class B LP Units to CAPREIT at a price of C$4.00 per Class B LP Unit. For purposes of calculating the weighted average number of units, the number and type of units have been retrospectively adjusted to March 31, 2018. The actual number of shares outstanding for Holding BV as at March 31, 2018 was one share.

DISTRIBUTIONS

On April 24, 2019 and pursuant to the Acquisition, a special distribution of €0.33 (C$0.50) per REIT Unit was paid to Unitholders on record as at April 5, 2019. CAPREIT was not entitled to the special distribution.

Following the second quarter of 2019, or such earlier date as determined by the board of trustees of the REIT (the "Board of Trustees"), the REIT intends to change from making quarterly distributions to making monthly distributions, subject to the discretion of the Board of Trustees. While the amount of the monthly distribution has yet to be determined, the REIT aims to have a target AFFO payout ratio in the range of 80% to 90%. ERES LP will make corresponding cash distributions to holders of Class B LP Units. Any distributions the REIT pays in the future will depend upon its actual results of operations, currency exchange rates, economic conditions, debt service requirements and other factors that could differ materially from its expectations. It is expected that the first monthly cash distribution to Unitholders will be in respect of July 2019 payable in August 2019.

The REIT has adopted a distribution reinvestment plan (the "DRIP"), pursuant to which holders of REIT Units or Class B LP Units ("Eligible Unitholders") are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional REIT Units at a price per REIT Unit calculated by reference to the weighted average of the trading price for the REIT Units on the relevant stock exchange or marketplace for the five trading days immediately preceding the relevant date on which a distribution is made (each, a "Distribution Date"). Eligible Unitholders who so elect will receive a further distribution of REIT Units with a value equal to 5% of each distribution that was so reinvested by the Eligible Unitholder. The distribution of cash to Eligible Unitholders is not assured. The REIT may amend, suspend or terminate the DRIP at any time. Reinvestments pursuant to the DRIP will increase the total number of REIT Units outstanding over time, which may result in upward pressure on the total amount of net distributions paid if those participants do not elect to join the DRIP or choose cash distributions.

NON-IFRS FINANCIAL MEASURES

Funds from Operations and Adjusted Funds from Operations

FFO is a measure of operating performance based on the funds generated by the business before reinvestment or provision for other capital needs. AFFO is a supplemental measure which adjusts FFO for costs associated with capital expenditures, leasing costs, and tenant improvements. FFO and AFFO as presented are in accordance with the recommendations of the Real Property Association of Canada ("REALpac") as published in its white paper in February 2019 with the exception of certain adjustments made to the FFO which are: (i) property management company net losses (as described in footnote 1 below) and (ii) interest on related party loans. It may not, however, be comparable to similar measures presented by other real estate investment trusts or companies in similar or different industries. Management considers FFO and AFFO to be important measures of the REIT's operating performance.

A reconciliation of net income to FFO is as follows:

For the Three Months Ended March 31, (€ Thousands, except per Unit amounts)		**2019**		**2018**
Net Income	**€**	**6,438**	€	4,948
Adjustments:				
Fair Value Adjustment of Investment Properties		**(7,405)**		(7,636)
Deferred Income Taxes (3)		**1,717**		2,037
Net FFO Impact Attributable to Non-Controlling Interest		**-**		1,059
Transaction costs expensed in business combination		**511**		-
Net loss of CANLiving B.V. (1)		**-**		76
Interest on due to related party (2)		**1,508**		1,547
FFO	**€**	**2,769**	€	2,031
FFO per Unit – Basic	**€**	**0.034**	€	0.025
FFO per Unit – Diluted	**€**	**0.034**	€	0.025

(1) Represents the net loss of the property management company, CANLiving B.V., which was fully consolidated into Holding BV in 2018 until it was restructured and sold to CAPREIT in December 2018.

(2) Represents the related party loan interest between CAPREIT and two subsidiaries of the Holding BV. The intercompany loans were settled as part of the Acquisition.

(3) Represents €11,860 of current income taxes on the deemed disposition of investment properties associated with the reorganization of the legal structure of the Netherland subsidiaries, offset by €10,143 of deferred income tax recovery for the three months ended March 31, 2019.

FFO for the three months ended March 31, 2019 increased by €0.009 compared to same quarter last year, primarily due to higher rental revenue and lower general and administrative expenses.

The table and analysis below illustrate a reconciliation of the REIT's FFO and AFFO for the three months ended March 31, 2019 and March 31, 2018:

A reconciliation of FFO to AFFO is as follows:

For the Three Months Ended March 31, (€ Thousands, except per Unit amounts)		**2019**		**2018**
FFO	**€**	**2,769**	€	2,031
Adjustments:				
Non-Discretionary Capital Expenditures(1)		**(291)**		(18)
AFFO	**€**	**2,478**	€	2,013
AFFO per Unit – Basic	**€**	**0.030**	€	0.025
AFFO per Unit – Diluted	**€**	**0.030**	€	0.025

(1) Non-discretionary capital expenditures have been calculated based on the annual 2019 forecast and annual 2018 actual of €556 and €72 per suite, respectively, divided by four for the quarter, and multiplied by the weighted average number of residential suites during the period. No reserve was deducted for the commercial properties during the three months ended March 31, 2019 and 2018 given the timing of the Acquisition. For a reconciliation of actual non-discretionary property capital investments incurred during the period to forecast, see the table below.

AFFO for the three months ended March 31, 2019 increased by €465 compared to last year, primarily due to higher rental revenue and lower general and administrative expenses. Management deferred non-discretionary capital expenditures during 2018, which resulted in lower than expected capital investment during the three months ended March 31, 2018.

The table below reconciles actual capital expenditures incurred during the quarter to the forecasted amount used in the above AFFO calculation. Refer to the "Property Capital Expenditures" section for the definition of non-discretionary capital expenditures.

For the Three Months Ended March 31, (€ Thousands)		**2019**		2018
Actual	**€**	**54**	€	-
Forecast(1)		**291**		18
Difference	**€**	**(237)**	€	(18)

(1) Based on 2019 annualized forecasted capital expenditure and 2018 annualized actual capital expenditure, applied equally for each quarter

Adjusted Cash Generated from Operating Activities

As required by National Policy 41-201, "Income Trusts and Other Indirect Offerings" (the "Policy"), the following table quantifies cash generated from operating activities net of interest expense included in cash flow from financing activities.

For the Three Months Ended March 31, (€ Thousands, except per Unit amounts)		**2019**		**2018**
Cash Generated From Operating Activities	**€**	**5,853**	€	2,791
Adjustments:				
Interest expense included in cash flow from financing activities		**(2,493)**		(955)
Adjusted Cash Generated from Operating Activities	**€**	**3,360**	€	1,836
Special distribution pursuant to the Acquisition		**(5,656)**		-
Excess (shortfall)	**€**	**(2,296)**	€	1,836

The following table outlines the differences between adjusted cash generated from operating activities and total distributions declared, as well as the differences between net income and total distributions, in accordance with the Policy.

For the Three Months Ended March 31, (€ Thousands, except per Unit amounts)		**2019**		**2018**
Net Income	**€**	**6,438**	€	4,948
Adjusted Cash Generated from Operating Activities	**€**	**3,360**	€	1,836
Special distribution pursuant to the Acquisition	**€**	**(5,656)**	€	-
Excess of Net Income over Special Distributions [(1)]	**€**	**782**	€	4,948
Excess (Shortfall) of Adjusted Cash Generated from Operating Activities over Special Distributions [(1)]	**€**	**(2,296)**	€	1,836

(1) During the three months ended March 31, 2019 a one-time special distribution of €0.33 (C$0.50) per unit, totaling €5,656 was declared.

The REIT does not use net income as a basis for distributions as it includes fair value change in investment properties, fair value change in Class B LP Units, remeasurement of Unit Option liabilities and fair value change in interest rate swap, and transaction costs associated to the Acquisition, which are not reflective of the REIT's ability to make distributions. Amounts retained in excess of the declared distributions are used for mortgage principal repayments, tenant inducements and capital expenditure requirements.

For the three months ended March 31, 2019, the REIT's only distribution declared exceeded Adjusted Cash Generated from Operating Activities. As per OSC Staff Notice 51-724, if distributions are in excess of Adjusted Cash Generated from Operating Activities, then it represents a return of capital, rather than a return on capital, since such distributions represent cash payments in excess of cash generated from the REIT's continuing operations during the period.

The distribution declared during the three months ended March 31, 2019 was a one-time special distribution paid pursuant to the Acquisition funded by CAPREIT. No other distributions were declared.

SECTION V:

PROPERTY CAPITAL EXPENDITURES

The REIT capitalizes all capital investments related to the improvement of its properties. These investments have the objective of growing future NOI, increasing property value over the long term, ensuring tenant safety, tenant satisfaction and safeguarding of assets.

For the three months ended March 31, 2019, the REIT made capital expenditures of €1.6 million compared to €0.8 million for the same quarter last year. Boilers, elevators and suite improvement costs generally tend to increase NOI at a faster rate compared to other capital investment categories.

The REIT does not differentiate between maintenance and value-enhancing property capital investments. Maintenance property capital investments are generally not clearly identifiable, nor do they have a common definition and would require significant judgement to classify property capital investments as maintenance or value-enhancing capital investments. In addition, there is no generally accepted definition of maintenance capital investments in the Canadian real estate industry. The REIT has decided to classify property capital investments into two categories: discretionary and non-discretionary. The REIT is of the view that this classification, while still requiring a degree of professional judgement, provides a better measure of economic returns.

Non-Discretionary Property Capital Investments are those investments the REIT believes are essential for the safety of its tenants and to ensure the structural integrity of the properties. These investments may enhance the property's operating effectiveness, including its profitability, through increases in revenues or reductions in costs over the long term. Included in non-discretionary capital expenditures are items such as building improvements, which include items such as roof, structural, balcony, sidewalks, windows, brick, electrical, and life and safety. The REIT uses its professional judgement to include other capital expenditure categories that could impact the safety of tenants. These Non-Discretionary Property Capital Investments are in addition to regular R&M costs which are expensed to NOI.

Discretionary Property Capital Investments are capital expenditures made to the property that are not essential to operation of the business in the short term. These investments may enhance the property's operating effectiveness, including its profitability, through increases in revenues or reductions in costs over the long term. Included in discretionary capital expenditures are items such as suite and common area improvements, energy-saving initiatives, equipment, boilers, elevators and risers. Refer to Rental Rates section of the MD&A for further discussion of the benefits for conversion of regulated suites to liberalized suites.

A breakdown of capital expenditures is summarized by category below:

Property Capital Investments by Category

Three Months Ended March 31, 2019 (€ Thousands)	Actual Total Portfolio	% of Actual
Non-Discretionary Property Capital Investments:		
Building Improvements	**54**	**3.3**
Total Non-Discretionary	**54**	**3.3**
Discretionary Property Capital Investments:		
Suite Improvements	**550**	**33.7**
Common Area	**164**	**10.1**
Energy-saving Initiatives	**7**	**0.4**
Equipment	**14**	**0.9**
Boilers and Elevators	**841**	**51.6**
Total Discretionary	**1,576**	**96.7**
Total	**1,630**	**100.0**

Three Months Ended March 31, 2018 (€ Thousands)	Actual Total Portfolio	% of Actual
Discretionary Property Capital Investments:	-	
Suite Improvements	732	93.2
Common Area	3	0.4
Boilers and Elevators	50	6.4
Total Discretionary	785	100
Total	785	100.0

The table below includes estimated annual 2019 capital expenditures expected to be completed in 2019. The following budgeted capital expenditures may vary from actuals as the planned expenditures may be accelerated or adjusted as necessary.

Annual 2019 Capital Expenditure Budget

Investment Properties (€ Thousands)		Actual Total Portfolio	% of Actual
Non-Discretionary Capital Expenditures:			
Building Improvements	€	**1,215**	**20.7**
Life and Safety		**100**	**1.7**
Total Non-Discretionary[(1)]	€	**1,315**	**22.4**
Discretionary Capital Expenditures:			
Suite Improvements	€	**2,285**	**39.0**
Common Area		**238**	**4.1**
Energy-saving Initiatives		**165**	**2.8**
Equipment		**222**	**3.8**
Boilers and Elevators		**1,589**	**27.1**
Appliances		**45**	**0.8**
Total Discretionary[(1)]	€	**4,544**	**77.6**
Total	€	**5,859**	**100.0**

(1) The total budgeted capital expenditure has been calculated based on the annual non-discretionary and discretionary budget of €556 and €2765 per suite, respectively, plus total commercial non-discretionary and discretionary capital expenditure budget of €151 thousands and €87 thousands, respectively.

Set out in the following table is management's current estimate of the REIT's investments in property capital investments, for the remainder of 2019 through 2022 for properties owned as of March 31, 2019. The actual cost and timing may vary from the estimate.

Future Investments in Building Improvements

Residential and Commercial Properties (€ Thousands)	**Building Improvements** **Estimated Range**
2019	€600 - €1,000
2020	€800 - €2,000
2021	€900 - €2,000
2022	€400 - €1,000

Management believes that the REIT has sufficient liquidity (see "Liquidity and Financial Condition") to execute the above property capital investments strategy.

INVESTMENT PROPERTIES

Investment property is defined as property held to earn rental income, for capital appreciation, or both. Investment property is recognized initially at cost. Subsequent to initial recognition, all investment property is measured using the fair value model, whereby changes in fair value are recognized for each reporting period in net income.

Management values each investment property based on the most probable price that a property could be sold for in a competitive and open market as of the specified date under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. This does not contemplate the potential for general declines in real estate markets or the sale of assets by the REIT under financial hardship or otherwise. Each investment property has been valued on a highest and best use basis but, specifically, does not include any portfolio premium that may be associated with economies of scale from owning a large portfolio or the consolidation value of having compiled a large portfolio of properties over a long period of time, many through individual property acquisitions.

Market assumptions applied for valuation purposes do not necessarily reflect the specific history or experience related to the REIT and, in many cases, the stabilized cash flows or net operating income used for appraisal purposes may not reflect the results ultimately realized during future periods.

The fair value of investment properties is established by qualified, independent appraisers annually. Each quarter, the REIT utilizes market assumptions for rent increases, capitalization and discount rates to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisers are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties. To the extent that the externally provided capitalization rates or results of operations change from one reporting period to the next, the fair value of the investment properties would increase or decrease accordingly.

