



**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED IN CANADIAN DOLLARS)**

**FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2018 AND 2017**

DATED: NOVEMBER 13, 2018

TABLE OF CONTENTS

Condensed Interim Consolidated Statements of Financial Position.....	1
Condensed Interim Consolidated Statements of Comprehensive Income	2
Condensed Interim Consolidated Statements of Changes in Unitholders' Equity	3
Condensed Interim Consolidated Statements of Cash Flows.....	4
Notes to the Condensed Interim Consolidated Financial Statements	5

Plaza Retail REIT
Condensed Interim Consolidated Statements of Financial Position

(unaudited)

(in thousands of Canadian dollars)

September 30, December 31,
2018 2017

Assets

Non-Current Assets

Investment properties (Note 5)	\$ 978,055	\$ 959,618
Investments	42,578	45,550
Tenant loans	390	403
Deferred income tax asset	733	520
Total non-current assets	1,021,756	1,006,091

Current Assets

Cash	6,988	6,250
Receivables (Note 6)	2,936	4,480
Prepaid expenses and deposits (Note 7)	4,445	4,067
Tenant loans	48	448
Notes and advances receivable (Note 8)	11,266	9,999
Total current assets	25,683	25,244
Total assets	\$ 1,047,439	\$ 1,031,335

Liabilities and Unitholders' Equity

Non-Current Liabilities

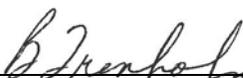
Debentures payable (Note 9)	\$ 62,987	\$ 11,437
Mortgage bonds payable (Note 10)	8,881	14,764
Mortgages payable (Note 11)	394,628	410,879
Class B exchangeable LP units (Note 18)	5,317	5,393
Deferred income tax liability	7,979	7,547
Total non-current liabilities	479,792	450,020

Current Liabilities

Current portion of debentures payable (Note 9)	-	38,336
Current portion of mortgage bonds payable (Note 10)	5,957	-
Bank indebtedness (Note 12)	25,655	29,538
Current portion of mortgages payable (Note 11)	61,139	33,700
Accounts payable, accrued liabilities, tenant payables and tenant deposits (Note 13)	16,580	15,222
Notes payable	1,174	1,424
Total current liabilities	110,505	118,220
Total liabilities	590,297	568,240

Unitholders' equity	452,540	458,864
Non-controlling interests	4,602	4,231
Total unitholders' equity	457,142	463,095
Total liabilities and unitholders' equity	\$ 1,047,439	\$ 1,031,335

Subsequent events – see Note 23



Barbara Trenholm, Trustee



Earl Brewer, Trustee

The notes on pages 5 to 21 are an integral part of these condensed interim consolidated financial statements.

Plaza Retail REIT

Condensed Interim Consolidated Statements of

Comprehensive Income

(unaudited)

(in thousands of Canadian dollars)

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Revenues (Note 14)	\$ 25,723	\$ 25,113	\$77,949	\$ 77,208
Operating expenses (Note 15)	(9,024)	(8,805)	(29,765)	(28,339)
Net property operating income	16,699	16,308	48,184	48,869
Share of profit of associates	692	1,138	(919)	570
Administrative expenses (Note 16)	(2,326)	(2,035)	(7,125)	(6,916)
Investment income	156	182	525	600
Other income	506	384	1,719	1,124
Income before finance costs, fair value adjustments and income taxes	15,727	15,977	42,384	44,247
Finance costs (Note 17)	(6,478)	(6,518)	(20,086)	(19,241)
Finance costs – convertible debenture issuance costs	-	-	(2,280)	-
Finance costs - net change in fair value of convertible debentures (Note 9)	396	494	(137)	433
Finance costs - net change in fair value of Class B exchangeable LP units (Note 18)	202	290	76	818
Finance costs - net change in fair value of interest rate swaps and bond forwards (Note 11)	40	-	89	-
Net change in fair value of investment properties (Note 5)	(2,726)	(2,587)	(8,540)	(12,516)
Profit before income tax	7,161	7,656	11,506	13,741
Income tax recovery (expense)				
- Current	(66)	(30)	(145)	(95)
- Deferred	(112)	(15)	(217)	271
	(178)	(45)	(362)	176
Profit and total comprehensive income for the period	\$ 6,983	\$ 7,611	\$ 11,144	\$ 13,917
Profit and total comprehensive income for the period attributable to:				
- Unitholders	\$ 6,885	\$ 7,534	\$ 11,008	\$ 13,801
- Non-controlling interests	98	77	136	116
	\$ 6,983	\$ 7,611	\$ 11,144	\$ 13,917

The notes on pages 5 to 21 are an integral part of these condensed interim consolidated financial statements.

Plaza Retail REIT

Condensed Interim Consolidated Statements of Changes in Unitholders' Equity

(unaudited)

(in thousands of Canadian dollars)

	Trust Units (Note 18)	Retained Earnings	Total Attributable to Unitholders	Non- Controlling Interests	Total Equity
Balance as at December 31, 2016	\$ 258,011	\$ 189,794	\$ 447,805	\$ 3,938	\$ 451,743
Profit and total comprehensive income for the period	-	13,801	13,801	116	13,917
Transactions with unitholders, recorded directly in equity:					
- Contributions by unitholders - DRIP and RSU plan	1,471	-	1,471	-	1,471
- Units issued through debt conversion	12,213	-	12,213	-	12,213
- Distributions to unitholders (Note 19)	-	(20,470)	(20,470)	-	(20,470)
- Contributions to (distributions from) non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control	-	-	-	156	156
Balance as at September 30, 2017	\$ 271,695	\$ 183,125	\$ 454,820	\$ 4,210	\$ 459,030
Balance as at December 31, 2017	\$ 273,158	\$ 185,706	\$ 458,864	\$ 4,231	\$ 463,095
Profit and total comprehensive income for the period	-	11,008	11,008	136	11,144
Transactions with unitholders, recorded directly in equity:					
- Contributions by unitholders - DRIP and RSU plan	4,118	-	4,118	-	4,118
- Distributions to unitholders (Note 19)	-	(21,450)	(21,450)	-	(21,450)
- Contributions to (distributions from) non-controlling interests and changes in ownership interests in subsidiaries that do not result in loss of control	-	-	-	235	235
Balance as at September 30, 2018	\$ 277,276	\$ 175,264	\$ 452,540	\$ 4,602	\$ 457,142

The notes on pages 5 to 21 are an integral part of these condensed interim consolidated financial statements.

