TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

FOR THE YEAR ENDED DECEMBER 31, 2018

March 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") dated March 13, 2019 for the years ended December 31, 2018 and 2017 should be read in conjunction with the REIT's annual audited consolidated financial statements for the years ended December 31, 2018 and 2017 and accompanying notes thereto. These documents are available on SEDAR at www.sedar.com.

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

The forward-looking statements made relate only to events or information as of the date on which the statements are made in this MD&A. Except as specifically required by applicable Canadian law, the REIT undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

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

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

The interest coverage ratio is used by the REIT to determine the REIT's ability to service the interest requirements of its outstanding debt. The ratio is calculated by dividing Adjusted EBITDA by the REIT's interest obligations for the year. 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 of the REIT's operating performance.

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BASIS OF PRESENTATION

The REIT's annual audited consolidated financial statements for the years ended December 31, 2018 and 2017 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, 2018 ("Q4-2018") and ("YTD-2018"), respectively, three months ended September 30, 2018 ("Q3-2018") and three months and year ended December 31, 2017 ("Q4-2017") and ("YTD-2017"), respectively.

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 and 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, 2018, the REIT owned and operated a portfolio of 45 commercial properties across Canada consisting of approximately 3.6 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 SUMMARY

At December 31, 2018 the REIT's portfolio was comprised of 45 properties totaling approximately 3.6 million square feet of gross leasable area. The following tables highlights certain information about the REIT's properties as at December 31, 2018:

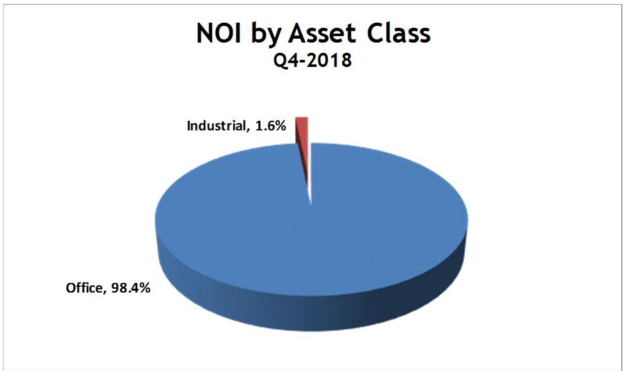
Property Name	City	Type	Occupancy	Remaining Lease Term [(1)]	GLA
Alberta					
855 8th Avenue SW	Calgary	Office	97%	2.5 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	Office	91%	5.8 years	77,600
1020 68th Avenue NE	Calgary	Office	100%	5.0 years	148,400
13140 St. Albert Trail	Edmonton	Office	100%	2.6 years	95,200
British Columbia					
810 Blanshard Street	Victoria	Office	100%	1.1 years	34,400
727 Fisgard Street	Victoria	Office	100%	1.1 years	47,600
9200 Glenlyon Parkway	Burnaby	Office	100%	8.1 years	90,550
32071 South Fraser Way	Abbotsford	Office	100%	5.8 years	52,300
New Brunswick					
500 Beaverbrook Court	Fredericton	Office	100%	3.2 years	55,600
295 Belliveau Avenue	Shediac	Office	100%	3.1 years	42,100
410 King George Highway	Miramichi	Office	62%	3.3 years	73,200
551 King Street	Fredericton	Office	100%	3.6 years	85,300
495 Prospect Street	Fredericton	Office	100%	3.2 years	85,000
845 Prospect Street	Fredericton	Office	100%	3.2 years	39,000
414-422 York Street	Fredericton	Office	73%	3.8 years	33,600
440-470 York Street	Fredericton	Office	92%	3.3 years	60,100
Nova Scotia					
36 & 38 Solutions Drive	Halifax	Office	99%	4.2 years	129,200
120, 130, 134 & 140 Eileen Stubbs Avenue	Halifax	Office	95%	4.8 years	298,000

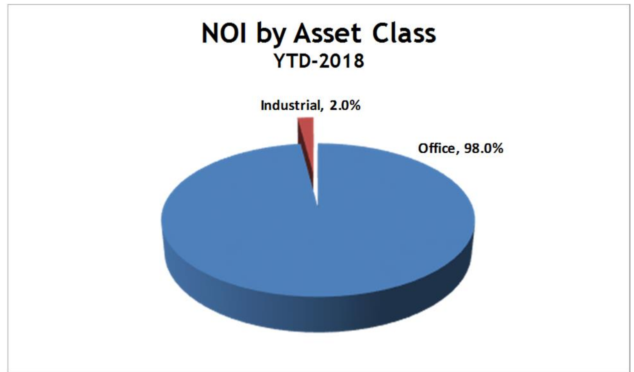
[(1)] Weighted by annualized gross revenue.

Property Name	City	Type	Occupancy	Remaining Lease Term [1]	GLA
Ontario					
1595 16th Avenue	Richmond Hill	Office	100%	3.0 years	120,200
251 Arvin Avenue	Hamilton	Office	100%	5.5 years	6,900
61 Bill Leathem Drive	Ottawa	Office	100%	4.1 years	148,100
777 Brock Road	Pickering	Office	100%	4.2 years	98,900
400 Carlingview Drive	Toronto	Office	100%	9.2 years	26,800
6865 Century Avenue	Mississauga	Office	100%	2.5 years	63,800
1161 Crawford Drive	Peterborough	Office	100%	3.2 years	32,500
197-199 Dundas Street	London	Office	40%	2.9 years	20,200
417 Exeter Road	London	Office	88%	2.7 years	35,200
520 Exmouth Street	Sarnia	Office	100%	2.9 years	34,700
529-533 Exmouth Street	Sarnia	Office	100%	1.5 years	15,400
5900 Explorer Drive	Mississauga	Office	100%	1.7 years	40,000
3115 Harvester Road	Burlington	Office	100%	2.7 years	78,800
135 Hunter Street East	Hamilton	Office	100%	4.6 years	24,400
340 Laurier Avenue West	Ottawa	Office	99%	1.9 years	279,100
400 Maple Grove Road	Ottawa	Office	100%	5.7 years	107,200
78-90 Meg Drive	London	Office	100%	1.4 years	11,300
301 & 303 Moodie Drive	Ottawa	Office	85%	5.0 years	149,300
8 Oakes Avenue	Kirkland Lake	Office	100%	3.2 years	41,000
5160 Orbitor Drive	Mississauga	Office	100%	11.3 years	31,400
534 Queens Avenue	London	Office	100%	2.5 years	19,000
231 Shearson Crescent	Cambridge	Office	100%	5.4 years	60,600
6 Staples Avenue	Richmond Hill	Office	100%	14.8 years	122,000
2300 St. Laurent Boulevard	Ottawa	Office	100%	6.2 years	37,500
3650 Victoria Park Avenue	Toronto	Office	94%	4.6 years	154,300
80 Whitehall Drive	Markham	Office	100%	9.4 years	60,800
5775 Yonge Street	Toronto	Office	96%	3.7 years	272,800
Average/Total			97%	4.3 years	3,615,050

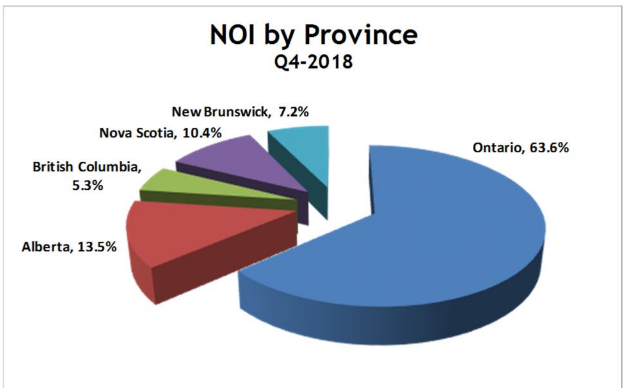
[1] Weighted by annualized gross revenue.

