

Consolidated Financial Statements  
(In Canadian dollars)

**TRUE NORTH COMMERCIAL  
REAL ESTATE INVESTMENT  
TRUST**

Years ended December 31, 2018 and 2017



Tel: 416 865 0200  
Fax: 416 865 0887  
www.bdo.ca

BDO Canada LLP  
222 Bay Street  
Suite 2200, PO Box 131  
Toronto ON M5K 1H1 Canada

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## Independent Auditor's Report

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To the Unitholders of True North Commercial Real Estate Investment Trust

### Opinion

We have audited the consolidated financial statements of True North Commercial Real Estate Investment Trust and its subsidiaries (the "REIT"), which comprise the consolidated statement of financial position as at December 31, 2018 and 2017, and the consolidated statements of income and comprehensive income, changes in unitholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the REIT as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the REIT in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis of Consolidated Financial Results filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis of Consolidated Financial Results prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the REIT's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the REIT or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the REIT's financial reporting process.



### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the REIT's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the REIT's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the REIT to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the REIT to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Jameson Bouffard.

*BDO Canada LLP*

Chartered Professional Accountants, Licensed Public Accountants  
Toronto, Canada  
March 13, 2019

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Consolidated Statements of Financial Position  
(In thousands of Canadian dollars)

December 31, 2018 and 2017

	2018	2017
<b>Assets</b>		
Non-current assets:		
Investment properties (note 4)	\$ 928,137	\$ 657,727
Instalment notes receivable (note 5)	459	593
Deposits	788	454
Derivative instruments (note 12)	136	580
<b>Total non-current assets</b>	<b>929,520</b>	<b>659,354</b>
Current assets:		
Derivative instruments (note 12)	434	142
Tenant and other receivables (note 6)	2,655	3,568
Prepaid expenses and deposits	2,738	3,082
Instalment notes receivable (note 5)	134	151
Restricted cash (note 7)	1,380	728
Cash and cash equivalents	2,492	7,416
<b>Total current assets</b>	<b>9,833</b>	<b>15,087</b>
<b>Total assets</b>	<b>\$ 939,353</b>	<b>\$ 674,441</b>
<b>Liabilities and Unitholders' Equity</b>		
Non-current liabilities:		
Mortgages payable (note 8)	\$ 481,184	\$ 345,970
Class B LP Units (note 9)	24,162	28,644
<b>Total non-current liabilities</b>	<b>505,346</b>	<b>374,614</b>
Current liabilities:		
Mortgages payable (note 8)	46,012	40,320
Credit facilities (note 10)	3,800	.
Tenant rental deposits and prepayments	4,526	2,566
Accounts payable and accrued liabilities (note 11)	16,579	8,744
<b>Total current liabilities</b>	<b>70,917</b>	<b>51,630</b>
<b>Total liabilities</b>	<b>576,263</b>	<b>426,244</b>
Unitholders' equity (note 13)	363,090	248,197
<b>Total liabilities and unitholders' equity</b>	<b>\$ 939,353</b>	<b>\$ 674,441</b>

Subsequent events (note 22)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Trustees on March 13, 2019.

William J. Biggar Trustee

Roland A. Cardy Trustee

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

	2018	2017
Revenue (note 15)	\$ 87,068	\$ 56,014
Expenses:		
Property operating	21,653	12,741
Realty taxes	14,108	8,735
Income before the undernoted	51,307	34,538
Other income (expenses):		
General and administration expenses	(3,100)	(2,569)
Finance costs (note 16)	(16,057)	(9,603)
Transaction costs on sale of investment properties	(403)	.
Distributions on Class B LP Units (note 9)	(2,536)	(2,556)
Fair value adjustment of Class B LP Units (note 9)	4,482	(2,536)
Fair value adjustment of investment properties (note 4)	16,080	10,063
Unrealized gain (loss) on change in fair value of derivative instruments (note 12)	(153)	1,409
<b>Net income and comprehensive income</b>	<b>\$ 49,620</b>	<b>\$ 28,746</b>

See accompanying notes to consolidated financial statements.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

