

Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

**TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT
TRUST**

Three and six months ended June 30, 2018 and 2017
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	June 30, 2018	December 31, 2017
Assets		
Non-current assets:		
Investment properties (note 4)	\$ 780,850	\$ 657,727
Instalment notes receivable (note 5)	524	593
Deposits	723	454
Derivative instruments (note 12)	465	580
Total non-current assets	782,562	659,354
Current assets:		
Derivative instruments (note 12)	288	142
Tenant and other receivables (note 6)	1,700	3,568
Prepaid expenses and deposits	3,045	3,082
Instalment notes receivable (note 5)	142	151
Restricted cash (note 7)	228	728
Cash and cash equivalents	2,642	7,416
Total current assets	8,045	15,087
Total assets	\$ 790,607	\$ 674,441
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	\$ 421,913	\$ 345,970
Class B LP Units (note 9)	28,388	28,644
Total non-current liabilities	450,301	374,614
Current liabilities:		
Mortgages payable (note 8)	27,579	40,320
Credit facility (note 10)	2,600	–
Tenant rental deposits and prepayments	3,760	2,566
Accounts payable and accrued liabilities (note 11)	12,278	8,744
Total current liabilities	46,217	51,630
Total liabilities	496,518	426,244
Unitholders' equity (note 13)	294,089	248,197
Total liabilities and unitholders' equity	\$ 790,607	\$ 674,441

Subsequent events (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on August 8, 2018.

"William J. Biggar" _____ Trustee

"Roland A. Cardy" _____ Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2018 and 2017
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Revenue	\$ 19,902	\$ 12,614	\$ 39,620	\$ 25,633
Expenses:				
Property operating	4,731	2,613	9,643	5,874
Realty taxes	3,236	1,937	6,416	3,928
Income before the undernoted	11,935	8,064	23,561	15,831
Other income (expenses):				
General and administration expenses	(854)	(557)	(1,673)	(1,214)
Finance costs (note 15)	(3,610)	(2,185)	(7,052)	(4,347)
Distributions on Class B LP Units (note 9)	(634)	(640)	(1,268)	(1,279)
Fair value adjustment of Class B LP Units (note 9)	(811)	(344)	256	(258)
Fair value adjustment of investment properties (note 4)	(4,503)	(1,651)	6,102	6,089
Unrealized gain (loss) on change in fair value of derivative instruments (note 12)	(34)	528	31	524
Net income and comprehensive income for the period	\$ 1,489	\$ 3,215	\$ 19,957	\$ 15,346

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Six months ended June 30, 2018 and 2017
(Unaudited)

	Trust Unit capital (note 13(b))	Cumulative income and distributions	Total
Unitholders' equity, January 1, 2017	\$ 173,494	\$ (5,820)	\$ 167,674
Changes during the period:			
Units issued, net of issue costs	360	–	360
Net income and comprehensive income for the period	–	15,346	15,346
Distributions	–	(8,716)	(8,716)
Issue of units under DRIP (note 13(e))	1,528	–	1,528
Unitholders' equity, June 30, 2017	175,382	810	176,192
Changes during the period:			
Units issued, net of issue costs	68,556	–	68,556
Net income and comprehensive income for the period	–	13,400	13,400
Distributions	–	(11,272)	(11,272)
Issue of units under DRIP (note 13(e))	1,321	–	1,321
Unitholders' equity, December 31, 2017	245,259	2,938	248,197
Changes during the period:			
Units issued, net of issue costs	37,860	–	37,860
Net income and comprehensive income for the period	–	19,957	19,957
Distributions	–	(13,560)	(13,560)
Issue of units under DRIP (note 13(e))	1,635	–	1,635
Unitholders' equity, June 30, 2018	\$ 284,754	\$ 9,335	\$ 294,089