Plaza Retail REIT

Condensed Interim Consolidated Statements

(unaudited)

(in thousands of Canadian dollars)

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Cash obtained from (used for):				
Operating activities				
Profit and total comprehensive income for the period	\$ 6,983	\$ 7,611	\$ 11,144	\$ 13,917
Items not affecting cash:				
Finance costs (Note 17)	6,478	6,518	20,086	19,241
Share of profit of associates	(692)	(1,138)	919	(570)
Net change in fair value of investment properties	2,726	2,587	8,540	12,516
Net change in fair value of convertible debentures	(396)	(494)	137	(433)
Net change in fair value of Class B exchangeable LP units	(202)	(290)	(76)	(818)
Net change in fair value of interest rate swaps and bond forwards (Note 11)	(40)	-	(89)	-
Current and deferred income taxes	178	45	362	(176)
Straight-line rent (Note 14)	53	63	179	183
Interest paid	(7,021)	(5,556)	(18,912)	(17,699)
Income taxes paid	(44)	(49)	(119)	(121)
Distributions from equity accounted investments	192	193	1,131	1,063
Leasing commissions	(105)	(94)	(285)	(118)
Change in non-cash working capital (Note 20)	387	1,652	-	(1,389)
	<u>8,497</u>	<u>11,048</u>	<u>23,017</u>	<u>25,596</u>
Financing activities				
Cash paid on conversion of convertible debentures	-	-	-	(1,454)
Cash distributions paid to unitholders (Note 19)	(5,825)	(6,190)	(17,350)	(19,011)
Cash distributions paid to Class B exchangeable LP unitholders (Note 17)	(89)	(89)	(266)	(267)
Cash received on acquisition of Plazacorp – Shediac Limited Partnership and Northwest Plaza Commercial Trust (Note 4)	-	-	739	-
Gross proceeds from mortgage bonds and debentures	-	3,000	48,655	9,000
Fees incurred for bonds and debentures	-	(87)	(53)	(230)
Redemption/repayment of mortgage bonds and debentures	-	(3,000)	(35,545)	(5,276)
Gross mortgage proceeds	8,897	17,180	49,349	29,748
Fees incurred for placement of mortgages	(183)	(125)	(470)	(353)
Loan defeasance expenses and early mortgage discharge fees paid (Note 17)	(2)	(56)	(240)	(56)
Mortgages repaid	(15,954)	(12,520)	(37,842)	(31,975)
Periodic mortgage principal repayments	(2,685)	(2,607)	(8,032)	(7,810)
Increase (decrease) in notes payable	-	24	(250)	54
	<u>(15,841)</u>	<u>(4,470)</u>	<u>(1,305)</u>	<u>27,630</u>
Investing activities				
Acquisitions of investment properties and land (Note 5)	(2,090)	(7,505)	(23,906)	(8,009)
Investment properties – additions	(5,005)	(5,191)	(17,122)	(16,192)
Net proceeds from disposal of investment properties and land (Note 5(e))	12,297	1,136	40,922	2,091
Net proceeds from disposal of investment properties and land on properties previously classified as held for sale	-	-	-	92
Advances to equity accounted investments for developments	(150)	(340)	(2,346)	(740)
Contributions to/(distributions from) subsidiaries from/to non-controlling interests	421	60	235	156
Repayment of Northwest Plaza Commercial Trust unitholder debt (Note 4)	-	-	(859)	-
Purchase of remaining units of Northwest Plaza Commercial Trust and Plazacorp - Shediac Limited Partnership (Note 4)	-	-	(14,296)	-
Decrease (increase) in deposits for acquisitions and financings (Note 7)	387	303	1,135	(674)
Decrease (increase) in notes and advances receivable	(120)	102	(1,267)	2,558
Issuance of tenant loans	-	-	(25)	-
Repayment of tenant loans	13	7	438	449
	<u>5,753</u>	<u>(11,428)</u>	<u>(17,091)</u>	<u>(20,269)</u>
Net increase (decrease) in cash	(1,591)	(4,850)	4,621	(22,303)
Cash less bank indebtedness, beginning of the period	<u>(17,076)</u>	<u>(24,833)</u>	<u>(23,288)</u>	<u>(7,380)</u>
Cash less bank indebtedness, end of the period	\$ (18,667)	\$ (29,683)	\$ (18,667)	\$ (29,683)

The notes on pages 5 to 21 are an integral part of these condensed interim consolidated financial statements.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

1. Reporting Entity

Plaza Retail REIT (the “Trust”) is an unincorporated “open-ended” real estate investment trust established pursuant to its declaration of trust dated as of November 1, 2013 (the “Declaration of Trust”) and governed by the laws of the Province of Ontario. The address of the Trust’s head office is 98 Main Street, Fredericton, New Brunswick. The Trust operates a retail real estate ownership and development business in Canada. Management does not distinguish or group its operations by geography or any other basis, when measuring its performance or making decisions. Accordingly, the Trust has a single reportable segment for disclosure purposes.

2. Basis of Preparation

Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and in particular International Accounting Standard (“IAS”) 34, *Interim financial reporting* on a basis consistent with the accounting policies disclosed in Note 3 of the December 31, 2017 consolidated financial statements of the Trust.

The condensed interim consolidated financial statements do not include all the information required for full annual financial statements. The condensed interim consolidated financial statements should be read in conjunction with the 2017 annual financial statements of the Trust.

The condensed interim consolidated financial statements were authorized for issue by the Audit Committee on behalf of the Board of Trustees of the Trust on November 13, 2018.

3. Summary of Significant Accounting Policies

Changes in Accounting Policies

On January 1, 2018, the Trust implemented IFRS 15, *Revenue from contracts with customers* (“IFRS 15”) and IFRS 9, *Financial instruments* (“IFRS 9”), in accordance with IAS 8, *Accounting policies, changes in accounting estimates and errors*. The impacts on implementation of IFRS 15 and IFRS 9 are described below.

(i) Revenue from Contracts with Customers

In 2014, the IASB issued IFRS 15, replacing IAS 18, *Revenue*, IAS 11, *Construction contracts*, and related interpretations. IFRS 15 provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the accounting standards on leases, insurance contracts and financial instruments. IFRS 15 is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 contains a single, control-based model that applies to contracts with customers and provides two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. IFRS 15 also includes additional disclosure requirements for revenue accounted for under the standard.

The Trust adopted IFRS 15 beginning on January 1, 2018, using the cumulative effect method, which means that the Trust did not apply the requirements of IFRS 15 to the comparative period presented. The effect of initially applying this standard would have been recognized at January 1, 2018, however, the adoption of IFRS 15 did not have an impact on the timing of recognition or measurement of revenue.

(ii) Financial Instruments

In 2014, the IASB issued IFRS 9, replacing IAS 39, *Financial instruments: recognition and measurement* (“IAS 39”), and related interpretations. IFRS 9 includes revised guidance on the classification and measurement of financial assets, including impairment and a new general hedge accounting model. IFRS 9 became effective for annual periods beginning on or after January 1, 2018.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

The Trust adopted IFRS 9 beginning on January 1, 2018, the mandatory effective date. The adoption of IFRS 9 was generally applied retrospectively, without restatement of comparative information. There was no material impact from the adoption of IFRS 9.

Classification and Measurement - IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are classified and measured based on the three categories: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss (FVTPL). Financial liabilities are classified and measured on two categories: amortized cost or FVTPL. One distinction on financial liabilities is that under the previous IAS 39, all fair value changes of liabilities designated as FVTPL were recognized in profit or loss, whereas under IFRS 9, the amount of change in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and the remaining amount of change in fair value is presented in profit or loss. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated, but the hybrid financial instrument as a whole is assessed for classification.

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

Asset / Liability	Classification under IAS 39	Classification under IFRS 9
Investments:		
- Fair value accounted investments	Fair value through profit and loss	Fair value through profit and loss
- Held-to-maturity investments	Amortized cost	Amortized cost
Tenant loans	Loans and receivables (amortized cost)	Amortized cost
Cash	Fair value through profit and loss	Amortized cost
Receivables	Loans and receivables (amortized cost)	Amortized cost
Notes and advances receivable	Loans and receivables (amortized cost)	Amortized cost
Debentures payable:		
- Convertible debentures	Fair value through profit and loss	Elected fair value through profit and loss ⁽¹⁾
- Non-convertible debentures	Other financial liabilities (amortized cost)	Amortized cost
Mortgage bonds payable	Other financial liabilities (amortized cost)	Amortized cost
Mortgages payable	Other financial liabilities (amortized cost)	Amortized cost
Class B exchangeable LP units	Fair value through profit and loss	Fair value through profit and loss
Bank indebtedness	Other financial liabilities (amortized cost)	Amortized cost
Accounts payable, accrued liabilities, tenant payables and tenant deposits	Other financial liabilities (amortized cost)	Amortized cost
Notes payable	Other financial liabilities (amortized cost)	Amortized cost
Interest rate swaps	Fair value through profit and loss	Fair value through profit and loss

⁽¹⁾ As the Trust has elected to measure convertible debentures at fair value through profit and loss, changes in fair value associated with the Trust's own credit risk are presented in other comprehensive income.

