TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

August 7, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") for the three and six months ended June 30, 2019 should be read in conjunction with the REIT's annual audited consolidated financial statements for the year ended December 31, 2018 and the condensed consolidated interim financial statements for the three and six months ended June 30, 2019 and 2018 and accompanying notes thereto. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future. Readers are cautioned such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding the financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. In some cases, forward-looking information can be identified by such terms as "may", "might", "will", "could", "should", "would", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", or the negative thereof or other similar expressions suggesting future outcomes or events.

Forward-looking statements involve known and unknown risks and uncertainties, which may be general or specific and which give rise to the possibility that expectations, forecasts, predictions, projections or conclusions will not prove to be accurate, assumptions may not be correct and objectives, strategic goals and priorities may not be achieved. A variety of factors, many of which are beyond the REIT's control, affect the operations, performance and results of the REIT and its business, and could cause actual results to differ materially from current expectations of estimated or anticipated events or results. These factors include, but are not limited to, risks related to the trust units of the REIT ("Units") and risks related to the REIT and its business. See "Risks and Uncertainties". The reader is cautioned to consider these and other factors, uncertainties and potential events carefully and not to put undue reliance on forward-looking statements as there can be no assurance actual results will be consistent with such forward-looking statements.

Information contained in forward-looking statements is based upon certain material assumptions applied in drawing a conclusion or making a forecast or projection, including management's perception of historical trends, current conditions and expected future developments, as well as other considerations believed to be appropriate in the circumstances, including the following: the Canadian economy will remain stable over the next 12 months; inflation will remain relatively low; interest rates will remain relatively stable; conditions within the real estate market, including competition for acquisitions, will be consistent with the current climate; the Canadian capital markets will provide the REIT with access to equity and/or debt at reasonable rates when required; Starlight Group Property Holdings Inc., or any of its affiliates ("Starlight"), will continue its involvement as asset manager of the REIT in accordance with its current asset management agreement; and the risks referenced above, collectively, will not have a material impact on the REIT. While management considers these assumptions to be reasonable based on currently available information, they may prove to be incorrect.

The forward-looking statements made relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian 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.

NON-IFRS FINANCIAL MEASURES

Certain terms used in this MD&A such as funds from operations ("FFO"), adjusted funds from operations ("AFFO"), net operating income ("NOI"), same property net operating income ("Same Property NOI"), indebtedness ("Indebtedness"), gross book value ("GBV"), Indebtedness to GBV ratio, net earnings before interest, tax, depreciation and amortization and fair value gain (loss) on financial instruments ("Adjusted EBITDA"), interest coverage ratio, and adjusted cash provided by operating activities are not measures defined by International Financial Reporting Standards ("IFRS") as prescribed by the International Accounting Standards Board ("IASB"), do not have standardized meanings prescribed by IFRS and should not be compared to or construed as alternatives to profit/loss, cash flow from operating activities or other measures of financial performance calculated in accordance with IFRS. FFO, AFFO, NOI, Same Property NOI, Indebtedness, GBV, Indebtedness to GBV ratio, Adjusted EBITDA, interest coverage ratio and adjusted cash provided by operating activities as computed by the REIT may not be comparable to similar measures presented by other issuers.

FFO is a measure of operating performance based on the funds generated from the business of the REIT before reinvestment or provision for capital needs. The REIT calculates FFO in accordance with the guidelines set out by the Real Property Association of Canada ("Realpac"). Management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

AFFO is an important performance measure to determine the sustainability of future distributions paid to holders of Units ("Unitholders"). In calculating AFFO, the REIT makes certain non-cash adjustments to FFO such as: amortization of fair value mark-to-market adjustments on assumed mortgages, amortization of deferred financing costs, straight-line rent, instalment note receipts and non-cash compensation expense related to Unit-based incentive plans and a deduction of a reserve for capital expenditures, tenant inducements, and leasing costs. The method applied by the REIT to calculate AFFO differs from the definition of AFFO as defined by Realpac. Management considers these non-cash adjustments important in determining the amount of sustainable cash available to fund future distributions to Unitholders.

For the purposes of calculating FFO and AFFO per Unit, class B limited partnership units ("Class B LP Units") of True North Commercial Limited Partnership are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of any vested, unexercised and in the money Unit options of the REIT.

NOI is defined by the REIT as rental revenue from property operations less property operating costs and property taxes. NOI is presented in this MD&A because management considers this non-IFRS measure to be a valuable measure for evaluating the operating performance of the REIT's properties.

Same Property NOI is defined by the REIT as NOI for properties that were owned for an entire quarter or annual reporting period in both the current and comparative year. Adjustments are made to NOI to exclude non-cash items such as amortization of tenant inducements, leasing costs and straight-line rent. Same Property NOI is presented in this MD&A because management considers this non-IFRS measure to be a valuable measure for evaluating the operating performance of the REIT's properties excluding the impact attributable to acquisitions and dispositions.

Indebtedness is defined in the REIT's second amended and restated declaration of trust ("DOT") made as of May 22, 2014, and is a measure of the amount of leverage utilized by the REIT. GBV is defined in the DOT and is a measure of the value of the REIT's total assets. The Indebtedness to GBV ratio is a compliance measure in the DOT and establishes the limit of financial leverage for the REIT. The Indebtedness to GBV ratio is presented in this MD&A as management considers this non-IFRS measure to be an important measure of the REIT's financial position.

Adjusted EBITDA is defined by the REIT as net earnings before, where applicable, interest, taxes, depreciation, amortization and fair value gain (loss) on financial instruments and investment properties and excludes non-recurring items such as transaction costs on sale of investment properties.

The interest coverage ratio is used by the REIT to determine the REIT's ability to service the interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Management considers this non-IFRS measure useful in assessing the REIT's ability to service its debt.

Adjusted cash provided by operating activities measures the amount of sustainable cash provided by operating activities less interest expense. Adjusted cash provided by operating activities is presented in this MD&A because management considers this non-IFRS measure to be an important measure in assessing the REIT's availability of cash flow for distribution.

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BASIS OF PRESENTATION

The REIT's condensed consolidated financial statements for the three and six months ended June 30, 2019 and 2018 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in this MD&A are used interchangeably such as three and six months ended June 30, 2019 ("Q2-2019"), and ("YTD-2019"), respectively, three and six months ended June 30, 2018 ("Q2-2018") and ("YTD-2018"), respectively, and three months ended March 31, 2019 ("Q1-2019").

OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered head office of the REIT is 1400 – 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. As at June 30, 2019, the REIT owned and operated a portfolio of 46 commercial properties across Canada consisting of approximately 3.7 million square feet.

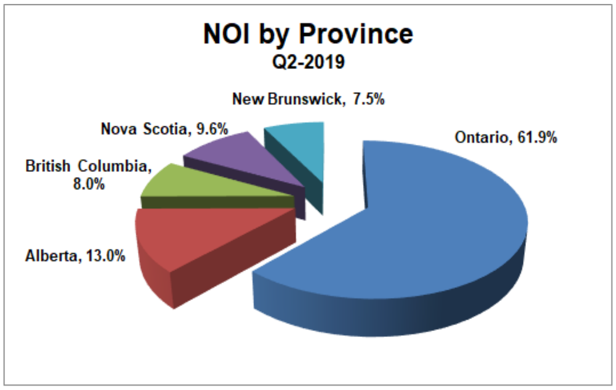
The objectives of the REIT are to:

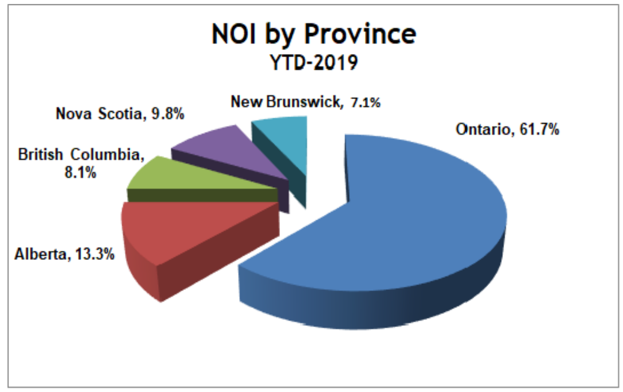
- generate stable cash distributions on a tax-efficient basis;
- expand the asset base of the REIT and increase its distributable cash flow through acquisitions of commercial rental properties across Canada and such other jurisdictions where opportunities exist; and
- enhance the value of the REIT's assets to maximize long-term Unit value through active management of its assets.