	Trust Unit capital (note 13(c))	Cumulative income and distributions	Total
Unitholders' equity, January 1, 2017	\$ 173,494	\$ (5,820)	\$ 167,674
Changes during the year:			
Units issued, net of costs	68,916	.	68,916
Net income and comprehensive income for the year	.	28,746	28,746
Distributions	.	(19,988)	(19,988)
Issue of units under DRIP (note 13(f))	2,849	.	2,849
Unitholders' equity, December 31, 2017	245,259	2,938	248,197
Changes during the year:			
Units issued, net of costs	92,166	.	92,166
Net income and comprehensive income for the year	.	49,620	49,620
Distributions	.	(30,509)	(30,509)
Issue of units under DRIP (note 13(f))	3,616	.	3,616
Unitholders' equity, December 31, 2018	\$ 341,041	\$ 22,049	\$ 363,090

See accompanying notes to consolidated financial statements.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

	2018	2017
Operating activities:		
Net income for the year	\$ 49,620	\$ 28,746
Adjustments for financing activities included in income:		
Finance costs (note 16)	16,057	9,603
Unrealized loss (gain) on change in fair value of derivative instruments (note 12)	153	(1,409)
Distributions on Class B LP Units (note 9)	2,536	2,556
Fair value adjustment of Class B LP Units (note 9)	(4,482)	2,536
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	(16,080)	(10,063)
Unit-based compensation expense	(280)	261
Change in other non-cash operating items	(1,188)	(109)
Change in non-cash operating working capital (note 17)	6,975	(1,732)
Cash provided by operating activities	53,311	30,389
Investing activities:		
Acquisitions (note 3)	(231,024)	(216,054)
Proceeds from sale of investment properties (note 3)	6,478	.
Additions to investment properties (note 4)	(8,917)	(4,054)
Cash used in investing activities	(233,463)	(220,108)
Financing activities:		
Proceeds from credit facilities	3,800	.
Proceeds from new and assumed mortgage financing, net of costs	165,817	166,090
Repayment of mortgages	(29,805)	(25,481)
Principal payments on mortgages	(12,693)	(8,196)
Payments received on instalment notes receivable (note 5)	151	212
Finance costs paid	(16,826)	(10,928)
Change in restricted cash (note 7)	(652)	(500)
Proceeds from issuance of Units, net of costs	92,062	68,300
Cash distributions to unitholders	(26,626)	(17,146)
Cash provided by financing activities	175,228	172,351
Decrease in cash and cash equivalents	(4,924)	(17,368)
Cash and cash equivalents, beginning of year	7,416	24,784
Cash and cash equivalents, end of year	\$ 2,492	\$ 7,416
Supplemental cash flow information:		
Units issued under DRIP - unitholders	\$ 3,095	\$ 2,241
Units issued under DRIP - Class B LP Units	521	608
Mortgages assumed on acquisition of investment properties	25,334	.
Mortgages assumed on sale of investment properties	8,399	.
Units issued in exchange for Class B LP Units (note 9)	.	247

See accompanying notes to consolidated financial statements.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 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. ("NCGP") 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 consolidated financial statements of the REIT have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

### (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 consolidated financial statements are presented in Canadian dollars, which is the functional currency of the REIT.

These consolidated 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 of the REIT ("Unit") options and derivative instruments, which are stated at their fair values.

### (c) Critical judgments and estimates:

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimate and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.



# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 1. Basis of preparation (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any applicable future period.

### (i) Critical judgments in applying accounting policies:

The following are critical judgments management has made in the process of applying accounting policies and that have significant effect on the amounts recognized in the consolidated financial statements:

#### (a) Accounting for acquisitions:

The REIT assesses whether an acquisition is an asset acquisition or a business combination.

The REIT accounts for an acquisition as a business combination if the assets acquired and liabilities assumed constitute a business and the REIT obtains control of the business. When the cost of a business combination exceeds the fair value of the identifiable assets acquired or liabilities assumed, such excess is recognized as goodwill. Transaction related costs are expensed as incurred.

If an acquisition does not meet the definition of a business combination, the REIT accounts for the acquisition as an asset acquisition. The investment property acquired is initially measured at the purchase price, including directly attributable costs. Subsequent to initial measurement, investment properties are carried at fair value.