Financial assets are not reclassified subsequent to their initial recognition, unless the Trust identifies changes in its business model in managing financial assets and would reassess the classification of financial assets.

Impairment - IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at fair value through other comprehensive income, except for investments in equity instruments.

The Trust adopted the practical expedient to determine ECL on receivables using a provision matrix based on historical credit loss experiences to estimate lifetime ECL. The ECL models applied to other financial assets also required judgment, assumptions and estimations on changes in credit risks, forecasts of future economic conditions and historical information on the credit quality of the financial asset. The provision matrix and ECL models applied did not have a material impact on receivables or other financial assets of the Trust.

Impairment losses, if incurred, would be recorded in the consolidated statement of comprehensive income with the carrying amount of the financial asset or group of financial assets reduced through the use of impairment allowance accounts. In periods

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

subsequent to the impairment where the impairment loss has decreased, and such decrease can be related objectively to conditions and changes in factors occurring after the impairment was initially recognized, the previously recognized impairment loss would be reversed through the consolidated statement of comprehensive income. The impairment reversal would be limited to the lesser of the decrease in impairment or the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized, after the reversal.

General Hedging - IFRS 9 includes a new general hedge accounting standard which aligns hedge accounting more closely with an entity's risk management objectives and strategies. The Trust does not currently apply hedge accounting in its financial statements.

(iii) Leases ("IFRS 16")

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). The new standard will replace existing lease guidance in IFRS and related interpretations, and requires lessees to bring most leases on-balance sheet, unless the lease term is 12 months or less or the underlying asset has a low value. Lessor accounting remains similar to the current standard. The Trust is evaluating the identification of leases and non-lease components in accordance with the new requirements. IFRS 16 is only applicable to lease components and therefore other standards, such as IFRS 15, *Revenue from contracts with customers*, will apply to non-lease components of contracts. IFRS 15 requires allocation of transaction prices to relative standalone selling prices. The Trust is evaluating whether this will have a measurement impact. The new standard is effective for years beginning on January 1, 2019. The Trust is the lessee for certain land leases which are in scope for IFRS 16, and this will have a material impact on the consolidated statement of financial position, as an asset and a liability for those land leases will need to be recorded. The land lease asset will be measured at fair value and classified as investment property at the date of initial application on January 1, 2019. With respect to the consolidated statement of comprehensive income, land rent expense will be removed from net property operating income and an imputed interest expense of the land lease liability will be recorded as a finance cost. The Trust is continuing to assess the full impact on the consolidated statement of comprehensive income. IFRS 16 will change the presentation of cash flows relating to leases as a lessee in the consolidated statement of cash flows, but does not cause a difference in the amount of cash transferred between parties of a lease. The Trust continues to evaluate the impact of all remaining leases.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

4. Acquisition of Plazacorp - Shediac Limited Partnership & Northwest Plaza Commercial Trust

On January 31, 2018, the Trust completed the acquisition of the remaining 90% of the issued and outstanding units of Plazacorp - Shediac Limited Partnership and Northwest Plaza Commercial Trust that it did not already own. The units were purchased by the Trust through the payment of \$14.3 million in cash consideration. The purchases have been accounted for as asset acquisitions. Unitholder debt outstanding in Northwest Plaza Commercial Trust in the amount of \$859 thousand was also repaid by the Trust as part of the transaction. The two entities were previously included in investments and accounted for on an equity basis and fair value basis, respectively.

The following table summarizes the consideration paid and the estimated fair value of the net assets.

	(At 100%)
Investment properties	\$ 42,129
Cash	739
Receivables	125
Prepaid expenses and deposits	11
Deferred financing charges	162
Mortgages payable	(23,646)
Mortgages payable – mark to market	(739)
Accounts payable and accrued liabilities	(355)
Fair value of net assets	\$ 18,426

Consideration satisfied by:	
Cash paid for 90% of the issued and outstanding units	\$ 14,296
Cash paid to discharge unitholder debt	859
10% of investment already owned	3,271
Total consideration	\$ 18,426

Concurrent with this transaction, the Trust sold a 50% co-ownership interest in the two underlying properties, namely, Shediac West Plaza, Shediac, NB and Northwest Centre, Moncton, NB, to a Canadian pension fund for gross proceeds of \$20.5 million (\$8.7 million after assumption of 50% of the existing mortgages by the purchaser).

5. Investment Properties

	September 30, 2018			December 31, 2017		
	Income producing properties	Properties under development	Total	Income producing properties	Properties under development	Total
Balance, beginning of the period:	\$ 905,964	\$ 53,654	\$ 959,618	\$ 912,462	\$ 47,427	\$ 959,889
Additions (deductions):						
Additions to investment properties	5,867	12,755	18,622	7,264	10,918	18,182
Acquisitions of investment properties and land	42,129	23,906	66,035	2,055	9,439	11,494
Disposals ⁽¹⁾	(48,793)	(8,647)	(57,440)	(16,884)	(2,433)	(19,317)
Transfers	40,933	(40,933)	-	8,431	(8,431)	-
Straight line rent receivable change	(324)	84	(240)	(337)	99	(238)
Change in fair value ⁽²⁾	(11,649)	3,109	(8,540)	(7,027)	(3,365)	(10,392)
Balance, end of the period:	\$ 934,127	\$ 43,928	\$ 978,055	\$ 905,964	\$ 53,654	\$ 959,618

⁽¹⁾ Cash received from disposals as per the statement of cash flows of \$40.9 million is net of \$16.5 million of mortgages assumed by purchasers.

⁽²⁾ The change in fair value includes a loss of \$745 thousand (December 31, 2017 – \$160 thousand loss) related to properties where the Trust has a 20% ownership interest and a 50% economic interest above its invested capital.

The majority of the Trust's investment properties have been pledged as security under various debt agreements.

Investment properties are stated at fair value using the following:

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

(i) External appraisals

Independent appraisals are obtained in the normal course of business as refinancing activities require them, and as applicable, the fair value of various investment properties are based on these external appraisals. Of the total fair value in the chart above, \$257 million of investment properties were based on such external appraisals (December 31, 2017 - \$322 million).

(ii) Internal approach - direct capitalization income approach

Under this approach the Trust determines the fair value based upon capitalization rates applied to budgeted normalized net operating income (property revenue less property operating expenses). Normalized net operating income adjusts net operating income for things like market property management fees, or in the case of development properties, to reflect full intended occupancy (less a normal vacancy allowance). The key assumption is the capitalization rate for each specific property. The Trust receives quarterly capitalization rate matrices from an external independent appraiser. The capitalization rate matrices provide a range of rates for various geographic regions and for various types and qualities of properties within each region. The Trust utilizes capitalization rates within the range of rates provided. To the extent that the externally provided capitalization rate ranges change from one reporting period to the next or should another rate within the provided ranges be more appropriate than the rate previously used, the fair value of the investment properties would increase or decrease accordingly.