For a discussion of risk factors associated with the valuation of investment properties, refer to the Risks and Uncertainties section. For a detailed description of valuation methods and key assumptions used for investment properties, see note 5 to the consolidated interim financial statements for the three months ended March 31, 2019.

The following table summarizes the changes in the REIT's investment properties portfolio during the period:

For the three months ended March 31, (€ Thousands)			**2019**		**2018**
Balance, Beginning of the Period		**€**	**433,605**	€	369,250
Add:	Acquisitions		**90,580**		-
	Property Capital Investments(1)		**1,630**		785
	Fair value adjustments		**7,405**		7,636
Investment Properties at Fair Value, End of the Period		**€**	**533,220**	€	377,671

(1) See Section V - Property Capital Expenditures

A summary of the fair values of the REIT's investment properties and changes, along with key market assumptions, is presented below:

As at,	**Dec 2018**	Change Due to Change in			**Mar 19**	**Mar 19**	**Dec 18**
(€ thousands)	Fair Value	Rates	Normalized NOI(1)	Net Acquisition	**Fair Value**	**Rates(2)**	Rates
Residential Properties							
Netherlands							
Utrecht	€ 148,970	€ 2,902	€ 1,578	€ -	€ **153,450**	**3.50%**	3.57%
Zuid-Holland	82,800	1,202	298	-	**84,300**	**3.61%**	3.66%
Noord-Holland	89,800	517	873	-	**91,190**	**3.46%**	3.48%
Limburg	45,335	822	23	-	**46,180**	**4.10%**	4.18%
Overijssel	22,450	213	7	-	**22,670**	**4.26%**	4.30%
Noord-Brabant	19,940	399	(59)	-	**20,280**	**3.91%**	3.99%
Other Provinces	24,310	340	(80)	-	**24,570**	**4.38%**	4.44%
Total Residential Properties	€ 433,605	6,395	2,640	-	**442,640**	**3.71%**	3.77%
Commercial Properties							
Germany & Belgium	-	-	-	90,580	**90,580**	**7.27%**	N/A
Total Portfolio	€ 433,605	€ 6,395	€ 2,640	€ 90,580	€ **533,220**	**4.32%**	3.77%

(1) Represents normalized net operating income for valuation purposes.

(2) For the commercial properties, represents the implied capitalization rate by dividing year one NOI by fair value.

For the three months ended March 31, 2019, the fair value adjustment on investment properties is primarily the result of: (i) increases in net operating income primarily attributable to the significant growth in rents in 2019 compared to 2018, driven by the rental increases on turnovers; and (ii) further compressed capitalization rates supported by market transactions.

As at March 31, 2019, a 25 basis point change in capitalization rates would have the following approximate effect on the fair value of the REIT's investment properties:

As at March 31, 2019		
(€ thousands)	**+ 25 Basis Points**	**-25 Basis Points**
Residential	(28,441)	29,318
Commercial	(4,560)	4,860
Total Portfolio	(33,001)	34,178

ACQUISITIONS AND DISPOSITIONS

The following tables summarize property acquisitions:

Acquisitions Completed During the Three Months Ended March 31, 2019

(€ Thousands)	Suite or Site Count	GLA (sq.ft.)	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate (1)	Term to Maturity (Years) (2)
March 29, 2019	-	396,700	Germany & Belgium	€ 90,580	€ 48,975	€ -	1.82%	5.4

(1) Weighted average interest rate on mortgage funding including interest rate swaps.
(2) Weighted average term to maturity on mortgage funding.

Acquisitions Completed During the Year Ended December 31, 2018

(€ Thousands)	Suite or Site Count	GLA (sq.ft.)	Region(s)	Total Acquisition Costs	Assumed Mortgage Funding	Subsequent Acquisition Financing	Interest Rate	Term to Maturity (Years)
June 29, 2018	-	-	The Hague	€ 346	€ -	€ -	n/a	n/a

CAPITAL STRUCTURE

The REIT defines capital as the aggregate of Unitholders' equity, bank indebtedness, Unit Option liabilities and Class B LP Units. The REIT's objectives when managing capital are to safeguard its ability to fund future distributions to Unitholders and to fund operations, including the identification and acquisition of a business or assets, retain a portion to meet repayment obligations under its mortgages and credit facilities, and ensure sufficient funds are available to meet capital commitments.

Management aims to maintain an optimal degree of debt to Gross Book Value of the REIT's assets depending on a number of factors at any given time. Capital adequacy is monitored against investment and debt restrictions contained in the REIT's second amended and restated declaration of trust dated March 29, 2019 (the "Declaration of Trust") and the credit agreement dated June 30, 2017 between the REIT and a Canadian chartered bank, as extended as at June 30, 2018 (the "Revolving Credit Facility").

In the short term, the REIT utilizes the Revolving Credit Facility to finance its working capital requirements. In the long term, equity issuances and mortgage financings may be considered in order to finance the cumulative investment in the property portfolio and ensure the sources of financing better reflect the long-term useful lives of the underlying investments.

As at March 31, 2019 the REIT is in compliance with all the investment and debt restrictions and financial covenants contained in the Declaration of Trust and the Revolving Credit Facility. The total capital managed by the REIT and the results of compliance with the key covenants and liquidity metrics are summarized below:

As at (€ Thousands)	**March 31, 2019**	**December 31, 2018**
Mortgages Payable	**€ 252,687**	€ 203,681
Unit Based Compensation Financial Liabilities	**325**	**-**
Class B LP Units	**217,681**	-
Unitholders' Equity	**65,723**	105,268
Total Capital	**€ 536,416**	€ 308,949

As at	Threshold	March 31, 2019	December 31, 2018
Total Debt to Gross Book Value	Maximum 65.0%	**44.0%**	46.5%
Debt Service Coverage Ratio (times)(1)(2)	Minimum 1.50	**3.51**	2.96

(1) For the 12 months ended
(2) Adjusted for the following non-recurring items: (1) Net loss of CANLiving B.V., which was fully consolidated into Holding BV in 2018 until it was restructured and sold to CAPREIT in December 2018, (2) related party loan interest between CAPREIT and two subsidiaries of Holding BV, where the loan was settled as part of the Acquisition, and (3) transaction costs associated to the Acquisition

The REIT currently anticipates that, in the second quarter of 2019, it will enter into a new credit facility provided by a third party Canadian chartered bank providing access to up to €50.0 million which will be subject to compliance with various provisions and covenants in order to fund operations, acquisitions, capital improvements, letters of credit and other uses.

LIQUIDITY AND FINANCIAL CONDITION

Capital Resources and Liquidity

As at March 31, 2019 and March 31, 2018, the REIT had the following capital resources available:

(€ Thousands)	March 31, 2019	December 31, 2018
Cash and cash equivalents	**€ 16,171**	€ 2,240
Unused Revolving Credit Facility	**2,000**	-
	€ 18,171	€ 2,240

The working capital deficiency, as presented on the REIT's consolidated balance sheet as at March 31, 2019, is paid through the Revolving Credit Facility. Management does a liquidity forecast on a monthly basis, which includes NOI, mortgage interest and principal payments, distributions, and property capital investments, to monitor the available liquidity capacity.

Mortgages Payable

The following table summarizes the changes in the mortgage portfolio during the periods:

As at March 31, (€ Thousands)	March 31, 2019	December 31, 2018
Balance, Beginning of Period	**€ 203,681**	€ 203,586
Add: Assumed as part of business combination	**48,975**	-
Amortization of deferred financing costs	**31**	95
Balance, End of Period	**€ 252,687**	€ 203,681

The breakdown of future principal repayments, including mortgage maturities, is as follows:

As at March 31, 2019		**Principal Amount**	**% of Total Principal**
2019	€	1,010	0.40%
2020		1,224	0.48%
2021		1,232	0.49%
2022		51,153	20.24%
2023		48,095	19.03%
Subsequent to 2023		150,670	59.63%
		253,384	100%
Deferred financing costs		(697)	
Total Portfolio	€	252,687	

As at		**March 31, 2019**		**December 31, 2018**
Represented by:				
Mortgages Payable - non-current	€	**251,677**	€	203,681
Mortgages Payable - current		**1,010**		-
	€	**252,687**	€	203,681

As at March 31, 2019, mortgages payable bear interest at a weighted average effective rate of 1.98% (December 31, 2018 – 2.02%), taking into consideration the effect of the interest rate swaps as disclosed in note 9 of the financial statements. The mortgages mature between 2022 and 2025. As at March 31, 2019, 100% of the REIT's mortgages payable are financed with terms that result in fixed interest payments after taking into consideration the interest rate swaps.

To ensure the REIT is not overly exposed to interest rate volatility risk, management has been successful in staggering the maturity dates within its mortgage portfolio or entering into long-term financing arrangements.

To reduce its interest cost and cost of capital, management will continue to leverage its balance sheet strength, availability in its credit facility, and the stability of its property portfolio to fund acquisitions and its capital investment plan, and to refinance its mortgage principal repayments going forward.

SECTION VI:

SELECTED CONSOLIDATED QUARTERLY INFORMATION

The following table provides selected quarterly financial information for the most recent five quarters for Holding BV. Holding BV, now a wholly-owned subsidiary of the REIT, has been identified for accounting purposes as the acquirer pursuant to the reverse acquisition, and accordingly the REIT is considered to be a continuation of Holding BV. Quarterly financial information for Holding BV is not available for prior periods.

For the Three Months Ended		Q1 19	Q4 18	Q3 18	Q2 18	Q1 18
Overall Portfolio Net AMR		€ 840	€ 838	€ 824	€ 806	€ 792
Operating Revenues (000s)(1)		€ 5,438	€ 5,350	€ 5,262	€ 5,181	€ 4,977
NOI (000s)(1)		€ 3,999	€ 3,790	€ 3,982	€ 3,570	€ 3,406
NOI Margin(1)		73.5%	70.8%	75.7%	68.9%	68.4%
Net Income (000s)		€ 6,438	€ 29,306	€ 7,859	€ 2,015	€ 4,948
FFO (000s)(1)		€ 2,769	€ 2,244	€ 2,859	€ 2,494	€ 2,031
AFFO (000s)(1)		€ 2,478	€ 2,226	€ 2,841	€ 2,477	€ 2,013
Total Debt to Gross Book Value		44.0%	46.5%	50.2%	51.9%	52.7%
FFO per Unit(1)	- Basic	€ 0.034	€ 0.027	€ 0.035	€ 0.031	€ 0.025
AFFO per Unit(1)	- Basic	€ 0.030	€ 0.027	€ 0.035	€ 0.030	€ 0.025
Weighted Average	- Basic	82,207	81,641	81,641	81,641	81,641
Number of Units (000s)	-Diluted	82,209	81,641	81,641	81,641	81,641

(1) Includes the results of investment properties owned as at the period end.

The REIT's operations are affected by seasonal cycles, and operating performance in one quarter may not be indicative of operating performance in any other quarter of the year. There may be periods where actual distributions declared may exceed cash generated from (utilized in) operating activities after interest paid, primarily due to weaker performance in certain periods from seasonal fluctuations.

ACCOUNTING POLICIES AND CRITICAL ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGEMENTS

A summary of significant accounting policies and accounting estimates can be found in notes 2 and 3 to the REIT's consolidated interim financial statement for the three months ended March 31, 2019.

RELATED PARTY TRANSACTIONS

Maple Knoll Management Agreement

On March 29. 2019, the previous asset management agreement between the REIT and Maple Knoll Capital LTD. ("Maple Knoll") was amended and replaced with an amended asset management agreement (the "Maple Knoll Management Agreement"), pursuant to which Maple Knoll acts as the asset manager to the REIT in respect of the REIT's commercial properties.

The Maple Knoll Management Agreement provides for a broad range of asset management services for the following fees:

a) An annual asset management fee in the amount of 0.50% of the historical gross acquisition price of the Commercial Properties plus value added tax ("VAT");
b) A disposition fee in the amount of 1.0% of the total gross proceeds associated with the Commercial Property disposed by the REIT or its subsidiaries payable on completion of each disposition plus VAT;
c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project with costs in excess of €1,000 on the Commercial Properties, excluding work done on behalf of tenants or any maintenance expenditures, plus VAT; and
d) A refinancing fee equal to 0.25% of the debt and equity of all refinancing transactions to a maximum of actual expenses incurred by Maple Knoll in supplying services relating to refinancing transactions plus VAT.

Phillip Burns (Chief Executive Officer and a trustee of the REIT) is a principal of Maple Knoll.

During the three months ended March 31, 2019, the REIT recorded asset management fees to Maple Knoll of €16 (March 31, 2018 - $nil).

New Asset Management Agreement

Upon closing of the Acquisition, the REIT entered into a new asset management agreement with CAPREIT LP and CAPREIT (together, the "Manager") pursuant to which the Manager will act as the asset manager to the REIT, except for the Commercial Properties (the "New Asset Management Agreement"). The Manager will, among other things, provide strategic, advisory, asset management, project management, construction management and administrative services necessary for the REIT.

The New Asset Management Agreement provides for a broad range of asset management services for the following fees:

a) An annual asset management fee in the amount of 0.35% of the historical purchase price of the REIT's properties excluding the Commercial Properties plus HST/VAT;
b) An acquisition fee in the amount of (i) 1.0% of the purchase price paid by the REIT or one or more of its subsidiaries for the purchase of a residential or commercial real property of the REIT located in Europe, on the first €100,000 of such properties acquired in each fiscal year, (ii) 0.75% of the purchase price paid by the REIT or one or more of its subsidiaries for the purchase of such a property, on the next €100,000 of such properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by the REIT or one or more of its subsidiaries for the purchase of such a property, on properties in excess of €200,000 acquired in each fiscal year, plus VAT; and
c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project (other than in respect of the Commercial Properties) with costs in excess of €1,000,000 excluding work done on behalf of tenants or any maintenance expenditures, plus VAT;
d) A financing fee (the "Financing Fee") equal to 0.25% of the debt and equity of all financing or refinancing transactions completed for the REIT or any of its subsidiaries, which is intended to cover the actual expenses

incurred by the Manager in supplying services to the REIT relating to financing transactions. To the extent that the Financing Fees paid by the REIT exceed the actual amount of such expenses, the Manager will reimburse the REIT for the difference. To the extent that the Financing Fees charged by the Manager are less than the actual amount of such expenses, the REIT will pay the difference as an additional Financing Fee amount.

During the three months ended March 31, 2019, the REIT recorded asset management fees to the Manager of €12 (March 31, 2018 - €nil).