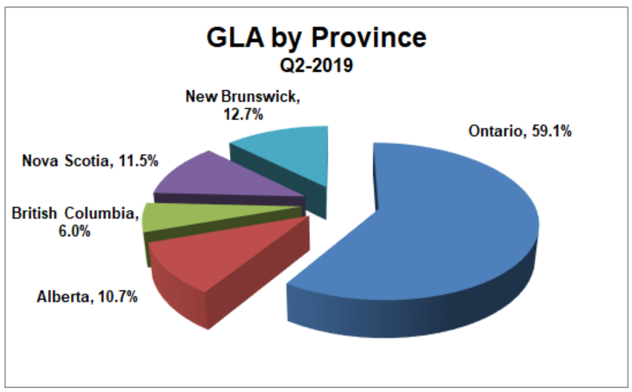
The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, value enhancement through more efficient management of the assets being acquired and growth of FFO and AFFO per Unit.

PORTFOLIO OVERVIEW

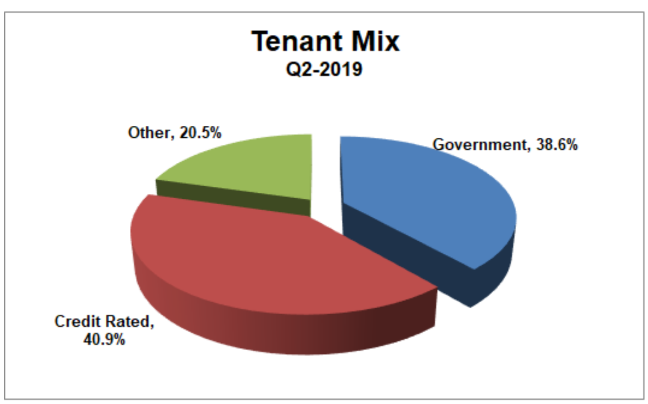
COMPOSITION BY GEOGRAPHIC REGION







TENANT MIX



The tenant mix is based on annualized gross revenue.

PORTFOLIO SUMMARY

At June 30, 2019, the REIT's portfolio was comprised of 46 properties totaling approximately 3.7 million square feet of gross leasable area ("GLA"). The following tables highlight certain information about the REIT's properties as at June 30, 2019:

Property Name	City	Type	Occupancy	Remaining Lease Term [1]	GLA
Alberta					
855 8th Avenue SW	Calgary	Office	97%	2.0 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	Office	94%	5.4 years	77,600
1020 68th Avenue NE	Calgary	Office	100%	4.5 years	148,400
13140 St. Albert Trail	Edmonton	Office	100%	1.9 years	95,200
British Columbia					
810 Blanshard Street	Victoria	Office	100%	0.6 years	34,400
727 Fisgard Street	Victoria	Office	100%	9.6 years	47,600
9200 Glenlyon Parkway	Burnaby	Office	100%	7.6 years	90,600
32071 South Fraser Way	Abbotsford	Office	100%	5.3 years	52,300
New Brunswick					
500 Beaverbrook Court	Fredericton	Office	98%	2.8 years	55,600
295 Belliveau Avenue	Shediac	Office	100%	2.6 years	42,100
410 King George Highway	Miramichi	Office	62%	2.8 years	73,600
551 King Street	Fredericton	Office	100%	3.1 years	85,300
495 Prospect Street	Fredericton	Office	100%	2.7 years	85,000
845 Prospect Street	Fredericton	Office	100%	2.7 years	39,000
414-422 York Street	Fredericton	Office	78%	3.6 years	33,600
440-470 York Street	Fredericton	Office	80%	3.2 years	60,100
Nova Scotia					
36 & 38 Solutions Drive	Halifax	Office	97%	3.8 years	129,200
120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	Office	90%	4.8 years	297,700

[1] Weighted by annualized gross revenue.

Property Name	City	Type	Occupancy	Remaining Lease Term [1]	GLA
Ontario					
1595 16th Avenue	Richmond Hill	Office	100%	2.5 years	120,200
251 Arvin Avenue	Hamilton	Office	100%	5.0 years	6,900
61 Bill Leathem Drive	Ottawa	Office	100%	3.6 years	148,100
777 Brock Road	Pickering	Office	100%	3.7 years	98,900
400 Carlingview Drive	Toronto	Office	100%	8.7 years	26,800
6865 Century Avenue	Mississauga	Office	100%	2.0 years	63,800
1161 Crawford Drive	Peterborough	Office	100%	2.8 years	32,500
197-199 Dundas Street	London	Office	40%	2.4 years	20,200
417 Exeter Road	London	Office	88%	2.3 years	35,200
520 Exmouth Street	Sarnia	Office	100%	2.4 years	34,700
529-533 Exmouth Street	Sarnia	Office	100%	2.7 years	15,400
5900 Explorer Drive	Mississauga	Office	100%	1.2 years	40,000
3115 Harvester Road	Burlington	Office	100%	2.8 years	78,800
135 Hunter Street East	Hamilton	Office	100%	4.1 years	24,400
340 Laurier Avenue West	Ottawa	Office	99%	1.4 years	279,100
360 Laurier Avenue West	Ottawa	Office	100%	3.3 years	107,100
400 Maple Grove Road	Ottawa	Office	100%	5.2 years	107,200
78-90 Meg Drive	London	Office	100%	0.9 years	11,300
301 & 303 Moodie Drive	Ottawa	Office	93%	5.4 years	148,500
8 Oakes Avenue	Kirkland Lake	Office	100%	2.8 years	41,000
5160 Orbitor Drive	Mississauga	Office	100%	10.8 years	31,400
534 Queens Avenue	London	Office	100%	2.0 years	19,000
231 Shearson Crescent	Cambridge	Office	100%	4.9 years	60,600
6 Staples Avenue	Richmond Hill	Office	100%	14.3 years	122,000
2300 St. Laurent Boulevard	Ottawa	Office	100%	5.7 years	37,500
3650 Victoria Park Avenue	Toronto	Office	94%	4.1 years	154,500
80 Whitehall Drive	Markham	Office	100%	9.0 years	60,800
5775 Yonge Street	Toronto	Office	96%	3.3 years	272,800
Average/Total			96%	4.0 years	3,721,700

[1] Weighted by annualized gross revenue.

