TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2019

March 3, 2020

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") dated March 3, 2020 for the years ended December 31, 2019 and 2018 should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 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 and investment properties (“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 this non-IFRS measure to be an important measure of the REIT's recurring earnings.

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 and incentive Units of the REIT.

NOI is defined by the REIT as rental revenue from property operations less property operating costs and realty 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 owned for an entire quarter or annual reporting period in both the current and comparative period. Adjustments are made to Same Property 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.

TABLE OF CONTENTS

BASIS OF PRESENTATION

The REIT's annual audited consolidated financial statements for the years ended December 31, 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 months and year ended December 31, 2019 ("Q4-2019") and ("YTD-2019"), respectively, three months and year ended December 31, 2018 ("Q4-2018") and ("YTD-2018"), respectively, and three months ended September 30, 2019 ("Q3-2019").

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 December 31, 2019, the REIT owned and operated a portfolio of 49 office properties across Canada consisting of approximately 4.8 million square feet.

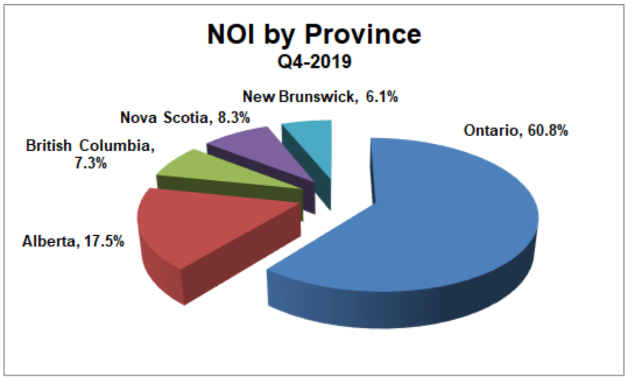
The objectives of the REIT are to:

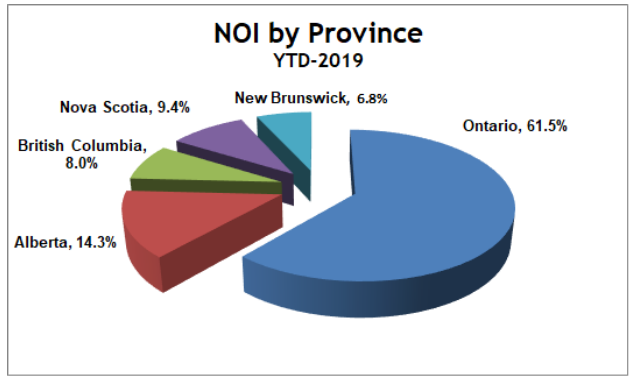
- generate stable cash distributions on a tax-efficient basis;
- expand the asset base of the REIT and increase its distributable cash flow through acquisitions of commercial rental properties across Canada and such other jurisdictions where opportunities exist; and
- enhance the value of the REIT's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

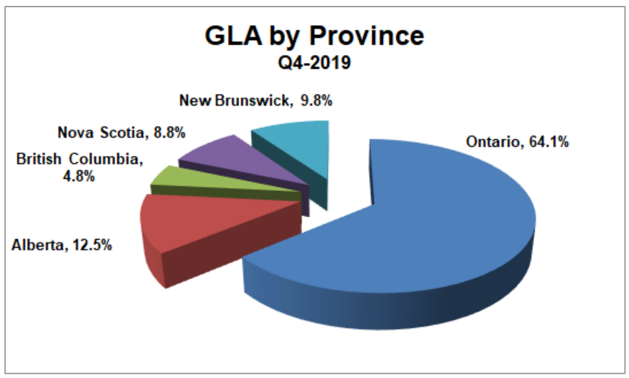
The REIT seeks to identify potential acquisitions using investment criteria that focus on the security of cash flow, capital appreciation, value enhancement through more efficient management of the assets being acquired and growth of FFO and AFFO per Unit.

PORTFOLIO OVERVIEW

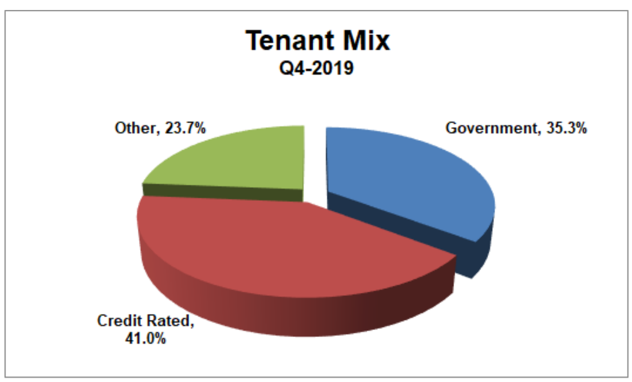
COMPOSITION BY GEOGRAPHIC REGION







TENANT MIX



The tenant mix is based on annualized gross revenue.

PORTFOLIO SUMMARY

At December 31, 2019, the REIT's portfolio was comprised of 49 office properties totaling approximately 4.8 million square feet of gross leasable area ("GLA"). The following tables highlight certain information about the REIT's properties as at December 31, 2019:

Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
Alberta				
855 8th Avenue SW	Calgary	100%	1.6 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	94%	5.0 years	77,600
1020 68th Avenue NE	Calgary	100%	4.0 years	148,400
3699 63rd Avenue NE	Calgary	100%	8.9 years	209,400
13140 St. Albert Trail	Edmonton	69%	4.3 years	95,200
British Columbia				
810 Blanshard Street	Victoria	100%	5.1 years	34,400
727 Fisgard Street	Victoria	100%	9.2 years	50,100
9200 Glenlyon Parkway	Burnaby	100%	7.1 years	90,600
32071 South Fraser Way	Abbotsford	100%	4.8 years	52,300
New Brunswick				
500 Beaverbrook Court	Fredericton	96%	2.8 years	55,600
295 Belliveau Avenue	Shediac	100%	2.1 years	42,100
410 King George Highway	Miramichi	60%	2.4 years	73,600
551 King Street	Fredericton	100%	2.6 years	85,300
495 Prospect Street	Fredericton	99%	2.3 years	85,100
845 Prospect Street	Fredericton	100%	2.2 years	39,000
414-422 York Street	Fredericton	86%	4.1 years	33,600
440-470 York Street	Fredericton	89%	3.0 years	60,100
Nova Scotia				
36 & 38 Solutions Drive	Halifax	99%	3.9 years	129,200
120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	90%	4.3 years	297,300

[1] Weighted by annualized gross revenue.

Property Name	City	Occupancy	Remaining Lease Term [1]	GLA
Ontario				
1595 16th Avenue	Richmond Hill	100%	2.0 years	120,200
251 Arvin Avenue	Hamilton	100%	4.5 years	6,900
61 Bill Leathem Drive	Ottawa	100%	3.1 years	148,100
777 Brock Road	Pickering	100%	3.2 years	98,900
400 Carlingview Drive	Toronto	100%	8.2 years	26,800
6865 Century Avenue	Mississauga	100%	3.5 years	63,800
6925 Century Avenue	Mississauga	100%	7.0 years	252,500
675 Cochrane Drive	Markham	98%	4.5 years	368,900
1161 Crawford Drive	Peterborough	100%	2.2 years	32,500
197-199 Dundas Street	London	40%	1.9 years	20,200
520 Exmouth Street	Sarnia	100%	1.9 years	34,700
529-533 Exmouth Street	Sarnia	100%	2.2 years	15,400
5900 Explorer Drive	Mississauga	100%	1.7 years	40,000
3115 Harvester Road	Burlington	100%	2.7 years	78,800
135 Hunter Street East	Hamilton	100%	3.6 years	24,400
340 Laurier Avenue West	Ottawa	99%	0.9 years	279,100
360 Laurier Avenue West	Ottawa	100%	2.8 years	107,100
400 Maple Grove Road	Ottawa	100%	4.7 years	107,200
101 McNabb Street	Markham	100%	6.7 years	315,400
78-90 Meg Drive	London	100%	5.4 years	11,300
301 & 303 Moodie Drive	Ottawa	95%	5.4 years	148,700
8 Oakes Avenue	Kirkland Lake	100%	2.2 years	41,000
5160 Orbitor Drive	Mississauga	100%	10.3 years	31,400
534 Queens Avenue	London	100%	1.5 years	19,000
231 Shearson Crescent	Cambridge	100%	4.4 years	60,600
6 Staples Avenue	Richmond Hill	100%	13.8 years	122,000
2300 St. Laurent Boulevard	Ottawa	100%	5.2 years	37,500
3650 Victoria Park Avenue	Toronto	96%	3.6 years	154,500
80 Whitehall Drive	Markham	100%	9.9 years	60,800
5775 Yonge Street	Toronto	100%	4.6 years	274,100
Average/Total		97%	4.7 years	4,836,400

[1] Weighted by annualized gross revenue.