#### (b) Income taxes:

Under current tax legislation, a real estate investment trust is not liable to pay Canadian income taxes provided its taxable income is fully distributed to unitholders during the year. The REIT is a real estate investment trust if it meets prescribed conditions under the *Income Tax Act* (Canada) (the "Tax Act") relating to the nature of its assets and revenue (the "REIT Conditions"). The REIT has reviewed the REIT Conditions and has assessed their interpretation and application to the REIT's assets and revenue, and it has determined that it qualifies as a real estate investment trust.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 1. Basis of preparation (continued):

The REIT expects to qualify as a real estate investment trust under the Tax Act; however, should it no longer qualify it would not be able to flow-through its taxable income to unitholders and the REIT would, therefore, be subject to tax.

### (ii) Key sources of estimation uncertainty:

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

#### (a) Valuation of investment properties:

The estimates used when determining the fair value of an investment property are discount rates, terminal capitalization rates, 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, 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.

#### (b) Unit-based compensation:

The estimates used when determining the fair value of Unit-based compensation 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 to be half of the life of the respective option contract 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 zero-coupon 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, which are available using external market data and internal financial information.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 2. Significant accounting policies:

### (a) Investment properties:

Investment properties are held to earn rental income, for capital appreciation or both, but not for sale in the ordinary course of business. All of the REIT's properties are investment properties.

On acquisition, investment properties are initially recorded at cost, including transaction costs. Subsequent to initial recognition, the REIT uses the fair value model to account for investment properties under International Accounting Standard (IAS) 40, Investment Property. Under the fair value model, investment properties are recorded at fair value at the consolidated statements of financial position date. Related fair value gains and losses are recorded in profit or loss during the period in which they arise.

### (b) Restricted cash:

Restricted cash consists of cash held with restrictions pursuant to mortgage agreements.

### (c) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and deposits.

### (d) Revenue recognition:

The REIT has retained substantially all of the risks and benefits of ownership of the investment properties and, therefore, accounts for leases with its tenants as operating leases. Revenue recognition commences when the tenant has a right to use the leased asset. Generally, this occurs on the lease inception date or, where the REIT is required to make additions to the property in the form of tenant improvements or landlords work which enhance the value of the property, upon substantial completion of those improvements. The total amount of contractual rent to be received from operating leases is recognized on a straight-line basis over the term of the lease.

A straight-line rent receivable, which is included in the carrying amount of investment properties, is recorded for the difference between the rental revenue recorded and the contractual amount received.

Revenue from investment properties includes all rental income earned from the property, including rental income and all other miscellaneous income paid by the tenants under the terms of the operating leases.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 2. Significant accounting policies (continued):

Rental revenue also includes recoveries of operating expenses, including property taxes. Operating expense recoveries are recognized in the period in which recoverable costs are chargeable to tenants. Where a tenant is legally responsible for operating expenses and pays them directly in accordance with the terms of the lease, the REIT does not recognize the expenses or any related recovery revenue.

### (e) Class B LP Units:

Class B LP Units are exchangeable into Units at the option of the holder per the exchange agreement dated December 14, 2012 (the "Exchange Agreement"). The Units are puttable and, therefore, the Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments - Presentation (IAS 32). Further, the Class B LP Units are designated as fair value through profit or loss financial liabilities and are measured at fair value at each reporting period with any changes in fair value recorded in profit or loss. The fair value of the Class B LP Units is based on the quoted market price of the Units.

### (f) Trust Unit capital:

The Units are redeemable at the option of the holder and, therefore, are considered puttable instruments in accordance with IAS 32. Puttable instruments are required to be accounted for as financial liabilities, except where certain conditions are met in accordance with IAS 32, in which case, the puttable instruments may be presented as equity. The Units meet the conditions of IAS 32 and are, therefore, classified and accounted for as equity.

### (g) Unit repurchases:

If the REIT repurchases its own Units, those Units are deducted from unitholders' equity and the associated Units are cancelled. No gain or loss is recognized and the consideration paid, including any directly attributable incremental costs, is recognized in unitholders' equity.

