Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2019 and 2018
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Financial Position
(In thousands of Canadian dollars)
(Unaudited)

	June 30, 2019	December 31, 2018
Assets		
Non-current assets:		
Investment properties (note 4)	$ 962,352	$ 928,137
Instalment notes receivable (note 5)	399	459
Deposits	796	788
Derivative instruments (note 11)	2	136
Total non-current assets	963,549	929,520
Current assets:		
Derivative instruments (note 11)	187	434
Tenant and other receivables (note 6)	2,771	2,655
Prepaid expenses and deposits	3,577	2,738
Instalment notes receivable (note 5)	125	134
Restricted cash	152	1,380
Cash and cash equivalents	1,698	2,492
Total current assets	8,510	9,833
Total assets	$ 972,059	$ 939,353
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 7)	$ 445,919	$ 481,184
Class B LP Units (note 8)	28,217	24,162
Total non-current liabilities	474,136	505,346
Current liabilities:		
Mortgages payable (note 7)	96,909	46,012
Credit facilities (note 9)	17,780	3,800
Tenant rental deposits and prepayments	4,780	4,526
Accounts payable and accrued liabilities (note 10)	16,201	16,579
Total current liabilities	135,670	70,917
Total liabilities	609,806	576,263
Unitholders' equity (note 12)	362,253	363,090
Total liabilities and unitholders' equity	$ 972,059	$ 939,353

Subsequent events (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on August 7, 2019.

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Income and Comprehensive Income
(In thousands of Canadian dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Revenue (note 14)	$ 25,489	$ 19,902	$ 51,256	$ 39,620
Expenses:				
Property operating	6,209	4,731	12,954	9,643
Realty taxes	4,129	3,236	8,331	6,416
Income before the undernoted	15,151	11,935	29,971	23,561
Other income (expenses):				
General and administration expenses	(1,041)	(854)	(2,649)	(1,673)
Finance costs (note 15)	(5,181)	(3,610)	(10,281)	(7,052)
Distributions on Class B LP Units (note 8)	(634)	(634)	(1,268)	(1,268)
Fair value adjustment of Class B LP Units (note 8)	171	(811)	(4,055)	256
Fair value adjustment of investment properties (note 4)	3,891	(4,503)	2,271	6,102
Unrealized gain (loss) on change in fair value of derivative instruments (note 11)	(101)	(34)	(381)	31
Net income and comprehensive income for the period	$ 12,256	$ 1,489	$ 13,608	$ 19,957

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Changes in Unitholders' Equity
(In thousands of Canadian dollars)

Six months ended June 30, 2019 and 2018
(Unaudited)

	Trust Unit capital	Cumulative income and distributions	Totals
	(note 12(b))		
Unitholders' equity, January 1, 2018	$ 245,259	$ 2,938	$ 248,197
Changes during the period:			
Units issued, net of costs	37,860	—	37,860
Net income and comprehensive income for the period	—	19,957	19,957
Distributions	—	(13,560)	(13,560)
Issue of units under DRIP (note 12(e))	1,635	—	1,635
Unitholders' equity, June 30, 2018	284,754	9,335	294,089
Changes during the period:			
Units issued, net of costs	54,306	—	54,306
Net income and comprehensive income for the period	—	29,663	29,663
Distributions	—	(16,949)	(16,949)
Issue of units under DRIP (note 12(e))	1,981	—	1,981
Unitholders' equity, December 31, 2018	341,041	22,049	363,090
Changes during the period:			
Units issued, net of costs	(71)	—	(71)
Net income and comprehensive income for the period	—	13,608	13,608
Distributions	—	(17,068)	(17,068)
Issue of units under DRIP (note 12(e))	2,694	—	2,694
Unitholders' equity, June 30, 2019	$ 343,664	$ 18,589	$ 362,253

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Condensed Consolidated Interim Statements of Cash Flows
(In thousands of Canadian dollars)

Three and six months ended June 30, 2019 and 2018
(Unaudited)