TENANT PORTFOLIO

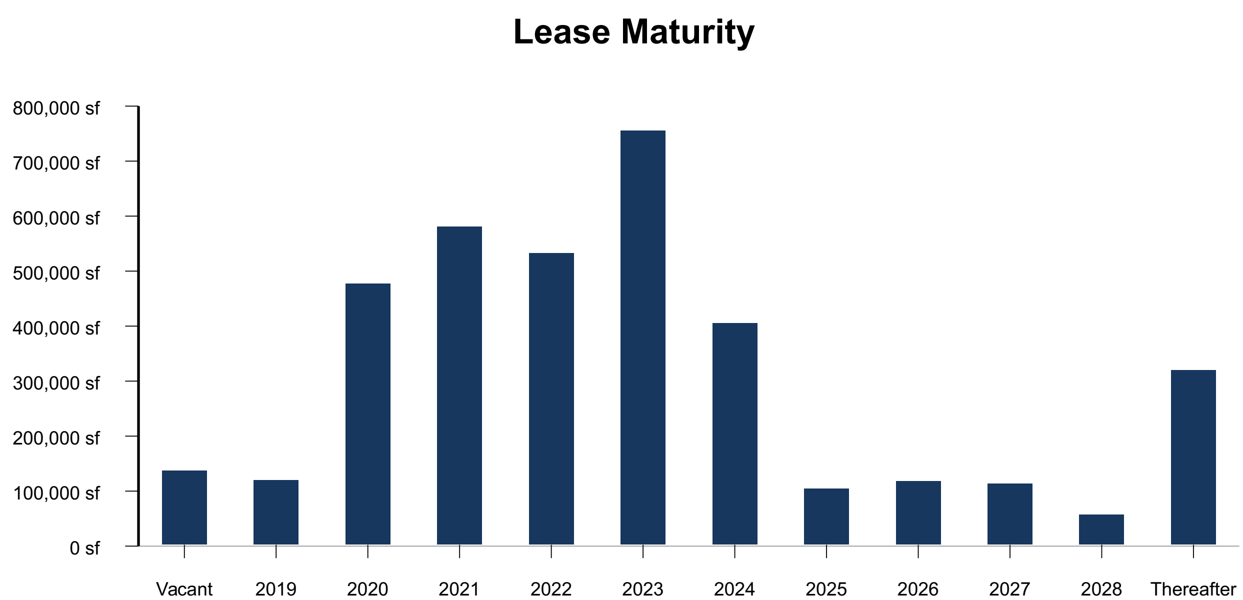
The REIT's 10 largest tenants as at June 30, 2019 are as follows:

Tenant	% of Gross Revenue	GLA	Remaining Lease Team [1]
Her Majesty the Queen - Correctional Services	6.9%	219,500	1.8 years
TD Meloche Monnex Inc.	3.6%	115,000	3.9 years
Lumentum Ottawa Inc.	3.1%	148,100	3.6 years
Her Majesty the Queen - Public Safety	3.0%	89,500	0.7 years
Ontario Power Generation Inc.	2.9%	98,900	3.7 years
Her Majesty the Queen - Management Board Secretariat	2.9%	82,500	2.2 years
Alberta Health Services	2.8%	70,700	5.3 years
Alberta Infrastructure	2.8%	103,700	2.7 years
LMI Technologies Inc.	2.8%	90,600	7.6 years
Staples Canada ULC	2.6%	122,000	14.3 years
	33.4%	1,140,500	4.1 years

[1] Weighted by annualized gross revenue.

LEASE ROLLOVER PROFILE

As at June 30, 2019 the lease rollover profile of the REIT was as follows:



Lease maturity is based on the square footage of the REIT's leases.

SECOND QUARTER HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Portfolio				
Number of properties			46	41
Portfolio GLA			3,721,700 sf	3,308,200 sf
Occupancy rate			96%	95%
Remaining weighted average lease term			4.0 years	3.9 years
Revenue from government & credit-rated tenants			79.5%	79.9%
Financial				
Revenue	$25,489	$19,902	$51,256	$39,620
NOI	15,151	11,935	29,971	23,561
Net income and comprehensive income	12,256	1,489	13,608	19,957
Same Property NOI	12,125	12,106	23,107	22,918
Same Property NOI growth	0.2%	(1.7)%	0.8%	(2.6)%
FFO	$9,471	$7,924	$18,412	$15,334
FFO per Unit - Basic	0.15	0.15	0.30	0.31
FFO per Unit - Diluted	0.15	0.15	0.29	0.30
AFFO	$9,163	$7,737	$17,798	$14,680
AFFO per Unit - Basic	0.15	0.15	0.29	0.29
AFFO per Unit - Diluted	0.15	0.15	0.28	0.29
AFFO payout ratio - Diluted	102%	101 %	105%	102 %
Distributions declared	$9,184	$7,737	$18,336	$14,828

In the last 18 months, the REIT's portfolio has grown from 39 properties totaling 3 million square feet to 46 properties totaling 3.7 million square feet. As a result, Q2-2019 revenue increased $5,587 or 28% and NOI increased $3,216 or 27% compared to Q2-2018.

	June 30, 2019	December 31, 2018
Debt		
Indebtedness to GBV ratio	57.7%	56.5%
Interest coverage ratio	3.00x	3.19x
Indebtedness - weighted average fixed interest rate	3.42%	3.41%
Indebtedness - weighted average term to maturity	3.43 years	3.85 years

LEASING ACTIVITIES

The REIT contractually leased and renewed 81,184 square feet with an average lease term of 8.1 years and an average increase of approximately 10% over expiring rates. This included an early lease renewal with the provincial government tenant at 727 Fisgard Street, Victoria, British Columbia totaling 47,167 square feet, which extends the tenant's seven year occupancy for a further ten years.

FINANCING ACTIVITIES

On April 1, 2019, the REIT renegotiated its secured credit facility to increase the amount available from $30,000 to $35,000, other terms remain unchanged.

AQUISITION

On February 7, 2019, the REIT acquired a 100% occupied, 107,100 square foot property located at 360 Laurier Avenue West, Ottawa, Ontario for an aggregate purchase price of $24,500 plus closing costs. The purchase price was satisfied by the proceeds from the sale of two industrial properties and mortgage financing of $17,000 with an annual interest rate of 3.81% for a five-year term.

SUBSEQUENT EVENTS

On July 25, 2019, the REIT completed the sale of 417 Exeter Road, totaling 35,200 square feet for a sale price of $8,700. This disposition is in line with the REIT's strategy to focus on office properties in larger urban markets.

On August 1, 2019, the REIT refinanced 295 Belliveau Avenue totaling $3,200 with a five year term at a fixed interest rate of 3.90%. The mortgage is secured by a first charge on the property.

QUARTERLY INFORMATION

The following table provides select information pertaining to the REIT's operations.

	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17
Revenue	$ 25,489	$ 25,767	$ 24,947	$ 22,501	$ 19,902	$ 19,718	$ 16,364	$ 14,017
Property operating costs	(10,338)	(10,947)	(10,506)	(9,196)	(7,967)	(8,092)	(6,421)	(5,253)
NOI	15,151	14,820	14,441	13,305	11,935	11,626	9,943	8,764
General and administration expenses	(1,041)	(1,608)	(644)	(783)	(854)	(819)	(742)	(613)
Finance costs	(5,181)	(5,100)	(4,836)	(4,169)	(3,610)	(3,442)	(2,846)	(2,410)
Transaction costs on sale of investment properties	—	—	(403)	—	—	—	—	—
Distributions on Class B LP Units	(634)	(634)	(634)	(634)	(634)	(634)	(638)	(639)
Fair value adjustment of Class B LP Units	171	(4,226)	4,140	86	(811)	1,067	(943)	(1,335)
Fair value adjustment of investment properties	3,891	(1,620)	7,913	2,065	(4,503)	10,605	(1,859)	5,833
Unrealized gain (loss) on change in fair value of derivative instruments	(101)	(280)	(314)	130	(34)	65	154	731
Net income and comprehensive income for the period	$ 12,256	$ 1,352	$ 19,663	$ 10,000	$ 1,489	$ 18,468	$ 3,069	$ 10,331
FFO per Unit - basic	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.15	$ 0.16	$ 0.15	$ 0.16
AFFO per Unit - basic	$ 0.15	$ 0.14	$ 0.14	$ 0.14	$ 0.15	$ 0.15	$ 0.15	$ 0.15
AFFO per Unit - diluted	$ 0.15	$ 0.14	$ 0.14	$ 0.14	$ 0.15	$ 0.14	$ 0.15	$ 0.15
AFFO payout ratio - basic	100%	106%	106%	106%	100%	102%	101%	99%
AFFO payout ratio - diluted	102%	108%	107%	107%	101%	104%	102%	100%
Number of investment properties	46	46	45	45	41	40	39	33

Revenue and property operating costs decreased in Q2-2019 compared to Q1-2019 mainly due to lower operating cost recovery revenue as a result of the decrease in property operating costs, partially offset by a full quarter of operations from 360 Laurier Avenue West, Ottawa, Ontario acquired in Q1-2019. The decrease of property operating costs is mainly attributable to lower snow removal and utilities due to seasonality. NOI increased in Q2-2019 compared to Q1-2019 mainly due to a full quarter of operations from the Q1-2019 acquisition.