TENANT PORTFOLIO

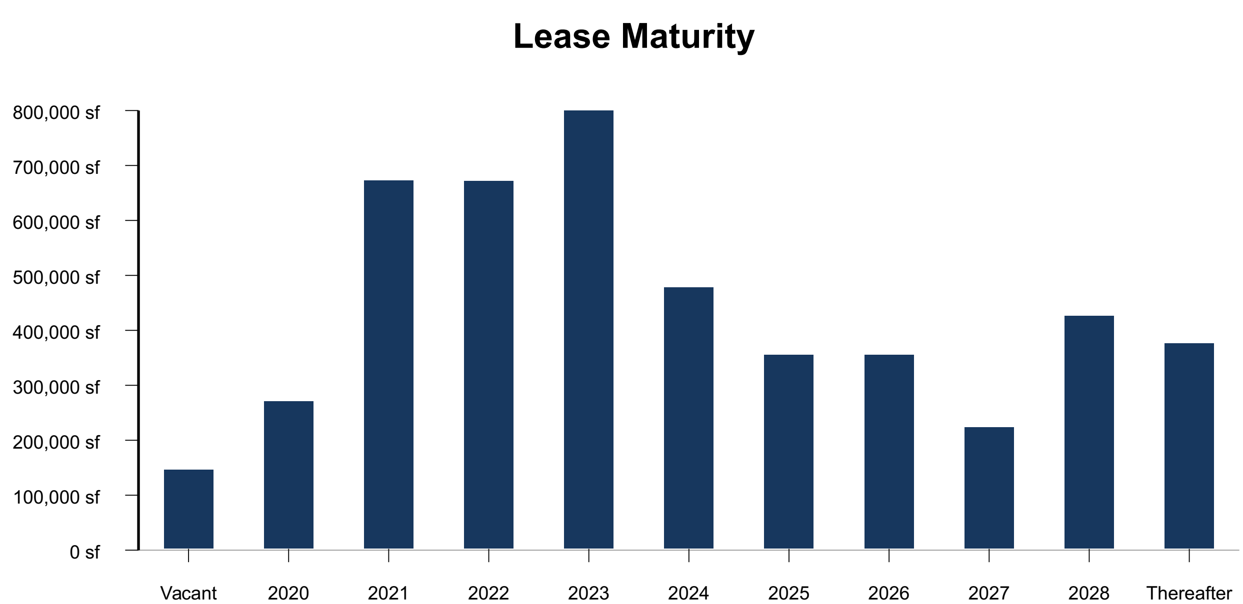
The REIT's 10 largest tenants as at December 31, 2019 were as follows:

Tenant	% of Gross Revenue	GLA	Remaining Lease Term [1]
Federal Government of Canada	14.4%	662,400	1.9 years
Province of Alberta	9.5%	394,200	6.5 years
Province of Ontario	7.1%	316,200	3.5 years
TD Insurance	5.7%	275,600	5.1 years
Golder Associates Ltd.	3.7%	148,300	8.2 years
General Motors of Canada Company	3.6%	154,800	6.7 years
Province of New Brunswick	2.4%	172,400	2.8 years
Stantec Consulting Ltd.	2.3%	105,100	2.7 years
Lumentum Ottawa Inc.	2.2%	148,100	3.1 years
LMI Technologies Inc.	2.0%	90,600	7.1 years
	52.9%	2,467,700	4.4 years

(1) Weighted by annualized gross revenue.

LEASE ROLLOVER PROFILE

As at December 31, 2019 the lease rollover profile of the REIT was as follows:



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

FOURTH QUARTER AND YEAR TO DATE HIGHLIGHTS AND KEY PERFORMANCE INDICATORS

In Q4-2019, the REIT continued to execute on its growth strategy with the acquisition of four high quality, Class "A" office properties, three in the GTA and one in Calgary, Alberta. The acquisitions totaled 1,146,200 square feet with a combined purchase price of approximately $395,800 plus closing costs. As a result, the REIT's revenue and NOI increased 18% and 19% compared to the same period in 2018. The REIT completed a Unit offering totaling 11,638,000 Units for aggregate gross proceeds of approximately $80,535 on November 18, 2019. The net proceeds along with the offering completed on September 12, 2019 were used to fund the four acquisitions in Q4-2019.

Results were negatively impacted as a result of the timing differential between the September and November 2019 Unit offerings and the deployment of funds into property acquisitions in late Q4-2019.

	Three months ended December 31		Years ended December 31		
	2019	2018	2019	2018	2017
Portfolio					
Number of properties			49	45	39
Portfolio GLA			4,836,400 sf	3,615,050 sf	2,954,100 sf
Occupancy rate			97%	97%	95%
Remaining weighted average lease term			4.7 years	4.3 years	4.2 years
Revenue from government and credit-rated tenants			76%	79%	80%
Financial					
Revenue	$ 29,533	$ 24,947	$ 106,457	$ 87,068	$ 56,014
NOI	17,122	14,441	62,065	51,307	34,538
Net income and comprehensive income	1,425	19,663	24,178	49,620	28,746
Same Property NOI	14,626	14,349	45,618	45,056	24,306
Same Property NOI growth	1.9%	(1.6)%	1.2%	(2.5)%	1.6%
FFO	$ 11,110	$ 8,855	$ 39,122	$ 32,747	$ 23,070
FFO per Unit - Basic	0.14	0.14	0.58	0.59	0.62
FFO per Unit - Diluted	0.14	0.14	0.57	0.59	0.61
AFFO	$ 10,886	$ 8,569	$ 38,214	$ 31,575	$ 22,382
AFFO per Unit - Basic	0.13	0.14	0.57	0.57	0.60
AFFO per Unit - Diluted	0.13	0.14	0.56	0.57	0.59
AFFO payout ratio - Diluted	112%	107 %	106%	105 %	100%
Distributions declared	$ 12,449	$ 9,122	$ 40,609	$ 33,045	$ 22,544
Excluding timing differential dilution					
FFO per Unit - Basic	$ 0.16		$ 0.61		
FFO per Unit - Diluted	0.15		0.60		
AFFO per Unit - Basic	$ 0.15		$ 0.59		
AFFO per Unit - Diluted	0.15		0.58		
AFFO payout ratio - Diluted	98%		102%		

Key Debt Metrics

	December 31, 2019	December 31, 2018
Indebtedness to GBV ratio	57.6%	56.5%
Interest coverage ratio	3.01x	3.19x
Indebtedness - weighted average fixed interest rate	3.38%	3.41%
Indebtedness - weighted average term to maturity	3.87 years	3.85 years

As at September 30, 2019, Indebtedness to GBV ratio was 52.0% due to cash on hand from the September 2019 Unit offering. During Q4-2019, the funds were deployed into property acquisitions resulting in Indebtedness to GBV of 57.6% as at December 31, 2019.

ACQUISITIONS

The REIT acquired the following office properties during Q4-2019:

Property Name	Location	Acquisition Date	Occupancy	GLA	Purchase Price	Mortgage	Interest Rate	Mortgage Term
3699 63rd Avenue NE	Calgary, AB	November 4, 2019	100%	209,400	$100,500	$65,325	3.66%	7 years
101 McNabb Street (1)	Markham, ON	November 15, 2019	100%	315,400	90,000	63,000	3.27%	5 years
6925 Century Avenue	Mississauga, ON	December 12, 2019	100%	252,500	87,500	56,875	3.32%	5 years
675 Cochrane Drive	Markham, ON	December 18, 2019	98%	368,900	117,800	76,570	2.99%	5 years
Total					$395,800			

(1) The purchase price was partially satisfied by the issuance of 2,148,904 Units to the vendor of the property for an aggregate amount of $15,000.

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 in 2018 and mortgage financing of $17,000 with an annual interest rate of 3.81% for a five-year term.

DISPOSITION

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.

UNIT OFFERINGS

On November 18, 2019, the REIT issued 11,638,000 Units at a price of $6.92 per Unit, including 1,518,000 Units issued on the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $80,535.

On September 12, 2019, the REIT issued 12,201,500 Units at a price of $6.60 per Unit, including 1,591,500 Units issued on the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $80,530.

LEASING ACTIVITIES

During Q4-2019, the REIT contractually leased and renewed 140,557 square feet with an average increase of approximately 6% over expiring rates. This included a new Alberta government tenant at 13140 St. Albert Trail, Edmonton, Alberta totaling 10,368 square feet for five years and an early lease renewal with a credit rated tenant at 6865 Century Avenue, Mississauga, Ontario. The renewal, totaling 34,332 square feet, extends the tenant's occupancy for a further three years.

Overall in 2019, the REIT contractually leased and renewed 394,479 square feet with an average lease term of 4.9 years with an average increase of approximately 8% over expiring rates.