As at September 30, 2018 the Trust has utilized the following range of capitalization rates:

	Number of Properties ⁽¹⁾	Weighted average capitalization rates	Primary Market	Secondary Market
Freestanding or Mini Box	76	6.51%	5.50% - 8.75%	6.00% - 9.25%
Quick Service Restaurant	104	7.19%	5.50% - 9.25%	6.00% - 11.25%
Anchored Strip – Class A	16	6.96%	6.00% - 8.50%	6.00% - 9.25%
Anchored Strip – Class B	32	7.01%	5.75% - 8.75%	6.50% - 10.25%
Unanchored Strip	37	7.64%	5.75% - 9.25%	6.00% - 11.25%
Enclosed Malls – Community	5	7.90%	7.75% - 9.75%	7.50% - 11.25%
	270	7.03%		

⁽¹⁾ Excludes certain properties under development and non-consolidated trusts and partnerships.

Freestanding or Mini Box - defined as a freestanding retail, non-restaurant use such as a pharmacy or equivalent national box retailer. May include nominal additional gross leasable area (“GLA”) if the additional GLA is 15% or less than the total GLA or gross revenue.

Quick Service Restaurant – defined as freestanding retail space for food.

Anchored Strip – Class A - defined as a food or equivalent-anchored retail strip, 20,000-125,000 square feet and where the anchor tenant(s) represents 70% or more of GLA or gross revenue.

Anchored Strip – Class B - defined as a food or equivalent-anchored retail strip, 20,000-200,000 square feet and where the anchor tenant(s) represents less than 70% of GLA or gross revenue.

Unanchored Strip - defined as an unanchored retail strip less than 75,000 square feet.

Enclosed Malls - Community - defined as an enclosed community mall with food or department/junior department store or equivalent anchors.

At September 30, 2018 a decrease of 0.25% in the capitalization rates used to determine the fair value of investment properties would have resulted in an increase in investment properties of approximately \$35.2 million. An increase of 0.25% in the capitalization rates used would have resulted in a decrease in investment properties of approximately \$32.7 million.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

As at December 31, 2017 the Trust utilized the following range of capitalization rates:

	Number of Properties ⁽¹⁾	Weighted average capitalization rates	Primary Market	Secondary Market
Freestanding or Mini Box	72	6.44%	5.50% - 8.50%	6.00% - 9.00%
Quick Service Restaurant	117	7.26%	5.50% - 9.00%	6.00% - 11.00%
Anchored Strip – Class A	13	7.07%	6.00% - 8.25%	6.25% - 9.00%
Anchored Strip – Class B	31	7.03%	6.00% - 8.50%	6.75% - 10.00%
Unanchored Strip	38	7.61%	5.75% - 9.00%	6.00% - 11.00%
Enclosed Malls – Community	4	7.80%	7.50% - 9.50%	7.50% - 11.00%
	275	7.02%		

⁽¹⁾ Excludes certain properties under development and non-consolidated trusts and partnerships.

(a) *Straight-line Rent*

Included in investment properties at September 30, 2018 is \$11.9 million (December 31, 2017 - \$11.9 million) of straight line rents receivable arising from the recognition of rental revenue on a straight line basis over the lease terms in accordance with IAS 17, *Leases*.

(b) *Surplus Land*

Included in investment properties at September 30, 2018 is \$1.2 million of surplus lands at fair value (December 31, 2017 - \$1.4 million).

(c) *Borrowing Costs*

The total amount of borrowing costs capitalized for the period ended September 30, 2018 is \$483 thousand (for the period ended September 30, 2017 - \$209 thousand).

(d) *Acquisitions*

During the period ended September 30, 2018, the Trust purchased the following (all including closing costs): land in Oshawa, ON for \$2.5 million and a 50% interest in land in Saguenay, QC for \$300 thousand, a 75% interest in a property in Smiths Falls, ON for redevelopment for \$1.8 million, a property in Brockville, ON for redevelopment for \$14.3 million and the remaining 50% interest in Northumberland Square in Miramichi, NB for \$5.0 million. As well, the Trust acquired a 100% interest in Shediac West Plaza, Shediac, NB and Northwest Centre, Moncton, NB for \$42.1 million through the purchase of the remaining 90% of the issued and outstanding units of Plazacorp - Shediac Limited Partnership and Northwest Plaza Commercial Trust that it did not already own (the "Transaction"). Net of assumption of debt, working capital and the existing ownership interest, the remaining units were purchased for total cash consideration of \$14.3 million. See Note 4 for further details.

During the year ended December 31, 2017, the Trust purchased the following (all including closing costs): land adjacent to an existing property in Picton, ON for \$217 thousand; land in Fredericton, NB for \$287 thousand; land in Dunnville, ON for \$279 thousand; land in Gatineau, QC for \$1.1 million; a 50% interest in development lands in Mississauga, ON for \$6.1 million; a 50% interest in an existing property for redevelopment in Saguenay, QC for \$3.3 million; and development lands in Liverpool, NS for \$168 thousand.

(e) *Disposals*

During the period ended September 30, 2018, the Trust disposed of properties in Ottawa, ON and Perth, ON for net proceeds of \$1.6 million, a property in Halifax, NS for net proceeds of \$3.5 million, a property in Lachine, QC for net proceeds of \$641 thousand, a property in Montreal, QC for net proceeds of \$10.3 million, a property in Halifax, NS for \$1.3 million, a property in Pointe aux Trembles, QC for net proceeds of \$600 thousand and 8 properties in Alberta for \$11.8 million. The Trust sold a 50% co-ownership interest in its redevelopment property in Brockville, ON for gross proceeds of \$7.2 million (\$2.5 million after assumption of 50% of the existing mortgage). Also, purchasers waived conditions to buy property from the Trust in Paris,

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

ON for \$400 thousand and London, ON for \$972 thousand. These transactions are not scheduled to close until January 2019 and April 2019 respectively. As well, concurrent with the Transaction (noted in (d) above), the Trust sold a 50% co-ownership interest in Shediac West Plaza, Shediac, NB and Northwest Centre, Moncton, NB, for gross proceeds of \$20.5 million (\$8.7 million after assumption of 50% of the existing mortgages). See Note 4 for further details.

During the year ended December 31, 2017, the Trust disposed of surplus land in Kenora, ON for net proceeds of \$92 thousand which was recorded as investment properties held for sale at December 31, 2016. The Trust also disposed of land in Calgary, AB and in Miramichi, NB for net proceeds of \$78 thousand and \$272 thousand, respectively. The Trust disposed of properties in North Sydney, NS, for net proceeds of \$215 thousand, in Oshawa, ON for net proceeds of \$662 thousand, in Hamilton, ON for net proceeds of \$577 thousand and in Niagara Falls, ON for net proceeds \$287 thousand. The Trust disposed of a 50% non-managing interest in eight properties in Edmundston, NB, Woodstock, NB, Grand Falls, NB, Yarmouth, NS and Sydney, NS for net proceeds of \$17.3 million (\$7.3 million after assumption of 50% of the existing mortgages).

6. Receivables

Receivables consist of the following:

	September 30, 2018	December 31, 2017
Tenant accounts receivable, net of allowance	\$ 1,401	\$ 1,214
Excise tax	246	355
Holdback receivable	500	500
Other receivables	789	2,390
Income taxes receivable	-	21
Total receivables	\$ 2,936	\$ 4,480

The Trust determines its allowance for doubtful accounts on a tenant-by-tenant basis using an expected credit loss model taking into consideration lease terms, industry conditions and status of the tenants' accounts, among other factors. Accounts are written off only when all collection efforts have been exhausted. Allowance for doubtful accounts balance at September 30, 2018 is \$195 thousand (December 31, 2017 - \$77 thousand). This amount is deducted from tenant accounts receivable.