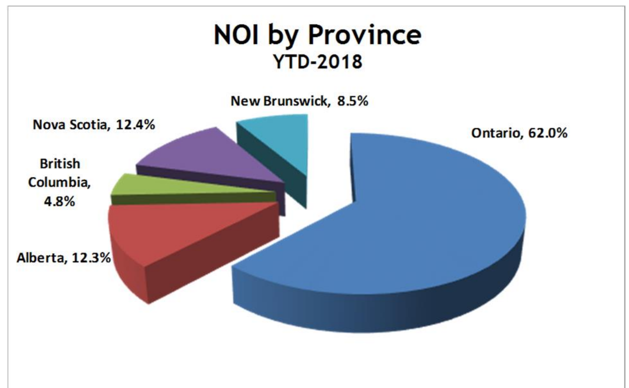
COMPOSITION BY ASSET CLASS





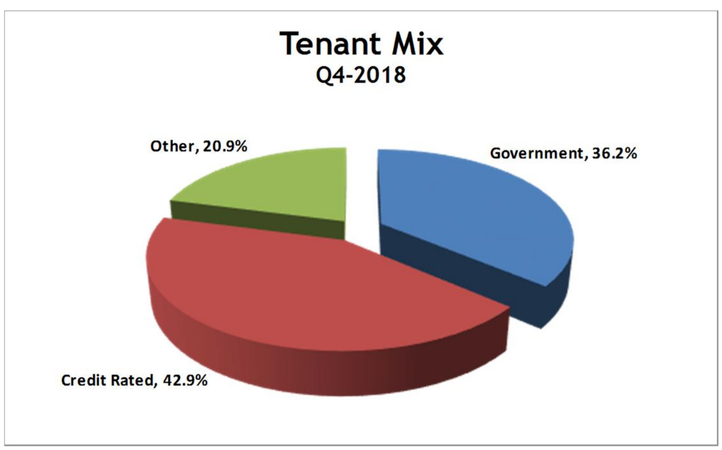
COMPOSITION BY GEOGRAPHIC REGION





TENANT MIX

The percentage of revenue generated from tenants that are government institutions, credit-rated or other was as follows:



The tenant mix is based on annualized gross revenue.

TENANT PORTFOLIO

The REIT's 10 largest tenants as at December 31, 2018.

Tenant	% of Total Gross Revenue	GLA	Remaining Lease Term [1]
Her Majesty the Queen - Correctional Services	5.3%	183,262	2.2 years
Meloche Monnex Inc.	3.7%	114,956	4.4 years
Alberta Infrastructure	3.2%	103,726	3.4 years
Lumentum Ottawa Inc.	3.2%	148,115	4.1 years
Ontario Power Generation Inc.	3.2%	98,884	4.2 years
Alberta Health Services	3.0%	70,746	5.8 years
LMI Technologies Inc.	2.9%	90,550	8.1 years
Her Majesty the Queen - Management Board Secretariat	2.8%	79,546	2.7 years
Staples Canada ULC	2.8%	121,964	14.8 years
General Dynamics Land Systems	2.8%	148,372	5.0 years
	32.9%	1,160,121	5.1 years

[1] Weighted by annualized gross revenue.

LEASE ROLLOVER PROFILE

As at December 31, 2018 the lease rollover profile of the REIT was as follows:

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

Q4 AND YTD 2018 HIGHLIGHTS

Q4 2018 HIGHLIGHTS

- Acquired two office properties located in Ottawa, Ontario and Burnaby, British Columbia totaling 128,050 square feet for $41,550 plus closing costs
- Completed the sale of two industrial properties located in Hamilton, Ontario and Waterloo, Ontario totaling 202,200 square feet for proceeds of $15,375, which were acquired for a combined purchase price of $12,400 in 2014 and 2016, respectively
- FFO and AFFO basic and diluted per Unit of $0.14 compared to $0.15 in Q4-2017
- AFFO basic and diluted payout ratio of 106% and 107% compared to 101% and 102% in Q4-2017
- Excluding the timing differential between the Unit offering in July 2018 and the deployment of funds into property acquisitions, FFO basic and diluted per Unit would be $0.15, AFFO basic and diluted per Unit would remain at $0.14, and AFFO basic and diluted payout ratios would be 105% and 106%, respectively
- Increased revenue $8,583 or 53% from Q4-2017 to $24,947
- Increased NOI $4,498 or 45% from Q4-2017 to $14,441
- Same Property NOI decreased $136 or 1.6% from Q4-2017
- Portfolio occupancy remained stable at 97%
- Government and credit-rated tenants represented 79% of revenue
- Contractually leased and renewed 62,700 square feet across the Ontario and New Brunswick portfolio with an average lease term of 6.6 years
- Indebtedness to GBV ratio increased to 57% at December 31, 2018 compared to 56% at September 30, 2018
- Weighted average fixed interest rate of 3.41% at December 31, 2018 compared to 3.37% at September 30, 2018
- Declared distributions of $9,122

YTD 2018 HIGHLIGHTS

- Completed two successful Unit offerings totaling 15,337,550 Units for aggregate gross proceeds of approximately $97,790
- Completed the acquisition of eight office properties in GTA and Ottawa, Ontario, Abbotsford and Burnaby, British Columbia and Calgary, Alberta totaling 863,150 square feet for $251,550 plus closing costs
- FFO basic and diluted per Unit of $0.59 compared to $0.62 and $0.61, respectively in YTD-2017
- AFFO basic and diluted per Unit of $0.57 compared to $0.60 and $0.59, respectively in YTD-2017
- AFFO basic and diluted payout ratios of 104% and 105% compared to 99% and 100% in YTD-2017
- Excluding the timing differential between the Unit offerings in March 2018 and July 2018 and the deployment of funds into property acquisitions, FFO basic and diluted per Unit would be $0.62, AFFO basic and diluted per Unit would be $0.60 and $0.59 per Unit, respectively, and AFFO basic and diluted payout ratio would be 99% and 100%, respectively
- Increased revenue $31,054 or 55% from YTD-2017 to $87,068
- Increased NOI $16,769 or 49% from YTD-2017 to $51,307
- Same Property NOI decreased $760 or 2.5% from YTD-2017
- Contractually leased and renewed 350,000 square feet across the Ontario and New Brunswick portfolio with an average lease term of 5.2 years
- Declared distributions of $33,045

Q4-2018 HIGHLIGHTS

ACQUISITIONS

The REIT acquired the following office properties during Q4-2018:

Property Name	Location	Acquisition Date	Property Type	Square Feet	Purchase Price
2300 St. Laurent Boulevard	Ottawa, ON	October 1, 2018	Office	37,500	$6,300
9200 Glenlyon Parkway	Burnaby, BC	November 7, 2018	Office	90,550	$35,250
Total					$41,550

On October 1, 2018, the REIT acquired a 100% occupied, 37,500 square foot office property located at 2300 St. Laurent Boulevard, Ottawa, Ontario for an aggregate purchase price of $6,300 plus closing costs. The purchase price was satisfied by the proceeds from cash on hand and mortgage financing of $4,410 with an annual interest rate of 3.92% for a five-year term.