General and administration expenses decreased in Q2-2019 compared to Q1-2019 due to a decrease in Unit-based compensation. In addition, annual tax and audit compliance fees were incurred in Q1-2019.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three and six months ended June 30, 2019 and 2018 are summarized below.

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Revenue	$ 25,489	$ 19,902	$ 51,256	$ 39,620
Expenses:				
Property operating costs	(6,209)	(4,731)	(12,954)	(9,643)
Realty taxes	(4,129)	(3,236)	(8,331)	(6,416)
NOI	$ 15,151	$ 11,935	$ 29,971	$ 23,561
Other income (expenses):				
General and administration expenses	(1,041)	(854)	(2,649)	(1,673)
Finance costs	(5,181)	(3,610)	(10,281)	(7,052)
Distributions on Class B LP Units	(634)	(634)	(1,268)	(1,268)
Fair value adjustment of Class B LP Units	171	(811)	(4,055)	256
Fair value adjustment of investment properties	3,891	(4,503)	2,271	6,102
Unrealized gain (loss) on change in fair value of derivative	(101)	(34)	(381)	31
Net income and comprehensive income	$ 12,256	$ 1,489	$ 13,608	$ 19,957

Revenue includes all income earned from the REIT's properties, including rental income and all other miscellaneous income paid by the tenants under the terms of their existing leases, such as base rent, parking, operating costs and realty tax recoveries, as well as adjustments for the straight-lining of rents and amortization of tenant inducements.

Property operating costs include building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities, management fees and other operational costs.

The REIT's revenue increased $5,587 in the second quarter, up 28% from the same quarter of 2018 and NOI increased $3,216 or 27% from Q2-2018 mainly due to acquisitions completed in the latter half of 2018 and higher occupancy.

Occupancy for the property portfolio increased from 95% in Q2-2018 to 96% in Q2-2019.

SAME PROPERTY ANALYSIS

Same Property NOI includes investment properties that were owned for the full current and comparative reporting period.

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2019**
Number of properties	38	38	37	37
Revenue	$ 18,927	$ 18,988	$ 37,043	$ 37,137
Expenses:				
Property operating	(4,767)	(4,489)	(9,637)	(9,013)
Realty taxes	(3,011)	(3,033)	(5,986)	(5,965)
NOI	$ 11,149	$ 11,466	$ 21,420	$ 22,159
Add:				
Amortization of leasing costs and tenant inducements	479	285	756	356
Straight-line rent	497	355	931	403
Same Property NOI	$ 12,125	$ 12,106	$ 23,107	$ 22,918

Same Property Occupancy

	As at June 30	
	2019	**2018**
Alberta	97.2%	97.3%
British Columbia	100.0%	100.0%
New Brunswick	89.8%	87.2%
Nova Scotia	91.9%	93.8%
Ontario	97.6%	96.9%
Total	95.5%	94.9%

Same Property NOI

	Three months ended June 30			
	2019	**2018**	**Variance**	**Variance %**
Alberta	$ 1,643	$ 1,512	$ 131	8.7 %
British Columbia	429	428	1	0.2 %
New Brunswick	1,242	1,281	(39)	(3.0)%
Nova Scotia	1,559	1,599	(40)	(2.5)%
Ontario	7,252	7,286	(34)	(0.5)%
	$ 12,125	$ 12,106	$ 19	0.2 %

Q2-2019 Same Property NOI increased $19 or 0.2% and $189 or 0.8% YTD-2019. The current and comparative periods include termination payments, project management fees and short term lease rental revenue. Excluding these items, Same Property recurring NOI increased by 0.9% in the quarter and 1.2% year to date.

Alberta Same Property NOI increased 8.7% mainly due to termination payments received in the current year. The REIT is beginning to realize the impact of 2018 leasing initiatives in Nova Scotia due to the expiry of free rents, excluding the termination payments received in Q2-2018 , Same Property NOI increased 7.3%. The REIT's largest portfolio located in Ontario continued to experience Same Property NOI growth of 0.8% excluding project management fees and short term lease rental revenue.

The REIT is focused on growth of Same Property NOI through the following initiatives:

- achieving positive leasing spreads on renewal with contractual rent step-ups throughout the term;
- competitive tendering of all expenses; and
- improving building efficiencies through energy saving initiatives.

GENERAL AND ADMINISTRATION EXPENSES

General and administration expenses include items such as legal and audit fees, trustee fees, investor relations expenses, trustees' and officers' insurance premiums, costs associated with the REIT's Unit option plan and other general and administrative expenses associated with the operation of the REIT. Also included in general and administration expenses are asset management fees payable to Starlight. See "Related Party Transactions and Arrangements – Arrangements with Starlight".

General and administration expenses increased $187 or 22% in Q2-2019 compared to Q2-2018 and $976 or 58% in YTD-2019 mainly due to an increase in asset management fees as a result of portfolio growth, offset by the change in Unit-based compensation expense.

FINANCE COSTS

The REIT's finance costs for the three and six months ended June 30, 2019 and 2018 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Interest on mortgages payable	$ 4,689	$ 3,382	$ 9,361	$ 6,618
Other interest expense and standby fees	232	48	416	90
Amortization of mortgage discounts	(8)	2	(17)	2
Amortization of financing costs	268	178	521	342
Total finance costs	$ 5,181	$ 3,610	$ 10,281	$ 7,052

Interest on mortgages payable increased by $1,307 in Q2-2019 and by $2,743 in YTD-2019 due to additional borrowing associated with the acquisitions in the latter half of 2018 and Q1-2019.

Other interest expense and standby fees relate to costs incurred on the REIT's Credit Facilities and increased by $184 in Q2-2019 and by $326 YTD-2019 due to the REIT's increased level of borrowing during the period.

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $634 in Q2-2019 and Q2-2018 and $1,268 in YTD-2019 and YTD-2018.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value gain of $171 for Q2-2019 is due to a decrease in the trading price of the Units from $6.65 at March 31, 2019 to $6.61 at June 30, 2019. The fair value loss of $4,055 for YTD-2019 is due to an increase in the trading price of the Units from $5.66 at December 31, 2018 to $6.61 at June 30, 2019.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

The REIT has selected the fair value method to account for real estate classified as investment property and records properties at their purchase price (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value adjustments in the statement of income and comprehensive income in the quarter in which they occur.

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and direct capitalization method, both of which are generally accepted appraisal methodologies. Fair value is based on, among other things, assumptions of future cash flows in respect of current and future leases, capitalization rates, terminal capitalization rates, discount rates, market rents, tenant inducements and leasing cost assumptions and expected lease renewals. Fair values are supported by a combination of internal financial information, market data and external independent valuations.