There were no impairment losses recognized during the period ended September 30, 2018 (for the period ended September 30, 2017 - nil).

7. Prepaid Expenses and Deposits

Prepaid expenses and deposits consist of the following:

	September 30, 2018	December 31, 2017
Prepaid expenses	\$ 3,790	\$ 2,277
Deposits for acquisitions and financings	655	1,790
Total prepaid expenses and deposits	\$ 4,445	\$ 4,067

8. Notes and Advances Receivable

The notes and advances receivable are owed by co-owners of investment properties as a result of funding requirements on a short-term basis during development of investment properties, and by minority interest shareholders of consolidated entities. The notes and advances are due on demand.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

9. Debentures Payable

Debentures payable consist of the following:

	Maturity Date	Interest Rate	September 30, 2018	December 31, 2017
Convertible ⁽¹⁾				
Series D	December 31, 2018	5.75%	\$ -	\$ 34,336
Series E	March 31, 2023	5.10%	47,722	-
Series VII	June 30, 2021	5.50%	5,555	5,554
Total convertible debentures			53,277	39,890
Non-convertible ^{(2) (3)}	Various (see below)	5.00%	9,710	9,883
Total debentures payable			62,987	49,773
Less: current portion of debentures payable			-	(38,336)
Debentures payable – long-term portion			\$ 62,987	\$ 11,437

⁽¹⁾ Recorded at fair value based on closing market trading prices of debentures; the fair value change during 2018 was a loss of \$137 thousand (for the nine months ended September 30, 2017 – gain of \$433 thousand)

⁽²⁾ Recorded at amortized cost

⁽³⁾ Net of unamortized finance charges of \$150 thousand (December 31, 2017 - \$117 thousand)

Convertible and non-convertible debentures are subordinate and unsecured.

Convertible debenture terms are as follows:

	Series E	Series VII
Conversion price	\$5.65	\$6.04
Trust's first redemption date	April 1, 2021	June 30, 2019
Par call date	April 1, 2022	June 30, 2020
Maturity date	March 31, 2023	June 30, 2021
Face value outstanding	\$47,250	\$5,500
Publicly listed	yes	no

Non-convertible debenture maturities are as follows:

	Series I	Series II	Total
Face value outstanding	\$3,860	\$6,000	\$9,860
Maturity date	May 2, 2021	February 28, 2022	

On February 21, 2018, the Trust completed a public offering of \$45 million aggregate principal amount of Series E 5.10% convertible unsecured subordinated debentures due March 31, 2023. The debentures are convertible at the option of the holder, into units of the Trust at \$5.65 per unit. In addition, the underwriters were granted an over-allotment option, exercisable in whole or in part up to 30 days after closing, to purchase up to an additional \$2.25 million debentures. The option was exercised on closing of the offering on February 21, 2018. Proceeds from the offering were used to redeem the \$34 million 5.75% Series D convertible unsecured subordinated debentures on March 27, 2018, with the remainder of the proceeds used to repay amounts outstanding on the Trust's operating line of credit.

The Trust extended \$3.9 million of the \$4.0 million of tranching Series I non-convertible debentures to May 2, 2021 on the same terms and conditions. \$2.5 million of the debentures were extended from the existing debt holders, \$1.4 million were issued to new parties, and \$1.5 million was repaid.

On February 28, 2017, the Trust issued \$6.0 million in Series II unsecured debentures with an interest rate of 5.0% per annum maturing on February 28, 2022.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

10. Mortgage Bonds Payable

Mortgage bonds payable are secured by the following properties:

				September 30, 2018	December 31, 2017
	Series X	Series XI	Series XII	Total	Total
Various properties, 1 st mortgage	6,000	-	-	\$ 6,000	\$ 6,000
Various properties, 1 st mortgage	-	6,000	-	6,000	6,000
Various properties, 1 st mortgage	-	-	3,000	3,000	3,000
Gross mortgage bonds payable	6,000	6,000	3,000	15,000	15,000
Less: unamortized finance charges				(162)	(236)
Net mortgage bonds payable				14,838	14,764
Less: current portion of mortgage bonds payable				(5,957)	-
Net mortgage bonds payable – long-term portion				\$ 8,881	\$ 14,764

	Series X	Series XI	Series XII
Interest Rate	5.00%	5.00%	5.50%
Maturity Date	July 25, 2020	July 8, 2019	July 15, 2022
Amount	\$6,000	\$6,000	\$3,000

The Series X, XI and XII mortgage bonds can be deployed up to 90% of the cost of a property under a first or second charge on that property. If it is a second charge, the total debt, including mortgage bonds, cannot exceed 90%. These mortgage bonds can be reallocated to different properties from time to time as required.

The Trust can redeem up to one-half of the Series X, and XII mortgage bonds at par on the fourth anniversary for the Series X mortgage bonds and the second anniversary for the Series XII mortgage bonds, being: June 25, 2019 for the Series X mortgage bonds; and July 15, 2019 for the Series XII mortgage bonds.

On July 15, 2017, the \$3.0 million 5.50% Series IX mortgage bonds matured and were repaid.

On July 15, 2017, the \$3.0 million 5.50% Series XII mortgage bonds were issued.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

11. Mortgages Payable

	Interest Rate Range	Weighted Average Effective Interest Rate	Maturity Dates	September 30, 2018	December 31, 2017
Secured fixed rate loans:	2.47% - 7.00%	4.58%	Up to June 2034	\$ 438,177	\$ 433,995
Unsecured interest-only fixed rate loans:	5.00%	5.00%	Up to June 2023	6,643	-
Fair value of interest rate swap				86	175
Revaluation of loans upon acquisitions, net of amortization of \$5,974 (December 31, 2017 - \$5,770)				799	264
Less: unamortized finance charges				(2,278)	(2,472)
Total net fixed rate loans				443,427	431,962
Variable rate loans:					
- \$20 million development facility	Prime plus 0.75% or BA plus 2.25%		July 31, 2019	2,014	2,710
- \$15 million development facility	Prime plus 0.75% or BA plus 2.00%		July 31, 2020	2,951	4,592
- \$3.0 million secured non-revolving construction credit facility	Prime plus 1.25% or BA plus 2.50%		May 26, 2018	-	2,768
- \$907 thousand secured non-revolving construction credit facility	Prime plus 1.00% or BA plus 2.50%		September 15, 2018	-	712
- \$6.6 million secured non-revolving construction credit facility	Prime plus 2.25% or BA plus 3.75% ⁽¹⁾		November 30, 2019	1,950	1,950
- \$7.45 million secured non-revolving construction credit facility	Prime plus 1.25% or BA plus 2.50%		January 10, 2020	5,594	-
Less: unamortized finance charges				(169)	(115)
Total net variable rate loans				12,340	12,617
Net mortgages payable				455,767	444,579
Less: mortgages payable – current portion				(61,139)	(33,700)
Total mortgages payable – long-term portion				\$ 394,628	\$ 410,879

⁽¹⁾ Rates reduce to prime plus 1.25% or BA plus 2.75% once construction begins and construction draws under the facility are advanced.

All secured mortgages and facilities are secured by charges against specific assets. The unamortized finance charges are made up of fees and costs incurred to obtain the mortgage financing less accumulated amortization.