Property Management Agreement

On March 27, 2019, the REIT entered into property management agreements with CanLiving B.V. and certain subsidiaries of CAPREIT, pursuant to which the CanLiving B.V. acts as the property manager to the REIT and receives 3.5% of EGI for, among other things, the following services:

a) Overseeing, supervising and directing the day-to-day relations with respect to the properties with third parties including tenants, suppliers, brokers, consultants, advisors, accountants, lawyers, municipal tax authorities, insurers and appraisers;
b) Maintaining copies of all invoices, bills, receipts, warranties, leases, contracts, correspondence, inventories and other records in connection with the properties and make them available for inspection;
c) Providing management and operational services for the properties, including inspection, negotiating contracts, providing management services in connection with the facilities, arranging for improvements and repairs as may be required, monitoring of building and refurbishment works and purchasing all materials and services, arranging for utilities and fixed price contracts in respect thereof and incurring such expenses (with certain exceptions), as it deems necessary in connection therewith;
d) Obtaining and maintaining appropriate insurance policies on all properties in amounts and against such risks as would normally be carried by prudent owners of similar property portfolios;
e) Handling all banking necessary for the due performance of accounting and administrative functions and for the receipt and disbursement of all monies pertaining to the operation of the properties;
f) Reviewing or causing to have reviewed property taxes and assessments for the properties and recommending payment or appeal, and, if applicable, taking steps to contest or appeal any such assessment;
g) Supervising all leasing and operations in respect of the properties, including establishing any leasing and marketing plans;
h) Arranging for the services of such other administrative, management and executive personnel to be provided as is reasonably necessary, including hiring, supervising and dismissing, as may be necessary from time to time all persons required for the proper operation, maintenance, administration, management and other support services for the properties, including any property managers, the controller and other oversight accounting and administrative staff; and
i) Assisting with or procuring assistance for, with any employment requirements, including the arrangement of insurance and other benefits as may be required from time to time.

During the three months ended March 31, 2019, the REIT recorded property management fees to CanLiving B.V. of €233. During the three months ended March 31, 2018, the REIT recorded property management fees to CanLiving B.V. of €111, which was eliminated on consolidation.

Services Agreement

The REIT has entered into a services agreement with the Manager, pursuant to which the Manager will provide the REIT with certain administrative services, including financial, information technology, internal audit and other support services as may be reasonably required from time to time. CAPREIT will provide these services to the REIT on a cost recovery basis.

During the three months ended March 31, 2019, the REIT recorded service fees to the Manager of €nil (March 31, 2018 - €nil).

Pipeline Agreement

On March 29, 2019, the REIT entered into a pipeline agreement with CAPREIT LP (the "Pipeline Agreement") pursuant to which CAPREIT LP, for a period ending on the two-year anniversary of the entering into of the Pipeline Agreement, will make up to €250.0 million (inclusive of Pipeline Acquisition Costs(as defined in the Pipeline Agreement)) (the "Total Commitment") available to acquire Pipeline Properties that comply with the REIT's investment policy and do not contravene the investment policy or constating documents of CAPREIT or CAPREIT LP for which the REIT wishes to purchase but is unable to do so (a "Suitable Property Investment"). Once any part of the Total Commitment has been repaid, that part of the Total Commitment will be available for re-use under the terms of the Pipeline Agreement.

If the REIT wishes to participate in a sale process in respect of a specified Suitable Property Investment and is unable to do so, the REIT shall be entitled to request, upon delivery of a written notice to CAPREIT (a "Participation Notice"), that CAPREIT LP (or CAPREIT LP's option, a subsidiary of CAPREIT LP or a Pipeline SPV (as defined in the Pipeline Agreement)) acquire, subject to certain approvals, such Suitable Property Investment on the terms specified in the Participation Notice.

Subject to the terms of the Pipeline Agreement, CAPREIT LP will have the right to require the REIT (or an affiliate thereof) to acquire, directly or indirectly through the purchase of a Pipeline Property (as defined in the Pipeline Agreement), an Other Suitable Property (as defined in the Pipeline Agreement) or Pipeline SPV Shares (as defined in the Pipeline Agreement) (the "Pipeline Put Option") at any time at the Pipeline Acquisition Price (as defined in the Pipeline Agreement). A condition of any Pipeline Put Option in respect of an Other Suitable Property is that such acquisition must, after receipt by the REIT of a Pipeline Put Option, be approved by the REIT's Independent Trustees excluding any trustee or officer of CAPREIT. For a period of one year following: (i) the acquisition by CAPREIT LP of a Pipeline Property; or (ii) the acquisition by CAPREIT LP of any Other Suitable Property held from time to time by CAPREIT LP after June 30, 2019, the REIT shall have the right to require CAPREIT LP to sell the Pipeline Property (or Pipeline SPV Shares, as the case may be) or the Other Suitable Property acquired after June 30, 2019, to the REIT (the "Pipeline Call Option") at the Pipeline Acquisition Price. The Pipeline Agreement and any transactions completed pursuant to the terms of such agreement are subject to the policies of the TSXV and prior TSXV approval for so long as the REIT is on such exchange.

Unit-based Compensation Expenses

On closing of the Acquisition, the REIT assumed 1,143,014 unit options (the "Unit Options") previously issued to officers, trustees, employees, and consultants of ECREIT. These Unit Options carry a weighted average exercise price of €2.65 (C$3.97), a weighted average remaining contractual life of 8.7 years, and a weighted average expected life of 3.7 years as at March 31, 2019.

On March 29, 2019, the REIT granted 500,000 Unit Options to Phillip Burns, the chief executive officer and trustee of the REIT, to purchase 500,000 REIT Units at €2.67 (C$4.00) per REIT Unit. These Unit Options vest in one-third instalments annually on March 29, 2020, 2021, and 2022 respectively, and will expire ten years from the date the Unit Options were granted.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the Units and the activities of the REIT. The following is a description of the principal risks in the REIT's business, defined as either those that could have a significant impact on the REIT if they were to occur or those that are significant to the REIT's day-to-day operations. In addition to the risks described herein, reference is made to the section entitled "Risk Factors" on pages 103-126 of the Management Information Circular of the REIT dated February 22, 2019 as supplemented on March 11, 2019 and the section entitled "Risk Factors" on pages 52-55 of the Management Information Circular of the REIT dated April 23, 2019. Investors should carefully consider these risks before investing in the REIT Units.

Related to Reporting Investment Property at Fair Value

The REIT holds investment property to earn rental income, for capital appreciation or both. All investment property is measured using the fair value model, whereby changes in fair value are recognized for each reporting period in the consolidated statements of income and comprehensive income. Management and CAPREIT values each investment property based on the most probable price for which such property could be sold in an open, competitive market as of a specified date. Such valuation takes into account all requisite conditions to a fair sale, such as the buyer and seller each acting prudently and knowledgeably, and the assumption that such price is not affected by undue stimulus. Each investment property has been valued on a highest and best use basis.

Market assumptions applied for valuation purposes do not necessarily reflect the REIT's specific history or experience and the conditions for realizing the fair values through a sale may change or may not be realized. Downturns in the real estate market could negatively affect the REIT's operating revenues and cash flows; such a downturn could also significantly impact the fair values of the REIT's investment properties, as well as certain of its financial ratios and covenants.

Liquidity and Price Fluctuation of Units

The REIT is an unincorporated "open-ended" investment trust and its REIT Units are listed on the TSX Venture Exchange (the "TSXV"). There can be no assurance that an active trading market in the REIT Units will be sustained.

A publicly traded real estate investment trust will not necessarily trade at values determined solely by reference to the underlying value of its real estate assets. The prices at which the REIT Units will trade cannot be predicted. The market price of the REIT Units could be subject to significant fluctuations in response to variations in quarterly operating results, distributions and other factors beyond the control of the REIT. One of the factors that may influence the market price of the REIT Units is the annual yield on the REIT Units. Accordingly, an increase in market interest rates may lead purchasers of REIT Units to demand a higher annual yield, which could adversely affect the market price of the REIT Units. In addition, the securities markets have experienced significant price and volume fluctuations from time to time in recent years that often have been unrelated or disproportionate to the operating performance of particular issuers. These broad fluctuations may adversely affect the market price of the REIT Units. Accordingly, the REIT Units may trade at a premium or a discount to the value of the REIT's underlying assets.

In addition, changes in the REIT's creditworthiness or perceived creditworthiness may affect the market price or value and/or liquidity of the REIT Units.

Investment Concentration

The portfolio is currently weighted with 82.9% of the overall portfolio (by value) in the Netherlands. Accordingly, the REIT will be susceptible to adverse developments in the Netherlands, changing demographics and other factors. These factors may differ from those affecting the real estate markets in other regions or countries in Europe. If real estate conditions in the Netherlands decline relative to real estate conditions in other regions or countries in Europe, the REIT's cash flows, operating results and/or financial condition may be more adversely affected than those of companies that have more geographically diversified portfolios of properties.

The principal business of the REIT will be investing in multi-family residential properties in Europe. Any adverse economic or real estate developments in the areas in which the REIT's properties are located initially and in which the REIT's real estate investments reside going forward, or in the future in any of the other markets in which the REIT operates could adversely affect the REIT's rental revenues, which could impair its ability to satisfy its debt service obligations and generate stable positive cash flow from its operations.

COMMITMENTS AND CONTINGENCIES

The REIT is contingently liable under guarantees provided to certain of the REIT's lenders in the event of default, and with respect to litigation and claims that arise in the ordinary course of business. Matters relating to litigation and claims are generally covered by insurance, or have been provided for in general and administrative expenses where appropriate.

SUBSEQUENT EVENTS

On April 22, 2019, the REIT announced that, pursuant to the terms of the previously approved Pipeline Agreement, it had agreed to indirectly acquire from CAPREIT LP or one or more subsidiaries thereof (i) 26 properties (the "Warehoused Properties"), representing an aggregate of 1,257 residential suites and certain additional ancillary commercial space and parking facilities, located in 24 cities and towns across the Netherlands and (ii) 21 properties (the "Additional Properties") comprised of 511 residential suites in six urban centres in the Netherlands.

Under the terms of the Pipeline Agreement, CAPREIT LP exercised its right to require the REIT (or an affiliate thereof) to acquire, directly or indirectly, through the purchase of a Pipeline Property, an Other Suitable Property or Pipeline SPV Shares (as each term is defined in the Pipeline Agreement) at (i) with respect to the Warehoused Properties, the Pipeline Acquisition Costs of the Warehoused Properties and (ii) with respect to the Additional Properties, the Pipeline Acquisition Costs of the Additional Properties plus an underwriting fee of 1% of the purchase price of the Additional Properties by CAPREIT LP or its subsidiaries (the "Underwriting Fee"). No Underwriting Fee shall be paid to CAPREIT LP or its subsidiaries in connection with the acquisition of the Warehoused Properties. The aggregate purchase price for the acquisition of the Warehoused Properties and the Additional Properties is expected to be approximately €332.8 million, subject to certain purchase price adjustments, which is an aggregate of the Pipeline Acquisition Costs related to the Warehoused Properties and the Additional Properties, to be satisfied by a combination of: (i) the assumption of €97.1 million aggregate principal amount of existing mortgage debt and liabilities associated with the Warehoused Properties and the Additional Properties net of financing fees; and (ii) up to €235.6 million through cash, the issuance of up to 88,381,759 REIT Units or Class B LP Units to CAPREIT LP or a subsidiary thereof to satisfy the full acquisition purchase price based on a price of $4.00 per REIT Unit or Class B LP Unit, subject to TSXV approval, or a combination of both. A portion of the acquisition purchase price may be payable through the assumption of up to an additional €60.0 million (C$90.0 million) of mortgage financing on the Additional Properties (the "Mortgage Debt") and the drawing down of up to €22.2 million (C$33.3 million) on the New Credit Facility. The REIT expects that both the Mortgage Debt and New Credit Facility will be in place prior to the closing of such acquisitions.

The acquisitions will be completed pursuant to the Pipeline Agreement and will be conditional upon the satisfaction of certain conditions, including TSXV approval. The closing of the acquisition of the Warehoused Properties is expected to take place in May 2019 and the closing of the Additional Properties is expected to take place by August 2019.

The Warehoused Properties and the Additional Properties were acquired by CAPREIT LP (or certain of its subsidiaries) from various vendors unrelated to the REIT or CAPREIT LP, pursuant to several transactions completed in December 2018 and February 2019. CAPREIT LP conducted customary property-level due diligence when considering the acquisitions, including, but not limited to, the review of property tax bills, rent rolls, parking revenue analysis, analysis of utilities costs, site visits and interviews with property managers and the commissioning of third-party environmental, building condition and appraisal reports. Management of the REIT has reviewed with CAPREIT LP the closing and diligence documentation obtained in connection with each of the acquisition properties. Further, under the REIT's operating policies set out in the Declaration of Trust, although the REIT (or its applicable subsidiaries) shall, in connection with any property it intends to acquire (i) conduct or receive an independent appraisal and an engineering survey with respect to the physical condition of such property (including capital replacement programs) and (ii) obtain or review a Phase I environmental audit (or reliance letter from an environmental consultant in respect of a Phase I environmental audit) of each such property, dated within 18 months of the date of acquisition, the acquisitions are specifically exempted from such requirements, as approved by Unitholders at a special meeting of the REIT held on March 21, 2019.

The table below shows the pro forma statement of financial position after the acquisition of the Warehoused Properties and the Additional Properties as indicated above:

Balance Sheet	**ERES** March 31, 2019	**ERES Including proposed acquisitions**
Investment Properties	533,220	866,716
Goodwill	11,126	11,126
Derivative Financial Instrument	440	440
Other Assets	29,818	29,818
Total Assets	574,604	908,100
		-
Mortgages(1)	252,687	410,187
Credit Facility(2)	-	22,200
Class B LP Units	217,681	371,477
Other Liabilities	38,513	38,513
Total Liabilities	508,881	842,377
Unitholder's Equity	65,723	65,723
Total Liabilities and Unitholders' Equity	574,604	908,100

(1) Includes mortgage assumption of €97.5 million and expected mortgage financing of €60.0 million.
(2) Assumes a €22.2 million draw on a credit facility anticipated to be available to ERES prior to closing of the proposed acquisition.