The fair value gain was $3,891 for Q2-2019 and was comprised of write offs of $2,390 for capital expenditures, offset by an increase in fair value of $6,281. YTD-2019 fair value gain was $2,271 and was made up of an increase in fair value of $9,715 as a result of increased future cash flows from positive leasing activity completed in YTD-2019, offset by write offs of capital expenditures and capitalized acquisition costs of $7,444.

The key valuation assumptions for the REIT's investment properties as at June 30, 2019 and 2018 are as follows:

	June 30, 2019	**June 30, 2018**
Terminal and direct capitalization rates - range	4.75% to 10.25%	5.00% to 10.25%
Terminal and direct capitalization rate - weighted average	6.39%	6.77%
Discount rates - range	5.75% to 10.25%	6.00% to 10.25%
Discount rate - weighted average	7.14%	7.51%

UNREALIZED GAIN/(LOSS) ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

The REIT holds a number of interest rate swap agreements to effectively fix the interest rate on certain mortgages. These derivative instruments are measured at fair value at each reporting date and changes in the fair value are recognized as an unrealized gain or loss in the statements of income and comprehensive income.

The notional principal amounts of the outstanding interest rate swap contracts at June 30, 2019 were $65,515 (December 31, 2018 – $66,712). Unrealized loss on change in the fair value of the derivative instruments totaled $101 in Q2-2019 ($381 - YTD-2019) compared to $34 in Q2-2018 (unrealized gain $31 - YTD-2018).

FFO AND AFFO

The REIT calculates FFO in accordance with the guidelines set out by Realpac. Reconciliation of net income and comprehensive income determined in accordance with IFRS, to FFO and AFFO is as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Net income and comprehensive income	$ 12,256	$ 1,489	$ 13,608	$ 19,957
Add (deduct):				
Fair value adjustment of Unit-based compensation	(33)	113	408	25
Fair value adjustment of investment properties	(3,891)	4,503	(2,271)	(6,102)
Fair value adjustment of Class B LP Units	(171)	811	4,055	(256)
Distributions on Class B LP Units	634	634	1,268	1,268
Unrealized loss (gain) on change in fair value of derivative instruments	101	34	381	(31)
Amortization of leasing costs and tenant inducements	575	340	963	473
FFO	$ 9,471	$ 7,924	$ 18,412	$ 15,334
Add (deduct):				
Non-cash compensation expense	34	26	$ 60	$ 53
Amortization of financing costs	268	178	521	342
Amortization of mortgage discounts	(8)	2	(17)	2
Instalment note receipts	44	47	89	95
Straight-line rent	283	335	570	373
Capital reserve [(1)]	(929)	(775)	(1,837)	(1,519)
AFFO	$ 9,163	$ 7,737	$ 17,798	$ 14,680
FFO per Unit:				
Basic	$ 0.15	$ 0.15	$ 0.30	$ 0.31
Diluted	$ 0.15	$ 0.15	$ 0.29	$ 0.30
AFFO per Unit:				
Basic	$ 0.15	$ 0.15	$ 0.29	$ 0.29
Diluted	$ 0.15	$ 0.15	$ 0.28	$ 0.29
AFFO payout ratio:				
Basic	100%	100%	103%	101%
Diluted	102%	101%	105%	102%
Distributions declared	$ 9,184	$ 7,737	$ 18,336	$ 14,828
Weighted average Units outstanding (000s):				
Basic	61,807	52,075	61,698	49,947
Add:				
Unexercised Unit options	1,076	656	1,037	650
Diluted	62,883	52,731	62,735	50,597

Notes:

(1) Based on an estimate of $1.00 (2018 - $1.00) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

The REIT's FFO increased $1,547, or 20% in the second quarter and $3,078 YTD-2019, up 20% from the same period in 2018. AFFO increased $1,426 or 18% in Q2-2019 compared to Q2-2018 and $3,118 or 21% YTD-2019 compared to YTD-2018.

FFO and AFFO were positively impacted due to increased NOI attributed to the acquisitions in the latter half of 2018 and in 2019 as well as growth in Same Property NOI. This was offset by an increase in finance costs.

FFO and AFFO basic and diluted per Unit remained steady at $0.15 in Q2-2019 compared to Q2-2018. Year to date FFO basic and diluted per Unit decreased by $0.01 to $0.30 and $0.29, respectively compared to the same period in 2018. YTD-2019 AFFO basic per Unit remained at $0.29 and AFFO diluted per Unit decreased from $0.29 to $0.28. FFO and AFFO per Unit were impacted by termination payments received, project management fees and short term lease rental revenue. Excluding these items in 2018, YTD-2018 AFFO diluted per Unit is $0.28, which is consistent with the current year.

DISTRIBUTIONS

The REIT currently pays monthly distributions of $0.0495 per Unit or $0.594 per Unit on an annualized basis.

The trustees of the REIT ("Trustees") determine the level of cash distributions based on the level of cash flow from operations before working capital changes, less actual and planned capital expenditures. In any given period, distributions may differ from cash provided by operating activities, primarily due to fluctuations in working capital. It is expected that normal fluctuations in working capital will be funded from the REIT's cash resources as described in "Liquidity and Capital Investment". In addition, the distributions declared include a component funded by the REIT's distribution reinvestment plan ("DRIP").

The following table shows the amount of distributions declared, non cash distributions under the DRIP and cash distributions paid by the REIT on both Units and Class B LP Units.

	Three months ended June 30	Six months ended June 30	Years ended December 31	
	2019	2019	2018	2017
Distributions declared	$ 9,184	$ 18,336	$ 33,045	$ 22,544
Less: DRIP	(1,375)	(2,694)	(3,616)	(2,849)
Cash distributions paid	$ 7,809	$ 15,642	$ 29,429	$ 19,695

The following table provides a reconciliation of the REIT's cash flow and adjusted cash flow provided by operating activities to its declared and cash distributions:

	Three months ended June 30	Six months ended June 30	Years ended December 31	
	2019	2019	2018	2017
Net income and comprehensive income	$ 12,256	$ 13,608	$ 49,620	$ 28,746
Cash flow provided by operating activities	12,787	25,991	53,311	30,389
Less: Interest paid	(4,964)	(9,743)	(14,811)	(8,980)
Adjusted cash flow provided by operating activities	7,823	16,248	38,500	21,409
Declared basis:				
Excess (shortfall) of net income and comprehensive income over distributions	3,072	(4,728)	16,575	6,202
Excess (shortfall) of adjusted cash flow provided by operating activities over distributions	(1,361)	(2,088)	5,455	(1,135)
Cash basis:				
Excess (shortfall) of net income and comprehensive income over distributions	4,447	(2,034)	20,191	9,051
Excess of adjusted cash flow provided by operating activities over distributions	14	606	9,071	1,714

For Q2-2019, income and comprehensive income was higher than distributions declared by $3,072 and cash distributions by $4,447, however lower than distributions declared by $4,728 and cash distributions by $2,034 in YTD-2019. The shortfall was primarily due to fair value adjustments on Class B LP Units which is a non-cash adjustment.

Adjusted cash flow provided by operating activities in Q2-2019 was less than declared distributions by $1,361 but exceeded cash distributions by $14 and was lower than declared distributions by $2,088 in YTD-2019 but exceeded cash distributions by $606.

The shortfall was mainly due to the timing of the payments of tenant inducements. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

Adjusted cash flow provided by operating activities represents cash provided by operating activities less interest paid. The reconciliation of adjusted cash flow provided by operating activities to AFFO measures the amount of cash generated by operations and available for distribution to Unitholders. See "Distributions".