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2018 and 2017
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Operating activities:				
Net income and comprehensive income for the period	\$ 1,489	\$ 3,215	\$ 19,957	\$ 15,346
Adjustments for financing activities included in income:				
Finance costs (note 15)	3,610	2,185	7,052	4,347
Unrealized gain (loss) on change in fair value of derivative instruments (note 12)	34	(528)	(31)	(524)
Distributions on Class B LP Units (note 9)	634	640	1,268	1,279
Fair value adjustment of Class B LP Units (note 9)	811	344	(256)	258
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	4,503	1,651	(6,102)	(6,089)
Unit-based compensation expense	143	20	78	40
Change in other non-cash operating items	(317)	83	(863)	240
Change in non-cash operating working capital (note 16)	1,486	684	4,558	(18)
Cash provided by operating activities	12,393	8,294	25,661	14,879
Investing activities:				
Acquisitions (note 3)	(88,421)	(55,285)	(100,946)	(55,285)
Additions to investment properties (note 4)	(2,415)	(1,501)	(3,377)	(2,121)
Cash used in investing activities	(90,836)	(56,786)	(104,323)	(57,406)
Financing activities:				
Proceeds from credit facilities, net of costs	2,600	6,000	2,600	6,000
Proceeds from mortgage financing, net of costs	54,696	34,207	77,690	43,026
Repayment on mortgages	–	(1,208)	(19,468)	(11,533)
Principal payments on mortgages	(2,979)	(1,983)	(5,840)	(3,867)
Principal payments on instalment notes receivable (note 5)	39	56	78	128
Finance costs paid	(3,995)	(2,557)	(7,624)	(5,125)
Change in restricted cash	–	(125)	500	(250)
Proceeds from issuance of Units, net of costs	(120)	(48)	37,813	36
Cash distributions to unitholders	(6,403)	(3,791)	(11,861)	(7,517)
Cash provided by financing activities	43,878	30,551	73,888	20,898
Decrease in cash and cash equivalents	(34,565)	(17,941)	(4,774)	(21,629)
Cash and cash equivalents, beginning of period	37,207	21,096	7,416	24,784
Cash and cash equivalents, end of period	\$ 2,642	\$ 3,155	\$ 2,642	\$ 3,155
Supplemental cash flow information:				
Units issued under DRIP – Units	\$ 693	\$ 574	\$ 1,373	\$ 1,183
Units issued under DRIP – Class B LP Units	130	164	262	345
Mortgage assumed on acquisition	–	–	10,643	–

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
(Unaudited)

Organization:

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

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the REIT since the last annual consolidated financial statements as at and for the year ended December 31, 2017. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) have been omitted or condensed.

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on August 8, 2018.

(b) Basis of presentation:

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
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1. Basis of preparation (continued):

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

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2017.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2017 except for the new accounting standards applied on January 1, 2018 as noted below:

(a) Accounting standards implemented:

The REIT implemented IFRS 9, Financial Instruments (“IFRS 9”) and IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) on January 1, 2018. The impact of these implementations are described below.

(i) IFRS 9, Financial Instruments:

The REIT adopted IFRS 9 on January 1, 2018 which introduces a new expected credit loss impairment model and 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.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
(Unaudited)

2. Significant accounting policies (continued):

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

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 a material impact to the condensed consolidated interim 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.

(b) Future accounting standards:

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, Leases, is not yet effective for the three and six months ended June 30, 2018 and, accordingly has not been applied in preparing these condensed consolidated interim 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 condensed consolidated interim financial statements.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

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3. Acquisitions:

All acquisitions completed during the three and six months ended June 30, 2018 were accounted for as asset acquisitions.

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

	3115 Harvester Road	5775 Yonge Street	Net assets acquired
Acquisition date	January 18, 2018	June 6, 2018	
Net assets acquired:			
Investment properties (including acquisition costs of \$5,212)	\$ 23,168	\$ 89,565	\$ 112,733
Other receivables	29	60	89
Prepaid expenses and other assets	8	300	308
Tenant rental deposits	(56)	(234)	(290)
Accounts payable and accrued liabilities	(148)	(1,270)	(1,418)
Net assets acquired	\$ 23,001	\$ 88,421	\$ 111,422
Consideration:			
Cash on hand	\$ 8,341	\$ 33,628	\$ 41,969
New and assumed mortgage financing, net of financing costs and discount	14,660	54,793	69,453
	\$ 23,001	\$ 88,421	\$ 111,422