### (h) Unit-based compensation:

The REIT has a Unit option plan, which provides holders with the right to receive Units, which are puttable. The REIT measures these amounts at fair value at the grant date, using the Black-Scholes option pricing model for options valuations. Compensation expense related to Unit-based compensation is recognized over the vesting period. The amounts are fair valued at each reporting period and the change in fair value is recognized as an expense.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 2. Significant accounting policies (continued):

Unit-based compensation is classified as a liability within accounts payable and accrued liabilities.

### (i) Income taxes:

The REIT qualifies as a mutual fund trust and real estate investment trust pursuant to the Tax Act. Under current tax legislation, a real estate investment trust is entitled to deduct distributions of taxable income such that it is not liable to pay income taxes provided its taxable income is fully distributed to unitholders. The REIT intends to continue to qualify as a real estate investment trust and to make distributions not less than the amount necessary to ensure the REIT will not be liable to pay income taxes. Accordingly, no current or deferred income taxes have been recorded in these consolidated financial statements.

### (j) 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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 2. Significant accounting policies (continued):

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 instruments	FVTP&L
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	FVTP&L
Credit facilities	Amortized cost
Tenant rental deposits and prepayments	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Unit-based compensation	FVTP&L

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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 2. Significant accounting policies (continued):

### (k) 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, Financial Instruments – Recognition and Measurement*, 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 significant change to the REIT's allowance for impairment.

#### (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 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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 2. Significant accounting policies (continued):

### (iii) IAS 40, Investment Property:

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.

### (l) Future accounting standard:

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 year ended December 31, 2018 and, accordingly has not been applied in preparing these 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 consolidated financial statements.



# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

### 3. Acquisitions and dispositions:

The following acquisitions were completed during the years ended December 31, 2018 and 2017. All acquisitions 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 for the year ended December 31, 2018 as follows:

	3115 Harvester Road	5775 Yonge Street	80 Whitehall Drive	32071 South Fraser Way	6 Staples Avenue	1020 68th Avenue NE	2300 St. Laurent Boulevard	9200 Glenlyon Parkway	Net assets acquired
Acquisition Date	Jan. 18/18	June 6/18	Aug. 16/18	Aug. 30/18	Sept. 7/18	Sept. 14/18	Oct. 1/18	Nov. 7/18	
Net assets acquired:									
Investment properties (including acquisition costs of \$7,984)	\$23,168	\$89,559	\$20,903	\$22,287	\$34,003	\$27,092	\$6,525	\$35,568	\$259,105
Other receivables	29	77	41	33	31	26	21	32	290
Prepaid expenses and deposits	8	300	27	79	64	56	28	1,259	1,821
Tenant rental deposits and prepayments	(56)	(234)	(118)	.	.	.	.	(287)	(695)
Accounts payable and accrued liabilities	(148)	(1,272)	(740)	(89)	(283)	(161)	(235)	(1,353)	(4,281)
<b>Net assets acquired</b>	<b>\$23,001</b>	<b>\$88,430</b>	<b>\$20,113</b>	<b>\$22,310</b>	<b>\$33,815</b>	<b>\$27,013</b>	<b>\$6,339</b>	<b>\$35,219</b>	<b>\$256,240</b>
Consideration:									
Proceeds from cash on hand	\$8,341	\$33,627	\$8,073	\$8,142	\$12,418	\$9,832	\$1,970	\$12,883	\$95,286
Proceeds from new and assumed mortgage financing, net of financing costs, discount and premium of \$997	14,660	54,803	12,040	14,168	21,397	17,181	4,369	22,336	160,954
	\$23,001	\$88,430	\$20,113	\$22,310	\$33,815	\$27,013	\$6,339	\$35,219	\$256,240

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

### 3. Acquisitions and dispositions (continued):

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 for the year ended December 31, 2017 as follows:

	61 Bill Leatham Drive	5160 Orbitor Drive	727 Fisgard Street	231 Shearson Crescent	301& 303 Moodie Drive	810 Blanshard Street	1595 16th Avenue	36 & 38 Solutions Drive	120, 130, 134 & 140 Eileen Stubbs Avenue	Net assets acquired
Acquisition Date	June 15/17	June 27/17	June 27/17	Oct. 19/17	Nov. 2/17	Nov. 6/17	Nov. 6/17	Nov. 15/17	Dec. 21/17	
Net assets acquired:										
Investment properties (including acquisition costs of \$5,912)	\$32,521	\$8,381	\$14,241	\$16,281	\$17,723	\$11,468	\$30,218	\$32,000	\$53,500	\$216,333
Other receivables	9	20	28	24	3	18	47	25	107	281
Prepaid expenses and other assets	337	3	11	62	121	27	66	330	416	1,373
Tenant rental deposits and prepayments	.	.	(114)	(124)	(64)	.	(96)	(136)	(267)	(801)
Accounts payable and accrued liabilities	(121)	(19)	(21)	(57)	(246)	(64)	(256)	(171)	(177)	(1,132)
<b>Net assets acquired</b>	<b>\$32,746</b>	<b>\$8,385</b>	<b>\$14,145</b>	<b>\$16,186</b>	<b>\$17,537</b>	<b>\$11,449</b>	<b>\$29,979</b>	<b>\$32,048</b>	<b>\$53,579</b>	<b>\$216,054</b>
Consideration:										
Proceeds from cash on hand	\$12,786	\$3,164	\$5,122	\$6,016	\$5,981	\$3,653	\$10,581	\$11,888	\$19,287	\$78,478
Proceeds from new mortgage financing, net of financing costs of \$969	19,960	5,221	9,023	10,170	11,556	7,796	19,398	20,160	34,292	137,576
	<b>\$32,746</b>	<b>\$8,385</b>	<b>\$14,145</b>	<b>\$16,186</b>	<b>\$17,537</b>	<b>\$11,449</b>	<b>\$29,979</b>	<b>\$32,048</b>	<b>\$53,579</b>	<b>\$216,054</b>

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

### 3. Acquisitions and dispositions (continued):

The REIT disposed of the following properties on December 20, 2018:

Property	Location	Type
63 Innovation Drive	Hamilton	Industrial
1035 Industrial Road	Waterloo	Industrial

The proceeds from the disposition of the above properties, net of costs, and mortgages assumed were \$6,478 to a combined sale price of \$15,375. These properties were acquired in July 2014 and November 2016 for \$12,400 and carried a fair value of \$14,725 as of September 30, 2018. The assets and liabilities associated with the properties have been derecognized.

### 4. Investment properties:

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

	Investment properties
Balance, 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, 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, December 31, 2018	\$ 928,137

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 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 and the direct capitalization methods, 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:

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

The fair value of the REIT's investment properties is 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:

	2018	2017
Weighted average terminal and direct capitalization rate:		
25-basis points increase	\$ (29,232)	\$ (13,399)
25-basis points decrease	32,129	15,795
Weighted average discount rate:		
25-basis points increase	(27,606)	(13,226)
25-basis points decrease	29,606	15,376

## 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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 5. Instalment notes receivable (continued):

The scheduled principal and imputed interest instalment receipts at December 31, 2018 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
	<b>\$ 593</b>	<b>\$ 321</b>

The following table provides a breakdown of the current and non-current portions of the instalment notes receivable at December 31, 2018 and 2017:

	2018	2017
Current	\$ 134	\$ 151
Non-current	459	593
	<b>\$ 593</b>	<b>\$ 744</b>

## 6. Tenant and other receivables:

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

	2018	2017
Tenant receivables	\$ 2,247	\$3,293
Other receivables	408	275
	<b>\$ 2,655</b>	<b>\$3,568</b>

As at December 31, 2018 and 2017, there is no impairment of tenant and other receivables.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 7. Restricted cash:

The following table presents details of restricted cash:

	2018	2017
Deposits in trust	\$ 1,380	\$ 728

## 8. Mortgages payable:

As at December 31, 2018, the REIT had \$529,660 (December 31, 2017 - \$388,008) of principal balances of mortgages payable outstanding. The mortgages carry a weighted average fixed interest rate of 3.41% (December 31, 2017 - 3.22%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.85 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 December 31, 2018, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Scheduled interest payments
2019	\$ 15,329	\$ 31,551	\$ 46,880	\$ 17,641
2020	12,855	76,399	89,254	14,645
2021	12,181	26,737	38,918	13,332
2022	9,855	152,690	162,545	10,885
2023	3,572	134,811	138,383	4,245
Thereafter	7,114	46,566	53,680	6,494
Face value	<u>\$ 60,906</u>	<u>\$ 468,754</u>	\$ 529,660	<u>\$ 67,242</u>
Unamortized mark to market mortgage adjustments			293	
Unamortized financing costs			(2,757)	
Total mortgages payable			<u>\$ 527,196</u>	

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 8. Mortgages payable (continued):

As at December 31, 2017, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages payable	Scheduled interest payments
2018	\$ 11,214	\$ 29,729	\$ 40,943	\$ 11,816
2019	10,877	32,301	43,178	10,738
2020	8,230	76,399	84,629	7,908
2021	7,347	29,003	36,350	6,746
2022	4,904	132,435	137,339	4,570
Thereafter	1,634	43,935	45,569	959
Face value	<u>\$ 44,206</u>	<u>\$ 343,802</u>	\$ 388,008	<u>\$ 42,737</u>
Unamortized mark to market mortgage adjustments			397	
Unamortized financing costs			(2,115)	
<b>Total mortgages payable</b>			<b>\$ 386,290</b>	

The following table provides a breakdown of current and non-current portions of mortgages payable as at December 31, 2018 and 2017:

	2018	2017
<b>Current:</b>		
Mortgages payable	\$ 46,880	\$ 40,943
Unamortized mark to market mortgage adjustments	33	15
Unamortized financing costs	(901)	(638)
	46,012	40,320
<b>Non-current:</b>		
Mortgages payable	482,780	347,065
Unamortized mark to market mortgage adjustments	260	382
Unamortized financing costs	(1,856)	(1,477)
	481,184	345,970
	<u>\$ 527,196</u>	<u>\$ 386,290</u>

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 9. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the years ended December 31, 2018 and 2017:

	Class B LP Units	Amount
Outstanding, January 1, 2017	4,306,337	\$ 26,355
Class B LP Units exchanged to Units at fair value	(37,500)	(247)
Fair value adjustment	.	2,536
Outstanding, December 31, 2017	4,268,837	28,644
Fair value adjustment	.	(4,482)
Outstanding, December 31, 2018	4,268,837	\$ 24,162

During the years ended December 31, 2018 and 2017, the distributions on Class B LP Units were \$2,536 and \$2,556, respectively, and have been recorded as an expense in the consolidated statements of income and comprehensive income.

## 10. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a secured \$30,000 floating rate revolving credit facility. The \$30,000 floating rate revolving credit facility bears interest on cash advances at 100 basis points per annum above the prime rate or 205 basis points per annum over the floating bankers' acceptance rate. The facility is secured by certain investment properties and matures on February 28, 2020. As at December 31, 2018, \$3,800 was drawn on this facility (December 31, 2017 . nil).

On December 5, 2018, the REIT entered into an agreement with a Canadian chartered bank for an unsecured \$20,000 floating rate revolving credit facility. The \$20,000 floating rate revolving credit facility bears interest on cash advances at 225 basis points per annum above the prime rate or 325 basis points per annum over the floating bankers' acceptance rate and matures on December 1, 2020. The \$20,000 credit facility was undrawn as at December 31, 2018.



# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 11. Accounts payable and accrued liabilities:

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

	2018	2017
Accounts payable and accrued liabilities	\$ 12,117	\$ 5,264
Finance costs payable	1,567	1,085
Distributions payable	2,832	2,044
Unit based compensation liability	63	351
	\$ 16,579	\$ 8,744

## 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 amount of the outstanding interest swap contracts at December 31, 2018 was \$66,712 (December 31, 2017 . \$69,053). Total unrealized loss on change in the fair value of the derivative instruments amounts to \$153 in 2018 (December 31, 2017 unrealized gain . \$1,409 in 2017).

## 13. Unitholders' equity:

(a) Units:

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units (%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.