	Three months ended June 30 2019	Three months ended June 30 2018	Six months ended June 30 2019	Six months ended June 30 2018
Operating activities:				
Net income and comprehensive income for the period	$ 12,256	$ 1,489	$ 13,608	$ 19,957
Adjustments for financing activities included in income:				
Finance costs (note 15)	5,181	3,610	10,281	7,052
Unrealized gain (loss) on change in fair value of derivative instruments (note 11)	101	34	381	(31)
Distributions on Class B LP Units (note 8)	634	634	1,268	1,268
Fair value adjustment of Class B LP Units (note 8)	(171)	811	4,055	(256)
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	(3,891)	4,503	(2,271)	(6,102)
Unit-based compensation expense	(14)	143	451	78
Change in other non-cash operating items	424	(317)	713	(863)
Change in non-cash operating working capital (note 16)	(1,733)	1,486	(2,495)	4,558
Cash provided by operating activities	12,787	12,393	25,991	25,661
Investing activities:				
Acquisitions (note 3)	—	(88,421)	(24,474)	(100,946)
Additions to investment properties (note 4)	(2,780)	(2,415)	(7,258)	(3,377)
Cash used in investing activities	(2,780)	(90,836)	(31,732)	(104,323)
Financing activities:				
Proceeds from credit facilities	10,180	2,600	13,980	2,600
Proceeds from mortgage financing, net of costs	(17)	54,696	27,548	77,690
Repayment on mortgages	(4,515)	—	(4,515)	(19,468)
Principal payments on mortgages	(4,033)	(2,979)	(7,906)	(5,840)
Payments received on instalment notes receivable (note 5)	34	39	69	78
Finance costs paid	(5,469)	(3,955)	(10,753)	(7,624)
Change in restricted cash	1,228	—	1,228	500
Proceeds (payments) from issuance of Units, net of costs	(92)	(120)	(94)	37,813
Cash distributions to unitholders	(7,293)	(6,403)	(14,610)	(11,861)
Cash provided (used) by financing activities	(9,977)	43,878	4,947	73,888
Increase (decrease) in cash and cash equivalents	30	(34,565)	(794)	(4,774)
Cash and cash equivalents, beginning of period	1,668	37,207	2,492	7,416
Cash and cash equivalents, end of period	$ 1,698	$ 2,642	$ 1,698	$ 2,642
Supplemental cash flow information:				
Units issued under DRIP – unitholders	$ 1,246	$ 693	$ 2,436	$ 1,373
Units issued under DRIP – Class B LP Units	129	130	258	262
Mortgage assumed on acquisition	—	—	—	10,643

See accompanying notes to condensed consolidated interim financial statements.

Organization:

True North Commercial Real Estate Investment Trust (the "REIT") is an unincorporated, open-ended real estate investment trust established pursuant to a second amended and restated declaration of trust made as of May 22, 2014 ("DOT"), and governed by the laws of the Province of Ontario. The REIT incorporated True North Commercial General Partner Corp. ("TNCGP") on November 16, 2012 and with TNCGP, formed True North Commercial Limited Partnership ("TNCLP") on November 16, 2012.

The REIT is listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. The registered office of the REIT is 1400 - 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3.

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the REIT since the last audited annual consolidated financial statements as at and for the year ended December 31, 2018. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed.

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on August 7, 2019.

(b) Basis of presentation:

The REIT holds its interest in investment properties and other assets and liabilities related to the investment properties in TNCLP, which is wholly owned by the REIT. All intercompany transactions and balances between the REIT and the subsidiary entities have been eliminated upon consolidation.

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

These condensed consolidated interim financial statements have been prepared on a historical cost basis, except for investment properties, class B limited partnership units of TNCLP ("Class B LP Units"), trust units ("Unit") options and derivative instruments, which are stated at their fair values.

1. Basis of preparation (continued):

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2018.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2018 except for the new accounting standards applied on January 1, 2019 as noted below:

(a) IFRS 16, Leases ("IFRS 16"):

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

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

3. Acquisitions:

All acquisitions completed during the six months ended June 30, 2019 were accounted for as asset acquisitions.