	Three months ended June 30		Six months ended June 30	
	2019	**2018**	**2019**	**2018**
Adjusted cash flow provided by operating activities	$ 7,823	$ 8,942	$ 16,248	$ 19,043
Non-cash compensation expense	(19)	(26)	(40)	(46)
Change in finance costs payable	43	21	(34)	(90)
Instalment note receipts	44	47	89	95
Capital reserve	(929)	(775)	(1,837)	(1,519)
Change in non-cash operating working capital	2,201	(472)	3,372	(2,803)
AFFO	$ 9,163	$ 7,737	$ 17,798	$ 14,680

AFFO of $9,163 was less than distributions declared by $21 and exceeded distributions paid by $1,354 in Q2-2019. YTD-2019 AFFO of $17,798 was less than distributions declared by $538 and exceeded distributions paid by $2,156. The REIT expects to be able to fund distributions from adjusted cash flow provided by operating activities on a go forward basis.

CAPITAL RESERVE

The REIT considers many factors when determining an appropriate capital reserve. Items such as, property age and asset class, tenant mix, prior capital investment, lease term, recoverability from tenants and current market conditions are all considered. The REIT also engages independent expert consulting firms to perform a comprehensive property condition assessment prior to the acquisition of a property. The report contains a five or ten year projection of estimated sustaining capital expenditures. The detailed analysis considers the quality of construction, age of the building, use of the property, recent capital expenditures and anticipated future maintenance requirements. The estimates generated by the independent consultants help form the basis for estimating the REIT's on-going reserve. The REIT reviews its capital reserve estimate on an annual basis and makes appropriate adjustments.

The REIT includes a normalized capital reserve adjustment based on historical experience when arriving at AFFO as recoverable and non-recoverable capital expenditures, tenant inducements and leasing costs are fundamental to the operating activities of a real estate company and are not considered discretionary investments. These expenditures are required to preserve rental income and should be taken into consideration when determining the amount of sustainable cash available to fund future distributions. The capital reserve adjustment is an estimate and there is no guarantee that future capital expenditures will reflect historical trends.

LIQUIDITY AND CAPITAL INVESTMENT

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's net cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT ("AIF") dated March 13, 2019. Also see "Risks and Uncertainties".

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, and capital expenditure requirements as they become due and to provide for the future growth of the business. The REIT has a number of financing sources available to fulfill its commitments including: (i) cash flow from operating activities; (ii) mortgage debt secured by investment properties; (iii) the Credit Facilities; and (iv) issuances of debt and equity. Management's objective is to maintain conservative leverage through the use of long term, fixed rate, debt financing. Management also intends to continue to access the equity market and grow through acquisitions thereby strengthening the balance sheet.

The REIT's available funds are as follows:

		June 30, 2019		December 31, 2018
Cash	$	1,698	$	2,492
Undrawn Credit Facilities		37,220		46,200
Available funds	$	38,918	$	48,692

CAPITAL INVESTMENT

The REIT's properties require ongoing capital expenditures and leasing expenditures. Leasing expenditures include the cost of tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in all its properties throughout 2019 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the six months ended June 30, 2019 and 2018, the REIT invested $7,258 and $3,377 respectively, in capital and leasing expenditures.

ASSET PROFILE

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the six months ended June 30, 2019 and 2018:

Balance, December 31, 2017	$ 657,727
Acquisitions	112,733
Additions	3,377
Amortization of leasing costs, tenant inducements, and straight-line rents	911
Fair value adjustment	6,102
Balance at June 30, 2018	780,850
Acquisitions	146,372
Additions	5,540
Dispositions	(15,375)
Amortization of leasing costs, tenant inducements, and straight-line rents	772
Fair value adjustment	9,978
Balance at December 31, 2018	928,137
Acquisitions	25,342
Additions	7,258
Amortization of leasing costs, tenant inducements, and straight-line rents	(656)
Fair value adjustment	2,271
Balance at June 30, 2019	**$ 962,352**

ACQUISITION

During 2019, the REIT acquired a property located at 360 Laurier Avenue West, Ottawa, Ontario for a purchase price of $24,500 plus closing costs. The REIT funded the acquisition from the proceeds of the sale of two industrial properties in 2018 and new mortgage financing. The acquisition has been accounted for as an asset acquisition.

ADDITIONS

Additions to investment properties for the six months ended June 30, 2019 were $7,258, consisting of the following:

- Capital expenditures of $772 mainly for common area renovations, new heating and air-conditioning installations, and lighting upgrades at certain properties; and
- Tenant inducements and leasing costs of $6,486, which include costs incurred to improve space and leasing commissions paid to renew and obtain new tenants.

INSTALMENT NOTES RECEIVABLE

The REIT received non-interest bearing instalment notes from the vendor of certain properties acquired in December 2014. The instalment payments allow the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates, co-terminously with the assumed mortgages. At June 30, 2019 the REIT had $524 in instalment notes receivable compared to $593 at December 31, 2018.

PREPAID EXPENSES AND OTHER ASSETS

At June 30, 2019, the REIT had $3,577 in prepaid expenses and deposits, compared to $2,738 at December 31, 2018. The increase is due to increase in prepaid realty taxes.

DEBT

MORTGAGES PAYABLE

The following table sets out, as at June 30, 2019, scheduled principal repayments and amounts maturing on the REIT's mortgages over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Percentage of total mortgages payable	Weighted average interest rate of maturing debt	Scheduled interest payments
2019 – remainder of year	$ 7,984	$ 27,232	$ 35,216	6.5%	3.42%	$ 9,174
2020	13,719	76,262	89,981	16.5%	3.05%	15,736
2021	12,937	26,737	39,674	7.3%	2.87%	14,302
2022	10,570	155,434	166,004	30.4%	3.31%	11,754
2023	4,199	141,596	145,795	26.7%	3.65%	4,877
Thereafter	7,236	61,310	68,546	12.6%	3.79%	6,633
	$ 56,645	$ 488,571	$ 545,216	100.0%	3.42%	$ 62,476
Unamortized mark to market mortgage adjustments			276			
Unamortized financing costs			(2,664)			
			$ 542,828			

The mortgages have a weighted average fixed interest rate of 3.42% (December 31, 2018 – 3.41%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.43 years (December 31, 2018 – 3.85 years).

CREDIT FACILITIES

The REIT has two credit agreements with two Canadian chartered banks ("Credit Facilities"). The first is a $35,000 floating rate revolving secured credit facility and the second is a $20,000 floating rate revolving unsecured credit facility.

On April 1, 2019, the REIT amended its secured credit facility to increase the amount available from $30,000 to $35,000 with no amendments to the interest rate and maturity date. The $35,000 floating rate revolving secured credit facility bears interest on cash advances at 100 basis points per annum above the prime rate or 205 basis points per annum over the floating banker's acceptance rate. This facility is secured by certain investment properties and matures on February 28, 2020. As at June 30, 2019, $17,780 was drawn from the credit facility (December 31, 2018 - $3,800).

The $20,000 revolving unsecured credit facility bears interest on cash advances at 225 basis points per annum above the prime rate or 325 basis points per annum above the floating bankers' acceptance rate and matures on December 1, 2020. This credit facility was undrawn as at June 30, 2019 and December 31, 2018.

INDEBTEDNESS TO GBV

As at June 30, 2019, the overall leverage, as represented by the ratio of Indebtedness to GBV was 57.7% compared to 56.5% at December 31, 2018. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at June 30, 2019 and December 31, 2018.

	June 30, 2019	December 31, 2018
Total assets	$ 972,059	$ 939,353
Deferred financing costs	4,489	4,158
GBV	$ 976,548	$ 943,511
Mortgages payable	$ 542,828	$ 527,196
Credit Facilities	17,780	3,800
Unamortized financing costs and mark to market mortgage adjustments	2,388	2,464
Indebtedness	$ 562,996	$ 533,460
Indebtedness to GBV	**57.7%**	**56.5%**

The REIT's objectives are to maintain a combination of short, medium and long-term debt appropriate for the overall debt level of the REIT, to extend the current weighted average term to maturity and achieve staggered debt maturities while taking into account the availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time shall the REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more).