On November 7, 2018, the REIT completed the acquisition of a fully occupied, 90,550 square foot office property located at 9200 Glenlyon Parkway, Burnaby, British Columbia for an aggregate purchase price of $35,250 plus closing costs. The purchase price was satisfied by the proceeds from cash on hand and mortgage financing of $22,550 with an annual interest rate of 4.04% for an eight-year term.

DISPOSITIONS AND REDEPLOYMENT OF PROCEEDS

On December 20, 2018, the REIT completed the sale of two industrial properties located at 63 Innovation Drive, Hamilton, Ontario and 1035 Industrial Road, Waterloo, Ontario, totaling 202,200 square feet for a sale price of $15,375. These properties were originally acquired in July 2014 and November 2016, respectively, for a combined purchase price of $12,400 and carried a fair value of $14,725 as of September 30, 2018. On February 7, 2019, the REIT redeployed the net proceeds into a 107,066 square foot office property acquisition located at 360 Laurier, Avenue West, Ottawa, Ontario for an aggregate purchase price of $24,500 plus closing costs. See “Subsequent Events”.

LEASING ACTIVITIES

The REIT contractually leased and renewed 62,700 square feet across the Ontario and New Brunswick portfolio, including an early lease renewal with Allstream Business Inc. at 5160 Orbitor Drive, Mississauga, Ontario. The renewal, totaling approximately 31,400 square feet, extends the tenant’s five year occupancy for a further ten years.

UNSECURED CREDIT FACILITY

On December 5, 2018, the REIT entered into an agreement with a Canadian chartered bank for a $20,000 unsecured revolving credit facility for a two-year term maturing on December 1, 2020. The credit facility bears interest at 325 basis points per annum above the floating bankers’ acceptance rate or 225 basis points per annum above the prime rate.

YTD-2018 HIGHLIGHTS

ACQUISITIONS

The REIT acquired eight office properties in 2018 for an aggregate purchase price of $251,550 plus closing costs:

Property Name	Location	Acquisition Date	Property Type	Occupancy	Square Feet	Purchase Price
3115 Harvester Road	Burlington	January 18, 2018	Office	100%	78,800	$22,750
5775 Yonge Street	Toronto	June 6, 2018	Office	96%	272,800	$85,150
80 Whitehall Drive	Markham, ON	August 16, 2018	Office	100%	60,800	$20,350
32071 South Fraser Way	Abbotsford, BC	August 30, 2018	Office	100%	52,300	$22,000
6 Staples Avenue	Richmond Hill, ON	September 7, 2018	Office	100%	122,000	$33,000
1020 68th Avenue NE	Calgary, AB	September 14, 2018	Office	100%	148,400	$26,750
2300 St. Laurent Boulevard	Ottawa, ON	October 1, 2018	Office	100%	37,500	$6,300
9200 Glenlyon Parkway	Burnaby, BC	November 7, 2018	Office	100%	90,550	$35,250
Total						$251,550

UNIT OFFERINGS

On March 1, 2018, the REIT completed the issuance of 6,325,000 Units at a price of $6.37 per Unit, including 825,000 Units issued on the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $40,290.

On July 20, 2018, the REIT issued 9,012,550 Units at a price of $6.38 per Unit, including 1,175,550 Units issued on the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $57,500. The net proceeds from both Unit offerings were used to fund the 2018 acquisitions.

SUBSEQUENT EVENTS

On February 7, 2019, the REIT acquired a 100% occupied, 107,066 square foot office 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 the two industrial properties in Q4-2018, cash on hand and mortgage financing of $17,000 with an annual interest rate of 3.81% for a five-year term.

On February 21, 2019, the REIT raised second mortgage financing on certain properties with three and four-year terms for aggregate proceeds of $10,750, at fixed interest rates of 3.58% and 3.68%, respectively. The mortgages are secured by second charges on the properties.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended December 31		Years ended December 31	
	2018	2017	2018	2017
Revenue	$24,947	$16,364	$87,068	$56,014
NOI	$14,441	$9,943	$51,307	$34,538
Income and comprehensive income	$19,663	$3,069	$49,620	$28,746
FFO	$8,855	$6,605	$32,747	$23,070
FFO per Unit - basic	$0.14	$0.15	$0.59	$0.62
FFO per Unit - diluted	$0.14	$0.15	$0.59	$0.61
AFFO	$8,569	$6,477	$31,575	$22,382
AFFO per Unit - basic	$0.14	$0.15	$0.57	$0.60
AFFO per Unit - diluted	$0.14	$0.15	$0.57	$0.59
AFFO payout ratio - basic	106%	101%	104%	99%
AFFO payout ratio - diluted	107%	102%	105%	100%
Units outstanding for FFO and AFFO per Unit:				
Weighted average (000s) – basic	61,387	44,168	55,204	37,484
Add: Unexercised Unit options	265	430	571	370
Weighted average (000s) – diluted	61,652	44,598	55,775	37,854

The REIT's portfolio continues to grow through acquisitions with a total of seventeen properties acquired since mid-2017, nine acquisitions in the latter half of 2017 and eight acquisitions in 2018. As a result, Q4-2018 revenue increased $8,583 or 53% from Q4-2017 and $31,054 or 55% from YTD-2017. Q4-2018 NOI increased $4,498 or 45% from Q4-2017 and $16,769 or 49% from YTD-2017.

Both FFO and AFFO per Unit were negatively impacted during the quarter and year to date as a result of the timing differential between the Unit offerings in 2018 and the deployment of funds into property acquisitions. This impacts the REIT's quarterly and year to date metrics as the results are based on a larger number of Units outstanding without the immediate benefit of increased NOI generated from property acquisitions.

Excluding this dilution, Q4-2018 FFO basic and diluted per Unit would be $0.15, AFFO basic and diluted per Unit would remain at $0.14 and basic and diluted AFFO payout ratios would be 105% and 106%. Excluding the impact of the dilution, YTD-2018 FFO basic and diluted per Unit would be $0.62, YTD-2018 AFFO basic and diluted per Unit would be $0.60 and $0.59, respectively and basic and diluted AFFO payout ratios would be 99% and 100%.