FUTURE OUTLOOK

The following table provides a summary of the Financial Forecast for each of the three-month periods ending June 30, 2019, September 30, 2019, December 31, 2019 and March 31, 2020, and for the twelve month period ending March 31, 2020, which is based on certain key assumptions and excludes the subsequent events as noted in the MD&A. For further details on the Financial Forecast, please refer to the Supplement to Management Information Circular for Special Meeting and Unitholders dated March 11, 2019, as filed on SEDAR at www.sedar.com.

(€ Thousands)

	Three Month Periods Ending				**Twelve-Month**
	June 30, 2019	**September 30, 2019**	**December 31, 2019**	**March 31, 2020**	**Period Ending March 31,**
Net Rental Income					
Property Revenue	€ 7,387	€ 7,575	€ 7,591	€ 7,608	€ 30,161
Property Expenses	(1,741)	(1,827)	(1,757)	(1,780)	(7,105)
Net Rental Income	**5,646**	**5,748**	**5,834**	**5,828**	**23,056**
General & Administrative Expenses	(870)	(865)	(865)	(856)	(3,456)
Unit-Based Compensation	(173)	(166)	(144)	(113)	(596)
Income Before Financing Expenses	**4,603**	**4,717**	**4,825**	**4,859**	**19,004**
Finance Expenses					
Interest Expense	(3,351)	(3,371)	(3,373)	(3,369)	(13,464)
Income Before Income Tax	**1,252**	**1,346**	**1,452**	**1,490**	**5,540**
Income Tax Expense	(217)	(253)	(255)	(263)	(988)
Net Income For The Period	**€ 1,035**	**€ 1,093**	**€ 1,197**	**€ 1,227**	**€ 4,552**

See accompanying notes to consolidated statements of forecast net income in the Supplement to Management Information Circular for Special Meeting and Unitholders filed on March 13, 2019.

The Financial Forecast has been prepared using assumptions that reflect management's intended course of action for the REIT for the periods covered, given management's assumption as to the most probable set of economic conditions. The assumptions used in the preparation of a forecast, although considered reasonable by management at the time of preparation, may not materialize as forecasted and unanticipated events and circumstances may occur subsequent to the date of the forecast. Accordingly, there is a significant risk that actual results achieved for the forecast period will vary from the forecast results and that such variations may be material. There is no representation that actual results achieved during the forecast period will be the same in whole or in part as those forecasts. Important factors that could cause actual results to vary materially from the forecast.

The following table reconciles forecast net income to forecast FFO and AFFO:

(€ Thousands)	**Three Month Periods Ending**				**Twelve-Month**
	June 30, 2019	**September 30, 2019**	**December 31, 2019**	**March 31, 2020**	**Period Ending March 31,**
Forecast Net Income For The Period	€ 1,035	€ 1,093	€ 1,197	€ 1,227	€ 4,552
Adjustments:					
Interest on Class B LP Units	2,143	2,143	2,143	2,143	8,572
Deferred Income Tax Expenses	203	239	241	249	932
Funds from Operations ("FFO")	**3,381**	**3,475**	**3,581**	**3,619**	**14,056**
FFO per Unit - Basic(1)	**€ 0.034**	**€ 0.035**	**€ 0.036**	**€ 0.037**	**€ 0.143**
Adjustments:					
Capital Expenditure Reserve (2)	(321)	(321)	(321)	(321)	(1,284)
Leasing Costs Reserve	(52)	(52)	(52)	(52)	(208)
Adjusted Funds from Operations ("AFFO")	**€ 3,008**	**€ 3,102**	**€ 3,208**	**€ 3,246**	**€ 12,564**
AFFO per Unit - Basic(1)	**€ 0.031**	**€ 0.031**	**€ 0.033**	**€ 0.033**	**€ 0.127**

(1) Based on a weighted average number of Units of 98,610,974 which includes REIT Units and Class B LP Units and excludes the dilutive unexercised Unit Options.

(2) Annual Capital Expenditure Reserve consists of € 550 per residential suite. The remainder relates to ECREIT's existing three commercial properties.

The REIT is focused on achieving its objectives of providing Unitholders with long-term, stable and growing cash distributions, growing AFFO and Unit value, and maximizing earnings and cash flow potential. The REIT continues to focus on maximizing occupancy and Net and occupied AMR in accordance with local conditions in the European market. There is a strong focus on reducing its operating costs as a percentage of total revenues and investing in various environment-friendly and energy-saving initiatives to reduce or stabilize overall net energy costs. The REIT also directs its efforts on its building infrastructure improvement programs to upgrade properties across the portfolio and to reposition it by completing value-enhancing capital investments. These investments are expected to enhance the life safety of tenants, improve the portfolio's long-term cash flow generating potential and increase its useful life over the long term.

EUROPEAN RESIDENTIAL
REAL ESTATE INVESTMENT TRUST
(FORMERLY EUROPEAN COMMERCIAL REAL ESTATE INVESTMENT TRUST)

CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED
MARCH 31, 2019

CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(€ Thousands, unaudited)

As at	Note		March 31, 2019		December 31, 2018[1]		January 1, 2018[1]
Non-Current Assets							
Investment properties	5	€	**533,220**	€	433,605	€	369,250
Goodwill	4		**11,126**		-		-
Derivative financial assets	9		**440**		-		-
Total Non-Current Assets			**544,786**		433,605		369,250
Current Assets							
Other current assets	6		**1,705**		176		541
Due from related party	11		**11,942**		1,642		-
Cash and cash equivalents			**16,171**		2,240		6,470
Total Current Assets			**29,818**		4,058		7,011
Total Assets		€	**574,604**	€	437,663	€	376,261
Non-Current Liabilities							
Mortgages payable	8	€	**251,677**	€	203,681	€	203,599
Class B LP Units	13		**217,681**		-		-
Derivative financial liabilities	9		**1,331**		-		-
Unit-based compensation financial liabilities	12		**77**		-		-
Due to related party	11		**-**		108,550		116,097
Deferred income tax liability	18		**6,394**		16,072		2,837
Total Non-Current Liabilities			**477,160**		328,303		322,533
Current Liabilities							
Mortgages payable	8		**1,010**		-		-
Unit-based compensation financial liabilities	12		**248**		-		-
Accounts payable and other liabilities	7		**11,251**		2,597		3,157
Security deposits			**1,556**		1,495		1,267
Distributions payable	4		**5,656**		-		-
Current income tax liability	18		**12,000**		-		-
Total Current Liabilities			**31,721**		4,092		4,424
Total Liabilities		€	**508,881**	€	332,395	€	326,957
Unitholders' Equity							
Capital contribution	14		**-**		52,010		41,010
Unit capital	14		**45,247**		-		-
Retained earnings			**20,476**		53,258		8,294
Total Unitholders' Equity		€	**65,723**	€	105,268	€	49,304
Total Liabilities and Unitholders' Equity		€	**574,604**	€	437,663	€	376,261

(1) Refer to change in presentation currency, note 23.

See accompanying notes to the unaudited consolidated interim financial statements.

CONSOLIDATED INTERIM STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(€ Thousands, unaudited)

For the Three Months Ended March 31,	**Note**		**2019**		2018[(1)]
Operating Revenues					
Revenue from investment properties	15	**€**	**5,123**	€	4,677
Operating costs recoveries	15		**315**		300
			5,438		4,977
Operating Expenses					
Property operating costs			**(1,337)**		(1,479)
Property taxes			**(102)**		(92)
			(1,439)		(1,571)
Net Rental Income			**3,999**		3,406
General and administrative expenses			**(131)**		(443)
Transaction costs	4		**(511)**		-
Interest and other financing costs	19		**(2,504)**		(3,614)
Net movement in fair value of investment properties	5		**7,405**		7,636
Foreign exchange			**37**		-
Net Income before income taxes for the period			**8,295**		6,985
Income tax expense	18		**(1,857)**		(2,037)
Net Income and Comprehensive Income for the period		**€**	**6,438**	€	4,948

(1) Refer to change in presentation currency, note 23.

See accompanying notes to the unaudited consolidated interim financial

CONSOLIDATED INTERIM STATEMENTS OF UNITHOLDERS' EQUITY

(€ Thousands, unaudited)

	Note		Capital Contribution		Unit Capital		Retained Earnings		Total
Unitholders' Equity, January 1, 2019		**€**	**52,010**	**€**	**-**	**€**	**53,258**	**€**	**105,268**
Capital contribution prior to acquisition			6,119		-		-		6,119
Shareholders' equity exchanged for Class B LP Units as part of the acquisition	4		(58,129)		-		(39,220)		(97,349)
REIT Units issued as part of the acquisition	4		-		45,247		-		45,247
Net income			-		-		6,438		6,438
Unitholders' Equity, March 31, 2019		**€**	**-**	**€**	**45,247**	**€**	**20,476**	**€**	**65,723**

	Note		Capital Contribution		Unit Capital		Retained Earnings		Total
Unitholders' Equity, January 1, 2018		**€**	**41,010**	**€**	**-**	**€**	**8,294**	**€**	**49,304**
Net income			-		-		4,948		4,948
Unitholders' Equity, March 31, 2018		**€**	**41,010**	**€**	**-**	**€**	**13,242**	**€**	**54,252**

See accompanying notes to the unaudited consolidated interim financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(€ Thousands, unaudited)

For the Three Months Ended March 31,	**Note**		**2019**		2018
Cash Flows from Operating Activities					
Net Income for the period		**€**	**6,438**	€	4,948
Adjustments to non-cash items					
Net movement in fair value of investment properties			**(7,405)**		(7,636)
Foreign Exchange			**(37)**		-
Deferred income tax expense	18		**1,717**		2,037
Amortization	20		**31**		31
			744		(620)
Items in net income related to financing and investing activities	19		**2,473**		3,594
Changes in non-cash operating assets and liabilities	20		**1,133**		(172)
Changes in due to/from related party			**1,503**		(11)
Net Cash Generated from Operating Activities			**5,853**		2,791
Cash flows from Investing Activities					
Cash acquired as part of the Acquisition	4		**6,045**		-
Investment property capital investments	5		**(1,630)**		(785)
Net Cash Generated (Used) in Investing Activities			**4,415**		(785)
Cash Flows from Financing Activities					
Capital Contribution			**6,119**		-
Interest paid	20		**(2,493)**		(955)
Net Cash Generated (Used in) Financing Activities			**3,626**		(955)
Changes in Cash and Cash Equivalents during the Period			**13,894**		1,051
Effect of foreign exchange on cash			**37**		-
Cash and Cash Equivalents, Beginning of the Period			**2,240**		6,470
Cash and Cash Equivalents, End of the Period		**€**	**16,171**	€	7,521

See accompanying notes to the unaudited consolidated interim financial statements.

1. Organization of the Trust

European Residential Real Estate Investment Trust (together with its subsidiaries, the "REIT") owns and operates a portfolio of multi-unit residential properties, including apartments and townhomes, as well as commercial properties in Europe. The REIT is an unincorporated, open-ended mutual fund trust governed under the laws of the province of Ontario and is listed on the TSX Venture Exchange under the symbol "ERE.UN-V." The registered address of the REIT is 11 Church Street, Suite 401, Toronto, Ontario, Canada M5E 1W1.

On March 29, 2019, CAPREIT NL Holding B.V. ("Holding BV") completed the reverse acquisition (the "Acquisition") of European Commercial Real Estate Investment Trust ("ECREIT"). Pursuant to the Acquisition, CAPREIT Limited Partnership ("CAPREIT LP"), a subsidiary of Canadian Apartment Properties Real Estate Investment Trust ("CAPREIT") and the sole shareholder of Holding BV, exchanged all its shares of Holding BV for Class B Limited Partnership units ("Class B LP Units") of ERES Limited Partnership ("ERES LP"). The transaction resulted in CAPREIT, the ultimate parent, owning approximately 82.8% of the combined issued and outstanding units of the REIT ("REIT Units") and Class B LP Units of the resulting issuer, and therefore constituted a Reverse Takeover ("RTO"). The ongoing entity has changed its name to European Residential Real Estate Investment Trust. Holding BV, now a wholly-owned subsidiary of the REIT, has been identified for accounting purposes as the acquirer, and accordingly the REIT is considered to be a continuation of Holding BV. Refer to note 4 for additional details.

At March 31, 2019, CAPREIT owns approximately 82.8% of the combined issued and outstanding REIT Units and Class B LP Units of the REIT and as at December 31, 2018, owned 100% of Holding BV. Pursuant to the investor rights agreement as entered into by the REIT and CAPREIT, CAPREIT has appointed three of six trustees to the board of the REIT.

2. Summary of Significant Accounting Policies

a) *Statement of compliance*

The REIT has prepared these consolidated interim financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, "Interim Financial Reporting". These policies have been consistently applied to all periods presented, unless stated otherwise.

These consolidated interim financial statements were approved by the REIT's Board of Trustees on May 10, 2019.

b) Basis of presentation

These consolidated interim financial statements have been prepared on a going concern basis, are presented in Euros (which is also the REIT's functional currency), and have been prepared on an historical cost basis except for:

i) Investment properties and certain financial instruments, which are measured at fair value; and

ii) Certain Unit-based compensation accounts, which are measured with reference to the fair value of the Units.

c) Comparative financial information

These consolidated interim financial statements have been prepared as a continuation of Holding BV's consolidated financial statements, and the comparative figures presented represent the consolidated financial statements of Holding BV. Certain reclassifications have been made to the comparative figures to conform with the current year's presentation of these consolidated interim financial statements. The results of ECREIT's operations have been included in the REIT's consolidated interim financial statements from the close of the Acquisition on March 29, 2019 (refer to note 4).

d) *Principles of consolidation*

These consolidated interim financial statements comprise the assets and liabilities of all subsidiaries and the results of all subsidiaries for the financial period. Subsidiaries are all entities over which the REIT has control. The REIT controls an entity when the REIT is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Subsidiaries are fully consolidated from the date control commences and deconsolidated from the date control ceases.

e) *Investment properties*

The REIT considers its income properties to be investment properties under IAS 40, Investment Property ("IAS 40"), and has chosen the fair value model to account for investment properties in its consolidated interim financial statements. Fair value represents the amount at which the properties could be exchanged between a knowledgeable and willing buyer and a knowledgeable and willing seller in an arm's-length transaction at the date of valuation.

The REIT's investment properties have been valued on a highest and best use basis and do not include any portfolio premium that may be derived from economies of scale associated with owning a large portfolio, or the consolidation value from having compiled a large portfolio of properties over a long period of time primarily through individual property acquisitions.