The fair value of consideration has been allocated to the identifiable assets acquired and liabilities assumed based on the fair values at the date of acquisition as follows:

		360 Laurier Avenue West
Acquisition date		February 7, 2019
Net assets acquired:		
Investment properties (including acquisition costs of $842)	$	25,342
Prepaid expenses and other assets		7
Tenant rental deposits		(27)
Accounts payable and accrued liabilities		(848)
	$	24,474
Consideration:		
Cash on hand	$	7,547
Mortgage financing, net of financing costs of $73		16,927
	$	24,474

The REIT did not dispose of any investment properties during the three and six months ended June 30, 2019 and 2018.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

4. Investment properties:

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

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

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions for the REIT's investment properties are set out in the following table:

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

4. Investment properties (continued):

The fair value of the REIT's investment properties are sensitive to changes in the key valuation assumptions. Changes in the terminal and direct capitalization rates and discount rates would result in changes to the fair value of the REIT's investment properties as set out in the following table:

	June 30, 2019	June 30, 2018
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (30,012)	$ (23,157)
25-basis points decrease	32,437	25,445
Weighted average discount rate:		
25-basis points increase	(27,965)	(22,392)
25-basis points decrease	29,580	23,734

5. 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.

The following table provides a breakdown of the current and non-current portions of the instalment notes receivable:

	June 30, 2019	December 31, 2018
Current	$ 125	$ 134
Non-current	399	459
	$ 524	$ 593

(In thousands of Canadian dollars, except Unit and per Unit amounts)

6. Tenant and other receivables:

	June 30, 2019	December 31, 2018
Tenant receivables	$ 2,402	$ 2,247
Other receivables	369	408
	$ 2,771	$ 2,655

As at June 30, 2019, there is no impairment of tenant and other receivables.

7. Mortgages payable:

As at June 30, 2019, the REIT had $545,216 (December 31, 2018 – $529,660) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.42% (December 31, 2018 – 3.41%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.43 years (December 31, 2018 – 3.85 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2018 – six) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 11). The mortgages are secured by first and second charges on the respective properties.

As at June 30, 2019, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2019 – remainder of year	$ 7,984	$ 27,232	$ 35,216	$ 9,174
2020	13,719	76,262	89,981	15,736
2021	12,937	26,737	39,674	14,302
2022	10,570	155,434	166,004	11,754
2023	4,199	141,596	145,795	4,877
Thereafter	7,236	61,310	68,546	6,633
Face value	$ 56,645	$ 488,571	$ 545,216	$ 62,476
Unamortized mark to market mortgage adjustments (2018 - $293)			276	
Unamortized financing costs (2018 - ($2,757))			(2,664)	
Total mortgages payable			$ 542,828	

(In thousands of Canadian dollars, except Unit and per Unit amounts)

7. Mortgages payable (continued):

The following table provides a breakdown of the current and non-current portions of mortgages payable:

		June 30, 2019		December 31, 2018
Current:				
Mortgages payable	$	97,675	$	46,880
Unamortized mark to market mortgage adjustments		30		33
Unamortized financing cost		(796)		(901)
		96,909		46,012
Non-current:				
Mortgages payable		447,541		482,780
Unamortized mark to market mortgage adjustments		246		260
Unamortized financing cost		(1,868)		(1,856)
		445,919		481,184
	$	542,828	$	527,196

8. Class B LP Units:

Class B LP Units have economic and voting rights equivalent, in all material respects, to Units and are indirectly exchangeable on a one-for-one basis for Units at the option of the holder.

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2019 and 2018:

	Class B LP Units		Amount
Outstanding, December 31, 2017	4,268,837	$	28,644
Fair value adjustment	—		(256)
Outstanding, June 30, 2018	4,268,837		28,388
Fair value adjustment	–		(4,226)
Outstanding, December 31, 2018	4,268,837		24,162
Fair value adjustment	–		4,055
Outstanding, June 30, 2019	4,268,837	$	28,217

(In thousands of Canadian dollars, except Unit and per Unit amounts)

8. Class B LP Units (continued):

During the three and six months ended June 30, 2019 and 2018, distributions on Class B LP Units were $634 and $1,268, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

9. Credit facilities:

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

On April 1, 2019, the REIT amended its secured credit facility to increase the amount available from $30,000 to $35,000 with no amendments to the interest rate and maturity date.

The $35,000 floating rate revolving secured credit facility bears interest on cash advances at 100 basis points per annum above the prime rate or 205 basis points per annum over the floating banker's acceptance rate. This facility is secured by certain investment properties and matures on February 28, 2020. As at June 30, 2019, $17,780 was drawn on this facility (December 31, 2018 - $3,800).