The REIT did not dispose of any investment properties during the three and six months ended June 30, 2018 and 2017.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
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4. Investment properties:

The following table summarizes the changes in investment properties for the six months ended June 30, 2018 and 2017:

	Investment properties
Balance, December 31, 2016	\$ 427,078
Acquisitions	55,183
Additions	2,121
Amortization of leasing costs, tenant inducements, and straight-line rents	(196)
Fair value adjustment	6,089
Balance, June 30, 2017	490,275
Acquisitions	161,150
Additions	1,933
Amortization of leasing costs, tenant inducements, and straight-line rents	395
Fair value adjustment	3,974
Balance, December 31, 2017	657,727
Acquisitions	112,733
Additions	3,377
Amortization of leasing costs, tenant inducements, and straight-line rents	911
Fair value adjustment	6,102
Balance, June 30, 2018	\$ 780,850

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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4. Investment properties (continued):

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

	June 30, 2018	June 30, 2017
Terminal and direct capitalization rates - range	5.00% to 10.25%	6.00% to 11.50%
Terminal and direct capitalization rate - weighted average	6.77%	7.04%
Discount rates - range	6.00% to 10.25%	7.00% to 12.00%
Discount rate - weighted average	7.51%	7.25%

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

	June 30, 2018	June 30, 2017
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (23,157)	\$ (12,129)
25-basis points decrease	25,445	12,864
Weighted average discount rate:		
25-basis points increase	(22,392)	(12,228)
25-basis points decrease	23,734	12,775

5. Instalment notes receivable:

The REIT received non-interest bearing instalment notes from the vendor of certain properties acquired in December 2014. The instalment payments allow the REIT to achieve an effective interest rate of 3.3% per annum on certain assumed mortgages. These instalment notes mature on various dates co-terminously with the assumed mortgages.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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5. Instalment notes receivable (continued):

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

	June 30, 2018	December 31, 2017
Current	\$ 142	\$ 151
Non-current	524	593
Balance	\$ 666	\$ 744

6. Tenant and other receivables:

The following table presents details of the tenant and other receivables balances:

	June 30, 2018	December 31, 2017
Tenant receivables	\$ 1,508	\$ 3,293
Other receivables	192	275
	\$ 1,700	\$ 3,568

As at June 30, 2018, there is no impairment of tenant and other receivables.

7. Restricted cash:

The following table presents details of restricted cash:

	June 30, 2018	December 31, 2017
Deposits in trust	\$ 228	\$ 728

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
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8. Mortgages payable:

As at June 30, 2018, the REIT had \$451,648 (December 31, 2017 - \$388,008) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.29% (December 31, 2017 - 3.22%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.69 years (December 31, 2017 – 3.62 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2017 – six) of the REIT’s mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first and second charges on the respective properties.

As at June 30, 2018, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2018 – remainder of year	\$ 6,474	\$ 10,308	\$ 16,782	\$ 7,273
2019	12,841	32,301	45,142	13,919
2020	10,266	76,399	86,665	11,016
2021	9,459	29,003	38,462	9,779
2022	7,094	132,435	139,529	7,525
Thereafter	3,618	121,450	125,068	3,080
Face value	<u>\$ 49,752</u>	<u>\$ 401,896</u>	<u>\$ 451,648</u>	<u>\$ 52,592</u>
Unamortized mark to market mortgage adjustments (2017 - \$397)			232	
Unamortized financing costs (2017 - (\$2,115))			(2,388)	
Total mortgages payable			<u>\$ 449,492</u>	

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
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8. Mortgages payable (continued):

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

	June 30, 2018	December 31, 2017
Current:		
Mortgages payable	\$ 28,318	\$ 40,943
Unamortized mark to market mortgage adjustments	(5)	15
Unamortized financing cost	(734)	(638)
	27,579	40,320
Non-current:		
Mortgages payable	423,330	347,065
Unamortized mark to market mortgage adjustments	237	382
Unamortized financing cost	(1,654)	(1,477)
	421,913	345,970
	\$ 449,492	\$ 386,290

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

Three and six months ended June 30, 2018 and 2017
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9. Class B LP Units:

Under the terms of an exchange agreement dated December 14, 2012, the Class B LP Units are indirectly exchangeable on a one-for-one basis for Units at the option of the holder, and have economic and voting rights equivalent, in all material respects, to Units.