Investment properties comprise investment interests held in land and buildings (including integral equipment) held for the purpose of producing rental income, capital appreciation, or both. All investment properties are recorded at fair value at their respective acquisition dates and are subsequently remeasured at fair value at each statement of financial position date, with any gain or loss arising from a change in fair value recognized within the consolidated interim statements of income and comprehensive income for the period.

The fair value of all of the REIT's investment properties are determined annually by qualified external appraisers. Management regularly undertakes a review of the valuation of its investment properties between external appraisal dates to assess the continuing validity of the underlying assumptions used, such as cash flows, capitalization rates and discount rates. These assumptions are then tested against market information obtained from independent appraisal firms. Where increases or decreases are warranted, the REIT adjusts the carrying value of its investment properties. See notes 3 and 5 for a detailed discussion of the significant assumptions, estimates and valuation methods used.

f) *Property asset acquisitions and business combinations*

At the time of acquisition of a property or a portfolio of investment properties, the REIT evaluates whether the acquisition is a business combination or asset acquisition. IFRS 3, Business Combinations ("IFRS 3") is only applicable if it is considered that a business has been acquired. IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of distributions, lower costs or other economic benefits directly to investors.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the REIT applies judgement in determining whether an integrated set of activities is acquired in addition to the property or portfolio of properties. Activities can include whether employees were assumed in the acquisition or if an operating platform was acquired.

In applying IFRS 3, the REIT further considers which entity is the acquiror through assessing factors such as ownership, control, and management of the resulting entity. Where the acquiror for accounting purposes is the legal acquiree, the acquisition is classified as a reverse acquisition transaction.

The REIT uses the acquisition method to account for business combinations. The consideration transferred for the acquisition is measured as the aggregate of the fair values of the assets transferred, liabilities incurred or assumed, and any equity instruments of the REIT issued in exchange for control of the acquiree. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognized at their fair values at the acquisition date. Acquisition related costs are recorded as an expense in the consolidated statement of income and comprehensive income as incurred.

The excess of the consideration paid for the acquisition over the fair value of the REIT's share of the identifiable net assets acquired is recorded as goodwill. If the consideration paid for the acquisition is less than the fair value of the REIT's share of the net assets acquired, the difference is recognized directly in net income for the year as an acquisition gain.

When an acquisition does not represent a business as defined under IFRS 3, the REIT classifies these properties or portfolio of properties as an asset acquisition. Identifiable assets acquired and liabilities assumed in an asset acquisition are measured initially at cost at the acquisition date, with any acquisition-related transaction costs capitalized to the value of the property.

g) Goodwill

Goodwill is not amortized but tested for impairment annually, or more frequently if there are indicators of impairment. Goodwill is allocated to the group of cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination, at the lowest level at which goodwill is monitored for internal management purposes, and not larger than an operating segment (a "Goodwill CGU"). The REIT evaluates whether goodwill may be impaired by determining whether the recoverable amount is less than the carrying amount for the Goodwill CGU.

h) Tenant inducements

Incentives such as cash, rent-free periods and move-in allowances may be provided to lessees to enter into a lease. These incentives are capitalized and amortized on a straight-line basis over the term of the lease as a reduction of rental revenue. The carrying amounts of the tenant inducements are included in the fair value of investment properties.

i) Financial instruments

Determination of Fair Value

Financial assets and financial liabilities

Under IFRS 9, Financial Instruments ("IFRS 9"), financial assets and financial liabilities are initially recognized at fair value and are subsequently accounted for based on the purpose for which the financial instruments were acquired or issued, their characteristics and the REIT's designation of such instruments. The standards require that all financial assets and financial liabilities be classified as fair value through profit or loss ("FVTPL"), amortized cost, or fair value through other comprehensive income ("FVOCI"). Amortized cost is determined using the effective interest method.

Classification of financial instruments

The following summarizes the type and measurement the REIT has applied to each of its significant categories of financial instruments:

Type	Measurement Base
Financial assets	
Cash and cash equivalents	Amortized cost
Due from related party	Amortized cost
Trade and other receivables	Amortized cost
Derivative financial assets	FVTPL
Financial liabilities	
Mortgages payable	Amortized cost
Accounts payable and other liabilities	Amortized cost
Security deposits	Amortized cost
Distribution payable	Amortized cost
Due to related party	Amortized cost
Class B LP Units	FVTPL
Derivative financial liabilities	FVTPL

Cash and cash equivalents
Cash and cash equivalents include cash and guaranteed investment certificates held in banks with a maturity date of less than 12 months, and redeemable on demand.

Trade and other receivables
Such receivables arise when the REIT provides leased property and services to a third party, such as a tenant, and are included in current assets, except for those with maturities more than 12 months after the statement of financial position date, which are classified as non-current assets.

Financial liabilities
Such financial liabilities are recorded initially at fair value, and subsequently at amortized cost and include all liabilities other than derivatives or liabilities which have been designated as measures at FVTPL.

Transaction costs
Transaction costs related to financial assets or financial liabilities classified as FVTPL are expensed as incurred. Transaction costs related to financial assets and other liabilities that are measured at amortized cost, are netted against the carrying value of the asset or liability and amortized over the expected life of the instrument using the effective interest rate method.

Derivatives
Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and subsequently remeasured at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative financial instrument is designated as a hedging instrument and, if so, the nature of the item being hedged. Derivatives not designated as a hedging relationship are measured at fair value with changes recognized directly in the consolidated statements of income and comprehensive income.

Mortgages payable
Mortgages payable are recognized at amortized cost using the effective interest rate method. Under the effective interest rate method, any transaction fees, costs and discounts directly related to the mortgage are recognized within interest and other financing costs in the consolidated statement of income and comprehensive income within net income over the expected term of the mortgage. Mortgage maturities and repayments due more than 12 months after the statement of financial position date are classified as non-current.

Expected Losses for Receivables

A provision for impairment is established based on the simplified expected credit loss ("ECL") model. Under the simplified ECL model, the REIT estimates lifetime expected losses for its receivables at each statement of financial position date based on available information. To measure the expected losses, amounts receivable are grouped based on the days past due. The results of the simplified ECL model are used to reduce the carrying amount of the financial asset through an allowance account, and the changes in the measurement of the allowance account are recognized in the consolidated statement of income and comprehensive income within properties operating expenses. Bad debt write-offs occur when the REIT determines collection is not possible. Any subsequent recoveries of amounts previously written off are credited against property operating costs.

j) ***Classification of Units as liabilities and equity***

The REIT is an open-ended mutual fund trust, and Units of the REIT are redeemable at the option of the REIT's Unitholders. IAS 32, Financial Instruments: Presentation ("IAS 32") requires redeemable instruments to be accounted for as financial liabilities, except where certain conditions are met, known as the Puttable Instrument Exemption. The REIT Units meet the Puttable Instrument Exemption criteria and are therefore classified and presented as equity in the consolidated statements of financial position.

Issued and outstanding Class B LP Units are exchangeable on demand for REIT Units. These Class B LP Units do not qualify for the Puttable Instrument Exemption and are classified as liabilities on the consolidated interim statements of financial position. Distributions on the Class B LP Units are recognized in the consolidated interim statements of income and comprehensive income as interest expense. These Class B LP Units are remeasured at each reporting date at their fair value, which approximates the fair value of a REIT Unit, as they are exchangeable into REIT Units on demand. Changes in the carrying amount are recognized as net movement in fair value of Class B LP Units within net income in the consolidated interim statements of income and comprehensive income.

k) Revenue recognition

IFRS 16, "Leases" ("IFRS 16")

The REIT has adopted IFRS 16, effective January 1, 2019. There was no material impact upon adoption. For further details on the adoption of IFRS 16, see note 2(t).

The REIT recognizes rental revenue using the straight-line method, whereby the fixed lease payments, less any lease incentives (such as cash, rent-free periods and move-in allowances provided to lessees), in-substance fixed payments and any variable lease payments that depend on an index or a rate to be received are accounted for as rental revenue on a straight-line basis over the term of the related leases.

Variable payments allocated to a lease component (such as certain operating cost recoveries), that do not depend on an index or a rate are accounted for as revenue in the period in which the corresponding operating expense occurs.

Modifications of lease agreements, including reductions in the contractual lease terms, are accounted for as a new lease at the date the modification is effective, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

Rent from investment properties including property tax and insurance recoveries are accounted for under IFRS 16.

IFRS 15, “Revenue from Contracts with Customers” (“IFRS 15”)

The REIT recognizes non-lease related revenue using a uniform, five-step model. The five steps are as follows:

1. Identify the contract(s) with the customer
2. Identify the performance obligation(s)
3. Determine the transaction price
4. Allocate the transaction price to the performance obligation(s)
5. Recognize revenue as the performance obligation(s) are satisfied

Revenue within the scope of IFRS 15 is measured at the best estimate of the consideration to which the REIT expects to receive in exchange for performing services to tenants. Revenue is recognized only to the extent that it is highly probable that a significant amount of the cumulative revenue recognized will not be reversed.

Other operating cost recoveries incurred in connection with tenant services such as common area maintenance, security and other administrative services are recognized as the performance obligations are satisfied over time as they are provided during the period of occupancy. Revenues from these services are measured based on the actual cost incurred to fulfill the services during the period. Refer to note 15.

l) Interest and other financing costs

Interest and other financing costs include mortgage interest, which is expensed at the effective interest rate, and amortization of transaction costs incurred in connection with the revolving credit facilities, which are capitalized and presented as other non-current assets and amortized over the term of the facility to which they relate. Distributions on Class B LP Units are also included in interest and other financing costs.

m) Distributions

Distributions are recognized as a deduction from retained earnings for the REIT Units, and as interest expense for Class B LP Units, in the REIT’s consolidated interim financial statements in the period in which the distributions are declared.

n) Unit-based compensation

Unit-based compensation is provided to employees, trustees, officers, and consultants of the REIT under the terms of the REIT’s Unit-based compensation plan (the “Plan”). Under the terms of the Plan, the board of trustees may from time to time, in its discretion, grant options to purchase Units to trustees, officers, employees and technical consultants of the REIT and its affiliates. Unit options vest in one-third instalments annually on the anniversary of the grant date and expire ten years from the date the options were granted. The maximum number of options that may be reserved under the plan is 10% of the outstanding Units. Unit option liability is classified as current, except for the portion that is unvested.

The REIT accounts for its Unit-based compensation plan using the fair value-based method, under which compensation expense is recognized over the vesting period. On exercise of the Unit options, consideration received is recorded to Unit capital. The fair value at the reporting date is established through the Black-Scholes option valuation model.

o) Consolidated statements of cash flows

Cash and cash equivalents include cash and guaranteed investment certificates held in banks with a maturity date of less than 12 months, and redeemable on demand. Investing and financing activities that do not require the use of cash or cash equivalents are excluded from the consolidated interim statements of cash flows and are disclosed separately in the notes to the consolidated interim financial statements.

p) Income taxes

The REIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act"). The REIT will not be a specified investment flow-through ("SIFT") provided that the REIT complies at all times with its investment restrictions that only permit the REIT to invest in properties or assets located outside of Canada. The REIT expects to distribute all of its taxable income to its Unitholders; accordingly, no provision for Canadian income tax has been made. Income tax obligations relating to the distributions from the REIT are with the individual Unitholder

The REIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of income taxes and deferred income tax assets and liabilities in each of the REIT's operating jurisdictions. Income taxes may be paid on occasion where the results of the activities relating to the foreign subsidiaries are considered to be taxable in those countries.

Deferred income tax is recognized using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated interim financial statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the statement of financial position date, and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. The carrying amount of a deferred tax asset is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the benefit of part or all of that deferred tax asset to be utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

q) Earnings per Unit

As a result of the redemption feature of the REIT Units, these Units are considered financial liabilities under IAS 33, Earnings per Share ("IAS 33"), and they may not be considered as equity for the purposes of calculating net income on a per Unit basis. Consequently, the REIT has elected not to report an Earnings per Unit calculation, as permitted under IFRS.

r) Foreign currency translation

In determining the functional currency of the REIT and its subsidiaries, the REIT considers factors such as (i) the currency that mainly influences sale prices for goods and services and the country whose competitive forces and regulations mainly determine the sale prices of those goods and services and (ii) the currency that mainly influences labour, material and other costs of providing goods and services.

Prior to the Acquisition, the functional currency of Holding BV was the Euro and the functional currency of ECREIT was the Canadian dollar. Both entities had a presentation currency of Canadian dollars. Upon closing of the Acquisition, management reassessed the economic facts and conditions of the combined entity and concluded the REIT's functional currency is the Euro, which is also the functional currency of all of its subsidiaries. The REIT's presentation currency for the consolidated interim financial statements has been changed to the Euro. This change has been applied retrospectively with comparative amounts restated to Euros.

Refer to note 23 for the impact of the change in presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, foreign currency denominated monetary assets and liabilities are translated into the functional currency using the prevailing rate of exchange at the statement of financial position date. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation at the period end exchange rates of monetary assets and liabilities denominated in foreign currencies, are recognized in the consolidated statements of income and comprehensive income. Foreign exchange gains and losses are presented in the consolidated statements of income and comprehensive income.

s) Segment reporting

The REIT owns and operates investment properties in Europe. In measuring performance, the REIT does not distinguish its operations by property type, geography, or any other basis and, accordingly, has a single reportable segment for disclosure purposes.

t) Impact of accounting standards effective January 1, 2019 on the REIT's financial statements

The REIT has adopted the following new and revised standards, effective January 1, 2019. These changes were made in accordance with the applicable transitional provisions.

<u>IFRS 16</u>

IFRS 16 supersedes IAS 17, "Leases, and Related Interpretations" ("IAS 17"). IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract: i.e. the customer (the "lessee") and the supplier (the "lessor"). From a lessee perspective, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as required by IAS 17 and, instead, introduces a single lessee accounting model. IFRS 16 is effective beginning on or after January 1, 2019. The REIT has assessed the impact of IFRS 16 and has concluded that there is no material impact to the REIT. The REIT has adopted the new standard for leases in which it is a lessee on a modified retrospective basis without restatement of prior period comparatives. The REIT is applying the new standard to leases in which it is a lessor from January 1, 2019 with no adjustments on transition.

<u>IFRIC 23, "Uncertainty Over Income Tax Treatments" ("IFRIC 23")</u>

IFRIC 23 clarifies how the recognition and measurement requirements of IAS 12, "Income Taxes" ("IAS 12"), are applied where there is uncertainty over income tax treatments, and is effective for years beginning on or after January 1, 2019.