QUARTERLY INFORMATION

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

	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Revenue	$ 24,947	$ 22,501	$ 19,902	$ 19,718	$ 16,364	$ 14,017	$ 12,614	$ 13,019
Property operating costs	10,506	9,196	7,967	8,092	6,421	5,253	4,550	5,252
NOI	14,441	13,305	11,935	11,626	9,943	8,764	8,064	7,767
General and administration expenses	(644)	(783)	(854)	(819)	(742)	(613)	(557)	(657)
Finance costs	(4,836)	(4,169)	(3,610)	(3,442)	(2,846)	(2,410)	(2,185)	(2,162)
Transaction costs on sale of investment properties	(403)	-	-	-	-	-	-	-
Distributions on Class B LP Units	(634)	(634)	(634)	(634)	(638)	(639)	(640)	(639)
Fair value adjustment of Class B LP Units	4,140	86	(811)	1,067	(943)	(1,335)	(344)	86
Fair value adjustment of investment properties	7,913	2,065	(4,503)	10,605	(1,859)	5,833	(1,651)	7,740
Unrealized gain (loss) on change in fair value of derivative instruments	(314)	130	(34)	65	154	731	528	(4)
Income and comprehensive income for the period	$ 19,663	$ 10,000	$ 1,489	$ 18,468	$ 3,069	$ 10,331	$ 3,215	$ 12,131
FFO per Unit - basic	$ 0.14	$ 0.14	$ 0.15	$ 0.16	$ 0.15	$ 0.16	$ 0.16	$ 0.15
AFFO per Unit - basic	$ 0.14	$ 0.14	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15
AFFO per Unit - diluted	$ 0.14	$ 0.14	$ 0.15	$ 0.14	$ 0.15	$ 0.15	$ 0.15	$ 0.15
AFFO payout ratio - basic	106%	106%	100%	102%	101%	99%	96%	101%
AFFO payout ratio - diluted	107%	107%	101%	104%	102%	100%	97%	102%
Number of investment properties	45	45	41	40	39	33	33	30

Revenue, operating costs and NOI increased in Q4-2018 compared to Q3-2018 mainly due to a full quarter of operations from the four acquisitions completed during Q3-2018 as well as the acquisition of 2300 St.Laurent Boulevard, Ottawa, Ontario and 9200 Glenlyon Parkway, Burnaby, British Columbia in Q4-2018. Operating costs were impacted as a result of the increase in repair and maintenance and snow removal expenses. NOI increased quarter over quarter due to the acquisitions, offset by lease termination income received in Q3-2018.

General and administration expenses decreased in Q4-2018 compared to Q3–2018 due to a decrease in Unit-based compensation offset by an increase in asset management fees. Finance costs increased in Q4-2018 compared to Q3-2018 due to additional debt associated with the acquisitions completed during 2018. Transaction costs on the sale of investment properties include legal and brokerage fees.

ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three months and years ended December 31, 2018 and 2017 are summarized below.

PROPERTY OPERATIONS

	Three months ended December 31		Years ended December 31	
	2018	2017	2018	2017
Revenue	$ 24,947	$ 16,364	$ 87,068	$ 56,014
Expenses:				
Property operating costs	6,491	3,876	21,653	12,741
Realty taxes	4,015	2,545	14,108	8,735
NOI	$ 14,441	$ 9,943	$ 51,307	$ 34,538
Other income (expenses):				
General and administration expenses	(644)	(742)	(3,100)	(2,569)
Finance costs	(4,836)	(2,846)	(16,057)	(9,603)
Transaction costs on sale of investment properties	(403)	-	(403)	-
Distributions on Class B LP Units	(634)	(638)	(2,536)	(2,556)
Fair value adjustment of Class B LP Units	4,140	(943)	4,482	(2,536)
Fair value adjustment of investment properties	7,913	(1,859)	16,080	10,063
Unrealized gain (loss) on change in fair value of derivative instruments	(314)	154	(153)	1,409
Income and comprehensive income	$ 19,663	$ 3,069	$ 49,620	$ 28,746

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.

Growth in revenue, operating costs, realty tax and NOI is materially impacted by the REIT's acquisition activities. The REIT increased its portfolio by nine properties representing 1,018,000 square feet in the latter half of 2017 and eight properties totaling 863,150 square feet in 2018.

Occupancy for the property portfolio remained at 97% in Q4-2018 compared to Q3-2018.

SAME PROPERTY ANALYSIS

Same Property NOI includes investment properties that were owned for a full quarterly and yearly period in both the current and comparative period.

	Three months ended December 31, 2018		Years ended December 31	
	2018	2017	2018	2017
Number of properties	31	31	28	28
Revenue	$ 13,079	$ 13,666	$ 46,502	$ 49,077
Expenses:				
Property operating	3,309	3,265	11,974	11,770
Realty taxes	2,068	2,102	7,413	7,515
NOI	$ 7,702	$ 8,299	$ 27,115	$ 29,792
Add / (deduct):				
Amortization of leasing costs and tenant inducements	245	121	831	443
Straight-line rent	541	204	1,800	271
Same Property NOI	$ 8,488	$ 8,624	$ 29,746	$ 30,506

Same Property Occupancy

	As at December 31	
	Q4 2018	Q4 2017
Alberta	96.4%	97.3%
British Columbia	100.0%	100.0%
New Brunswick	91.1%	94.1%
Ontario	97.7%	97.3%
Total	96.0%	96.0%

Same Property NOI

	Three months ended December 31			
	2018	2017	Variance	% Variance
Alberta	$ 1,450	$ 1,557	$ (107)	(6.9%)
British Columbia	260	260	-	- %
New Brunswick	1,130	1,246	(116)	(9.3%)
Ontario	5,648	5,561	87	1.6%
	$ 8,488	$ 8,624	$ (136)	(1.6%)

Same Property NOI decreased $136 or 1.6% compared to Q4-2017 partially due to a decline in the same property occupancy in the New Brunswick portfolio from 94.1% in Q4-2017 to 91.1% in Q4-2018. In addition, the impact of the Q1-2018 renewal with Alberta Infrastructure at 855 8th Avenue SW, Calgary, Alberta at lower rental rates continued to affect the same property results. Contractually, the REIT leased 11,400 square feet in the New Brunswick portfolio for a five-year term, however the impact of this new leasing initiative has not yet been realized in the REIT's results as the lease is effective January 1, 2019.

The REIT's largest portfolio is located in Ontario and experienced an increase of $87 or 1.6% increase in Same Property NOI in Q4-2018 compared to Q4-2017.

The properties acquired in the latter half of 2017 had an occupancy rate of 93% upon acquisition which has increased to 96% at the end of 2018, the benefit of which will be recognized in future reporting periods. Management continues to be proactive in new leasing initiatives to increase average occupancy in the properties acquired in 2017 and 2018. With the significant urbanization and acquisition activities by the REIT, management expects same property results to return to levels consistent with those achieved historically.

GENERAL AND ADMINISTRATION EXPENSES

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

General and administration expenses decreased $98 or 13% in Q4-2018 compared to Q4-2017 mainly due to decrease in Unit-based compensation expense offset by an increase in asset management fees as a result of the additional properties owned by the REIT.