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2018 and 2017:

	Class B LP Units	Amount
Outstanding, December 31, 2016	4,306,337	\$ 26,355
Fair value adjustment	–	258
Outstanding, June 30, 2017	4,306,337	26,613
Class B LP Units exchanged to Units at fair value	(37,500)	(247)
Fair value adjustment	–	2,278
Outstanding, December 31, 2017	4,268,837	28,644
Fair value adjustment	–	(256)
Outstanding, June 30, 2018	4,268,837	\$ 28,388

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

10. Credit Facility:

The REIT has a credit agreement with a Canadian chartered bank for a \$30,000 floating rate revolving credit facility (the "Credit Facility"). The Credit Facility is secured by certain investment properties and matures on February 28, 2020. As at June 30, 2018, \$2,600 was drawn from the Credit Facility (December 31, 2017 – nil).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

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11. Accounts payable and accrued liabilities:

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

	June 30, 2018	December 31, 2017
Accounts payable and accrued liabilities	\$ 8,303	\$ 5,264
Finance costs payable	1,175	1,085
Distributions payable	2,370	2,044
Unit based compensation liability	430	351
	<u>\$ 12,278</u>	<u>\$ 8,744</u>

12. Derivative instruments:

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

The notional principal amounts of the outstanding interest swap contracts at June 30, 2018 were \$67,891 (December 31, 2017 – \$69,053). Total unrealized gain (loss) on change in the fair value of the derivative instruments for the three and six months ended June 30, 2018 was (\$34) and \$31, respectively.

13. Unitholders' equity:

(a) Units:

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

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13. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the six months ended June 30, 2018 and 2017:

	Units	Amount
Balance, December 31, 2016	29,147,854	\$ 173,494
Issue of Units – non-executive Trustee Unit issuance plan	7,073	44
Issue of Units – DRIP	256,494	1,528
Issue of Units – options exercised	62,500	379
Issuance costs	–	(63)
Balance, June 30, 2017	29,473,921	175,382
Issue of Units for cash – public offering	11,555,250	72,413
Issue of Units – non-executive Trustee Unit issuance plan	6,966	46
Issue of Units – DRIP	214,097	1,321
Issue of Units – exchange of Class B LP Units (note 9)	37,500	247
Issuance costs	–	(4,150)
Balance, December 31, 2017	41,287,734	245,259
Issue of Units for cash – public offering	6,325,000	40,290
Issue of Units – non-executive Trustee Unit issuance plan	7,076	47
Issue of Units – DRIP	255,233	1,635
Issuance costs	–	(2,477)
Balance, June 30, 2018	47,875,043	\$ 284,754

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Notes to Condensed Consolidated Interim Financial Statements (continued)
(In thousands of Canadian dollars, except Unit and per Unit amounts)

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13. Unitholders' equity (continued):

(c) Unit-based compensation plan:

Under the terms of the REIT's Unit-based compensation plan (the "Plan"), the Trustees may, from time to time, at their discretion, and in accordance with TSX requirements, grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, non-transferable options to purchase Units, exercisable for a period of up to five years from the date of grant. The options vest over a three-year period beginning one year from the date of grant. The total number of Units reserved under the Plan may not exceed 10% of the Units and Class B LP Units outstanding.