Units are redeemable at any time, in whole or in part, on demand by the unitholders. Upon receipt of the redemption notice by the REIT, all rights to and under the Units tendered for redemption shall be surrendered and the unitholders shall be entitled to receive a price per Unit equal to the lesser of:

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 13. Unitholders' equity (continued):

- (i) 90% of the ~~market price~~ of the Units on the Exchange (as defined in the DOT) or market on which the Units are listed or quoted for trading during the ten consecutive trading days ending immediately prior to the date on which the Units were surrendered for redemption; and
- (ii) 100% of the ~~closing market price~~ on the Exchange (as defined in the DOT) or market or on which the Units are listed or quoted for trading on the redemption date.

The total amount payable by the REIT, in respect of any Units surrendered for redemption during any calendar month, shall not exceed \$50 unless waived at the discretion of the board of trustees of the REIT (~~Trustees~~) and be satisfied by way of a cash payment in Canadian dollars within 30 days after the end of the calendar month in which the Units were tendered for redemption. To the extent the Redemption Price (as defined in the DOT) payable in respect of Units surrendered for redemption exceeds \$50 in any given month, such excess will be redeemed for cash, and by a distribution *in specie* of assets held by the REIT on a *pro rata* basis.

### (b) Special Voting Units:

The DOT and the Exchange Agreement provide for the issuance of the Special Voting Units which have no economic entitlement in the REIT or in the distribution or assets of the REIT, but are used to provide voting rights proportionate to the votes of the Units to holders of the Class B LP Units. Each Special Voting Unit is not transferable separately from the Class B LP Unit to which it is attached and is automatically redeemed and cancelled upon exchange of the Class B LP Unit into a Unit.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 13. Unitholders' equity (continued):

(c) Units outstanding:

The following table summarizes the changes in Units for the years ended December 31, 2018 and 2017:

	Units	Amount
Balance, December 31, 2016	29,147,854	173,494
Issue of Units for cash . public offering	11,555,250	72,413
Issue of Units . non-executive Trustee Unit issuance plan	14,039	90
Issue of Units . DRIP	470,591	2,849
Issue of Units . options exercised	62,500	379
Issue of Units . exchange of Class B LP Units (note 9)	37,500	247
Issuance costs	.	(4,213)
Balance, December 31, 2017	41,287,734	245,259
Issue of Units for cash . public offering	15,337,550	97,790
Issue of Units . non-executive Trustee Unit issuance plan	14,660	92
Issue of Units . DRIP	575,786	3,616
Issue of Units . options exercised	913	6
Issuance costs	.	(5,722)
Balance, December 31, 2018	57,216,643	\$ 341,041

On July 20, 2018, the REIT issued of 9,012,550 Units for cash of \$57,500 pursuant to a public offering.

On March 1, 2018, the REIT issued of 6,325,000 Units for cash of \$40,290 pursuant to a public offering.

On October 20, 2017, the REIT issued 6,411,250 Units for cash of \$40,263 pursuant to a public offering.

On July 18, 2017, the REIT issued of 5,144,000 Units for cash of \$32,150 pursuant to a public offering.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 13. Unitholders' equity (continued):

(d) 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. These 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.

For the years ended December 31, 2018 and 2017, the number of Unit options outstanding were as follows:

	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	(115,000)	7.25	.	.
Unit options granted	613,000	6.31	4.75	.
Outstanding, December 31, 2017	2,005,500	6.51	2.89	902,482
Unit options exercised	(24,999)	6.17	.	.
Unit options expired and cancelled	(474,001)	7.47	.	.
Unit options granted	654,000	6.55	4.46	.
Outstanding, December 31, 2018	2,160,500	\$ 6.32	3.15	970,474

On March 9 and September 20, 2018, the REIT granted 325,000 Unit options and 329,000 Unit options at an exercise price of \$6.43 and \$6.66 per Unit option, expiring on March 9, 2023 and September 20, 2023, respectively.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 13. Unitholders' equity (continued):

On August 11 and November 16, 2017, the REIT granted 295,000 Unit options and 318,000 Unit options at an exercise price of \$6.17 and \$6.44 per Unit option, expiring on August 11, 2022 and November 16, 2022, respectively.