QUARTERLY INFORMATION

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

	Q4-19	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Revenue	$ 29,533	$ 25,668	$ 25,489	$ 25,767	$ 24,947	$ 22,501	$ 19,902	$ 19,718
Property operating costs	(12,411)	(10,696)	(10,338)	(10,947)	(10,506)	(9,196)	(7,967)	(8,092)
NOI	17,122	14,972	15,151	14,820	14,441	13,305	11,935	11,626
General and administration expenses	(1,498)	(1,387)	(1,041)	(1,608)	(644)	(783)	(854)	(819)
Finance costs	(5,698)	(5,053)	(5,181)	(5,100)	(4,836)	(4,169)	(3,610)	(3,442)
Transaction costs on sale of investment properties	—	(581)	—	—	(403)	—	—	—
Distributions on Class B LP Units	(613)	(634)	(634)	(634)	(634)	(634)	(634)	(634)
Fair value adjustment of Class B LP Units	(1,555)	(1,323)	171	(4,226)	4,140	86	(811)	1,067
Fair value adjustment of investment properties	(6,081)	3,195	3,891	(1,620)	7,913	2,065	(4,503)	10,605
Unrealized gain (loss) on change in fair value of derivative instruments	(252)	(44)	(101)	(280)	(314)	130	(34)	65
Net income and comprehensive income for the period	$ 1,425	$ 9,145	$ 12,256	$ 1,352	$ 19,663	$ 10,000	$ 1,489	$ 18,468
FFO per Unit - basic	$ 0.14	$ 0.15	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.15	$ 0.16
AFFO per Unit - basic	$ 0.13	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.14	$ 0.15	$ 0.15
AFFO per Unit - diluted	$ 0.13	$ 0.15	$ 0.15	$ 0.14	$ 0.14	$ 0.14	$ 0.15	$ 0.14
AFFO payout ratio - basic	111 %	101%	100%	106%	106%	106%	100%	102%
AFFO payout ratio - diluted	112%	102%	102%	108%	107%	107%	101%	104%
Number of investment properties	49	45	46	46	45	45	41	40

Revenue, property operating costs and NOI increased compared to the previous quarter as the REIT completed four acquisitions during Q4-2019. In addition to the acquisitions, operating costs increased due to higher utility expenses and seasonal costs. NOI was positively impacted by the acquisitions, partially offset by the disposition of 417 Exeter Road in July 2019.

Basic and diluted FFO and AFFO per Unit were negatively impacted during the quarter as a result of the timing differential between the September and November 2019 Unit offerings and the deployment of funds into property acquisitions in late Q4-2019. This impacted the REIT's quarterly metrics as the results were based on a larger number of Units outstanding without the immediate benefit of increased NOI generated from property acquisitions. Excluding this dilution, basic FFO per Unit would be $0.16, basic and diluted AFFO per Unit would be $0.15 and basic and diluted AFFO payout ratio would be 97% and 98%, respectively.

General and administration expenses increased compared to the previous quarter due to an increase in asset management fees and fair value adjustment of Unit options. Finance costs increased in Q4-2019 compared to Q3-2019 due to additional debt associated with the acquisitions completed during the quarter.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three months and years ended December 31, 2019 and 2018 are summarized below.

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Revenue	$ 29,533	$ 24,947	$ 106,457	$ 87,068
Expenses:				
Property operating costs	(7,860)	(6,491)	(27,394)	(21,653)
Realty taxes	(4,551)	(4,015)	(16,998)	(14,108)
NOI	$ 17,122	$ 14,441	$ 62,065	$ 51,307
Other income (expenses):				
General and administration expenses	(1,498)	(644)	(5,534)	(3,100)
Finance costs	(5,698)	(4,836)	(21,032)	(16,057)
Transaction costs on sale of investment properties	—	(403)	(581)	(403)
Distributions on Class B LP Units	(613)	(634)	(2,515)	(2,536)
Fair value adjustment of Class B LP Units	(1,555)	4,140	(6,933)	4,482
Fair value adjustment of investment properties	(6,081)	7,913	(615)	16,080
Unrealized loss on change in fair value of derivative instruments	(252)	(314)	(677)	(153)
Net income and comprehensive income	$ 1,425	$ 19,663	$ 24,178	$ 49,620

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 increased its portfolio by four properties totaling 1,218,100 square feet during 2019. Revenue and operating costs increased 18% and NOI increased 19% from Q4-2018. YTD-2019 revenue increased 22%, operating costs increased 24% and NOI increased 21% from YTD-2018. The increase is attributed to the REIT's acquisition activity as well as Q4-2019 and YTD-2019 Same Property NOI growth of 1.9% and 1.2%, respectively.

Occupancy for the portfolio remained stable at 97% during the year.

SAME PROPERTY ANALYSIS

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

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Number of properties	42	42	36	36
Revenue	$ 23,856	$ 23,798	$ 72,879	$ 73,077
Expenses:				
Property operating	(6,618)	(6,288)	(19,600)	(18,457)
Realty taxes	(3,913)	(3,874)	(12,085)	(11,808)
NOI	$ 13,325	$ 13,636	$ 41,194	$ 42,812
Add:				
Amortization of leasing costs and tenant inducements	674	306	2,144	939
Straight-line rent	627	407	2,280	1,305
Same Property NOI	$ 14,626	$ 14,349	$ 45,618	$ 45,056

Same Property Occupancy

	As at December 31	
	2019	2018
Alberta	91.4%	97.8%
British Columbia	100.0%	100.0%
New Brunswick	90.8%	91.1%
Nova Scotia	92.4%	96.0%
Ontario	98.6%	97.2%
Total	96.0%	96.4%

Same Property NOI

	Three months ended December 31			
	2019	2018	Variance	Variance %
Alberta	$ 2,080	$ 2,023	$ 57	2.8%
British Columbia	762	723	39	5.4%
New Brunswick	1,188	1,130	58	5.1%
Nova Scotia	1,568	1,476	92	6.2%
Ontario	9,028	8,997	31	0.3%
	$ 14,626	$ 14,349	$ 277	1.9%

Q4-2019 and YTD-2019 Same Property NOI increased 1.9% and 1.2%, respectively, compared to the same period in 2018. Excluding termination payments, project management fees and short term lease rental revenue, Same Property NOI increased by 1.5% and 1.1% in the quarter and year to date, respectively.

The Alberta Same Property NOI increase is due to termination payments received in 2019, which coincides with the decrease in occupancy. 10,368 square feet of the 39,549 square feet currently vacant has been leased to the Province of Alberta with rents commencing in Q2-2020.

Same Property NOI growth in British Columbia and Nova Scotia was favourable due to increased revenue from contractual rent step ups. Occupancy in the New Brunswick portfolio increased from 90.0% in Q3-2019 to 90.8% in Q4-2019 resulting in increased Same Property NOI for the quarter.

Excluding project management fees, Same Property NOI for the Ontario portfolio increased 1.3% during Q4-2019. Increased occupancy and contractual rent step-ups have contributed to this Same Property NOI growth.

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 incentive trust Unit plan and other general and administrative expenses. 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 $854 or 133% in Q4-2019 and $2,434 or 79% in YTD-2019 compared to the same period in 2018 due to increases in asset management fees as a result of portfolio growth and the change in the fair value of Unit options of $510 in Q4-2019 and $1,365 in YTD-2019.

FINANCE COSTS

The REIT's finance costs for the three months and years ended December 31, 2019 and 2018 are summarized below. Finance costs exclude cash distributions and fair value adjustments on Class B LP Units.

	Three months ended December 31		Years ended December 31	
	2019	2018	2019	2018
Interest on mortgages payable	$ 5,362	$ 4,510	$ 19,353	$ 15,050
Other interest expense and standby fees	68	105	636	243
Amortization of mortgage discounts (premiums)	(6)	(2)	(29)	2
Amortization of financing costs	274	223	1,072	762
Total finance costs	$ 5,698	$ 4,836	$ 21,032	$ 16,057

The increase in interest on mortgages payable in Q4-2019 and YTD-2019 is due to additional borrowing associated with the acquisitions in 2019.

Other interest expense and standby fees relate to costs incurred on the REIT's credit facilities. The credit facilities were undrawn for the majority of Q4-2019, resulting in lower expenses compared to the same period in 2018. YTD-2019 expenses increased by $393 due to the REIT's increased level of borrowing on the REIT's secured credit facility and standby fees associated with the REIT's unsecured credit facility obtained in December 2018.

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 $613 in Q4-2019 ($634 - Q4-2018) and $2,515 in YTD-2019 ($2,536 - YTD-2018). The decrease in distributions for Q4-2019 and YTD-2019 is due to the conversion of 412,655 Class B LP Units to Units on December 17, 2019.