The following table summarizes the changes in Unit options outstanding for the six months ended June 30, 2018 and 2017:

	Number of Unit options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Number of Unit options exercisable
Outstanding, December 31, 2016	1,570,000	\$ 6.45	2.87	732,496
Unit options exercised	(62,500)	1.60	–	–
Unit options expired and cancelled	(17,500)	6.14	–	–
Outstanding, June 30, 2017	1,490,000	6.66	2.44	834,994
Unit options expired and cancelled	(97,500)	7.45	–	–
Unit options granted	613,000	6.31	4.25	–
Outstanding, December 31, 2017	2,005,500	6.51	2.89	902,482
Unit options granted	325,000	6.43	4.69	–
Unit options expired and cancelled	(415,000)	7.64	–	–
Outstanding, June 30, 2018	1,915,500	6.26	3.37	655,822

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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13. Unitholders' equity (continued):

For the six months ended June 30, 2018 and 2017, the amount of Unit option compensation liability included in accounts payable and accrued liabilities is as follows:

Balance, December 31, 2016	\$	369
Unit options exercised		(279)
Fair value adjustment		40
Balance, June 30, 2017	\$	130
Balance, December 31, 2017	\$	351
Unit options exercised		54
Fair value adjustment		25
Balance, June 30, 2018	\$	430

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

	June 30, 2018	June 30, 2017
Average expected Unit option holding period	2.02 years	1.53 years
Average expected volatility rate	14.94 %	16.49%
Average dividend yield	8.93 %	9.61%
Average risk-free interest rate	1.79 %	0.99%

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

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13. Unitholders' equity (continued):

(d) Distributions:

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

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

For the six months ended June 30, 2018 and 2017, the REIT declared distributions of \$14,828 and \$9,995, respectively.

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

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

For the six months ended June 30, 2018 and 2017, the REIT issued 255,233 and 256,494 Units under the DRIP for a stated value of \$1,635 and \$1,528, respectively.

14. Transactions with related parties:

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

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

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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14. Transactions with related parties (continued):

- (b) Pursuant to the Asset Management Agreement, Starlight's affiliate is entitled to receive an acquisition fee in respect of properties announced to be acquired, directly or indirectly, by the REIT as a result of such properties having been presented to the REIT by Starlight's affiliate calculated as follows:
 - (i) 1.0% of the purchase price of a property, on the first \$100,000 of properties acquired in each fiscal year;
 - (ii) 0.75% of the purchase price of a property, on the next \$100,000 of properties acquired in each fiscal year; and
 - (iii) 0.50% of the purchase price on properties in excess of \$200,000 of properties acquired in each fiscal year.
- (c) An annual incentive fee is payable by the REIT equal to 15% of the REIT's funds from operations ("FFO") per Unit in excess of FFO per Unit for fiscal 2013 plus 50% of the annual increase in the weighted average consumer price index (or other similar metric, as determined by the Trustees) of the jurisdictions in which the properties are located.
- (d) Pursuant to the Asset Management Agreement, Starlight's affiliate is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of \$1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.
- (e) The REIT reimburses Starlight's affiliate for all reasonable and necessary actual out-of-pocket costs and expenses incurred by Starlight's affiliate in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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14. Transactions with related parties (continued):

The following table presents the costs incurred for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Asset management fees	\$ 598	\$ 375	\$ 1,164	\$ 739
Acquisition fees	831	536	1,059	536
Other expenses	21	32	44	87

At June 30, 2018, \$232 (December 31, 2017 - \$197) is included in accounts payable and accrued liabilities.

15. Finance costs:

The following table presents the financing costs incurred for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest on mortgages payable	\$ 3,382	\$ 2,062	\$ 6,618	\$ 4,124
Other interest expense and standby fees	48	31	90	63
Amortization of mortgage discounts	2	(13)	2	(40)
Amortization of financing costs	178	105	342	200
	\$ 3,610	\$ 2,185	\$ 7,052	\$ 4,347

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and six months ended June 30, 2018 and 2017 is as follows:

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Deposits	\$ –	\$ 23	\$ (269)	\$ 21
Tenant and other receivables	236	1,122	1,957	477
Prepaid expenses and deposits	(661)	(90)	345	(474)
Tenant rental deposits and prepayments	759	250	904	(60)
Accounts payable and accrued liabilities	1,152	(621)	1,621	18
	\$ 1,486	\$ 684	\$ 4,558	\$ (18)

17. Commitments and contingencies:

As at June 30, 2018, the REIT has entered into commitments for building renovations totalling \$729 (December 31, 2017 - \$330).