General and administration expenses increased $531 or 21% YTD-2018 compared to YTD-2017 due to increased asset management fees associated with the property acquisitions in the latter half of 2017 and YTD-2018 offset by a decrease in Unit-based compensation expense.

FINANCE COSTS

The REIT’s finance costs for the three months and years ended December 31, 2018 and 2017 are summarized below. Finance costs exclude both distributions and fair value adjustments on Class B LP Units.

	Three months ended December 31		Years ended December 31	
	2018	2017	2018	2017
Interest on mortgages payable	$ 4,510	$ 2,679	$ 15,050	$ 9,060
Other interest expense and standby fees	105	30	243	130
Amortization of mortgage discounts	(2)	(4)	2	(49)
Amortization of financing costs	223	141	762	462
Total finance costs	$ 4,836	$ 2,846	$ 16,057	$ 9,603

Interest on mortgages payable increased by $1,831 in Q4-2018 and by $5,990 YTD-2018 compared to QTD-2017 and YTD-2017 due to additional borrowing associated with the property acquisitions.

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 2017. Expenses increased by $75 in Q4-2018 and $113 in YTD-2018 compared to QTD-2017 and YTD-2017 as the REIT’s level of borrowings increased during those periods.

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $634 for Q4-2018 and $638 for Q4-2017 and $2,536 for YTD-2018 and $2,556 for YTD-2017.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value gain of $4,140 for Q4-2018 is due to a decrease in the trading price of the Units from $6.63 at September 30, 2018 to $5.66 at December 31, 2018. The fair value gain of $4,482 for YTD-2018 is due to a decrease in the trading price of the Units from $6.71 at December 31, 2017 to $5.66 at December 31, 2018.

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 net fair value gain was $7,913 for Q4-2018, which included an increase in investment property fair value of $12,470, offset by $4,557 of capital expenditures and capitalized acquisition costs. YTD-2018 net fair value gain of $16,080 included an increase in investment property fair value of $32,239 offset by capital expenditures and capitalized acquisition costs of $16,159.

The key valuation assumptions for the REIT’s investment properties as at December 31, 2018 and 2017 are as follows:

	2018	2017
Terminal and direct capitalization rates - range	5.00% - 10.25%	5.50% - 10.25%
Terminal and direct capitalization rate - weighted average	6.45%	6.84%
Discount rates - range	5.75% - 10.25%	6.00% - 10.25%
Discount rate - weighted average	7.26%	7.54%

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, 2018 were $66,712 (December 31, 2017 - $69,053). Unrealized loss on change in the fair value of the derivative instruments totaled $314 in Q4-2018 ($153 – YTD-2018) compared to an unrealized gain of $154 in Q4-2017 ($1,409 – YTD-2017).

FFO AND AFFO RECONCILIATIONS

FFO

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

	Three months ended December 31		Years ended December 31	
	2018	2017	2018	2017
Income and comprehensive income	$ 19,663	$ 3,069	$ 49,620	$ 28,746
Add / (deduct):				
Fair value adjustment of Unit-based compensation	(415)	129	(389)	261
Transaction costs on sale of investment properties	403	-	403	-
Fair value adjustment of investment properties	(7,913)	1,859	(16,080)	(10,063)
Fair value adjustment of Class B LP Units	(4,140)	943	(4,482)	2,536
Distributions on Class B LP Units	634	638	2,536	2,556
Unrealized loss (gain) on change in fair value of derivative instruments	314	(154)	153	(1,409)
Amortization of leasing costs and tenant inducements	309	121	986	443
FFO	$ 8,855	$ 6,605	$ 32,747	$ 23,070
FFO per Unit - basic	$0.14	$0.15	$0.59	$0.62
FFO per Unit - diluted	$0.14	$0.15	$0.59	$0.61
Weighted average Units outstanding:				
Basic - (000s)	61,387	44,168	55,204	37,484
Add:				
Unexercised Unit options	265	430	571	370
Diluted - (000s)	61,652	44,598	55,775	37,854

Revenue, FFO and AFFO grew exponentially primarily due to the contribution from acquisitions in 2017 and 2018. FFO increased $2,250 or 34% in Q4-2018 compared to Q4-2017 ($9,677 or 42% compared to YTD-2017).

FFO per Unit was negatively impacted during the quarter and year to date as a result of the timing differential between the Unit offerings in March and July 2018 and the deployment of funds into property acquisitions. This impacted the REIT's quarterly and year to date metrics as the results were based on a larger number of Units without the immediate benefit of increased NOI generated from property acquisitions.

FFO basic and diluted per Unit decreased to $0.14 in Q4-2018 from $0.15 in Q4-2017, and $0.59 in YTD-2018 from $0.62 and $0.61, respectively, in YTD-2017. Excluding this dilution, FFO basic and diluted per Unit would be $0.15 for Q4-2018 and $0.62 in YTD-2018.

AFFO

Reconciliation of FFO to AFFO is as follows:

	Three months ended December 31		Years ended December 31	
	2018	2017	2018	2017
FFO	$ 8,855	$ 6,605	$ 32,747	$ 23,070
Add / (deduct):				
Non-cash compensation expense	26	26	106	101
Amortization of financing costs	223	141	762	462
Amortization of mortgage discounts	(2)	(4)	2	(49)
Instalment note receipts	45	48	186	235
Straight-line rent	377	135	1,107	171
Capital reserve (1)	(955)	(474)	(3,335)	(1,608)
AFFO	$ 8,569	$ 6,477	$ 31,575	$ 22,382
AFFO per Unit - basic	$0.14	$0.15	$0.57	$0.60
AFFO per Unit - diluted	$0.14	$0.15	$0.57	$0.59
Distributions declared	$ 9,122	$ 6,760	$ 33,045	$ 22,544
AFFO payout ratio - basic	106%	101%	104%	99%
AFFO payout ratio - diluted	107%	102%	105%	100%

Notes:

(1) Based on an estimate of $100 (2017 - $0.75) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

Q4-2018 AFFO increased $2,092 or 32% compared to Q4-2017 ($9,193 or 41% compared to YTD-2017). AFFO per Unit and AFFO basic and diluted payout ratios were negatively impacted by the timing differential in the REIT's Unit offerings in March and July 2018 and the deployment of funds into property acquisitions. This impacts the REIT's quarterly and year to date metrics as the results are based on a larger number of Units outstanding without the immediate benefit of increased NOI generated from property acquisitions.

Excluding this timing differential, AFFO basic and diluted per Unit would remain at $0.14 per Unit in Q4-2018 but YTD-2018 would be $0.60 and $0.59 per Unit, respectively. Basic and diluted AFFO payout ratio would be 105% and 106% for Q4-2018, respectively, and 99% and 100% for YTD-2018, respectively.

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 generated by operations and available for distribution to Unitholders. See "Distributions".