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 loss of $1,555 in Q4-2019 is due to an increase in the trading price of the Units from $6.92 at September 30, 2019 to $7.29 at December 31, 2019. The fair value loss of $6,933 in YTD-2019 is due to an increase in the trading price of the Units from $5.66 at December 31, 2018 to $7.29 at December 31, 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 loss of $6,081 for Q4-2019 ($615 - YTD-2019) was comprised of an increase in fair value of $7,518 ($22,780 - YTD-2019) as a result of increased future cash flows from positive leasing activity and rent step-ups, offset by the write-off of $13,599 ($23,395 - YTD-2019) of capital expenditures and acquisition costs.

The key valuation assumptions for the REIT's investment properties as at December 31, 2019 and 2018 are as follows:

	2019	**2018**
Terminal and direct capitalization rates - range	4.75% to 10.25%	5.00% to 10.25%
Terminal and direct capitalization rate - weighted average	6.36%	6.45%
Discount rates - range	5.75% to 10.25%	5.75% to 10.25%
Discount rate - weighted average	7.13%	7.26%

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 December 31, 2019 were $129,488 ($66,712 - December 31, 2018). Unrealized loss on change in the fair value of the derivative instruments totaled $252 in Q4-2019 ($677 - YTD-2019) compared to unrealized loss of $314 in Q4-2018 ($153 - 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 December 31		Years ended December 31	
	2019	2018	2019	2018
Net income and comprehensive income	$ 1,425	$ 19,663	$ 24,178	$ 49,620
Add (deduct):				
Fair value adjustment of Unit-based compensation	510	(415)	1,365	(389)
Transaction costs on sale of investment property	—	403	581	403
Fair value adjustment of investment properties	6,081	(7,913)	615	(16,080)
Fair value adjustment of Class B LP Units	1,555	(4,140)	6,933	(4,482)
Distributions on Class B LP Units	613	634	2,515	2,536
Unrealized loss on change in fair value of derivative instruments	252	314	677	153
Amortization of leasing costs and tenant inducements	674	309	2,258	986
FFO	$ 11,110	$ 8,855	$ 39,122	$ 32,747
Add (deduct):				
Non-cash compensation expense	43	26	142	106
Amortization of financing costs	274	223	1,072	762
Amortization of mortgage discounts	(6)	(2)	(29)	2
Instalment note receipts	30	45	153	186
Straight-line rent	467	377	1,556	1,107
Capital reserve [(1)]	(1,032)	(955)	(3,802)	(3,335)
AFFO	$ 10,886	$ 8,569	$ 38,214	$ 31,575
FFO per Unit:				
Basic	$ 0.14	$ 0.14	$ 0.58	$ 0.59
Diluted	$ 0.14	$ 0.14	$ 0.57	$ 0.59
AFFO per Unit:				
Basic	$ 0.13	$ 0.14	$ 0.57	$ 0.57
Diluted	$ 0.13	$ 0.14	$ 0.56	$ 0.57
AFFO payout ratio:				
Basic	111 %	106%	105%	104%
Diluted	112%	107%	106%	105%
Distributions declared	$ 12,449	$ 9,122	$ 40,609	$ 33,045
Weighted average Units outstanding (000s):				
Basic	81,244	61,387	67,344	55,204
Add:				
Unexercised Unit options	983	265	1,054	571
Diluted	82,227	61,652	68,398	55,775
Excluding timing differential dilution:				
FFO per Unit:				
Basic	$ 0.16		$ 0.61	
Diluted	$ 0.15		$ 0.60	
AFFO per Unit:				
Basic	$ 0.15		$ 0.59	
Diluted	$ 0.15		$ 0.58	
AFFO payout ratio:				
Basic	97%		100%	
Diluted	98%		102%	

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 increase in FFO and AFFO in Q4-2019 and YTD-2019 compared to the same period in 2018 is mainly attributable to the acquisitions in 2019 and 2018, as well as Same Property NOI growth of 1.9% and 1.2%, respectively, offset by the dispositions in late 2018 and Q3-2019. Basic and diluted FFO and AFFO per Unit were negatively impacted during the quarter and year to date as a result of the timing differential between the September and November 2019 Unit offerings and the deployment of funds into property acquisitions in late Q4-2019. This impacted the REIT's quarterly and year to date metrics as the results were based on a larger number of Units outstanding without the immediate benefit of increased NOI generated from property acquisitions.

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 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 December 31	Years ended December 31		
	2019	**2019**	**2018**	**2017**
Distributions declared	$ 12,449	$ 40,609	$ 33,045	$ 22,544
Less: DRIP	(1,705)	(5,850)	(3,616)	(2,849)
Cash distributions paid	$ 10,744	$ 34,759	$ 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 December 31	Years ended December 31		
	2019	**2019**	**2018**	**2017**
Net income and comprehensive income	$ 1,425	$ 24,178	$ 49,620	$ 28,746
Cash flow provided by operating activities	18,258	58,594	53,311	30,389
Less: Interest paid	(5,250)	(19,805)	(14,811)	(8,980)
Adjusted cash flow provided by operating activities	13,008	38,789	38,500	21,409
Declared basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(11,024)	(16,431)	16,575	6,202
Excess (shortfall) of adjusted cash flow provided by operating activities over distributions	559	(1,820)	5,455	(1,135)
Cash basis:				
Excess (shortfall) of net income and comprehensive income over distributions	(9,319)	(10,581)	20,191	9,051
Excess of adjusted cash flow provided by operating activities over distributions	2,264	4,030	9,071	1,714

Net income and comprehensive income was lower than distributions declared during the quarter by $11,024 ($16,431 - YTD-2019) and cash distributions by $9,319 ($10,581 - YTD-2019). The shortfall was primarily due to the fair value adjustments on Class B LP Units and investment properties which are non-cash adjustments.

Adjusted cash flow provided by operating activities in Q4-2019 exceeded declared distributions by $559 and cash distributions by $2,264, and was lower than declared distributions by $1,820 in YTD-2019 but exceeded cash distributions by $4,030. The shortfall was mainly due to the timing of the payments of leasing costs and 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 December 31		Years ended December 31	
	2019	2018	2019	2018
Adjusted cash flow provided by operating activities	$ 13,008	$ 11,544	$ 38,789	$ 38,500
Non-cash compensation expense	123	(25)	65	(95)
Change in finance costs payable	(180)	(128)	(184)	(482)
Instalment note receipts	30	45	153	186
Capital reserve	(1,032)	(955)	(3,802)	(3,335)
Change in non-cash operating working capital	(1,063)	(1,912)	3,193	(3,199)
AFFO	$ 10,886	$ 8,569	$ 38,214	$ 31,575

AFFO of $10,886 was less than distributions declared by $1,563 and exceeded distributions paid by $142 in Q4-2019. YTD-2019 AFFO of $38,214 was less than distributions declared by $2,395 and exceeded distributions paid by $3,455. The distributions were based on larger number of Units outstanding without the immediate benefit of increased AFFO generated from acquisitions due to the timing differential between the two Unit offerings in 2019 and deployment of funds into acquisitions. 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 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. The REIT reviews its capital reserve estimate on an annual basis and makes appropriate adjustments based on the above factors.

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 3, 2020. 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) 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:

	December 31, 2019	December 31, 2018
Cash	$ 5,669	$ 2,492
Undrawn Credit Facilities	55,000	46,200
Available funds	$ 60,669	$ 48,692

CAPITAL INVESTMENT

The REIT's properties require ongoing capital expenditures and leasing expenditures. Leasing expenditures include 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 its properties throughout 2020 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the years ended December 31, 2019 and 2018, the REIT invested $14,441 and $8,917 respectively, in capital and leasing expenditures.

ASSET PROFILE

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the years ended December 31, 2019 and 2018:

Balance at December 31, 2017	$ 657,727
Acquisitions	259,105
Additions	8,917
Dispositions	(15,375)
Amortization of leasing costs, tenant inducements and straight-line rents	1,683
Fair value adjustment	16,080
Balance at December 31, 2018	**928,137**
Acquisitions	430,794
Additions	14,441
Dispositions	(8,700)
Amortization of leasing costs, tenant inducements and straight-line rents	(1,540)
Fair value adjustment	(615)
Balance at December 31, 2019	**$ 1,362,517**

ACQUISITIONS & DISPOSITIONS

During 2019, the REIT acquired five properties for an aggregate purchase price of $420,300 plus closing costs and disposed of one property for a sale price of $8,700. The REIT funded the acquisitions from cash on hand, the proceeds of the two Unit offerings, and new mortgage financing. The acquisitions have been accounted for as asset acquisitions.