At June 30, 2018 and 2017, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended December 31, 2017.

The REIT was in compliance with all financial covenants as at June 30, 2018.

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20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

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

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

As at June 30, 2018 and December 31, 2017, the REIT's interest-bearing financial instruments were:

	Carrying value	
	June 30, 2018	December 31, 2017
Fixed-rate instruments:		
Mortgages payable	\$ 451,648	\$ 388,008
Variable-rate instruments:		
Credit Facility	\$ 2,600	\$ —

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which was mitigated by entering into interest rate swaps (note 12). An increase (decrease) of 100 basis points in interest rates at June 30, 2018 for the REIT's variable-rate instruments would have a minimal impact on net income and comprehensive income for the period.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

(ii) Credit risk:

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

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

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

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

	June 30, 2018	December 31, 2017
0 to 30 days	\$ 302	\$ 2,428
31 to 90 days	37	153
Over 90 days	222	93
Total	\$ 561	\$ 2,674

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

(b) Fair values:

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

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

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

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

June 30, 2018	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 780,850	\$ 780,850
Instalment notes receivable	–	1,038	–	1,038
Derivative instruments	–	753	–	753
	\$ –	\$ 1,791	\$ 780,850	\$ 782,641
Liabilities:				
Mortgages payable	\$ –	\$ 445,400	\$ –	\$ 445,400
Class B LP Units	28,388	–	–	28,388
Unit-based compensation	–	–	430	430
	\$ 28,388	\$ 445,400	\$ 430	\$ 474,218

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

December 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	\$ –	\$ –	\$ 657,727	\$ 657,727
Instalment notes receivable	–	1,109	–	1,109
Derivative instruments	–	722	–	722
	\$ –	\$ 1,831	\$ 657,727	\$ 659,558
Liabilities:				
Mortgages payable	\$ –	\$ 383,200	\$ –	\$ 383,200
Class B LP Units	28,644	–	–	28,644
Unit-based compensation	–	–	351	351
	\$ 28,644	\$ 383,200	\$ 351	\$ 412,195

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

(i) Investment properties:

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

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at June 30, 2018 was approximately \$1,038 (December 31, 2017 - \$1,109).

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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20. Risk management and fair values (continued):

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at June 30, 2018 was approximately \$445,400 (December 31, 2017 - \$383,200).

(iv) Class B LP Units:

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

(v) Unit-based compensation:

Unit options granted are carried at fair value, estimated using the Black-Scholes option pricing model using level 3 inputs as described in note 13(c).

(vi) Derivative instruments:

Derivative instruments, such as interest rate swaps, are valued using a valuation technique with level 2 market-observable inputs. 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.

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Notes to Condensed Consolidated Interim Financial Statements (continued)
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21. Subsequent events:

(a) Unit Offering:

On July 20, 2018, the REIT issued 9,012,550 Units at a price of \$6.38 per Unit for aggregate gross proceeds of approximately \$57,500 (the "Offering"). The REIT intends to use the net proceeds of the Offering to fund the potential acquisition of seven high-quality office properties located in strategic urban markets across Canada. Until deployed for these purposes, the REIT intends to repay indebtedness owing under the Credit Facility.

(b) Acquisitions:

On July 23, 2018, the REIT announced it had agreed to acquire a 52,000 square foot office property located at 32071 South Fraser Way, Abbotsford, British Columbia for approximately \$22,000, plus closing costs. The purchase price will be satisfied by the Offering and mortgage financing of approximately \$14,250 with an approximate interest rate of 3.75% for a five-year term. Closing is expected to be on or about August 30, 2018.

On August 7, 2018, the REIT announced it had agreed to acquire a 61,000 square foot office property located at 80 Whitehall Drive, Markham, Ontario for approximately \$20,350, plus closing costs. The purchase price will be satisfied by the Offering and mortgage financing of approximately \$12,300 with an approximate interest rate of 3.70% for a five-year term. Closing is expected to be on or about August 16, 2018.