	Three months ended December 31		Years ended December 31	
	2018	2017	2018	2017
Adjusted cash flow provided by operating activities	$ 11,544	$ 3,950	$ 38,500	$ 21,409
Non-cash compensation expense	(25)	3	(95)	11
Change in finance costs payable	(128)	(176)	(482)	(210)
Instalment note receipts	45	48	186	235
Capital reserve (1)	(955)	(474)	(3,335)	(1,608)
Change in non-cash operating working capital	(1,912)	3,126	(3,199)	2,545
AFFO	$ 8,569	$ 6,477	$ 31,575	$ 22,382

Notes:

(1) Based on an estimate of $1.00 (2017 - $0.75) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

AFFO of $8,569 was less than distributions declared by $553 and exceeded distributions paid by $517 in Q4-2018. AFFO of $31,575 was less than distributions declared by $1,470 and exceeded distributions paid by $2,146 for YTD-2018. The shortfall in AFFO from distributions declared is due to the timing of the Unit offerings and the deployment of funds into property acquisitions. Distributions declared were based on a larger number of Units outstanding without the immediate benefit of increased NOI generated from property acquisitions. The REIT has deployed all proceeds from the Unit offerings into property acquisitions and expects to be able to fund distributions from cash flow provided by operating activities on a go forward basis.

CAPITAL RESERVE

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

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

In 2018, the REIT increased its annual normalized capital reserve from $0.75 per square foot per annum to $1.00 per square foot per annum.

DISTRIBUTIONS

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

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

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

	Three months ended December 31	Years ended December 31		
	2018	2018	2017	2016
Distributions declared	$ 9,122	$ 33,045	$ 22,544	$ 15,180
Less: DRIP	(1,070)	(3,616)	(2,849)	(2,641)
Cash distributions paid	$ 8,052	$ 29,429	$ 19,695	$ 12,539

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		
	2018	2018	2017	2016
Income (loss) and comprehensive income (loss)	$ 19,663	$ 49,620	$ 28,746	$ (101)
Cash flow provided by operating activities	16,031	53,311	30,389	24,347
Less: Interest paid	(4,487)	(14,811)	(8,980)	(7,349)
Adjusted cash flow provided by operating activities	11,544	38,500	21,409	16,998
Declared basis:				
Excess (shortfall) of income (loss) and comprehensive income (loss) over distributions	10,541	16,575	6,202	(15,281)
Excess (shortfall) of adjusted cash flow provided by operating activities over declared distributions	2,422	5,455	(1,135)	1,818
Cash basis:				
Excess (shortfall) of income (loss) and comprehensive income (loss) over cash distributions	11,611	20,191	9,051	(12,640)
Excess of adjusted cash flow provided by operating activities over cash distributions	3,492	9,071	1,714	4,459

For Q4-2018, adjusted cash flow provided by operating activities exceeded declared distributions by $2,422 and cash distributions by $3,492. For YTD-2018, adjusted cash flow provided by operating activities exceeded distributions declared by $5,455 and cash distributions paid by $9,071. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

ANALYSIS OF FINANCIAL POSITION

INVESTMENT PROPERTIES

The following table summarizes changes in the REIT's investment properties for the years ended December 31, 2018 and 2017:

	Investment Properties
Balance at December 31, 2016	$ 427,078
Acquisitions	216,333
Additions	4,054
Amortization of leasing costs, tenant inducements and straight-line rents	199
Fair value adjustment	10,063
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 & DISPOSITIONS

During 2018, the REIT acquired eight properties for an aggregate purchase price of $251,550 plus closing costs and disposed of two properties for proceeds of $15,375. The REIT funded these acquisitions from the proceeds of the Unit offerings and a combination of assumed and new mortgage financing. The acquisitions have been accounted for as asset acquisitions. The net proceeds of the dispositions were redeployed into a property acquisition subsequent to year end. See "Subsequent Event".

ADDITIONS

Additions to investment properties for the year ended December 31, 2018 were $8,917, consisting of the following:

- Capital expenditures of $2,553 for elevator modernizations, parking upgrades, heating and air-conditioning upgrades and roof replacements at certain properties; and
- Tenant inducements and leasing costs of $6,364, which include costs incurred to improve space for tenant retention, as well as 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.

The following tables summarize the instalment notes receivable and principal receipts for the year ended December 31, 2018:

Balance at December 31, 2017	$	744
Principal receipts on instalment notes receivable		(151)
Balance at December 31, 2018	$	593

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

		Principal receipts		Imputed interest receipts
2019		134		43
2020		117		47
2021		97		46
2022		62		36
2023		54		37
Thereafter		129		112
	$	593	$	321

PREPAID EXPENSES AND OTHER ASSETS

At December 31, 2018, the REIT had $2,738 in prepaid expenses and deposits, compared to $3,082 at December 31, 2017. The decrease is due to the decrease in prepaid realty taxes and a reduction in deposit amounts related to property acquisitions.

LIABILITIES

As at December 31, 2018, the overall leverage, as represented by the ratio of Indebtedness to GBV was 56.5% compared to 57.2% at December 31, 2017. 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, 2018 and 2017.

		December 31, 2018		December 31, 2017
Total assets	$	939,353	$	674,441
Deferred financing costs		4,158		3,339
GBV	$	943,511	$	677,780
Mortgages payable		527,196		386,290
Credit Facilities		3,800		-
Unamortized financing costs and mark to market mortgage adjustments		2,464		1,718
Indebtedness	$	533,460	$	388,008
Indebtedness to GBV		56.5%		57.2%

The REIT's objectives are to maintain a combination of short, medium and long-term debt maturities 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, 2018, 0.7% (December 31, 2017 – 0%) of the REIT's debt was at floating rates.

ADJUSTED EBITDA AND INTEREST COVERAGE RATIO

Adjusted EBITDA is a metric used to assess the REIT's ability to service its debt. Adjusted EBITDA removes the non-cash impact of fair value changes and non-recurring items.

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

	December 31, 2018	December 31, 2017
Income and comprehensive income	$ 49,620	$ 28,746
Add /(deduct):		
Interest expense	15,293	9,190
Fair value adjustment of Unit-based compensation	(389)	261
Transaction costs on sale of investment properties	403	-
Fair value adjustment of investment properties	(16,080)	(10,063)
Fair value adjustment of Class B LP Units	(4,482)	2,536
Distributions on Class B LP Units	2,536	2,556
Unrealized loss (gain) on change in fair value of derivative instruments	153	(1,409)
Amortization of leasing costs, tenant inducements, mortgage premium (discounts) and financing costs	1,750	856
Adjusted EBITDA	**$ 48,804**	**$ 32,673**

Adjusted EBITDA is also used to monitor the REIT's interest coverage ratio, to assess the REIT's ability to service the interest requirements of its outstanding debt. The following shows the calculation for the years ended December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Adjusted EBITDA	$ 48,804	$ 32,673
Interest expense	15,293	9,190
Interest coverage ratio	3.19x	3.56x

MORTGAGES PAYABLE

The following table sets out, as at December 31, 2018, 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	Scheduled interest payments	Percentage of total mortgages payable
2019	15,329	31,551	46,880	17,641	8.9%
2020	12,855	76,399	89,254	14,645	16.9%
2021	12,181	26,737	38,918	13,332	7.3%
2022	9,855	152,690	162,545	10,885	30.7%
2023	3,572	134,811	138,383	4,245	26.1%
Thereafter	7,114	46,566	53,680	6,494	10.1%
	$ 60,906	$ 468,754	529,660	$ 67,242	100.0%
Unamortized mark to market mortgage adjustments			293		
Unamortized financing costs			(2,757)		
			$ 527,196		

The mortgages have a weighted average fixed interest rate of 3.41% (December 31, 2017 – 3.22%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.85 years (December 31, 2017 – 3.62 years).