To fund development activities the Trust has two revolving development facilities with Canadian chartered banks available upon pledging of specific assets. One is a \$20.0 million one-year revolving facility that bears interest at prime plus 0.75% or bankers' acceptances ("BAs") plus 2.25%, and the other is a \$15.0 million two-year revolving facility that bears interest at prime plus 0.75% or BAs plus 2.00%. At September 30, 2018 there is \$30.0 million available on these development facilities (December 31, 2017 - \$27.7 million). Funding is secured by first mortgage charges on development properties. The Trust must maintain certain financial ratios to comply with the facilities. These covenants include loan-to-value, debt coverage, interest coverage and occupancy covenants, as well as unitholder equity tests. As of September 30, 2018 the Trust is in compliance with all financial covenants.

In January 2018 the Trust obtained a \$14.9 million secured non-revolving construction credit facility relating to the acquisition of a development property in Brockville. Upon the sale of a 50% co-ownership interest in the property in the second quarter of 2018, 50% of this facility was assumed by the partner.

In the second quarter of 2015 as part of the acquisition of a development property, the Trust assumed a \$4.0 million variable rate mortgage that had an interest rate swap in place (thereby fixing the variable interest rate). The interest rate swap matures on August 13, 2023 and is recorded at fair value.

12. Bank Indebtedness

The Trust has a \$44.0 million (December 31, 2017 - \$44.0 million) revolving operating line of credit facility with a Canadian chartered bank at the rate of prime plus 0.75% or BAs plus 2.00%, maturing July 31, 2020. The amount available to be drawn

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

fluctuates depending on the specific assets pledged as security. Based on the assets pledged at September 30, 2018, the available limit was \$43.1 million of which \$25.7 million (December 31, 2017 – \$29.5 million) was drawn and therefore the maximum amount available to be drawn on the facility was \$16.5 million (December 31, 2017 – \$11.0 million), net of letters of credit outstanding of \$869 thousand (December 31, 2017 - \$750 thousand). As security, at September 30, 2018, the Trust has provided a \$50.0 million demand debenture secured by a first mortgage over forty properties.

13. Accounts Payable, Accrued Liabilities, Tenant Payables and Tenant Deposits

Accounts payable, accrued liabilities, tenant payables and tenant deposits consist of the following:

	September 30, 2018	December 31, 2017
Accounts payable and accrued liabilities	\$ 7,213	\$ 7,395
Distributions payable	2,424	2,315
Excise tax payable	1,299	1,055
Accrued interest payable	1,823	1,735
Deferred tenant revenue and deposits	3,329	2,195
Other	492	527
Total accounts payable, accrued liabilities, tenant payables and tenant deposits	\$ 16,580	\$ 15,222

14. Revenues

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Contractual revenue	\$ 18,418	\$ 17,917	\$ 55,077	\$ 53,660
Straight-line rent	(53)	(63)	(179)	(183)
Recovery revenue	7,327	7,231	22,850	22,095
Lease buyout revenue	-	-	-	1,557
Other revenue	31	28	201	79
Total property revenues	\$ 25,723	\$ 25,113	\$ 77,949	\$ 77,208

15. Operating Expenses

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Property taxes and insurance	\$ 5,284	\$ 5,247	\$ 16,306	\$ 15,341
Recoverable expenses	2,678	2,597	10,333	9,639
Non-recoverable expenses	1,062	961	3,126	3,359
Total operating expenses	\$ 9,024	\$ 8,805	\$ 29,765	\$ 28,339

16. Administrative Expenses

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Salaries and benefits	\$ 1,641	\$ 1,378	\$ 5,026	\$ 4,822
Professional services	258	218	819	733
Office expenses	427	439	1,280	1,361
Total administrative expenses	\$ 2,326	\$ 2,035	\$ 7,125	\$ 6,916

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

Total employee salaries and benefits paid by the Trust during the period were \$9.3 million, of which \$3.3 million is included in operating expenses, \$5.0 million is included in administrative expenses and \$1.0 million has been capitalized to income producing properties (for the period ended September 30, 2017 - \$9.1 million, of which \$3.4 million is in operating expenses, \$4.7 million is in administrative expenses and \$959 thousand is in income producing properties).

17. Finance Costs

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Mortgage interest	\$ 5,042	\$ 4,924	\$ 15,196	\$ 14,975
Debenture interest	712	689	2,523	2,022
Mortgage bond interest	191	191	574	574
Distributions paid to Class B exchangeable LP unitholders	89	89	266	267
Operating line of credit interest	293	321	845	658
Interest and bank charges	71	72	345	254
Amortization of finance charges	259	273	784	765
Loan defeasance and early mortgage discharge fees	2	56	240	56
Mark to market amortization	(59)	(30)	(204)	(121)
Capitalization of interest	(122)	(67)	(483)	(209)
Total finance costs	\$ 6,478	\$ 6,518	\$ 20,086	\$ 19,241

18. Unitholders' Equity

(a) Authorized

The Declaration of Trust authorizes the issuance of an unlimited number of units and special voting units. Special voting units are only issued in tandem with the issuance of securities exchangeable into units.

Each special voting unit shall have no economic entitlement nor beneficial interest in the Trust including in the distributions or assets of the Trust, but shall entitle the holder of record thereof to a number of votes at any meeting of the unitholders equal to the number of units that may be obtained upon the exchange of the exchangeable security to which such special voting unit is attached. Special voting units may only be issued in connection with or in relation to, securities exchangeable into units, for the purpose of providing voting rights with respect to the Trust to the holders of such securities. The creation or issuance of special voting units is subject to the prior written consent of the Toronto Stock Exchange ("TSX").

In addition, preferred units may from time to time be created and issued in one or more classes (each of which may be made up of unlimited series) without requiring voting unitholder approval. Before the issuance of preferred units of a series, the Board will execute an amendment to the Declaration of Trust containing a description of such series, including the designations, rights, privileges, restrictions and conditions determined by the Board, and the class of preferred units of which such series is a part. The issuance of preferred units is also subject to the prior written consent of the TSX.

(b) Issued and Outstanding

(i) Class B Exchangeable LP Units

The Class B exchangeable units are economically equivalent to units of the Trust and are exchangeable at any time into units of the Trust on a one-for-one basis. These units are puttable instruments where the Trust has a contractual obligation to issue Trust units to the exchangeable unitholders upon redemption. Holders of the exchangeable LP units are entitled to receive distributions per unit equal to distributions per unit provided to the unitholders of the Trust.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

	September 30, 2018		December 31, 2017	
	Units (000s)	Amount	Units (000s)	Amount
Exchangeable LP units outstanding, beginning of the period	1,266	\$ 5,393	1,319	\$ 6,595
Exchanges	-	-	(53)	(232)
Fair value adjustment for the period	-	(76)	-	(970)
Exchangeable LP units outstanding, end of the period	1,266	\$ 5,317	1,266	\$ 5,393

(ii) Special Voting Units

At September 30, 2018, there were 1,266,000 (December 31, 2017 1,266,000) special voting units outstanding, issued in connection with 1,266,000 (December 31, 2017 - 1,266,000) Class B exchangeable LP units of a subsidiary of the Trust (see above).