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

10. Accounts payable and accrued liabilities:

The following table presents details of the accounts payable and accrued liabilities balances:

	June 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	$ 11,199	$ 12,117
Finance costs payable	1,601	1,567
Distributions payable	2,854	2,832
Unit-based compensation liability	547	63
	$ 16,201	$ 16,579

(In thousands of Canadian dollars, except Unit and per Unit amounts)

11. Derivative instruments:

The REIT has entered into various interest rate swaps to limit its interest rate exposure from floating to fixed for the terms of certain mortgages. The interest rate swaps expire co-terminously upon the maturity of the corresponding mortgages.

The notional principal amounts of the outstanding interest swap contracts at June 30, 2019 were $65,515 (December 31, 2018 – $66,712). Total unrealized loss on change in the fair value of the derivative instruments for the three and six months ended June 30, 2019 was $101 (2018 - $34) and $381 (2018 unrealized gain - $31), respectively.

12. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units. Each Unit confers the right to one vote at any meeting of unitholders and to participate *pro rata* in all distributions by the REIT and, in the event of termination or winding-up of the REIT, in the net assets of the REIT. The unitholders of the REIT have the right to require the REIT to redeem their Units on demand. The Units have no par value.

(b) Units outstanding:

The following table summarizes the changes in Units for the six months ended June 30, 2019 and 2018:

	Units	Amount
Balance, December 31, 2017	41,287,734	$ 245,259
Issue of Units for cash – public offering	6,325,000	40,290
Issue of Units – non-executive Trustee Unit issuance plan	7,076	47
Issue of Units – DRIP	255,233	1,635
Issuance costs	—	(2,477)
Balance, June 30, 2018	47,875,043	284,754
Issue of Units for cash – public offering	9,012,550	57,500
Issue of Units – non-executive Trustee Unit issuance plan	7,584	45
Issue of Units – DRIP	320,553	1,981
Issue of Units – options exercised	913	6
Issuance costs	—	(3,245)
Balance, December 31, 2018	57,216,643	341,041
Issue of Units – non-executive Trustee Unit issuance plan	3,427	23
Issue of Units – DRIP	429,195	2,694
Issue of Units – options exercised	2,000	13
Issuance costs	—	(107)
Balance, June 30, 2019	57,651,265	$ 343,664

12. Unitholders' equity (continued):

(c) Unit-based compensation plan:

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

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

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

The accounting of the Incentive Units granted under the Incentive Unit Plan is comparable to that of the previous Plans and will continue to be classified as liabilities within the REIT's statement of financial position. Compensation expense is recognized in net income and comprehensive income over the vesting period, and fair value adjustments made upon revaluation of the Incentive Units each reporting period are also recorded in net income. The fair value amount of the deferred Units as at June 30, 2019 is $34. No restricted Units were issued as at June 30, 2019.

ii. Prior to June 10, 2019, the Trustees had the discretion to grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, non-transferable options to purchase Units pursuant to the REIT's Unit-based compensation plan (the "Plan").

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

12. Unitholders' equity (continued):

The following table summarizes the changes in Unit options outstanding for the six months ended June 30, 2019 and 2018:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2017	2,005,500	$ 6.51	2.89	902,482
Unit options expired and cancelled	(415,000)	7.64	—	—
Unit options granted	325,000	6.43	4.69	—
Outstanding, June 30, 2018	1,915,500	6.26	3.37	655,822
Unit options exercised	(24,999)	6.17	—	—
Unit options expired and cancelled	(59,001)	6.26	—	—
Unit options granted	329,000	6.66	4.47	—
Outstanding, December 31, 2018	2,160,500	6.32	3.15	970,474
Unit options exercised	(2,000)	6.43	—	—
Outstanding, June 30, 2019	2,158,500	6.32	2.66	1,075,968

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

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

12. Unitholders' equity (continued):

For the six months ended June 30, 2019 and 2018, the amount of Unit option compensation liability included in accounts payable and accrued liabilities is as follows:

Balance, December 31, 2017	$	351
Unit options expense		54
Fair value adjustment		25
Balance, June 30, 2018	$	430
Balance, December 31, 2018	$	63
Unit options expense		42
Fair value adjustment		408
Balance, June 30, 2019	$	513

Unit option compensation expense is included in general and administrative expenses. The expense is determined using the Black-Scholes option pricing model.