ADDITIONS

Additions to investment properties for the year ended December 31, 2019 were $14,441, consisting of the following:

- Capital expenditures of $3,197 mainly for common area renovations, lighting upgrades, and roof replacements at certain properties; and
- Tenant inducements and leasing costs of $11,244 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 December 31, 2019, the REIT had $400 in instalment notes receivable compared to $593 at December 31, 2018.

The scheduled principal and imputed interest payments on the instalment notes are as follows:

	Principal receipts	Imputed interest receipts
2020	$ 83	$ 33
2021	72	35
2022	62	36
2023	54	37
2024	47	36
Thereafter	82	76
	$ 400	$ 253

PREPAID EXPENSES AND DEPOSITS

At December 31, 2019, the REIT had $3,202 in prepaid expenses and deposits, compared to $2,738 at December 31, 2018. The increase is due to an increase in prepaid realty taxes.

DEBT

MORTGAGES PAYABLE

The following table sets out, as at December 31, 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
2020	$ 20,315	$ 91,925	$ 112,240	14.1%	3.09%	$ 24,257
2021	20,018	23,247	43,265	5.4%	2.82%	22,837
2022	18,050	155,434	173,484	21.8%	3.31%	20,180
2023	11,929	141,596	153,525	19.3%	3.65%	13,053
2024	10,189	79,394	89,583	11.3%	3.39%	10,077
Thereafter	9,112	214,647	223,759	28.1%	3.40%	8,534
	$ 89,613	$ 706,243	$ 795,856	100.0%	3.38%	$ 98,938
Unamortized mark to market mortgage adjustments			252			
Unamortized financing costs			(3,525)			
			$ 792,583			

After giving effect to the instalment notes receipts, mortgages payable have a weighted average fixed interest rate of 3.38% (December 31, 2018 – 3.41%) and a weighted average term to maturity of 3.87 years (December 31, 2018 – 3.85 years).

CREDIT FACILITIES

The REIT has two credit facilities available from two Canadian chartered banks ("Credit Facilities").

The $35,000 (December 31, 2018 - $30,000) floating rate secured revolving credit facility bears interest on cash advances of 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 March 31, 2020. The facility was undrawn as of December 31, 2019 (December 31, 2018 - $3,800).

The $20,000 (December 31, 2018 - $20,000) floating rate unsecured revolving 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 banker's acceptance rate and matures on December 1, 2020. This credit facility was undrawn as at December 31, 2019 and 2018.

INDEBTEDNESS TO GBV

As at December 31, 2019, the REIT's overall leverage, as represented by the ratio of Indebtedness to GBV was 57.6% 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 December 31, 2019, 2018 and 2017.

	December 31, 2019	December 31, 2018	December 31, 2017
Total assets	$ 1,375,556	$ 939,353	$ 674,441
Deferred financing costs	5,578	4,158	3,339
GBV	$ 1,381,134	$ 943,511	$ 677,780
Mortgages payable	792,583	527,196	386,290
Credit Facilities	—	3,800	—
Unamortized financing costs and mark to market mortgage	3,273	2,464	1,718
Indebtedness	$ 795,856	$ 533,460	$ 388,008
Indebtedness to GBV	**57.6%**	**56.5%**	**57.2%**

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 December 31, 2019, 0% (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 such as transaction costs on sale of investment properties from net income and comprehensive income.

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

	Years ended December 31 2019	Years ended December 31 2018
Net income and comprehensive income	$ 24,178	$ 49,620
Add (deduct):		
Interest expense	19,989	15,293
Fair value adjustment of Unit-based compensation	1,365	(389)
Transaction costs on sale of investment property	581	403
Fair value adjustment of investment properties	615	(16,080)
Fair value adjustment of Class B LP Units	6,933	(4,482)
Distributions on Class B LP Units	2,515	2,536
Unrealized loss on change in fair value of derivative instruments	677	153
Amortization of leasing costs, tenant inducements, mortgage premium (discounts) and financing costs	3,301	1,750
Adjusted EBITDA	**$ 60,154**	**$ 48,804**

	Years ended December 31 2019	Years ended December 31 2018
Adjusted EBITDA	$ 60,154	$ 48,804
Interest expense	19,989	15,293
Interest coverage ratio	3.01x	3.19x

Interest coverage ratio for YTD-2019 decreased compared to YTD-2018 due to higher levels of borrowing on the REIT's secured credit facility and standby fees associated with the REIT's unsecured credit facility obtained in December 2018.

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 December 31, 2019, there were 3,856,182 Class B LP Units issued and outstanding valued at $28,111 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 $7.29 at December 31, 2019, offset by a decrease in the number of Class B LP Units outstanding of 412,655 which were exchanged to Units on December 17, 2019.

There have been no further changes in the Class B LP Units outstanding as of March 3, 2020.

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities, excluding Class B LP Units as at December 31, 2019 are as follows:

	2020	2021	2022	2023	2024+	Total
Mortgages payable	$ 112,240	$ 43,265	$ 173,484	$ 153,525	$ 313,342	$ 795,856
Mortgages interest payable	24,257	22,837	20,180	13,053	18,611	98,938
Tenant rental deposits and prepayments	5,275	—	—	—	—	5,275
Accounts payable and accrued liabilities	22,135	—	—	—	—	22,135
	$ 163,907	$ 66,102	$ 193,664	$ 166,578	$ 331,953	$ 922,204

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 year ended December 31, 2019:

	Units	Amount
Balance at December 31, 2018	57,216,643	$ 341,041
Issue of Units – public offering	23,839,500	161,065
Issue of Units – acquisition of investment property	2,148,904	15,000
Issue of Units – non-executive Trustee Unit issuance plan	3,427	23
Issue of Units – exchange of Class B LP Units	412,655	2,984
Issue of Units – DRIP	901,425	5,850
Issue of Units – options exercised	239,875	1,721
Issuance costs	—	(8,487)
Balance at December 31, 2019	84,762,429	$ 519,197

The number of Units outstanding as of March 3, 2020 is as follows:

Balance at December 31, 2019	84,762,429
Issuance of Units - DRIP	167,990
Balance at March 3, 2020	84,930,419

INCENTIVE UNIT PLAN

On June 10, 2019, the REIT established an incentive trust unit plan (the "Incentive Unit Plan") to replace the non-executive Trustee Unit issuance plan and the Unit-based compensation plan (collectively, the "Plans"). While the previous Plans granted Units and options, the new Incentive Unit Plan issues two types of units: (i) deferred Units; and (ii) restricted Units (collectively "Incentive Units").

Deferred Units are granted to the non-executive Trustees as part of each Trustee's annual board retainer and meeting fees and vest immediately.

The Trustees may, at their discretion, grant restricted Units to certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, subject to certain restrictions (such as vesting requirements) as the Trustees may impose. The Trustees may not extend any vesting conditions beyond November 30 of the third calender year from grant date.

Incentive Units granted under the Incentive Unit Plan are comparable to that of the previous Plans and will continue to be classified as liabilities on the REIT's statement of financial position. Unit based compensation expense is recognized in net income and comprehensive income over the vesting period of the Incentive Units. Fair value adjustments are made upon the revaluation of the Incentive Units at each reporting period and recorded in net income and comprehensive income.

UNIT OPTION PLAN

On June 10, 2019 the Plans were 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 December 31, 2019 consist of the following:

Exercise price [(1)]	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.04	140,000	140,000	August 5, 2021
$6.28	184,168	184,168	November 14, 2021
$6.17	226,669	133,329	August 11, 2022
$6.44	252,834	150,660	November 16, 2022
$6.43	290,835	75,829	March 9, 2023
$6.66	320,667	101,327	September 20, 2023
	1,415,173	785,313	

(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.

As at December 31, 2019, the REIT issued 32,852,050 Units for gross proceeds of $218,565 pursuant to the Prospectus. During 2019, the REIT issued 23,839,500 Units for gross proceeds of $161,065.

On January 23, 2020, the REIT filed a short-form base shelf prospectus which is valid for a 25 month period for an aggregate offering amount up to $500,000.

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 December 31, 2019, the REIT had entered into commitments for building renovations totaling $1,347 (December 31, 2018 - $1,040).

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 at 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 months and years ended December 31, 2019 and 2018:

		Three months ended December 31			Year ended December 31
		2019	2018	2019	2018
Asset management fees	$	922	$ 774	$ 3,280	$ 2,625
Acquisition fees		2,607	208	2,852	2,008
Other expenses		36	76	155	142
Total	$	3,565	$ 1,058	$ 6,287	$ 4,775

At December 31, 2019, $370 (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 years ended December 31, 2019 and 2018.

An entity under the same common ownership as Starlight purchased 657,295 Units for $4,500 and 203,500 Units for $1,298 in the 2019 and 2018 Unit offerings.