The REIT has assessed the impact of IFRIC 23 and has concluded that there is no material impact to the REIT.

u) Future accounting policy changes

<u>IFRS 3</u>

The IASB published an amendment to the requirements of IFRS 3 in relation to whether a transaction meets the definition of a business combination. The amendment clarifies the definition of a business and provides additional illustrative examples, including those relevant to the real estate industry. A significant change in the amendment is the option for an entity to assess whether substantially all of the fair value of the gross assets acquired is concentrated in a single asset or group of similar assets. If such a concentration exists, the transaction is not viewed as an acquisition of a business and no further assessment of the business combination guidance is required. This will be relevant where the value of the acquired entity is concentrated in one property, or a group of similar properties. The amendment is effective for periods beginning on or after January 1, 2020 with earlier application permitted. There will be no impact on transition as the amendments are effective for business combinations for which the acquisition date is on or after the transition date.

3. Critical Accounting Estimates, Assumptions and Judgments

The preparation of consolidated financial statements in accordance with IFRS requires the use of estimates, assumptions and judgements that in some cases relate to matters that are inherently uncertain, and which affect the amounts reported in the consolidated financial statements and accompanying notes. Areas of such estimation include, but are not limited to: valuation of investment properties, remeasurement at fair value of financial instruments, valuation of accounts receivable, capitalization of costs, accounting accruals, the amortization of certain assets, accounting for deferred income taxes and Unit-option liability. Changes to estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated interim financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates under different assumptions and conditions.

The estimates deemed to be more significant, due to subjectivity and the potential risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

i) Valuation of investment properties

Investment properties are measured at fair value as at the consolidated statement of financial position dates. Any changes in fair value are included within net income in the consolidated interim statements of income and comprehensive income. Fair value is supported by independent external valuations or detailed internal valuations using market-based assumptions, each in accordance with recognized valuation techniques. The techniques used comprise both the capitalized net operating income method and the discounted cash flow method, and include estimating, among other things (all considered Level 3 inputs), future stabilized net operating income, capitalization rates, reversionary capitalization rates, discount rates and other future cash flows applicable to investment properties. Fair values for investment properties are classified as Level 3 in the fair value hierarchy, as disclosed in note 16.

The fair value of investment properties is established annually by qualified, independent appraisers. Each quarter, the REIT utilizes market assumptions for rent increases, capitalization and discount rates provided by external appraisal firms to determine the fair value of the investment properties for interim reporting purposes. Capitalization rates employed by the appraisal firm are based on recently closed transactions, generally within the last three months, and other current market indicators for similar properties. To the extent that the stabilized forecasted cash flows of an investment property change significantly in a quarter, the fair value of the investment property is re-assessed by the external appraisers and the fair value is adjusted accordingly.

The REIT’s internal valuations and the independent appraisals are both subject to significant judgements, estimates and assumptions about market conditions in effect as at the consolidated statement of financial position date. See note 5 for a detailed discussion of valuation methods and the significant assumptions and estimates used.

ii) Valuation of financial instruments

The fair value of derivative assets and liabilities is based on assumptions that involve significant estimates. The basis of valuation for the REIT’s derivatives is set out in note 9. The fair values of derivatives reported may differ materially from the amounts they are ultimately settled for if there is volatility between the valuation date and settlement date.

iii) Business combination

Accounting for business combinations under IFRS 3 applies when it is determined that a business has been acquired. IFRS 3 defines a business as an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits directly to investors.

A business generally consists of inputs, processes applied to those inputs, and resulting outputs that are, or will be, used to generate revenues. In the absence of such criteria, a group of assets is deemed to have been acquired. If goodwill is present in a transferred set of activities and assets, the transferred set is presumed to be a business. The REIT applies judgment in determining whether property acquisitions qualify as a business combination in accordance with IFRS 3 or as an asset acquisition.

When determining whether the acquisition of an investment property or a portfolio of investment properties is a business combination or an asset acquisition, the REIT applies judgment when considering the following:

1. Whether the investment property or properties are capable of producing outputs;
2. Whether the market participant could produce outputs if missing elements exist;
3. Whether employees were assumed in the acquisition; and
4. Whether an operating platform has been acquired.

When the REIT acquires properties or a portfolio of properties and does not take on or assume employees or does not acquire an operating platform, it classifies the acquisition as an asset acquisition.

When the REIT determines the acquisition is a business combination, the REIT considers the following when determining the acquirer for accounting purposes:

1. Whether the former owners of the entity being acquired own the majority of the Units, and control the majority of votes, in the combined entity; and
2. Whether management of the combined entity is drawn predominantly from the entity whose Units are acquired.

As described in note 1, on March 29, 2019, the Acquisition was completed, whereby Holding BV completed the reverse acquisition of ECREIT. The Acquisition is considered to be a business combination under IFRS as Holding BV acquired existing property leases with tenants, an asset management agreement, key management personnel of ECREIT and key strategic processes relevant to the operation of the investment properties.

iv) Unit-based compensation

The fair value of Unit-option liability is based on assumptions that involve significant estimates. The basis of valuation for the REIT's Unit-option liability is set out in Note 12; however, the fair values as at the reporting date may differ materially from how they are ultimately recognized if there is volatility in listed Unit prices, interest rates or other key assumptions between the valuation date and settlement date. Market assumptions, estimates and valuation methodology are discussed in Note 12.

v) Classification of Interest Paid on Consolidated Statements of Cash Flows

IFRS permits the classification of interest paid as operating cash flows because they enter into the determination of net income, or alternatively as financing cash flows because they are costs of obtaining financial resources. The REIT has applied its judgement and concluded that debt financing, which is used to provide leveraged returns to its Unitholders, is an integral part of its capital structure and not directly associated with its principal revenue-producing activities. Therefore, interest paid is classified as a financing activity in the REIT's consolidated interim statements of cash flows.

vi) Determination of functional currency

The REIT applies judgement in determining the REIT's functional currency, which is the Euro. In determining its functional currency, the REIT considers factors such as:

(i) The currency that mainly influences sale prices for goods and services;
(ii) The country whose competitive forces and regulations mainly determine the sale prices of those goods and services; and
(iii) The currency that mainly influences labour, material and other costs of providing goods and services.

The REIT has therefore determined that the Euro is the appropriate functional currency given that the REIT's primary streams of revenue and expenses are denominated in Euros, the REIT is subject to competitive forces and regulations specific to Europe, and the REIT's mortgages payable are denominated in Euros.

4. Business Combinations

Holding BV and ECREIT completed the Acquisition on March 29, 2019 whereby all the issued and outstanding shares of Holding BV were transferred to ECREIT in exchange for 81,641,210 Class B LP Units, representing approximately 82.8% of the resulting entity's ownership upon conversion of the Class B LP Units into REIT Units. As a result, the transaction represents a reverse take-over under IFRS 3 "Business Combinations", and Holding BV has been identified as the accounting acquirer. Transaction costs of €511 are expensed in the consolidated interim statements of income and comprehensive income.

The excess of the total consideration transferred over the fair value of net identifiable assets and liabilities acquired of €11,126 is recognized as goodwill on the consolidated interim statements of financial position.

The following table summarizes the provisional purchase price allocation in respect of consideration paid, the fair value of assets acquired and liabilities assumed, and the goodwill at the acquisition date.

	Units	**€**
Fair value of REIT Units held by existing ECREIT Unitholders(1)	16,969,764	45,247
Distributions payable		5,656
Total consideration transferred		50,903
Recognized amounts of identifiable assets acquired and liabilities assumed		
Investment Properties		90,580
Cash and Cash Equivalents		6,045
Other Current Assets		1,426
Derivative Financial Assets		440
Mortgages Payable		(48,975)
Accounts Payable and Other Liabilities		(7,618)
Unit-based Compensation Financial Liabilities		(325)
Current and Deferred Income Tax Liabilities		(465)
Derivative Financial Liabilities		(1,331)
Total Identifiable Assets and Liabilities		39,777
Goodwill		11,126
Total		50,903

(1) Unitholders of ECREIT as at March 29, 2019.

All pre-existing Class B LP Units of ECREIT were exchanged for REIT Units on closing of the Acquisition. The total consideration transferred for the Acquisition was comprised of 16,969,764 REIT Units and a distribution payable of €5,656 relating to a one-time special distribution of Canadian Dollars ("C$") 0.50 per Unit to existing Unitholders of ECREIT.

The fair value of the REIT Units was €2.67 (C$4.00), which was the REIT's closing Unit price of C$4.50 on the closing date of the Acquisition, adjusted for the special distribution of C$0.50 per Unit.

For the three months ended March 31, 2019, €66 of operating revenues and €25 of net income of ECREIT, the acquiree, is included in the consolidated interim statements of income and comprehensive income. It is estimated that if the Acquisition had taken place on January 1, 2019, the operating revenues and net loss of the combined entity for the three months ended March 31, 2019 would have been approximately €7,345 and €3,939, respectively.

5. Investment Properties

The following table presents a reconciliation of the REIT's investment properties:

Reconciliation of carrying amounts of investment properties by type

For the Three Months Ended March 31, 2019	Note		**Residential**		**Commercial**		**Total**
Balance at the beginning of the three months		**€**	433,605	€	-	€	433,605
Properties acquired through business combination	4		-		90,580		90,580
Property capital investments			1,630		-		1,630
Fair value adjustments			7,405		-		7,405
Balance of Investment Properties at end of the three months		**€**	**442,640**	**€**	**90,580**	**€**	**533,220**

For the Three Months Ended March 31, 2018	Note		**Residential**		**Commercial**		**Total**
Balance at the beginning of the three months		**€**	369,250	€	-	€	369,250
Property capital investments			785		-		785
Fair value adjustments			7,636		-		7,636
Balance of Investment Properties at end of the three months		**€**	**377,671**	**€**	**-**	**€**	**377,671**

Valuation basis

Investment properties are carried at fair value, which is the amount at which the individual properties could be exchanged between willing parties in an arm's-length transaction, based on current prices in an active market for similar properties in the same location considering the highest and best use of the asset, with any gain or loss arising from a change in fair value recognized in the consolidated interim statements of income and comprehensive income for the period. Valuations do not take into account any potential portfolio premium.

The fair values of all of the REIT's investment properties are determined annually by qualified external appraisers, and are classified as Level 3 in the fair value hierarchy as disclosed in note 16(a). The qualified external appraisers hold recognized relevant professional qualifications and have recent experience in the location and category of the respective properties. The REIT discusses the valuation process and verifies all major inputs to the valuations and reviews the results with the external appraisers for all independent valuations.

Each quarter, the REIT utilizes market assumptions for rent increases, capitalization rates, and discount rates provided by the external appraisers to determine the fair value of the investment properties. Capitalization rates employed by the appraisers are based on recently completed transactions for similar properties. To the extent that the stabilized forecasted cash flows of an investment property change significantly in a quarter, the fair value of the investment property is re-assessed by the external appraisers and the fair value is adjusted accordingly.

Changes in Level 3 fair values are analyzed at each reporting date as part of the quarterly valuation discussion between the REIT and the appraisers. As part of this discussion, the valuators present a report that explains the reasons for any movements in fair value.

To determine fair value, the REIT first considers whether it can use current prices in an active market for similar properties in a similar location and condition. The REIT has concluded there is insufficient market evidence on which to base investment property valuations using this approach, and has therefore determined to use the Direct Income Capitalization ("DC") and Discounted Cash Flow ("DCF") methods to arrive at the fair value of the investment properties. Investment properties have been valued using the following methods and key assumptions:

a) Residential Properties

The REIT utilizes the DC method. Under this method, capitalization rates are applied to a stabilized net operating income ("NOI") representing market-based NOI assumptions (property revenue less property operating expenses adjusted for market-based assumptions such as long-term vacancy rates, management fees, R&M costs, and general and administrative costs). The most significant assumption is the capitalization rate for each specific property. The capitalization rate is based on the actual location, size and quality of the property, taking into account any available market data at the valuation date. Generally, an increase in stabilized NOI will result in an increase to the fair value of an investment property. An increase in the capitalization rate will result in a decrease to the fair value of an investment property. The capitalization rate magnifies the effect of a change in stabilized NOI, with a lower capitalization rate causing a greater change in stabilized NOI than would a higher capitalization rate.

b) Commercial Properties

The REIT utilizes the DCF method. Under this method, discount rates are applied to forecasted cash flows reflecting market-based leasing assumptions for that specific property as well as assumptions about renewal and new leasing activity. The most significant assumptions are the stabilized cash flows, the discount rate applied over the term of the cash flows, and the capitalization rate used to determine the terminal value of the investment properties.

In general, an increase in forecasted cash flows will result in an increase to the fair value of an investment property. The discount rate is generally the weighted average cost of capital that is appropriate to the cash flow risk for the investment property. An increase in the discount rate will result in a decrease to the fair value of an investment property. The capitalization rate is generally determined with reference to recent transactions for similar investment properties. An increase in the capitalization rate will result in a decrease to the fair value of an investment property.

A summary of the market assumptions and ranges for each type of property interest, along with their fair values as at March 31, 2019 and December 31, 2018, is presented below:

As at March 31, 2019

Type of Properties	**Fair Value**	**WA NOI / Cash Flow(1)**	**Rate Type**	**Max**	**Min**	**Weighted Average**
Residential	€ 442,640	578	Capitalization rate	5.75%	3.15%	3.71%
Commercial	90,580	2,194	Discount rate	5.65%	4.90%	5.53%
			Terminal capitalization rate	5.15%	4.10%	4.91%
Total Investment Properties	**€ 533,220**					

As at December 31, 2018

Type of Properties	**Fair Value**	**WA NOI / Cash Flow(1)**	**Rate Type**	**Max**	**Min**	**Weighted Average**
Residential	€ 433,605	573	Capitalization rate	5.74%	3.19%	3.74%
Total Investment Properties	€ 433,605					

(1) Weighted average ("WA") net operating income ("NOI") or cash flow divided by fair value of investment properties.

As at March 31, 2019, a 25 basis-point decrease in discount and capitalization rates would increase the fair value of the REIT's investment properties by €34,178. As at March 31, 2019, as 25 basis-point increase in discount and capitalization rates would decrease the fair value of the REIT's investment properties by €33,001.