Financing costs on mortgages and the Credit Facilities are netted against the related debt and amortized on an effective interest basis over the expected life of the debt.

As at June 30, 2019, 3.2% (December 31, 2018 - 0.7%) of the REIT's debt was at floating rates.

ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

The interest coverage ratio is useful in determining the REIT's ability to service the interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the period. Adjusted EBITDA removes the non-cash impact of fair value changes and non-recurring items from income and comprehensive income.

The following is the reconciliation from income and comprehensive income to Adjusted EBITDA:

	Twelve months ended June 30	
	2019	2018
Net income and comprehensive income	$ 43,271	$ 33,357
Add (deduct):		
Interest expense	18,362	11,711
Fair value adjustment of Unit-based compensation	(6)	246
Transaction costs on sale of investment properties	403	—
Fair value adjustment of investment properties	(12,249)	(10,076)
Fair value adjustment of Class B LP Units	(171)	2,022
Distributions on Class B LP Units	2,536	2,545
Unrealized loss (gain) on change in fair value of derivative instruments	565	(915)
Amortization of leasing costs, tenant inducements, mortgage premium (discounts) and financing costs	2,400	1,322
Adjusted EBITDA	**$ 55,111**	**$ 40,212**

The following is a calculation of interest coverage ratio:

	Twelve months ended June 30	
	2019	2018
Adjusted EBITDA	$ 55,111	$ 40,212
Interest expense	18,362	11,711
Interest coverage ratio	3.00x	3.43x

CLASS B LP UNITS

The Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments – Presentation ("IAS 32") and are classified as fair value through profit or loss financial liabilities under IAS 32. The Class B LP Units are measured at fair value at each reporting period with any changes in fair value recorded in the statements of income and comprehensive income.

The Class B LP Units, together with the related special voting units, have economic and voting rights equivalent, in all material aspects, to Units. They are exchangeable at the option of the holder on a one-for-one basis for Units. Each Class B LP Unit entitles the holder to receive distributions from True North Commercial Limited Partnership equivalent to the distributions such holder would have received if they were holding Units.

As at June 30, 2019 there were 4,268,837 Class B LP Units issued and outstanding. The Class B LP Units were valued at $28,217 as at June 30, 2019 compared to $24,162 as at December 31, 2018. The change in value is due to an increase in the Unit price from $5.66 at December 31, 2018 to $6.61 at June 30, 2019.

There have been no changes in the Class B LP Units outstanding as of August 7, 2019.

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units in the capital of the REIT.

The following table summarizes changes in the Unit capital of the REIT for the six months ended June 30, 2019:

	Units	Amount
Balance at December 31, 2018	57,216,643	$ 341,041
Issuance of Units - non-executive Trustee Unit issuance plan	3,427	23
Issuance of Units - DRIP	429,195	2,694
Issuance of Units - options exercised	2,000	13
Issuance costs	—	(107)
Balance at June 30, 2019	57,651,265	$ 343,664

The number of Units outstanding as of August 7, 2019 is as follows:

Balance at June 30, 2019	57,651,265
Issuance of Units - DRIP	76,299
Balance at August 7, 2019	57,727,564

INCENTIVE UNIT PLAN

On June 10, 2019, the Unitholders approved an incentive trust unit plan (the “Incentive Unit Plan”) to replace the non-executive trustee unit issuance plan and the unit option plan (collectively, the “Plans”). The previous Plans granted Units and options exclusively, whereby the Incentive Unit Plan is comprised of two types of issuances: (i) deferred Units; and (ii) restricted Units, collectively ("Incentive Units").

Deferred Units are granted to the non-executive Trustees as part of the Trustee’s annual board retainer and automatically vest as of the termination date of each Trustee.

The Trustees may, at their discretion, grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, restricted Units, subject to such restrictions (i.e vesting requirements) as the Trustees may impose. No vesting conditions may extend beyond November 30 of the third calender year from grant date.

Compensation expense is recognized in net income and comprehensive income over the vesting period, and fair value adjustments made upon revaluation of the Incentive Units each reporting period are also recorded in net income. The fair value amount of the deferred Units as at June 30, 2019 is $34. No restricted units were issued as at June 30, 2019.

UNIT OPTION PLAN

The total number of Units reserved under the REIT’s Unit-based compensation plan may not exceed 10% of the Units and Class B LP Units outstanding.

On June 10, 2019 this Unit option plan was suspended and no further options will be granted. Options that have or will vest are still eligible to be exercised prior to the applicable expiry dates.

Options outstanding at June 30, 2019 consist of the following:

Exercise price [(1)]	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.15	480,000	480,000	January 8, 2020
$6.04	195,000	129,994	August 5, 2021
$6.28	247,500	164,991	November 14, 2021
$6.17	280,000	93,328	August 11, 2022
$6.44	306,166	101,827	November 16, 2022
$6.43	320,834	105,828	March 9, 2023
$6.66	329,000	—	September 20, 2023
	2,158,500	1,075,968	

(1) In actual dollars.

SHORT FORM BASE SHELF PROSPECTUS

On June 1, 2018, the REIT filed a short-form base shelf prospectus (“Prospectus”). The Prospectus was filed with the securities regulatory authorities in each of the provinces and territories of Canada and is valid for a 25 month period, during which time the REIT may issue the following securities: (i) Units; (ii) preferred Units; (iii) unsecured debt securities; (iv) subscription receipts exchangeable for Units and/or other securities of the REIT; (v) warrants exercisable to acquire Units and/or other securities of the REIT; and (vi) securities comprised of more than one of Units, debt securities, subscription receipts and/or warrants offered together as a Unit, or any combination thereof in amounts, at prices and on terms based on market conditions at the time of sale and set forth in an accompanying prospectus supplement, for an aggregate offering amount of up to $300,000.

For the six months ended June 30, 2019, the REIT did not issue Units under the Prospectus. As at December 31, 2018, the REIT issued 9,012,550 Units for gross proceeds of $57,500 pursuant to the Prospectus.

COMMITMENTS AND CONTINGENCIES

From time to time in the normal course of business, the REIT is involved in litigation and claims in relation to its investment properties. In the opinion of management, none of these, individually or in aggregate, could result in a liability that would have a significant adverse effect on the financial position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

As at June 30, 2019, the REIT had entered into commitments for building renovations totaling $458 (December 31, 2018 - $1,040).

At June 30, 2019, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

Starlight is considered a related party to the REIT as Starlight is controlled by the Chairman of the Board, President and Chief Executive Officer ("CEO") of the REIT, who is also a significant Unitholder.

ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement dated December 14, 2012 ("Asset Management Agreement"), Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the REIT's CEO and Chief Financial Officer ("CFO") and an experienced team of real estate professionals from Starlight.

The Asset Management Agreement has an initial term of ten years and is renewable for successive five-year terms, unless and until the Asset Management Agreement is terminated in accordance with its termination provisions.

Starlight is entitled to the following fees pursuant to the Asset Management Agreement:

(a) Base annual management fee calculated and payable on a monthly basis, equal to 0.35% of the sum of:

- the historical purchase price of properties owned by the REIT; and
- the cost of capital expenditures incurred by the REIT or any of its affiliates in respect of the properties owned by the REIT.

(b) Acquisition fee equal to:

- 1.0% of the purchase price of a property, on the first $100,000 of properties acquired in each fiscal year;
- 0.75% of the purchase price of a property on the next $100,000 of properties acquired in each fiscal year; and
- 0.50% of the purchase price on properties acquired in excess of $200,000 in each fiscal year.

(c) An annual incentive fee is payable by the REIT equal to 15% of the REIT's FFO per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the investment properties are located.