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 in the REIT's AIF. The AIF is available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Risks Related to the Real Estate Industry

Real Property Ownership and Tenant Risks

All real property investments are subject to elements of risk. The value of real property and any improvements thereto depend on the credit and financial stability of tenants and upon the vacancy rates of such properties. The properties generate revenue through rental payments made by the tenants thereof. The ability to rent vacant space in properties will be affected by many factors, including changes in general economic conditions (such as the availability and cost of mortgage funds), local conditions (such as an oversupply of space or a reduction in demand for real estate in the area), government regulations, changing demographics, competition from other available properties, and various other factors.

If a significant number of tenants are unable to meet their obligations under their leases or if a significant amount of available space in the properties becomes vacant and cannot be re-leased on economically favourable terms, the properties may not generate revenues sufficient to meet operating expenses, including debt service payments and capital expenditures.

Upon the expiry of any lease, there can be no assurance the lease will be renewed or the tenant will be replaced. The terms of any subsequent lease may be less favourable to the REIT than those of an existing lease. Historical occupancy rates and revenues are not necessarily an accurate prediction of the future occupancy rates for the properties or revenues to be derived from them. There can be no assurance that, upon the expiry or termination of existing leases, the average occupancy rates and revenues will be higher than historical occupancy rates and revenues, and it may take a significant amount of time for market rents to be recognized by the REIT due to internal and external limitations on its ability to charge these new market based rents in the short term.

Fluctuations in Capitalization Rates

As interest rates fluctuate in the lending market, generally so too do capitalization rates which affect the underlying value of real estate. As such, when interest rates rise, generally capitalization rates should be expected to rise. Over the period of investment, capital gains and losses at the time of disposition can occur due to the increase or decrease of these capitalization rates.

Environmental and Climate Change Risk

The REIT is subject to various requirements (including federal, provincial and municipal laws, as applicable,) relating to environmental matters. Such requirements provide that the REIT could be, or become, liable for environmental or other harm, damage or costs, including with respect to the release of hazardous, toxic or other regulated substances into the environment and/or affecting persons, and the removal or other remediation of hazardous, toxic or other regulated substances that may be present at or under the properties, including lead-based paint, asbestos, polychlorinated biphenyls, petroleum-based fuels, mercury, volatile organic compounds, underground storage tanks, pesticides and other miscellaneous materials. Such requirements often impose liability without regard to whether the owner or operator knew of, or was responsible for, the release or presence of such materials.

Additional liability may be incurred by the REIT with respect to the release of such substances from the REIT's properties to properties owned by third parties, including properties adjacent to the REIT's properties or with respect to the exposure of persons to regulated substances. The failure to remove or otherwise address such substances may materially adversely affect the REIT's ability to sell a property, maximize the value of such property or borrow using such property as collateral security, and could potentially result in claims or other proceedings against the REIT.

It is the REIT's operating policy to obtain or be entitled to rely on an environmental site assessment prior to acquiring a property. Where an environmental site assessment warrants further investigation, it is the REIT's operating policy to conduct further environmental assessments (see "Declaration of Trust and Description of Voting Units - Investment Guidelines" and "Operating Policies - Operating Policies" in the AIF). Although such environmental assessments provide the REIT with some level of assurance about the condition of the properties, the REIT may become subject to liability for undetected contamination or other environmental conditions of its properties against which it cannot insure, or against which the REIT may elect not to insure where insurance premium costs are considered to be disproportionate to the assessed risk, which could have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units. Environmental laws and other requirements can change and the REIT may become subject to more stringent environmental laws and other requirements in the future. Compliance with more stringent environmental requirements, the identification of currently unknown environmental issues or an increase in the costs required to address a currently known condition may have a material adverse effect on the REIT's business, cash flows, financial condition and results of operations and ability to make distributions to holders of Units.

Natural disasters and severe weather such as floods, blizzards and rising temperatures may result in damage to the properties. The extent of the REIT's casualty losses and loss in operating income in connection with such events is a function of the severity of the event and the total amount of exposure in the affected area. The REIT is also exposed to risks associated with inclement winter weather, including increased need for maintenance and repair of the REIT's buildings. In addition, climate change, to the extent it causes changes in weather patterns, could have effects on the REIT's business by increasing the cost of property insurance, and/or energy at the properties. As a result, the consequences of natural disasters, severe weather and climate change could increase the REIT's costs and reduce the REIT's cash flow.

Competition

The real estate business is competitive. Numerous developers, managers and owners of properties compete with the REIT in seeking tenants. The existence of competing developers, managers and owners and competition for the REIT's tenants could have an impact on the REIT's ability to lease space in the properties and on the rents charged.

The REIT is subject to competition for suitable real property investments with individuals, corporations and institutions (both Canadian and foreign) and other real estate investment trusts which are presently seeking, or which may seek in the future, real property investments similar to those targeted by the REIT. A number of these investors may have greater financial resources than those of the REIT, or operate without the investment or operating restrictions of the REIT. An increase in the availability of the investment funds, and an increase in interest in real property investments, may tend to increase competition for real property investments, thereby increasing purchase prices and reducing the yield on them.

The REIT seeks to locate and complete property purchases that are accretive to AFFO per Unit. There is a risk that continuing increased competition for real property acquisitions may increase purchase prices to levels that are not accretive to AFFO per Unit.

Illiquidity of Real Estate Investments

Real estate investments tend to be relatively illiquid, with the degree of liquidity generally fluctuating in relation to demand for, and the perceived desirability of, such investments. Such illiquidity may limit the REIT's ability to promptly adjust its portfolio in response to changing economic or other conditions. If the REIT were required to quickly liquidate its properties, the proceeds might be significantly less than the aggregate carrying value of its properties or less than what could be expected to be realized under normal circumstances. In addition, by concentrating on commercial rental properties, the REIT is exposed to the adverse effects on that segment of the real estate market.

Interest Rate Risk

The REIT may be subject to higher interest rates in the future, given the current economic climate. The REIT may also be unable to renew its maturing debt either with an existing or a new lender, and if it's able to renew its maturing debt, significantly lower loan-to-value ratios may be used. The REIT will seek to manage this risk by negotiating fixed interest rates where possible. As required by the DOT, at no time will the REIT incur debt aggregating more than 20% of GBV of the REIT 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).

Uninsured Losses

The DOT requires that the REIT obtain and maintain at all times insurance coverage in respect of its potential liabilities and the accidental loss of value of its assets from risks, in amounts, with such insurers, and on such terms as the Trustees consider appropriate, taking into account all relevant factors including the practices of owners of comparable properties. There are, however, certain types of risks, generally of a catastrophic nature, such as wars or environmental contamination, which are either uninsurable or not insurable on an economically viable basis. Should an uninsured or under-insured loss occur, the REIT could lose its investment in, and anticipated profits and cash flows from, the affected property, but the REIT would continue to be obliged to repay any recourse mortgage indebtedness on such property. There can be no assurance that a claim in excess of the insurance coverage or claims not covered by insurance coverage will not arise or that the liability coverage will continue to be available on acceptable terms. A successful claim against the REIT not covered by, or in excess of, the insurance coverage could have a material adverse effect on the REIT's business, financial condition or results of operations and distributions.

Risks Related to Insurance Renewals

Certain events could make it more difficult and expensive to obtain property and casualty insurance, including coverage for terrorism. The REIT's current insurance policies expires annually and the REIT may encounter difficulty in obtaining or renewing property or casualty insurance on its properties at the same levels of coverage and under similar terms. Such insurance may be more limited and, for catastrophic risks (for example, earthquake, hurricane, flood and terrorism), may not be generally available to fully cover potential losses. Even if the REIT is able to renew its policies at levels and with limitations consistent with its current policies, the REIT cannot be sure that it will be able to obtain such insurance at premium rates that are commercially reasonable. If the REIT were unable to obtain adequate insurance on the properties for certain risks, it could cause the REIT to be in default under specific covenants on certain of its indebtedness or other contractual commitments it has that require the REIT to maintain adequate insurance on its properties to protect against the risk of loss. If this were to occur or if the REIT were unable to obtain adequate insurance and the properties experienced damages that would otherwise have been covered by insurance, it could adversely affect the REIT's financial condition and the operations of the properties.

Credit Risk and Tenant Concentration

The REIT is exposed to risk as tenants may be unable to pay their contracted rents. Management mitigates this risk by seeking to acquire properties with strong tenant covenants in place. The REIT's portfolio includes over 200 tenant leases with a weighted-average term to maturity of approximately 4.7 years. Approximately 76% of the REIT's annualized gross revenue are government and other credit-rated tenants.

Risks Related to the REIT and its Business

Acquisitions

The REIT's strategy includes growth through identifying suitable acquisition opportunities, pursuing such opportunities, completing acquisitions and effectively operating and leasing such properties. There can be no assurance as to the pace of growth through property acquisitions or that the REIT will be able to acquire assets on an accretive basis.