(iii) Units

	September 30, 2018		December 31, 2017	
	Trust Units (000s)	Amount	Trust Units (000s)	Amount
Units outstanding, beginning of the period	101,610	\$ 273,158	98,488	\$ 258,011
Issuance of units:				
Exchange of Class B exchangeable LP units	-	-	53	232
Distribution reinvestment plan	1,007	4,057	597	2,607
RSU plan	15	61	22	95
Convertible debenture conversions				
- face value of convertible debentures	-	-	2,450	11,439
- impact of fair value of convertible debentures	-	-	-	774
Units outstanding, end of the period	102,632	\$277,276	101,610	\$ 273,158

Unitholders have the right to redeem their units at the lesser of (i) 90% of the Market Price of the unit (Market Price is defined for this purpose in the Declaration of Trust as the weighted average trading price of the previous 10 trading days) and (ii) the most recent Closing Market Price (Closing Market Price is defined for this purpose in the Declaration of Trust as the weighted average trading price on the specified date) at the time of the redemption. The redemption price will be satisfied by cash, up to a limit of \$50 thousand for all redemptions in a calendar month, or a note payable. For the period ended September 30, 2018 no unitholder had redeemed units.

The Trust has a Distribution Reinvestment Plan (“DRIP”) to enable Canadian resident unitholders to acquire additional units of the Trust through the reinvestment of distributions on their units. Units issued in connection with the DRIP are issued directly from the treasury of the Trust at a price based on the weighted average daily closing price of the units on the TSX for the 5 trading days immediately preceding the relevant distribution date. Participants also receive “bonus units” in an amount equal to 3% of the distribution amount reinvested.

Effective September 28, 2018, the Trust instituted a normal course issuer bid (“NCIB”). Pursuant to the NCIB, the Trust can purchase through the facilities of the TSX and any alternative trading system in Canada, from time to time over the next twelve months, if considered advisable, up to an aggregate of 8,025,793 of the Trust’s issued and outstanding units. All units that are purchased under the NCIB will be cancelled. The NCIB will conclude on the earlier of the date on which purchases under the bid have been completed and September 27, 2019. Daily purchases made by the Trust may not exceed 14,623 units, being 25% of the average daily trading volume of the units on the TSX for the six month period ended August 31, 2018, subject to certain prescribed exemptions and any block purchase made in accordance with the rules of the TSX. No purchases under the NCIB have been made yet.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

19. Distributions

Distributions are declared monthly at the discretion of the Board of Trustees of the Trust.

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Distributions paid to unitholders	\$ 7,175	\$6,830	\$ 21,450	\$20,470
Distribution reinvestment proceeds	(1,350)	(640)	(4,100)	(1,459)
Cash distributions paid to unitholders	\$ 5,825	\$ 6,190	\$ 17,350	\$ 19,011

20. Additional Cash Flow Information

(a) Changes in Non-Cash Working Capital

	3 Months Ended September 30, 2018	3 Months Ended September 30, 2017	9 Months Ended September 30, 2018	9 Months Ended September 30, 2017
Receivables	\$ 455	\$ 638	\$ 1,648	\$ 578
Prepaid expenses and deposits	2,195	1,345	(1,502)	(3,358)
Change in construction accruals removed from investing activities	239	1,377	(1,215)	2,539
Accounts payable, accrued liabilities, tenant payables and tenant deposits	(2,502)	(1,708)	1,069	(1,148)
Total cash from change in non-cash working capital	\$ 387	\$ 1,652	\$ -	\$ (1,389)

(b) Changes in Liabilities Arising from Financing Activities

	September 30, 2018	December 31, 2017
Current and long-term debt ⁽¹⁾ – beginning of the period	\$ 515,933	\$ 542,549
Gross proceeds from mortgage bonds and debentures	48,655	9,000
Redemption/repayment of mortgage bonds and debentures	(35,545)	(5,276)
Periodic mortgage principal repayments	(8,032)	(10,416)
Mortgages repaid	(37,842)	(31,975)
Gross mortgage proceeds	49,349	36,933
Fees incurred for placement of debt	(523)	(647)
Increases in notes payable	(250)	234
Non-cash changes in current and long-term debt:		
Convertible debenture conversions	-	(13,667)
Mortgages assumed on acquisition	23,646	-
Mortgages assumed by purchasers on sale of investment properties	(16,519)	(10,035)
Deferred finance charges assumed on acquisition	(162)	-
Deferred finance charges written off on sale of investment properties	82	-
Net change in fair value of Class B exchangeable LP units	(76)	(970)
Net change in fair value of interest rate swaps and bond forwards	(89)	(182)
Net change in fair value of convertible debentures	137	(339)
Exchanges of Class B exchangeable LP units	-	(232)
Amortization of finance charges	784	1,107
Mark to market on assumption of debt	739	-
Mark to market amortization	(204)	(151)
Current and long-term debt ⁽¹⁾ – end of the period	\$ 540,083	\$ 515,933

⁽¹⁾ Debt defined for this purpose as mortgage bonds, debentures, mortgages payable, notes payable and Class B exchangeable LP units.

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

21. Related Party Transactions

The following are the related party transactions of the Trust. All related party transactions have been recorded at the exchange amount.

(a) Bonds and Debentures

The trustees own directly or indirectly the following mortgage bonds and debentures of the Trust (stated at face value):

	September 30, 2018	December 31,
Edouard Babineau	\$ 150	\$ 150
Earl Brewer	450	425
Stephen Johnson	300	300
Michael Zakuta	100	100
Total	\$ 1,000	\$ 975

Other key management personnel own \$20 thousand in mortgage bonds of the Trust at September 30, 2018 (December 31, 2017 - \$20 thousand).

(b) Notes Payable to Related Parties

The following non-interest bearing notes existed at the time of acquisition of properties in September 2000. Certain of the notes are owed to parties controlled directly or indirectly by Michael Zakuta. The notes are repayable on sale or refinancing of the related asset.

	September 30, 2018	December 31, 2017
Entities owned (directly or indirectly), controlled or significantly influenced by Michael Zakuta, President, Chief Executive Officer and trustee of the Trust	\$ 261	\$ 261

(c) Other Transactions with Related Parties

- (i) TC Land LP, an entity controlled by Michael Zakuta and Earl Brewer, leases nine parcels of land to the Trust at a total annual rent of \$1.1 million. The land leases expire at various times from October 2043 to November 2047, subject to options to renew. All of these land leases have options to purchase, of which one is at a fixed price and the others are at fair market value.
- (ii) Earl Brewer and Michael Zakuta, directly or indirectly, hold interests in common with the Trust's 25% interest in the Gateway Mall, Sussex, NB. A subsidiary of the Trust manages the mall. There is a \$34 thousand accounts receivable balance owing to the Trust for property management, leasing and development fees (December 31, 2017 - \$7 thousand). For the nine months ended September 30, 2018, property management, development and leasing fees of \$195 thousand were earned by a subsidiary of the Trust from this property (for the nine months ended September 30, 2017 - \$80 thousand). There is a \$368 thousand note receivable owing to the Trust relating to short-term funding requirements for the construction of a retail pad on the property (December 31, 2017 - nil).
- (iii) Until January 31, 2018, Edouard Babineau, Earl Brewer and Michael Zakuta, directly or indirectly, held interests in common with the Trust's 10% interest in Northwest Plaza Commercial Trust, the owner of Northwest Centre, Moncton, NB. A subsidiary of the Trust manages the centre. On January 31, 2018, the Trust completed the acquisition of the remaining 90% of the issued and outstanding units of Northwest Plaza Commercial Trust that it did not already own (see Note 4). A special committee of independent trustees of the Trust was formed to review and approve the related party transaction. For the one month ended January 31, 2018, property management, development and leasing fees of \$18 thousand were earned by a subsidiary of the Trust from this property (for the nine months ended September 30, 2017 - \$105 thousand).