	June 30, 2019	June 30, 2018
Average expected Unit option holding period	1.64 years	2.02 years
Average expected volatility rate	14.16%	14.94%
Average dividend yield	8.99%	8.93%
Average risk-free interest rate	1.57%	1.79%

Expected volatilities are based on the historical volatility of the Units. The risk free interest rate return is the yield on a Government of Canada bond with a term consistent with the expected Unit option holding period.

(d) Distributions:

Under the DOT, the total amount of income of the REIT to be distributed to unitholders of the REIT for each calendar month is at the discretion of the Trustees, however, the total income distributed shall not be less than the amount necessary to ensure the REIT will not be liable to pay income tax under Part I of the *Tax Act* (Canada) for any year.

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

12. Unitholders' equity (continued):

For the six months ended June 30, 2019 and 2018, the REIT declared distributions of $17,068 and $13,560, respectively.

(e) Dividend reinvestment plan ("DRIP"):

Pursuant to the DRIP, unitholders can elect to reinvest cash distributions into additional Units at a 3% discount to the weighted average closing price of the Units on the TSX for the five trading days immediately preceding the applicable date of distribution.

For the six months ended June 30, 2019 and 2018, the REIT issued 429,195 and 255,233 Units under the DRIP for a stated value of $2,694 and $1,635, respectively.

13. Transactions with related parties:

Starlight Group Properties Holdings Inc. ("Starlight") is considered a related party of the REIT as Starlight is controlled by the Chairman of the Board, President and Chief Executive Officer of the REIT, who is also a significant unitholder of the REIT. The REIT has engaged Starlight or an affiliate of Starlight to perform certain services, as outlined below.

(a) Pursuant to an asset management agreement (the "Asset Management Agreement"), entered into with Starlight on December 14, 2012, which was assigned to a Starlight affiliate effective January 1, 2018, Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties.

(b) Pursuant to the Asset Management Agreement, Starlight is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight and calculated as follows:

(In thousands of Canadian dollars, except Unit and per Unit amounts)

13. Transactions with related parties (continued):

(i) 1.0% of the purchase price of a property, on the first $100,000 of properties acquired in each fiscal year;

(ii) 0.75% of the purchase price of a property, on the next $100,000 of properties acquired in each fiscal year; and

(iii) 0.50% of the purchase price on properties in excess of $200,000 of properties acquired in each fiscal year.

(c) An annual incentive fee is payable by the REIT equal to 15% of the REIT's funds from operations ("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 properties are located.

(d) Pursuant to the Asset Management Agreement, Starlight is entitled to a capital expenditure 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.

(e) The REIT reimburses 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, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

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

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

At June 30, 2019, $273 (December 31, 2018 - $277) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the three and six months ended June 30, 2019 and 2018.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

14. Revenue:

The components of the REIT's revenues for the three and six months ended June 30, 2019 and 2018 are as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Base rent	$ 14,117	$ 11,039	$ 28,184	$ 22,083
Operating costs and realty tax recoveries	10,484	8,103	21,312	16,072
Parking and other	888	760	1,760	1,465
	$ 25,489	$ 19,902	$ 51,256	$ 39,620

15. Finance costs:

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

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

(In thousands of Canadian dollars, except Unit and per Unit amounts)

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and six months ended June 30, 2019 and 2018 is as follows:

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Deposits	$ (8)	$ —	$ (8)	$ (269)
Tenant and other receivables	(436)	236	(116)	1,957
Prepaid expenses and deposits	(236)	(661)	(832)	345
Tenant rental deposits and prepayments	359	759	227	904
Accounts payable and accrued liabilities	(1,412)	1,152	(1,766)	1,621
	$ (1,733)	$ 1,486	$ (2,495)	$ 4,558

17. Commitments and contingencies:

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

At June 30, 2019 and 2018, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

All of the REIT's assets and liabilities are in, and its revenue is derived from, Canadian commercial real estate. The REIT’s investment properties are, therefore, considered by management to have similar economic characteristics.

19. Capital management:

The REIT’s capital management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2018.

The REIT was in compliance with all financial covenants as at June 30, 2019.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. Risk management and fair values:

(a) Risk management:

In the normal course of business, the REIT is exposed to a number of risks that can affect its operating performance. These risks and the actions taken to manage them are as follows:

(i) Interest rate risk:

The REIT is subject to the risks associated with debt financing, including the risk of interest rates on floating-rate debt rising before long-term fixed rate debt is arranged and existing mortgages may not be able to be refinanced on terms similar or more favourable than those currently in place.