CREDIT FACILITIES

On April 16, 2018, the REIT restructured its floating rate revolving credit facilities into one credit facility with a Canadian chartered bank for $30,000 and on December 5, 2018 the REIT entered into a new agreement with a Canadian chartered bank for $20,000 unsecured revolving credit facility ("Credit Facilities").

The $30,000 secured credit facility bears interest on cash advances at 205 basis points per annum over the floating banker's acceptance rate or 100 basis points above the prime rate and matures on February 28, 2020. As at December 31, 2018, $3,800 was drawn from the credit facility (December 31, 2017 - $0).

The $20,000 unsecured revolving credit facility bears interest at 325 basis points per annum above the floating bankers' acceptance rate or 225 basis points per annum above the prime rate and matures on December 1, 2020. This credit facility was undrawn as at December 31, 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, 2018 and 2017 there were 4,268,837 Class B LP Units issued and outstanding. The Class B LP Units were valued at $24,162 as at December 31, 2018 compared to $28,644 as at December 31, 2017. The change in value is due to a decrease in the Unit price from $6.71 at December 31, 2017 to $5.66 at December 31, 2018.

There have been no changes in the Class B LP Units outstanding as of March 13, 2019.

CONTRACTUAL MATURITIES

The contractual maturities and repayment obligations of the REIT's financial liabilities excluding Class B LP Units as at December 31, 2018 are as follows:

	2019	2020	2021	2022	2023+	Total
Mortgages payable	$ 46,880	$ 89,254	$ 38,918	$ 162,545	$ 192,063	$ 529,660
Mortgage interest payable	17,641	14,645	13,332	10,885	10,739	67,242
Credit facilities	3,800	-	-	-	-	3,800
Tenant rental deposits and prepayments	4,526	-	-	-	-	4,526
Accounts payable and accrued liabilities	16,579	-	-	-	-	16,579
	$ 89,426	$ 103,899	$ 52,250	$ 173,430	$ 202,802	$ 621,807

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, 2018:

	Units	Amount
Balance at December 31, 2017	41,287,734	$ 245,259
Issuance of Units - public offerings	15,337,550	97,790
Issuance of Units - non-executive Trustee Unit issuance plan	14,660	92
Issuance of Units - DRIP	575,786	3,616
Issuance of Units - options exercised	913	6
Issuance costs	-	(5,722)
Balance at December 31, 2018	57,216,643	$ 341,041

The number of Units outstanding as of March 13, 2019 is as follows:

	Units
Balance at December 31, 2018	57,216,643
Issuance of Units - DRIP	139,482
Balance at March 13, 2019	57,356,125

NORMAL COURSE ISSUER BID (“NCIB”)

On December 5, 2017, the REIT renewed its NCIB for a further twelve months. Pursuant to the renewal, the REIT has the ability to purchase for cancellation up to a maximum of 100,000 Units. The NCIB was effective on December 8, 2017 and expired on December 7, 2018.

During YTD-2018, nil Units (YTD-2017 – nil) were repurchased under the NCIB.

SHORT FORM BASE SHELF PROSPECTUS

Under the REIT’s short-form base shelf prospectus which expired on May 27, 2018, the REIT issued 6,325,000 Units for gross proceeds of $40,290 on March 1, 2018. During 2017, the REIT issued 11,555,250 Units for gross proceeds of $72,413.

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.

On July 20, 2018, the REIT issued 9,012,550 Units for gross proceeds of $57,500 pursuant to the Prospectus.

UNIT OPTIONS

The total number of Units reserved under the REIT’s Unit-based compensation plan may not exceed 10% of the Units and Class B LP Units outstanding. Options outstanding at December 31, 2018 consist of the following:

Exercise price (1)	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.15	480,000	480,000	January 8, 2020
$6.04	195,000	129,994	August 5, 2021
$6.28	247,500	164,991	November 14, 2021
$6.17	280,000	93,328	August 11, 2022
$6.44	306,500	102,161	November 16, 2022
$6.43	322,500	-	March 9, 2023
$6.66	329,000	-	September 20, 2023
	2,160,500	970,474	

(1) In actual dollars.

LIQUIDITY AND CAPITAL INVESTMENT

LIQUIDITY

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

The REIT expects to be able to meet all of its obligations, including distributions to Unitholders, and capital expenditure requirements as they become due and to provide for the future growth of the business. The REIT has a number of financing sources available to fulfill its commitments including: (i) cash flow from operating activities; (ii) mortgage debt secured by investment properties; (iii) the Credit Facilities; and (iv) issuances of debt and equity.

CASH FLOW

The following table details the changes in cash and cash equivalents:

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Cash provided by operating activities	$ 16,031	$ 6,483	$ 53,311	$ 30,389
Cash used in investing activities	(38,819)	(161,449)	(233,463)	(220,108)
Cash provided by financing activities	14,194	130,684	175,228	172,351
Decrease in cash and cash equivalents	(8,594)	(24,282)	(4,924)	(17,368)
Cash and cash equivalents, beginning of period	11,086	31,698	7,416	24,784
Cash and cash equivalents, end of period	$ 2,492	$ 7,416	$ 2,492	$ 7,416

Cash provided by operating activities increased in Q4-2018 and YTD-2018 compared to Q4-2017 and YTD-2017 primarily due to increased NOI resulting from the properties acquired in the latter half of 2017 and in 2018.

Cash used in investing activities in Q4-2018 and YTD-2018 relates to the acquisition and disposition activities completed in 2018.

Cash provided by financing activities in Q4-2018 includes mortgage proceeds associated with the acquisitions in Q4-2018 and proceeds from the Credit Facilities. Cash provided by financing activities in YTD-2018 includes Unit offerings completed in March and July 2018, financing costs paid associated with mortgages from the acquisitions and distributions to Unitholders of $7,538 in Q4-2018 and $26,626 for YTD-2018.

CAPITAL INVESTMENT

The REIT's properties require ongoing capital expenditures and leasing expenditures. Leasing expenditures include the cost of tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in all its properties throughout 2018 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the year ended December 31, 2018 and 2017, the REIT invested $8,917 and $4,054 respectively, in capital and leasing expenditures.

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, 2018, the REIT had entered into commitments for building renovations totaling $1,040 (December 31, 2017 - $330).

At December 31, 2018, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

ARRANGEMENTS WITH STARLIGHT

Pursuant to the asset management agreement dated December 14, 2012 ("Asset Management Agreement"), which was assigned to a Starlight affiliate effective January 1, 2018, Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the REIT's CEO and Chief Financial Officer ("CFO") and an experienced team of real estate professionals from Starlight.