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

- (iv) The Montreal office of Plaza Group Management Limited (a wholly-owned subsidiary of the Trust) shares office space with a company indirectly owned by Michael Zakuta in an office building owned by that related party. No basic minimum rent is payable for the space.
- (v) Edouard Babineau, Earl Brewer and Michael Zakuta, directly or indirectly, hold interests in common with the Trust's 20% interest in Mountainview Plaza, Midland, ON and Park Street Plaza, Kenora, ON. A subsidiary of the Trust manages the malls. At September 30, 2018 there is \$5.6 million owed by the properties to the Trust which is recorded in notes and advances receivable (December 31, 2017 - \$6.5 million). As well, there is a \$7 thousand accounts receivable balance owing to the Trust for property management, leasing and development fees (December 31, 2017 - \$64 thousand). For the nine months ended September 30, 2018, property management, leasing, development and financing fees of \$430 thousand were earned by a subsidiary of the Trust from these properties (for the nine months ended September 30, 2017 - \$171 thousand).
- (vi) Until January 31, 2018, Edouard Babineau, Earl Brewer, Denis Losier and Michael Zakuta, directly or indirectly, held interests in common with the Trust's 10% interest in Shediac West Plaza, Shediac, NB. A subsidiary of the Trust manages the property. On January 31, 2018, the Trust completed the acquisition of the remaining 90% of the issued and outstanding units of Plazacorp – Shediac Limited Partnership that it did not already own (see Note 4). A special committee of independent trustees of the Trust was formed to review and approve the related party transaction. For the one month ended January 31, 2018, property management, leasing and development fees of \$2 thousand were earned by a subsidiary of the Trust from this property (for the nine months ended September 30, 2017 - \$28 thousand).
- (vii) Earl Brewer and Michael Zakuta, directly or indirectly, hold interests in common with the Trust's 50% interest in two single-use properties located in Amherstview and Port Perry, ON. A subsidiary of the Trust manages the properties. For the nine months ended September 30, 2018, property management fees of \$4 thousand were earned by a subsidiary of the Trust from these properties (for the nine months ended September 30, 2017 - \$4 thousand).
- (viii) Edouard Babineau, Earl Brewer, James Petrie, Barbara Trenholm and Michael Zakuta, directly or indirectly, hold interests in common with the Trust's 25% interest in KGH Plaza, Miramichi, NB, a single-use property located at 681 Mountain Road, Moncton, NB, a single-use property located at 201 Main Street, Sussex, NB and Robie Street Truro Plaza, Truro, NS. A subsidiary of the Trust manages the properties. At September 30, 2018 there is a \$7 thousand accounts receivable balance owing to the Trust for property management, development and leasing fees (December 31, 2017 - \$5 thousand). For the nine months ended September 30, 2018, property management, leasing and development fees of \$152 thousand were earned by a subsidiary of the Trust from these properties (for the nine months ended September 30, 2017 - \$39 thousand). There is a \$893 thousand note receivable owing to the Trust relating to short-term funding requirements for the construction of a retail pad on one of the properties (December 31, 2017 – nil).
- (ix) Edouard Babineau, Earl Brewer and Michael Zakuta, directly or indirectly, hold interests in common with the Trust's 50% interest in Scott Street Plaza, St. Catharines, ON, and five single-use properties located at St. Joseph's Boulevard, Orleans, ON, Dufferin and Wilson, Perth, ON, Ontario Street Port Hope, Port Hope, ON, Civic Centre Road, Petawawa, ON and 615 King Street, Gananoque, ON. A subsidiary of the Trust manages the properties. For the nine months ended September 30, 2018, property management fees of \$24 thousand were earned by a subsidiary of the Trust from these properties (for the nine months ended September 30, 2017 - \$11 thousand).
- (x) Effective December 1, 2017, Edouard Babineau, Earl Brewer, Denis Losier and Michael Zakuta, directly or indirectly, hold interests in common with the Trust's 50% interest in the following eight properties: Boulevard Hebert Plaza and Victoria Street Plaza in Edmundston, NB; Grand Falls Shopping Center and Madawaska Road Plaza in Grand Falls, NB; Connell Road Plaza, Woodstock, NB; Welton Street Plaza, Sydney, NS; and Pleasant Street Plaza and Starrs Road Plaza in Yarmouth, NS. A subsidiary of the Trust manages the properties. At September 30, 2018 there is a \$7 thousand accounts receivable balance owing to the Trust for property management fees (December 31, 2017 - \$13 thousand). For the nine months ended September 30, 2018, property management, leasing and development fees of \$149 thousand were earned by a subsidiary of the Trust from these properties (for the nine months ended September 30, 2017 – n/a).

Plaza Retail REIT

Notes to the Condensed Interim Consolidated Financial Statements

September 30, 2018 (unaudited)

(tabular amounts in thousands of Canadian dollars, except per unit amounts and as otherwise indicated)

22. Financial Instruments and Risk Management

In accordance with IFRS, the Trust is required to classify its financial instruments carried at fair value in the financial statements using a fair value hierarchy that exhibits the significance of the inputs used in making the measurements.

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data.

The following table provides information on financial assets and liabilities measured at fair value.

	September 30, 2018			December 31, 2017		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Investment properties	\$ -	\$ -	\$ 978,055	\$ -	\$ -	\$ 959,618
	\$ -	\$ -	\$ 978,055	\$ -	\$ -	\$ 959,618
Class B exchangeable LP units	\$ 5,317	\$ -	\$ -	\$ 5,393	\$ -	\$ -
Series C, D and E convertible debentures	47,722	-	-	34,336	-	-
Series VII convertible debentures	-	5,555	-	-	5,554	-
	\$ 53,039	\$ 5,555	\$ -	\$ 39,729	\$ 5,554	\$ -

The fair value of investment properties is based on a combination of external appraisals and internal valuations based on a capitalization matrix provided by independent appraisers (see Note 5 for a more detailed description of the Trust's valuation approach). The significant unobservable inputs include normalized net operating income, which is supported by the terms of existing leases in place and current market rents to renew or lease up vacant or expiring space, adjusted for estimated or normalized vacancy rates based on market conditions and factoring in expected maintenance costs.

23. Subsequent Events

Financings

On October 31, 2018, the Trust obtained new long-term financings in the amount of \$1.5 million (at the Trust's consolidated share) with a term of 6 years and an interest rate of 4.70% and in the amount of \$370 thousand (at the Trust's consolidated share) with a term of 4 years and an interest rate of 4.54%.

Investment properties

On October 24, 2018 the Trust purchased land in Moncton, NB for \$330 thousand.

Distributions and Distribution Reinvestment Plan

The Trust paid a cash distribution of \$0.02333 per unit for a total of \$2.0 million on October 15, 2018 and 93 thousand units were issued at a purchase price of \$4.09 per unit for a total of \$382 thousand under the Distribution Reinvestment Plan.

On October 15, 2018 the Trust announced that it has suspended its DRIP until further notice. Commencing with the October 2018 distribution, payable November 15, 2018, unitholders enrolled in the DRIP will receive distribution payments in cash. If Plaza elects to reinstate the DRIP in the future, unitholders that were enrolled in the DRIP at the time of its suspension and remain enrolled at the time of its reinstatement will automatically resume participation in the DRIP.

Class B Exchangeable LP Units

In October 2018, 74,828 Class B exchangeable LP units were exchanged for 74,828 units of the Trust.