The REIT's objective of managing interest rate risk is to minimize the volatility of interest expense which impacts earnings.

As at June 30, 2019 and December 31, 2018, the REIT's interest-bearing financial instruments were:

	Carrying value	
	June 30, 2019	December 31, 2018
Fixed-rate instruments:		
Mortgages payable	$ 545,216	$ 529,660
Variable-rate instruments:		
Credit facilities	$ 17,780	$ 3,800

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which is mitigated by entering into interest rate swaps (note 11).

An increase (decrease) of 100 basis points in interest rates at June 30, 2019 for the REIT's variable-rate financial instruments would have minimal impact on net income and comprehensive income for the period.

(ii) Credit risk:

Credit risk is the risk that: (a) one party to a financial instrument will cause a financial loss for the REIT by failing to discharge its obligations; and (b) the possibility that tenants may experience financial difficulty and be unable to meet their rental obligations.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. Risk management and fair values (continued):

The REIT is exposed to credit risk on all financial assets and its exposure is generally limited to the carrying amount on the condensed consolidated interim statements of financial position. The REIT monitors its risk exposure regarding obligations with counterparties through the regular assessment of counterparties' credit positions.

The REIT mitigates the risk of credit loss with respect to tenants by evaluating their creditworthiness, obtaining security deposits, and geographically diversifying its portfolio. The REIT monitors outstanding receivables on a monthly basis to ensure a reasonable allowance is provided for all uncollectible amounts.

An aging of billed trade receivables, including past due but not impaired amounts is as follows:

	June 30, 2019	December 31, 2018
0 to 30 days	$ 734	$ 530
31 to 90 days	178	54
Over 90 days	152	163
Total	$ 1,064	$ 747

(b) Fair values:

The fair values of the REIT's financial assets and financial liabilities, except as noted below, approximate their carrying values due to their short-term nature.

The REIT uses various methods in estimating the fair values of its financial instruments and investment properties. The fair value hierarchy reflects the significance of inputs used in determining the fair values.

- Level 1 - quoted prices in active markets;
- Level 2 - inputs other than quoted prices in active markets or valuation techniques where significant inputs are based on observable market data; and
- Level 3 - valuation technique for which significant inputs are not based on observable market data.

(In thousands of Canadian dollars, except Unit and per Unit amounts)

20. Risk management and fair values (continued):

The tables below presents the REIT's assets and liabilities measured or disclosed at fair value on the condensed consolidated interim statements of financial position:

June 30, 2019	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 962,352	$ 962,352
Instalment notes receivable	—	924	—	924
Derivative instruments	—	189	—	189
	$ —	$ 1,113	$ 962,352	$ 963,465
Liabilities:				
Mortgages payable	$ —	$ 555,800	$ —	$ 555,800
Class B LP Units	28,217	—	—	28,217
Unit-based compensation	—	—	547	547
	$ 28,217	$ 555,800	$ 547	$ 584,564

December 31, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ —	$ —	$ 928,137	$ 928,137
Instalment notes receivable	—	978	—	978
Derivative instruments	—	570	—	570
	$ —	$ 1,548	$ 928,137	$ 929,685
Liabilities:				
Mortgages payable	$ —	$ 528,500	$ —	$ 528,500
Class B LP Units	24,162	—	—	24,162
Unit-based compensation	—	—	63	63
	$ 24,162	$ 528,500	$ 63	$ 552,725

20. Risk management and fair values (continued):

The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's assets and liabilities measured at fair value:

(i) Investment properties:

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and the direct capitalization method, both of which are generally accepted appraisal methodologies. The key valuation assumptions of the REIT's investment properties are described in note 4.

(ii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account 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. The estimated fair value of mortgages payable at June 30, 2019 was approximately $555,800 (December 31, 2018 - $528,500).

(iii) Class B LP Units:

Pursuant to IFRS 13, Fair Value Measurement, if an asset or a liability measured at fair value has a bid and an ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value. The REIT has chosen to use the closing market price of Units as a practical measure for fair value measurement of its Class B LP Units.

21. Subsequent events:

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.

Refinancing:

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