Acquisitions of properties by the REIT are subject to the normal commercial risks and satisfaction of closing conditions that may include, among other things, lender approval, Competition Act (Canada) approval, receipt of estoppel certificates and obtaining title insurance. Such acquisitions may not be completed or, if completed, may not be on terms that are exactly the same as initially negotiated.

A risk associated with acquisitions is there may be an undisclosed or unknown liability relating to the acquired property, and the REIT may not be indemnified for some or all of these liabilities. Following an acquisition, the REIT may discover that it has acquired undisclosed liabilities, which may be material. The due diligence procedures by management are designed to address this risk. The REIT performs what it believes to be an appropriate level of investigation in connection with its acquisition of properties and seeks through contract to ensure that risks lie with the appropriate party.

Access to Capital and Financing Risk

The real estate industry is highly capital intensive. The REIT requires access to capital to maintain the properties, as well as to fund its growth strategy and significant capital expenditures from time to time. There can be no assurance the REIT will have access to sufficient capital or access to capital on terms favourable to the REIT for future property acquisitions, financing or refinancing of properties, funding operating expenses or other purposes. Further, the REIT may not be able to borrow funds due to the limitations set forth in the DOT.

In addition, financial markets have experienced a sharp increase in volatility during recent years. The underlying market conditions may continue or become worse and unexpected volatility and illiquidity in financial markets may inhibit the REIT's access to long-term financing in the Canadian capital market. As a result, it is possible financing which the REIT may require in order to grow and expand its operations, upon the expiry of the term of financing, upon refinancing of any particular property may not be available or, if it is available, may not be available on favourable terms to the REIT.

The REIT is subject to the risks associated with debt financing, including the risk the mortgages and banking facilities secured by the properties will not be able to be refinanced or the terms of such refinancing will not be as favourable as the terms of existing indebtedness due to, for instance, higher interest rates. To the extent the REIT utilizes variable rate debt, such debt will result in fluctuations in the REIT's cost of borrowing as interest rates change.

As at December 31, 2019, 0% (December 31, 2018 - 0.7%) of the REIT's debt was at floating rates.

Regulation

The REIT is subject to laws and regulations governing the ownership and leasing of real property, employment standards, environmental matters, taxes and other matters. It is possible that future changes in applicable federal, provincial, state, local or common laws or regulations or changes in their enforcement or regulatory interpretation could result in changes in the legal requirements affecting the REIT (including with retroactive effect). Any changes in the laws to which the REIT is subject could materially adversely affect the rights and title to the properties. It is not possible to predict whether there will be any further changes in the regulatory regimes to which the REIT is subject or the effect of any such change on its investments.

Potential Conflicts of Interest With Trustees

Certain of our Trustees and officers are also Trustees, directors and/or officers of other entities, or are otherwise engaged, and may continue to be engaged, in activities that may put them in conflict with the REIT's business strategy. Consequently, these positions could create, or appear to create, conflicts of interest with respect to matters involving the REIT. Pursuant to the DOT, all decisions to be made by the Trustees which involve the REIT are required to be made in accordance with the Trustee's duties and obligations to act honestly and in good faith with a view to the best interests of the REIT and the Unitholders. In addition, the Trustees and officers of the REIT are required to declare their interests in, and such Trustees are required to refrain from voting on, any matter in which they may have a conflict of interest. However, there can be no assurance that the provisions in the DOT will adequately address potential conflicts of interest or that such actual or potential conflicts of interest will be resolved in the REIT's favour.

Starlight acts as the asset manager for the REIT and also provides management services to other public and private companies. As asset manager for other entities and on its own behalf, Starlight may pursue other business opportunities, including but not limited to, real estate and development business opportunities outside of the REIT. These multiple responsibilities to public entities and other businesses could create competition for the time and efforts of Starlight which may materially adversely affect the REIT's cash flows, operating results and financial condition.

Litigation Risks

In the normal course of the REIT's operations, it may become involved in, named as a party to or the subject of, various legal proceedings, including regulatory proceedings, tax proceedings and legal actions relating to personal injuries, property damage, property taxes, land rights, the environment and contract disputes. The outcome with respect to outstanding, pending or future proceedings cannot be predicted with certainty and may be determined adversely to the REIT. Even if the REIT prevails in any such legal proceeding, the proceedings could be costly and time-consuming and would divert the attention of management and key personnel from the REIT's business operations.

Taxation Matters

Management of the REIT believes the REIT currently qualifies as a mutual fund trust and a real estate investment trust for income tax purposes. If the REIT were not to so qualify, the consequences could be material and adverse.

The *Income Tax Act* (Canada) ("Tax Act") contains rules, which tax certain publicly traded or listed trusts in a manner similar to corporations and taxes certain distributions from such trusts as taxable dividends from a taxable Canadian corporation. Distributions paid by a specified investment flow-through ("SIFT") trusts as returns of capital will generally not be subject to the tax.

The rules in the Tax Act applicable to SIFT trusts or partnerships ("SIFT Rules") are not applicable to a real estate investment trust that meets prescribed conditions relating to the nature of its assets and revenue.

Unless the REIT qualifies for the exclusion from the definition of SIFT trusts in the Tax Act (“REIT Exception”), the SIFT Rules could impact the level of cash distributions which would otherwise be made by the REIT and the taxation of such distributions to Unitholders.

If the REIT were to no longer qualify for the REIT Exception, it would not be able to flow through its taxable income to Unitholders and the REIT would therefore be subject to tax. The REIT Exception is applied on an annual basis. As such, it will not be possible to determine if the REIT will satisfy the conditions of the REIT Exception for 2020 or any subsequent year until the end of the particular year. Management of the REIT has determined that the REIT is not subject to the SIFT tax as it meets the REIT Exception for 2019.

Significant Ownership by Starlight

As of the date hereof, Daniel Drimmer and his affiliates holds an approximate 7.3% effective interest in the REIT through ownership of Units, Class B LP Units and Unit options. For so long as Starlight maintains a significant effective interest in the REIT, Starlight benefits from certain contractual rights regarding the REIT and Starlight has the ability to exercise influence with respect to the affairs of the REIT and significantly affect the outcome of Unitholder votes, including the ability to prevent certain fundamental transactions, and may discourage transactions involving a change of control of the REIT, including transactions in which an investor might otherwise receive a premium for its Units over the then current market price. The Units may also be less liquid and worth less than they would if Starlight did not have the ability to influence matters affecting the REIT.

Pursuant to the exchange agreement dated December 14, 2012, each Class B LP Unit is exchangeable at the option of the holder for one Unit of the REIT (subject to customary anti-dilution adjustments). See “Material Contracts - Exchange Agreement” in the AIF. If Daniel Drimmer and his affiliates exchanges LP Units for Units and sells Units in the public market, the market price of the Units could fall. The perception among the public that these sales will occur could also produce such effect.

Dependence on Starlight

The REIT is dependent upon Starlight for operational and administrative services relating to the REIT’s business. Should Starlight terminate the Asset Management Agreement, the REIT may be required to engage the services of an external asset manager. The REIT may be unable to engage an asset manager on acceptable terms, in which case the REIT’s operations and cash available for distribution may be adversely affected.

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 financial statements for external purposes in accordance with IFRS.

Because of the inherent limitations in all control systems, including well-designed and operated systems, no control system can provide complete assurance that 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 the possibility that management’s assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors.

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.

Cyber-security Risk

A cyber incident is considered to be any adverse event that threatens the confidentiality, integrity or availability of the REIT's information resources. More specifically, a cyber-incident is an intentional attack or an unintentional event that can include gaining unauthorized access to information systems to disrupt operations, corrupt data or steal confidential information. The REIT's primary risks that could directly result from the occurrence of a cyber-incident include operational interruption, damage to its reputation and damage to the REIT's business relationships with its tenants. The REIT has implemented processes, procedures and controls to help mitigate these risks, including installing firewalls and antivirus programs on its networks, servers and computers, but these measures, as well as its increased awareness of a risk of a cyber-incident, do not guarantee that its financial results will not be negatively impacted by such an incident. The REIT has secured cyber insurance coverage, however there can be no guarantee that such coverage will respond or be sufficient to all threats incurred by the REIT.

Business Continuity and Disaster Recovery

The REIT's ability to continue critical operations and processes could be negatively impacted by a weather disaster, prolonged IT failure, terrorist activity, power failures or other national or international catastrophes. Ineffective contingency planning, business interruptions, crises or potential disasters could adversely affect the reputation, operations and financial performance of the REIT. The REIT has a business continuity plan in place, however there can be no assurance it will mitigate all losses.