6. Other Current Assets

The following table presents a breakdown of other current assets:

As at		March 31, 2019		December 31, 2018
Other Current Assets				
Prepaid expenses	€	**104**	€	36
VAT receivable		**691**		3
Trade and other receivables		**910**		137
Total	€	**1,705**	€	176

7. Accounts Payable and Other Liabilities

As at		March 31, 2019		December 31, 2018
Accounts payable and accrued liabilities				
Rent - early payments	€	**1,572**	€	317
Accounts payable		**5,309**		175
Accruals		**2,921**		1,077
Value added tax		**494**		43
Mortgage interest payable		**955**		985
Total	€	**11,251**	€	2,597

8. Mortgages Payable

As at March 31, 2019, mortgages payable bear interest at a weighted average effective rate of 1.98% (December 31, 2018– 2.02%), which includes the interest rate swaps as disclosed in note 9. The mortgages mature between 2022 and 2025. As at March 31, 2019, 100% of the REIT's mortgages payable are financed with terms that result in fixed interest payments after taking into consideration the interest rate swaps. Investment properties at fair value of €533,220 have been pledged as security as at March 31, 2019.

Future principal repayments as at March 31, 2019 for the years indicated are as follows:

As at March 31, 2019		**Principal Amount**	**% of Total Principal**
2019	€	1,010	0.40%
2020		1,224	0.48%
2021		1,232	0.49%
2022		51,153	20.24%
2023		48,095	19.03%
Subsequent to 2023		150,670	59.63%
		253,384	100%
Deferred financing costs		(697)	
Total Portfolio	€	252,687	

As at		**March 31, 2019**		**December 31, 2018**
Represented by:				
Mortgages Payable - non-current	€	**251,677**	€	203,681
Mortgages Payable - current		**1,010**		-
	€	**252,687**	€	203,681

9. Derivative Financial Assets and Liabilities

As part of the Acquisition, the REIT assumed the following interest rate swaps for which hedge accounting was not applied:

(i) The REIT assumed a €7,500 interest rate swap presented as a derivative financial liability in the statements of financial position, fixing the variable 3-month EURIBOR rate at 0.60%, which matures on December 31, 2023 and results in fixed effective interest rate of 1.55%.

(ii) The REIT assumed a €25,500 interest rate swap presented as a derivative financial liability in the statements of financial position, fixing the variable 3-month EURIBOR rate at 0.49%, which matures on January 13, 2025, and results in a fixed effective interest rate of 1.87%.

In connection with the interest rate swap agreements noted above, the REIT also assumed interest rate floor agreements, which stipulate that any variable rate associated with the swap agreements or mortgages payable (see note 8) will not be below 0%. This results in equal and offsetting derivative financial assets and liabilities as presented in the statements of financial position.

10. Bank Indebtedness

As part of the Acquisition, the REIT assumed a Canadian dollar denominated unsecured credit agreement with a Canadian chartered bank (the "Revolving Credit Facility"). The Revolving Credit Facility has a maximum principal amount of €2,000 (C$3,000), bearing interest at a rate equal to the bank's prime rate plus 1.0% per annum or Bankers' Acceptances plus 2.5% per annum, expiring June 30, 2019, and will be used by the REIT for working capital purposes and future acquisitions. As at March 31, 2019, no amount had been drawn on the facility (December 31, 2018 – €nil).

11. Due to/from Related Parties

Included in due from related parties as at March 31, 2019 is a €68 receivable (December 31, 2018 – €176 receivable) from CANLiving B.V. ("CANLiving"), a subsidiary of CAPREIT and the REIT's property manager. Due from related parties also includes €11,874 receivable from CAPREIT LP, due on demand as at March 31, 2019. As at December 31, 2018 there was no intercompany interest payable to CAPREIT LP, and there were intercompany expenses of €52 paid by CAPREIT LP on behalf of Holding BV for insurance expense and other miscellaneous expenses.

As at December 31, 2018, the REIT had loans with an aggregate principal balance of €108,550 payable to CAPREIT LP. The loan had a stated interest rate of 6.0% payable quarterly with maturity dates between 2022 and 2025. The loan was settled on closing of the Acquisition by the issuance of the Class B LP Units.

12. Unit-Based Compensation Liabilities and Unit-Based Compensation Expense

On closing of the Acquisition, the REIT assumed 1,143,014 Unit options with a weighted average exercise price of €2.65 (C$3.97) per Unit, a weighted average contractual life of 8.7 years, and remaining expected option life of 3.7 years as at March 31, 2019. On March 29, 2019, the REIT granted 500,000 REIT Units at €2.67 (C$4.00) per Unit to the REIT's CEO and Trustee, Phillip Burns. The unit options vest in one-third instalments annually and expire ten years from the date the options were granted.

Unit options are issuable pursuant to the Plan. Under the terms of the Plan, the board of trustees may from time to time, in its discretion, grant options to purchase Units to directors, officers, employees and technical consultants of the REIT and its affiliates. Unit options vest in one-third instalments annually on the anniversary of the grant date and expire ten years from the date the options were granted. The maximum number of options that may be reserved under the plan is 10% of the outstanding Units of the REIT.

A summary of the activity of the Plan is as follows:

For the Three Months Ended	**March 31, 2019**				
	# of Unit Options		**Weighted average exercise price (1)**		
Outstanding Unit Options, beginning of the period	-	C$	-	€	-
Assumed	1,143,014		3.97		2.65
Granted	500,000		4.00		2.67
Outstanding Unit Options, end of the period	**1,643,014**	**C$**	**3.98**	€	**2.65**
Exercisable Unit Options, end of the period	**321,529**	**C$**	**3.75**	€	**2.50**

(1) March 29, 2019 Exchange rate of 1.5002 was used for conversions from C$ to Euro

The fair value of Unit Options is determined as at the grant date and subsequent interim and annual valuations are determined by adjusting market-based valuation assumptions used in arriving at the estimated fair value. The weighted average assumptions utilized to arrive at the estimated fair value for the outstanding grants at the respective periods were as follows:

As at		March 31, 2019	December 31, 2018
Unit options outstanding		**1,643,014**	-
Weighted average strike price	**€**	**2.65**	N/A
Weighted average risk-free rate (%)		**1.52**	N/A
Weighted average distribution yield (%)		**3.94**	N/A
Weighted average expected expiry (years)		**4.12**	N/A
Weighted average volatility (%)		**30.00**	N/A
Weighted average Unit option value	**€**	**0.48**	N/A

The Unit-based compensation expense to officers and trustees during the three months ended March 31, 2019 was $nil (2018 - $nil).

13. Class B LP Units

The Class B LP Units are exchangeable, on a one for one basis, for REIT Units at the option of the holder, and have economic and voting rights equivalent through Special Voting Units of the REIT, in all material respects, to REIT Units. As part of the Acquisition, 81,641,210 Class B LP Units with a value of €217,681 were issued to CAPREIT. During the three months ended March 31, 2019, no Class B LP Units were exchanged for REIT Units (2018 – nil). No Class B LP Units were outstanding during the year ended December 31, 2018.

14. Unitholders' Equity

All REIT Units outstanding are fully paid, have no par value and are voting REIT Units. The authorized capital of the REIT consists of an unlimited number of REIT Units and Special Voting Units. REIT Units represent a Unitholder's proportionate undivided beneficial interest in the REIT. No REIT Unit has any preference or priority over another. No Unitholder has or is deemed to have any right of ownership in any of the assets of the REIT. Each REIT Unit confers the right to one vote at any meeting of Unitholders and to participate pro rata in any distributions by the REIT and, in the event of termination of the REIT, in the net assets of the REIT remaining after satisfaction of all liabilities. REIT Units will be issued in registered form and are transferable. Issued and outstanding REIT Units may be subdivided or consolidated from time to time by the trustees without Unitholder approval. No certificates for fractional REIT Units will be issued and fractional REIT Units will not entitle the holders thereof to vote.

The REIT is authorized to issue an unlimited number of Special Voting Units that will be used to provide voting rights to holders of securities exchangeable into REIT Units, such as Class B LP Units. Special Voting Units are not entitled to any interest or share in the distributions or net assets of the REIT. Each Special Voting Unit entitles the holder to the number of votes at any meeting of the Unitholders of the REIT that is equal to the number of REIT Units into which the exchangeable security is exchangeable or convertible. Special Voting Units are cancelled on the issuance of REIT Units on exercise, conversion or cancellation of the corresponding exchangeable securities. As at March 31, 2019, 81,641,210 Special Voting Units were issued and outstanding (December 31, 2018– nil).

By virtue of the REIT being an open-ended mutual fund trust, Unitholders of REIT Units are entitled to redeem their REIT Units at any time at prices determined and payable in accordance with the conditions specified in the declaration of trust. As a result, under IFRS, REIT Units are defined as financial liabilities; however, for the purposes of financial statement classification and presentation, the REIT Units may be presented as equity instruments as they meet the puttable instrument exemption under IAS 32, Financial Instruments: Presentation. For the purposes of presenting earnings on a per Unit basis as well as for Unit-based compensation plans, the REIT Units are not treated as equity instruments.

During the three months ended March 31, 2019, 16,969,764 REIT Units with a value of €45,247 were issued for the Acquisition. Refer to note 4 for details.

There were no changes to the number of shares outstanding for the year ended December 31, 2018. There were no REIT Units outstanding for the year ended December 31, 2018. As at March 31, 2019, 1,575,993 REIT Units were held by trustees and officers of the REIT, representing 1.6% of the total Units outstanding.

a) Distribution Reinvestment Plan

Under the terms of the REIT's distribution reinvestment plan (the "DRIP"), eligible Unitholders are entitled to elect to have all or some of the cash distributions of the REIT automatically reinvested in additional REIT Units at a price per REIT Unit calculated by reference to the weighted average of the closing price for the REIT Units on the TSXV for the five trading days immediately preceding the relevant distribution date. Eligible Unitholders who so elect will receive a bonus distribution of REIT Units up to 5% of each distribution that was reinvested by them under the DRIP. During the three months ended March 31, 2019, no REIT Units were issued under the DRIP for a total value of €nil.

b) Unit Option Plan

During the three months ended March 31, 2019, no Unit options were exercised.

15. Revenues

The future contractual minimum base rent payments under non-cancellable operating leases expected from tenants in commercial properties are as follows. All leases for residential properties have a remaining term of 12 months or less.

Amount to be received	**€**
Not later than 1 year	6,696
Later than 1 year and not later than 5 years	24,150
Later than 5 years	8,210

Revenue from contracts with customers is included in operating cost recoveries in the consolidated interim statements of income and comprehensive income. Total operating cost recoveries is composed of the following:

For the Three Months Ended March 31,		**2019**		2018
Property Tax and Insurance Recoveries	**€**	**6**	€	-
Other Operating Cost Recoveries		**309**		300
Total Operating Cost Recoveries	**€**	**315**	€	300

16. Financial Instruments, Investment Properties and Risk Management

a) Fair value of financial instruments and investment properties

The fair value of the REIT's financial assets and liabilities, except as noted below and elsewhere in the consolidated interim financial statements, approximates their carrying amount due to the short-term and variable rate nature of these instruments.

As at March 31, 2019, the fair value of the REIT's mortgages payable is estimated to be €259,611 (December 31, 2018 - €205,800) due to changes in interest rates since the dates the individual mortgages were financed and the impact of the passage of time on the primarily fixed rate nature of the REIT's mortgages. The fair value of the mortgages payable is based on discounted future cash flows using rates that reflect current rates for similar financial instruments with similar duration, terms and conditions, which are considered Level 2 inputs (as described below).

The REIT has classified and disclosed the fair value for each class of financial instrument based on the fair value hierarchy in accordance with IFRS 13 Fair Value Measurement ("IFRS 13"). The fair value hierarchy distinguishes between market value data obtained from independent sources and the REIT's own assumptions about market value. The hierarchy levels are defined below:

Level 1 - Inputs based on quoted prices in active markets for identical assets or liabilities;

Level 2 - Inputs based on factors other than quoted prices included in Level 1, which may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates and yield curves that are observable at commonly quoted intervals; and

Level 3 - Inputs which are unobservable for the asset or liability, and typically based on the REIT's own assumptions as there is little, if any, related market activity.

The REIT's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgement and considers factors specific to the asset or liability.
The following table presents the REIT's estimates of assets and liabilities measured at fair value on a recurring basis based on information available to management as at March 31, 2019, and aggregated by the level in the fair value hierarchy within which those measurements fall. These estimates are not necessarily indicative of the amounts the REIT could ultimately realize.

	Level 1	**Level 2**	**Level 3**	
As at March 31, 2019	Quoted prices in active markets for identical assets and liabilities	Significant other observable inputs	Significant unobservable inputs	**Total**
Assets				
Investment properties (1)	-	-	533,220	533,220
Derivative financial instrument	-	440	-	440
Liabilities				
Mortgages payable	-	259,611	-	259,611
Derivative financial instrument	-	1,331	-	1,331
Class B LP Units	-	217,681	-	217,681

(1) Fair values for investment properties are calculated using direct income capitalization and discounted cash flows, which results in these measurements being classified as Level 3 in the fair value hierarchy.

b) Risk management

The main risks arising from the REIT's financial instruments are interest rate, liquidity, and credit risks. The REIT's approach to managing these risks is summarized as follows:

Interest rate risk

The REIT is subject to the risks associated with debt financing, including the risk that mortgages will not be able to be refinanced on terms as favourable as those of the existing indebtedness.

The REIT's objective in managing interest rate risk is to minimize the volatility of earnings. As at March 31, 2019, interest rate risk has been minimized as approximately 100% (December 31, 2018 – 100%) of the mortgages payable are financed with terms that result in fixed interest payments, and mortgages that have a variable interest rate have a corresponding interest rate swap with matching duration, with maturities staggered over a number of years.

Liquidity risk

Liquidity risk is the risk that the REIT may encounter difficulties in accessing capital and refinancing its financial obligations as they come due. To mitigate the risk associated with the refinancing of maturing debt, the REIT staggers the maturity dates of its mortgage portfolio over a number of years.

In addition, the REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments and distributions to Unitholders, and to provide future growth in its business. As at March 31, 2019, the REIT had undrawn lines of credit in the amount of €2,000 (December 31, 2018 - €nil).