(d) Capital expenditures fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000 excluding work done on behalf of tenants or any maintenance capital expenditures.

In addition, the REIT is required to reimburse Starlight for all reasonable out-of-pocket expenses incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

The following table presents the expenses incurred for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Asset management fees	$ 791	$ 598	$ 1,564	$ 1,164
Acquisition fees	—	831	245	1,059
Other expenses	22	21	46	44
Total	$ 813	$ 1,450	$ 1,855	$ 2,267

At June 30, 2019, $273 (December 31, 2018 - $277) was included in accounts payable and accrued liabilities. No incentive fees were earned or capital expenditure fees were charged for the three and six months ended June 30, 2019 and 2018.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed below and the REIT's annual MD&A dated March 13, 2019 for the year ended December 31, 2018 and in the AIF. The annual MD&A and AIF are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Management is not aware of any significant changes in risks and uncertainties since March 13, 2019.

USE OF ESTIMATES

The preparation of the REIT's condensed consolidated interim financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties management believes will materially affect the methodology or assumptions utilized in making those estimates in its condensed consolidated interim financial statements.

The estimates used in determining the recorded amount for assets and liabilities in the condensed consolidated interim financial statements include the following:

INVESTMENT PROPERTIES

The estimates used when determining the fair value of investment properties are discount, terminal capitalization and capitalization rates and future cash flows. The discount, terminal capitalization and capitalization rates applied are reflective of the characteristics, location and market of the investment property. The future cash flows of an investment property are based upon rental income from current leases and assumptions about occupancy rates and market rents from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value by utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals.

UNIT OPTION PLAN

The estimates used when determining the fair value of the Unit option plan are the average expected Unit option holding period, the average expected volatility rate, and the average risk-free interest rate. The average expected Unit option holding period used is estimated as half the life of the respective option agreement applied to that Unit option upon vesting. The average expected volatility rate applied is estimated based on the historical volatility of the Units. The average risk-free interest rate is based on the Government of Canada bonds with terms consistent with the average expected Unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, some of which are provided by external market data and some through internal financial information. Unit options granted are carried at fair value which is estimated using the Black Scholes option pricing model.

FINANCIAL INSTRUMENTS

Financial assets are classified and measured using one of the following methods: (i) fair value through profit and loss ("FVTPL"); (ii) fair value through other comprehensive income ("FVTOCI") and (iii) amortized cost. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified at FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as FVTOCI are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire. Financial liabilities may be designated at FVTPL upon initial recognition.

Financial assets and liabilities are accounted for based on their classification as described below. Their classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the designation of such instruments.

	Classification
Financial assets:	
Instalment notes receivable	Amortized cost
Derivative instrument	Fair value
Deposits	Amortized cost
Tenant and other receivables	Amortized cost
Restricted cash	Amortized cost
Cash and cash equivalents	Amortized cost
Financial liabilities:	
Mortgages payable	Amortized cost
Class B LP Units	Fair value
Credit facilities	Amortized cost
Tenant rental deposits and prepayments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Unit options	Fair value

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate over the anticipated life of the related instrument. Transaction costs on financial assets and liabilities measured at FVTPL are expensed in the period incurred. Financial assets are derecognized when the contractual rights to the cash flows from financial assets expire or have been transferred.

The fair values of the REIT's instalment notes receivable, deposits, tenant and other receivables, restricted cash and cash and cash equivalents, as well as the Credit Facilities, tenant rental deposits and prepayments, accounts payable and accrued liabilities approximate their recorded values due to their short-term nature.

The fair value of mortgages payable disclosed in the notes to the REIT's condensed consolidated interim financial statements is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage.

Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units. Unit options granted are carried at fair value which is estimated using the Black Scholes option pricing model.

Derivative instruments, such as interest rate swaps, are valued using a valuation technique. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

These fair value estimates may not necessarily be indicative of the amounts that might be paid or received in the future.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The REIT implemented the following new standard effective January 1, 2019.

IFRS 16, LEASES ("IFRS 16"):

The REIT adopted IFRS 16 on January 1, 2019 on a retrospective basis. IFRS 16 supersedes the following accounting standards: IAS 17 Leases, IFRS Interpretations Committee 4 Determining whether an Arrangement contains a Lease, Standards Interpretation Committee ("SIC") - 15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a "right of use" asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 Leases requirements.

The adoption of IFRS 16 did not have a significant impact to the condensed consolidated interim financial statements.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the condensed consolidated interim financial statements for external purposes in accordance with IFRS.

All control systems have inherent limitations, including well-designed and operated systems. No control system can provide complete assurance the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors. As a growing enterprise, management anticipates the REIT will be continually evolving and enhancing its systems of controls and procedures.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

The CEO and CFO evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the three and six months ended June 30, 2019.

The CEO and CFO evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three and six months ended June 30, 2019.

OUTLOOK

The Bank of Canada ("BoC") maintained their overnight lending rate at 1.75% at their July 10, 2019 meeting, in line with analysts and the market's expectations. While this was the BoC's sixth consecutive decision to stand pat, they do so in the face of global sentiment among central banks that interest rates have peaked, and need to start coming down again in the face of persistently slowing economies. Most other major global economies have telegraphed that they will be lowering rates before the end of 2019.

While the Canadian economy did post stronger growth in the second quarter than expected, this return to forecast growth was primarily a result of temporary factors from previous quarters which are no longer affecting GDP. Increased oil production and the removal of weather-related slowdowns, combined with a solid labour market, stabilizing housing conditions, and falling long term mortgage rates have been positive for the Canadian economy.

Inflation remains within the targeted range, at 1.8%, a revision downward from the previous estimate of 1.9%, and it is expected that in the foreseeable future only fluctuating gasoline prices will have any material effect on inflation.

Broadly, the state of the office market in Canada remains exceptionally strong, with record low downtown vacancy rates in major markets having spillover effects into near-urban and suburban office nodes, directly benefiting the REIT's assets. For example, downtown Toronto has a vacancy rate of 2.6%, a scarcity which is creating demand and opportunity for near-urban nodes, where the REIT has assets, which have historically faced persistent double-digit vacancy. North-Yonge submarket vacancy has dropped 25% to 9.1% in 6 months and Toronto East is seeing a decline of 10%. Ottawa, with class A vacancy downtown at 4.4%, is seeing record low availabilities in the suburbs, with Kanata posting vacancy rates below 7% for the first time in over a decade.

Further supporting the drop in suburban and near-urban vacancy is a lack of new construction in these markets. While the country continues to have record new development in Central Business Districts (5.4% of inventory nationally), there is no corresponding activity outside the core. Nationally, with no new supply coming on-line, Suburban assets have seen a 2% decline in vacancy to 13.1%, with Vancouver leading at 6.1%. This trend supports the leasing initiatives and rental rate increases at the REIT's properties, evidenced in recent transactions.

Echoing our conclusion in the previous quarter, the BoC's stance on the overnight rate likely heading lower in 2020 is positive for the REIT in that borrowing rates are likely to remain favourable for the foreseeable future. Management maintains our view that overall real estate fundamentals will continue to be solid as Canada remains a strong and stable economy, and a safe-haven for global capital.

Management remains focused on improving revenue and NOI through active portfolio management, maintaining strong tenant relationships and utilizing leasing optimization tactics. Management is also focused on further diversifying the geographic concentration of the portfolio through accretive acquisitions. Management believes the geographic diversification of the property portfolio will serve to add stability to the REIT's cash flow as it reduces the REIT's vulnerability to economic fluctuations affecting any particular region in Canada.

Additional information relating to the REIT including the REIT's annual information form, can be found on SEDAR at www.sedar.com.

Dated: August 7, 2019
Toronto, Ontario, Canada