Risks Related to the Units

Volatile Market Price for the REIT's Securities

The market price for the REIT's securities may be volatile and subject to wide fluctuations in response to numerous factors, many of which are beyond the REIT's control, including the following: (a) actual or anticipated fluctuations in the REIT's financial performance and future prospects; (b) recommendations by securities research analysts; (c) changes in the economic performance or market valuations of other issuers that investors deem comparable to the REIT; (d) addition or departure of the REIT's officers; (e) release or expiration of lock-up or other transfer restrictions on outstanding Units or Class B LP Units; (f) sales or perceived sales of additional Units; (g) significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving the REIT or its competitors; (h) news reports relating to trends, concerns, technological or competitive developments, regulatory changes and other related issues in the REIT's industry or target markets; (i) liquidity of the REIT's securities; (j) prevailing interest rates; (k) the market price of other real estate securities; (l) a decrease in the amount of distributions declared and paid by the REIT; and (m) general economic conditions.

Financial markets have, in recent years, experienced significant price and volume fluctuations that have particularly affected the market prices of securities of issuers and that have, in many cases, been unrelated to the operating performance, underlying asset values or prospects of such issuers. Accordingly, the market price of the REIT's securities may decline even if the REIT's financial performance, underlying asset values, or prospects have not changed. Additionally, these factors, as well as other related factors, may cause decreases in asset values that are deemed to be other than temporary, which may result in impairment losses. As well, certain institutional investors may base their investment decisions on consideration of the REIT's environmental, governance and social practices and performance against such institutions' respective investment guidelines and criteria, and failure to meet such criteria may result in a limited or no investment in the REIT's securities by those institutions. There can be no assurance that continuing fluctuations in price and volume will not occur.

Return on Investment on Units Not Guaranteed

The Units are equity securities of the REIT and are not traditional fixed income securities. A fundamental characteristic that distinguishes the Units from traditional fixed income securities is that the REIT does not have a fixed obligation to make payments to holders of Units and does not promise to return the initial purchase price of a Unit on a certain date in the future. The REIT has the ability to reduce or suspend distributions to holders of Units if circumstances warrant. The ability of the REIT to make cash distributions to holders of Units, and the actual amount distributed, will be entirely dependent on the operations and assets of the REIT and its subsidiaries, and will be subject to various factors including financial performance, obligations under the REIT's Credit Facilities, fluctuations in working capital and capital expenditure requirements. There can be no assurance regarding the amount of income to be generated by the properties. The market value of the Units will deteriorate if the REIT is unable to meet its distribution targets in the future, and that deterioration may be significant. In addition, unlike interest payments or an interest-bearing debt security, the REIT's cash distributions to holders of Units are composed of different types of payments (portions of which may be fully or partially taxable or may constitute non-taxable returns of capital). The composition for tax purposes of those distributions may change over time, thus affecting the after-tax returns to holders of Units. Therefore, the rate of return over a defined period for a holder of Units may not be comparable to the rate of return on a fixed income security that provides a "return on capital" over the same period.

Distributions

At certain times, the REIT has paid distributions to Unitholders which have exceeded adjusted cash flow from operating activities. At the election of Unitholders, the REIT has historically made non-cash distributions under the DRIP which has reduced the amount of cash required to fund the REIT's distributions. As a result, the REIT has not funded distributions from alternate sources such as debt, mortgages or other financing instruments and has not been required to amend any material contracts.

There can be no assurance in the future the REIT will continue to fund distributions entirely from adjusted cash flow from operating activities and no assurance Unitholders will continue to elect to receive distributions under the DRIP. In such an event, the REIT may be required to fund its distributions from sources other than operations such as debt, mortgages or other financing instruments. In addition, non-cash distributions, such as the issuance of Units under the DRIP, have the effect of increasing the number of Units outstanding which will cause cash distributions to increase over time assuming stable per Unit cash distribution levels.

Dilution of Units

The number of Units (including Class B LP Units issuable by True North Commercial Limited Partnership, which are exchangeable for Units on a one for one basis) that the REIT is authorized to issue is unlimited. The REIT may, in its sole discretion, issue additional Units or convertible securities exchangeable into Units from time to time subject to the rules of any applicable stock exchange on which the Units are then listed. The issuance of any additional Units or Class B LP Units may have a dilutive effect on the interests of holders of Units.

Unitholder Liability

The DOT provides that no holders of Units will be subject to any liability whatsoever to any person in connection with a holding of Units. In addition, legislation has been enacted in the Province of Ontario and certain other provinces that is intended to provide holders of Units in those provinces with limited liability. However, there remains a risk, which is considered by the REIT to be remote in the circumstances, that a holder of Units could be held personally liable for the obligations of the REIT to the extent that claims are not satisfied out of the assets of the REIT. The affairs of the REIT are conducted in a manner to seek to minimize such risk wherever possible.

Nature of Investment in Units

The Units represent a fractional interest in the REIT and do not represent a direct investment in the REIT's assets and should not be viewed by investors as direct securities of the REIT's assets. A holder of a Unit does not hold a share of a body corporate. Unitholders, in such capacity, do not have statutory rights normally associated with ownership of shares of a corporation including, for example, the right to bring "oppression" or "derivative" actions against the REIT. The rights of holders of Units are based primarily on the DOT. There is no statute governing the affairs of the REIT equivalent to the Canada Business Corporation Act, which sets out the rights and entitlements of shareholders of corporations in various circumstances. As well, the REIT may not be a recognized entity under certain existing insolvency legislation such as the *Bankruptcy and Insolvency Act* (Canada) and the *Companies Creditors' Arrangement Act* (Canada) and thus the treatment of holders of Units upon an insolvency is uncertain.

USE OF ESTIMATES

The preparation of the REIT's annual audited consolidated 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 annual audited consolidated financial statements.

The estimates used in determining the recorded amount for assets and liabilities in the annual audited consolidated 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
Derivative instrument	Fair value
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 annual audited consolidated 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. Incentive Units granted are carried at fair value which has been determined with reference to the trading price of the Units.

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 an impact to the annual audited consolidated 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 annual audited consolidated 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 months and year ended December 31, 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 months and year ended December 31, 2019.

OUTLOOK

At the January 22nd, 2020 Bank of Canada ("BoC") meeting, it was announced the overnight lending rate would be maintained at 1¾ %, in line with expectations, and unchanged since October 2018. Though this was the expectation, the rationale and forecast provided by the BoC marked a sharp change in how the underlying factors are influencing their decisions. Where the commentary for the past two years has been the relative strength of the domestic economy, namely housing, consumer spending and exports balanced off by weaker business investments and global uncertainties, now the narrative has flip-flopped. The BoC stated that they now see below average domestic performance being offset by a stabilizing global economy.

Yet at the same time, domestic GDP growth seems perpetually just under forecast, below 2% (1.6% currently for 2020). Household spending has declined as Canadians prioritize lowering their debt burden, business investment has not increased, and exports suffered, with a rising Canadian dollar playing a role. The message on January 22nd, 2020 was status quo, just for new reasons. The positive to be taken from the announcement though is that unlike global challenges, the domestic issues are ones which can be addressed through interest rate management.

What was not factored into any of the BoC discussion was the Black Swan event we are now beginning to fully appreciate: the virtual shut down of the China economy and Asian trade due to the COVID-19 (coronavirus) outbreak. It is impossible to know the full economic impact of this yet, but for an export-based economy such as Canada that was relying on global trade to offset domestic weakness, this is likely to be negative. It is therefore safe to anticipate a rate cut in the near-term.

The BoC's outlook on the overnight rate likely heading lower in 2020 is net positive for the REIT in that borrowing rates are likely to remain favourable for the foreseeable future. Commercial mortgage spreads remained largely flat through 2019, with the average five-year commercial mortgage featuring a coupon below 3.5%, supported by abundant capital seeking assets. Management maintains our view that overall real estate fundamentals will continue to be solid as Canada remains a strong and stable economy, and our exposure to Federal Government and credit-rated tenants will help insulate occupancy levels from potential recessionary forces

The outlook in the capital markets remains positive after an exceptionally strong 2019: equity issuances were up 92% from 2018 to $7.5 billion, representing 26% of total TSX volume, almost four times higher than the historical average of 7%, and unsecured debt raised hit a five-year high of $4.9 billion. The real estate sector remains a preferred shelter amid global uncertainty for investors, and with little resolution to global uncertainty on the horizon, there is little to think this will change imminently.

The Greater Toronto Area markets where the REIT is increasing its presence continues to outperform, with record low vacancy in the downtown nodes (2.0%), causing suburban nodes to experience strong absorption (vacancy is down to 11.8% from 15.2% in 2015) as tenants expand their boundaries to find accommodation. This market strength represents a material growth opportunity for the REIT, as the average suburban Class "A" Asking Rent is $20.69 psf, above the REIT's weighted average in-place rent, allowing further NOI growth potential through releasing.

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: March 3, 2020
Toronto, Ontario, Canada