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

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

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

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

(b) Acquisition fee equal to:

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

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

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

In addition, the REIT is required to reimburse Starlight for all reasonable and necessary out-of-pocket costs and 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 costs incurred for the three months and years ended December 31, 2018 and 2017:

	Three months ended December 31		Year ended December 31	
	2018	2017	2018	2017
Asset management fees	$ 774	$ 485	$ 2,625	$ 1,645
Acquisition fees	208	1,277	2,008	1,813
Other expenses	76	46	142	159
Total	$ 1,058	$ 1,808	$ 4,775	$ 3,617

At December 31, 2018, $277 (December 31, 2017 - $197) 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, 2018 and 2017.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed below and the REIT's AIF. The AIF is available on SEDAR at www.sedar.com.

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 MATTERS

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 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.

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 (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) at floating interest rates or having maturities less than one year.

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 4.3 years. Approximately 79% 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, 2018, 0.7% (December 31, 2017 – 0%) of the REIT's debt was at floating rates.

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.

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 of 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 2019 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 2018.

SIGNIFICANT OWNERSHIP BY STARLIGHT

As of the date hereof, Daniel Drimmer and his affiliates holds an approximate 9.1% 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.

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.

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 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 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, 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 utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals.

UNIT OPTION PLAN

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

FINANCIAL INSTRUMENTS

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

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

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

Transaction costs that are directly attributable to the acquisition or issuance of financial assets or liabilities, other than financial assets and liabilities measured at FVTPL, are accounted for as part of the carrying amount of the respective asset or liability at inception. Transaction costs related to financial instruments measured at amortized cost are amortized using the effective interest rate ("EIR") 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.

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 standards and amendments to standards effective January 1, 2018.

IFRS 9, Financial Instruments ("IFRS 9"):

The REIT adopted IFRS 9 on January 1, 2018 which introduces a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. Upon transition to IFRS 9, the REIT's financial assets previously classified as loans and receivables and financial liabilities previously classified as other liabilities under IAS 39 are now classified as amortized cost. The financial assets and financial liabilities previously classified as fair value through profit or loss continue to be categorized as fair value through profit and loss.

There were no changes in the measurement attributes for any of the REIT's financial assets and financial liabilities upon transition to IFRS 9 and adoption of the new expected credit loss impairment model did not result in any change to the REIT's allowance for impairment.

IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

The REIT adopted IFRS 15 on January 1, 2018 on a modified retrospective basis. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. As the REIT's most material revenue stream, rental revenue, is outside the scope of the new standard, the adoption of IFRS 15 did not have material impact to the audited annual consolidated financial statements. Service components, including the recovery of costs within lease arrangements, fall within the scope of IFRS 15; however the REIT has concluded that the pattern of revenue recognition is unchanged.

IAS 40, Investment Property ("IAS 40"):

The REIT adopted IAS 40 on January 1, 2018 on a retrospective basis. IAS 40 requires an asset to be transferred to or from investment property only when there is a change in use. A change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The adoption of IAS 40 did not have an impact to the financial statements.

The following new standard has been issued but not yet effective and accordingly, it has not been applied in preparing the annual audited consolidated financial statements.

IFRS 16, Leases ("IFRS 16"):

IFRS 16, Leases, 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.

IFRS 16 is not yet effective for the three months and year ended December 31, 2018 and, accordingly has not been applied in preparing these annual audited consolidated financial statements. The REIT intends to adopt this standard on its effective date of January 1, 2019.

The REIT has assessed the impact of the new standard and there are no significant changes expected 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, 2018.

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, 2018.

OUTLOOK

On March 6th, 2019, the Bank of Canada ("BoC") left the targeted overnight rate unchanged for the third straight meeting, after announcing in October 2018 that a further 4 to 5 hikes were to be expected before the end of 2019, a forecast which is looking less likely given the recent negative economic returns from Q4-2018 and January 2019.

In leaving the rate at 1.75%, the BoC's January 2019 Monetary Policy Report pointed to the common concern of the Canadian economy, the outsized influence of the oil and gas sector, which has seen benchmark prices fall by 25% since the October 2018 announcement was made and has had a suppressive effect on both growth and inflation. An additional drag on the outlook is from household consumer spending and housing activity as the previous 5 rate hikes since 2017 have had a larger than anticipated effect on households, combined with tighter mortgage guidelines and local Government interventions aimed at cooling the housing market.

Outside the Oil and Gas industry, the BoC reports that the balance of Canadian economy is performing close to capacity, with strong employment and wage growth, and a 40-year low unemployment rate. Exports and non-energy investments are similarly robust in their outlook, with global trade issues becoming less pronounced as agreements such as CUSMA, with Europe and Pacific nations provide optimism for above average potential growth once oil prices recover.

Canadian economic growth in terms of Real GDP has seen its forecast lowered to 1.7% for 2019, down from the previous forecast of 2.1%, yet recovering to 2.1% in 2020. Inflation dropped to 2.0% in Q4-2018, lower than previously forecasted 2.3% as a result of oil prices. The new forecast is for the inflation rate to remain just below 2.0% through 2020. Given this weakness the BoC has removed any mention of further rate hikes in 2019, although not explicitly ruling them out either.

Specific to the Canadian Office market, records continued to be broken in 2018. Highlights included $49.3 billion of investment in commercial properties, 14.6 million sq. ft. of new office space under construction, and fundamentals in all markets at or approaching record levels.[1]

In the REIT's primary markets, the outlook reflects the National optimism. Victoria has seen record levels of absorption from Technology and Government tenants, and the upward pressure in rents is not finding sufficient relief in new construction, despite record number of projects under way.

Ottawa and Halifax, like Victoria, are being fueled by Technology and Government users driving the leasing market, and the lack of new product is driving rental rates up and vacancy down. Halifax is seeing progressively lower vacancy rates and higher rental rates as the Atlantic Growth Strategy and Ocean Supercluster projects begin to bear results.

In Calgary and Edmonton, the economy continues to recover from the 2015 recession, and investment activity is returning, encouraged by rising rents and positive absorption for the first time in 4 years.

Toronto continues to outperform, setting records for investment volume ($18 billion in 2018), lowest vacancy rates (2.7%), and record levels of pre-leased office construction (61.5% of 7.3 million sq. ft. being built is already leased). This strength is underpinned by continued population and job growth, facilitated by unprecedented condominium construction over the past decade.

[1] CBRE Real Estate Market Outlook 2019. https://researchgateway.cbre.com/Layouts/GKCSearch/DownLoadPublicUrl.ashx; Accessed March 6, 2019.

Management maintains our view that overall real estate fundamentals will remain stable throughout 2019 as Canada remains a strong and stable economy, and a safe-haven for global capital. There have been indications over the past few months that while bond yields have been falling, mortgage spreads have risen approximately 25 bps, leaving overall borrowing rates neutral to 2018 pricing. The global supply of debt capital seeking Canadian assets will help to keep borrowing rates near historic lows, and lenders accommodating in their underwriting.

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 13, 2019
Toronto, Ontario, Canada