The contractual maturities and repayment obligations of the REIT's financial liabilities as at March 31, 2019 are as follows:

	Remainder of 2019	2020-2021	2022-2023	2024 onward
Mortgages principal	€ 1,010	€ 2,455	€ 99,248	€ 150,670
Mortgage interest(1)	3,499	9,057	8,224	2,763
Swap premium(1)	123	313	296	109
Security deposits	1,556	-	-	-
Class B LP Units	-	-	-	217,681
Distributions Payable	5,656	-	-	-
Accounts payable and other liabilities	11,251	-	-	-
	€ 23,095	€ 11,825	€ 107,768	€ 371,223

(1) Based on current in-place interest rates for the remaining term to maturity

Credit risk

Credit risk is the risk that: (i) counterparties to contractual financial obligations will default; and (ii) the possibility that the REIT's tenants may experience financial difficulty and be unable to meet their rental obligations.

The REIT monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions.

The REIT mitigates the risk of credit loss with respect to residents by evaluating the creditworthiness of new tenants, obtaining security deposits wherever permitted by legislation.

The REIT monitors its collection experience on a monthly basis and ensures that a stringent policy is adopted to provide for all past due amounts. All residential accounts receivable balances exceeding 30 days are written off to bad debt expense and recognized in the consolidated interim statements of income and comprehensive income.

Subsequent recoveries of amounts previously written off are credited in the consolidated interim statements of income and comprehensive income. The maximum exposure to credit risk at the reporting date is the carrying value of the tenant receivables.

17. Capital Management

The REIT defines capital as the aggregate of Unitholders' equity, mortgages payable, bank indebtedness, Unit-based compensation liabilities and Class B LP Units. The primary objective of the REIT's capital management is to ensure that sufficient funds are available to fund distributions and to fund operations, including the identification and acquisition of a business or assets. Various ratios are used by management to monitor capital requirements. The primary ratios used for assessing capital management are the loan to-fair-value ratio, average term to maturity of debt, and weighted average interest rate. These indicators assist the REIT in assessing if the debt level maintained is sufficient to provide adequate cash flows for distributions and for evaluating the need to raise funds for further expansion.

18. Income Taxes

The REIT is taxed as a "mutual fund trust" as defined under the Income Tax Act (Canada) (the "Tax Act"). The REIT is not a specified investment flow-through trust ("SIFT"), and will not be, provided the REIT complies at all times with its investment restrictions, which preclude the REIT from investing in any entity other than in properties or assets located outside of Canada. The Trust expects to distribute all of its taxable income to its Unitholders; accordingly, no provision for Canadian income tax has been made. Income tax obligations relating to the distributions from the REIT are with the individual Unitholder.

The REIT has foreign subsidiaries in a number of countries with varying statutory rates of taxation. Judgement is required in the estimation of foreign income taxes and deferred income tax assets and liabilities in each of the REIT's operating jurisdictions. Income taxes may be paid on occasion where the results of the activities relating to the foreign subsidiaries are considered to be taxable in those countries.

(€ Thousands)		2019		2018
Income (Loss) before income tax	€	8,295	€	6,985
Tax calculated at the Dutch corporate tax rate of 25.0%		2,074		1,746
Increase/(decrease) resulting from:				
Effect of different tax rates in countries in which the REIT operates		(8)		-
Expenses not deductible for tax		(15)		265
Adjustments to deferred taxes for the current and future years' change in tax rates		(343)		-
Adjustment for difference in tax rate for first €200 of taxable income		(156)		24
Other adjustments		305		2
Deferred and current income tax expense (net)	€	1,857	€	2,037

A breakdown of current and deferred income tax expense is as follows:

(€ Thousands)		2019		2018
Current income tax expense	€	12,000	€	-
Deferred income tax expense (recovery)		(10,143)		2,037
Deferred and current income tax expense (net)		1,857		2,037

Included in deferred income tax liability is €6,185 related to difference in tax and book basis of investment properties. Due to the reorganization of the legal structure of the Netherland subsidiaries as a result of the Acquisition, capital gains were realized. Therefore, €11,860 was reclassified from deferred income tax liability to current income tax liability during the three months ended March 31, 2019.

19. Interest and Other Financing Costs

For the Three Months Ended March 31,		2019		2018
Interest on mortgages payable(1)	€	**996**	€	1,008
Interest on due to related party		**1,508**		1,547
Accretion of redemption liability		**-**		1,059
Interest and other financing costs	€	**2,504**	€	3,614

(1) Includes amortization of deferred financing costs of €31 (March 31, 2018 - €30)

20. Supplemental Cash Flow Information

a) Interest paid

For the Three Months Ended March 31,		2019		2018
Interest paid on due to related party	€	**(1,508)**	€	-
Interest paid on mortgages payable		**(985)**		(955)
	€	**(2,493)**	€	(955)

b) Amortization

For the Three Months Ended March 31,		2019		2018
Amortization of deferred financing costs	€	**31**	€	30
Amortization of property, plant, equipment		**-**		1
	€	**31**	€	31

c) Changes in non-cash operating assets and liabilities

For the Three Months Ended March 31,		2019		2018
Trade and other receivables	€	**(103)**	€	(812)
Accounts payable and other liabilities		**1,035**		516
Current and deferred income tax liability		**140**		-
Security Deposits		**61**		124
	€	**1,133**	€	(172)

d) Mortgage Portfolio

For the Three Months Ended March 31,		2019		2018
Balance, Beginning of Period	€	**203,681**	€	203,586
Non cash Adjustments:				
Assumed		**48,975**		-
Change in Deferred Financing Costs		**31**		30
Balance, End of Period	€	**252,687**	€	203,616

21. Related Party Transactions

Related party transactions not mentioned elsewhere in the consolidated interim financial statements are summarized below.

a) Maple Knoll Management Agreement

Upon closing of the Acquisition, the REIT entered into an asset management agreement ("Maple Knoll Management Agreement") with Maple Knoll Capital Ltd ("Maple Knoll") pursuant to which Maple Knoll will act as the asset manager to the REIT in respect of the REIT's existing commercial properties at the Acquisition (the "Commercial Properties"). Maple Knoll will, among other things, provide strategic, advisory, asset management, project management, construction management and administrative services necessary to manage the Commercial Properties.

The Maple Knoll Management Agreement provides for a broad range of asset management services for the following fees:

a) An annual asset management fee in the amount of 0.50% of the historical gross acquisition price of the Commercial Properties plus VAT;

b) A disposition fee in the amount of 1.0% of the total gross proceeds associated with the Commercial Property disposed by the REIT or its subsidiaries payable on completion of each disposition plus VAT;

c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project with costs in excess of €1,000 on the Commercial Properties, excluding work done on behalf of tenants or any maintenance expenditures, plus VAT; and

d) A refinancing fee equal to 0.25% of the debt and equity of all refinancing transactions to a maximum of actual expenses incurred by Maple Knoll in supplying services relating to refinancing transactions plus VAT.

Phillip Burns (Chief Executive Officer and a trustee of the REIT) is a principal of Maple Knoll.
During the three months ended March 31, 2019, the REIT recorded asset management fees to Maple Knoll of €16 (March 31, 2018 - €nil).

b) New Management Agreement

Upon closing of the Acquisition, the REIT entered into a new management agreement with CAPREIT LP and CAPREIT (together, the "Manager") pursuant to which the Manager will act as the asset manager to the REIT, except for the Commercial Properties (the "New Management Agreement"). The Manager will, among other things, provide strategic, advisory, asset management, project management, construction management and administrative services necessary for the REIT.

The New Management Agreement provides for a broad range of asset management services for the following fees:

a) An annual asset management fee in the amount of 0.35% of the historical purchase price of the REIT's properties excluding the Commercial Properties plus HST/VAT;

b) An acquisition fee in the amount of (i) 1.0% of the purchase price paid by the REIT or one or more of its subsidiaries for the purchase of a residential or commercial real property of the REIT located in Europe, on the first €100,000 of such properties acquired in each fiscal year, (ii) 0.75% of the purchase price paid by the REIT or one or more of its subsidiaries for the purchase of such a property, on the next €100,000 of such properties acquired in each fiscal year, and (iii) 0.50% of the purchase price paid by the REIT or one or more of its subsidiaries for the purchase of such a property, on properties in excess of €200,000 acquired in each fiscal year, plus VAT; and

c) A capital expenditure fee equal to 5.0% of all hard construction costs incurred on each capital project (other than in respect of the Commercial Properties) with costs in excess of €1,000, excluding work done on behalf of tenants or any maintenance expenditures, plus VAT;

d) A financing fee equal to 0.25% of the debt and equity of all financing or refinancing transactions completed for the REIT or any of its subsidiaries, which is intended to cover the actual expenses incurred by the Manager in supplying services to the REIT relating to financing transactions. To the extent that the Financing Fees paid by the REIT exceed the actual amount of such expenses, the Manager will reimburse the REIT for the difference. To the extent that the Financing Fees charged by the Manager are less than the actual amount of such expenses, the REIT will pay the difference as an additional Financing Fee amount.

During the three months ended March 31, 2019, the REIT recorded asset management fees to the Manager of €12 (March 31, 2018 - €nil).

c) Property Management Agreement

Prior to closing of the Acquisition, the REIT has an agreement with CANLiving related to property management. Under the terms of the agreement, CANLiving will receive 3.5% (effective February 2019, 2.5% previously) of EGI (effective gross income) for its services. CANLiving was a subsidiary of the REIT prior to December 27, 2018, when the REIT transferred the shares of CANLiving to CAPREIT.

Upon closing of the Acquisition, the REIT entered into new property management agreements with CANLiving pursuant to which the CANLiving will act as the property manager to the REIT for residential properties and receive 3.5% of residential EGI for its services.

During the three months ended March 31, 2019, the REIT recorded property management fees to CANLiving of €233.

d) Services Agreement

The REIT has entered into a services agreement with the Manager, pursuant to which the Manager will provide the REIT with certain administrative services, including financial, information technology, internal audit and other support services as may be reasonably required from time to time. CAPREIT will provide these services to the REIT on a cost recovery basis.

During the three months ended March 31, 2019, the REIT recorded service fees to the Manager of €nil (March 31, 2018 - €nil).

e) Pipeline Agreement

The REIT entered into a pipeline agreement with CAPREIT (the "Pipeline Agreement") pursuant to which CAPREIT, for a period ending on the two-year anniversary of the entering into of the Pipeline Agreement, will make up to C$250 million (the "Total Commitment") available to acquire Pipeline Properties that comply with the REIT's investment policy and do not contravene the investment policy of CAPREIT for which the REIT wishes to purchase but is unable to do so (a "Suitable Property Investment"). Once any part of the Total Commitment has been repaid, that part of the Total Commitment will be available for re-use under the terms of the Pipeline Agreement.

If the REIT wishes to acquire a Suitable Property Investment and is unable to do so, the REIT shall be entitled to request CAPREIT to acquire, subject to certain approvals, such Suitable Property Investment on the terms specified by the REIT.

Subject to the terms of the Pipeline Agreement, CAPREIT will have the right to require the REIT to acquire a Pipeline Property (the "Pipeline Put Option") and the REIT have the right to require CAPREIT to sell the Pipeline Property to the REIT (the "Pipeline Call Option") at a price stipulated in the Pipeline Agreement.
During the three months ended March 31, 2019, there was no acquisitions made pursuant to the Pipeline Agreement.

22. Contingencies

The REIT is contingently liable under guarantees provided to certain of the REIT's lenders in the event of default, and with respect to litigation and claims that arise in the ordinary course of business. Matters relating to litigation and claims are generally covered by insurance, or have been provided for in general and administrative expenses where appropriate.

23. Change in Presentation Currency

The impact of the change in presentation currently is shown below:

Consolidated Statement of Financial Position

As at	**31 December 2018[1]**		**1 January 2018[2]**	
	C$	**€**	**C$**	**€**
Assets				
Non-Current Assets				
Investment properties	676,987	433,605	555,795	369,250
Current Assets				
Other current assets	275	176	815	541
Due from related party	2,564	1,642	-	-
Cash and cash equivalents	3,497	2,240	9,739	6,470
	6,336	4,058	10,554	7,011
Total assets	683,323	437,663	566,349	376,261
Liabilities				
Non-Current Liabilities				
Mortgages payable	318,007	203,681	306,437	203,599
Deferred income tax liability	25,090	16,072	4,270	2,837
Redemption liability	-	-	6,639	4,411
Due to related party	169,479	108,550	168,099	111,686
	512,576	328,303	485,445	322,533
Current Liabilities				
Accounts payable and accrued liabilities	3,916	2,597	4,752	3,157
Security deposits	2,336	1,495	1,907	1,267
	6,252	4,092	6,659	4,424
Total Liabilities	518,828	332,395	492,104	326,957
Share capital	-	-	-	-
Capital contributions	76,802	52,010	59,804	41,010
Currency translation reserve	6,532	-	1,775	-
Retained earnings	81,161	53,258	12,666	8,294
Total Shareholders' Equity	164,495	105,268	74,245	49,304
Total Shareholders' Equity and Liabilities	683,323	437,663	566,349	376,261

(1) A translation rate of 1.5612 was used for conversion from Euro to C$ with the exception of Shareholders' Equity.
(2) A translation rate of 1.5051 was used for conversion from Euro to C$ with the exception of Shareholders' Equity.

Consolidated Interim Statement of Income and Comprehensive Income

For the Period Ended	March 31 2018[1]	
	C$	€
Operating Revenues		
Revenue from investment properties	7,272	4,677
Operating costs recoveries	467	300
	7,739	4,977
Operating Expenses		
Property operating costs	(2,300)	(1,479)
Property taxes	(143)	(92)
	(2,443)	(1,571)
Net Rental Income ("NRI")	5,296	3,406
General and administrative expenses	(689)	(443)
Interest and other financing costs	(5,620)	(3,614)
Net movement in fair value of investment properties	11,874	7,636
Net Income before income taxes for the period	10,861	6,985
Income tax expense	(3,167)	(2,037)
Net Income for the period	7,694	4,948

(1) An average rate for Q1 2018 of 1.5549 was used for conversion from Euro to C$

24. Subsequent Events

On April 22, 2019 and pursuant to the Pipeline Agreement, the REIT announced the acquisition of two portfolios of multi-residential properties comprising of 1,768 suites in the Netherlands from CAPREIT, which include all of the remaining Netherlands properties that CAPREIT currently owns. Subject to the approval of the TSX Venture Exchange and ERES REIT Unitholders, closing is expected to occur by late May 2019 for the first portfolio and late August 2019 for the second portfolio. The aggregate purchase price for the acquisition is approximately €333 million, subject to certain purchase price adjustments.