On March 10, 2017, 62,500 Unit options were exercised at an exercise price of \$1.60, \$379 was recorded in trust Unit capital and of this \$279 represents the fair value of the Unit-based compensation liability settled upon issuance of the Units.

Options outstanding as of December 31, 2018 consist of the following:

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

The following table summarizes for the years ended December 31, 2018 and 2017, the amount of Unit-based compensation liability included in accounts payable and accrued liabilities:

Balance, December 31, 2016	\$	369
Unit options granted		28
Unit options exercised		(279)
Fair value adjustment		233
Balance, December 31, 2017		351
Unit options expense		109
Unit options exercised		(6)
Fair value adjustment		(391)
Balance, December 31, 2018	\$	63

Unit-based compensation expense is included in general and administration expenses. The expense is determined using the Black-Sholes option pricing model.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

## 13. Unitholders' equity (continued):

	2018	2017
Average expected Unit option life	2.06 years	1.81 years
Average expected volatility rate	14.78%	15.18%
Average dividend yield	10.49%	8.85%
Average risk-free interest rate	1.84%	1.49%

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

### (e) 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 years ended December 31, 2018 and 2017, the REIT declared distributions of \$30,509 and \$19,988, respectively.

### (f) 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 years ended December 31, 2018 and 2017, the REIT issued 575,786 and 470,591 Units under the DRIP, including DRIP on the Class B LP Units for a stated value of \$3,616 and \$2,849, respectively.

### (g) Normal-Course Issuer Bid (%NCIB+):

On December 5, 2017, the TSX approved the renewal of the REIT's NCIB for a further twelve months. The REIT has the ability to purchase for cancellation up to a maximum of 100,000 of Units, representing approximately 0.27% of the REIT's public float of 36,761,708 Units through the facilities of the TSX. The NCIB commenced on December 8, 2017 and expired on December 7, 2018.

During 2018 and 2017, no Units were repurchased under the NCIB.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 13. Unitholders' equity (continued):

(h) Short form base shelf prospectus:

Pursuant to the REIT's short-form base shelf prospectus which expired on May 27, 2018, the REIT on March 1, 2018 issued 6,325,000 Units for gross proceeds of \$40,290. 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 (~~the Prospectus~~) which 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 9,012,500 Units for gross proceeds of \$57,500 pursuant to the Prospectus.

## 14. Transactions with related parties:

Starlight Group Properties Holdings Inc. (~~Starlight~~) is considered to be 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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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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~~ 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.



# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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Years ended December 31, 2018 and 2017

## 14. Transactions with related parties (continued):

The following table presents the costs incurred for the years ended December 31, 2018 and 2017:

	2018	2017
Asset management fees	\$2,625	\$ 1,645
Acquisition fees	2,008	1,813
Other expenses	142	159

Of these amounts at December 31, 2018, \$277 (December 31, 2017 - \$197) is included in accounts payable and accrued liabilities.

No incentive fees were earned or capital expenditure fees charged for the years ended December 31, 2018 and 2017.

### (f) Key management compensation:

Short-term compensation consists of salaries, bonuses, other short-term benefits and Trustee compensation. It includes short-term compensation paid by Starlight (pursuant to the Asset Management Agreement) to key REIT management personnel for the years ended December 31, 2018 and 2017 of \$550 and \$640, respectively.

Aggregate compensation for key management personnel was as follows:

	2018	2017
Short-term compensation	\$ 901	\$ 843
Unit-based compensation	15	358

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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## 15. Revenue:

The components of the REIT's revenues are as follows:

	2018	2017
Base rent	\$ 48,041	\$ 31,953
Operating costs and realty taxes recoveries	35,711	21,841
Parking and other	3,316	2,220
	<b>\$ 87,068</b>	<b>\$ 56,014</b>

Future minimum rental commitments on non-cancellable tenant operating leases are as follows:

Within one year	\$ 57,607
Later than one year and not longer than five years	143,646
Thereafter	62,254
	<b>\$ 263,507</b>

## 16. Finance costs:

The following table presents the financing costs incurred for the years ended December 31, 2018 and 2017:

	2018	2017
Interest on mortgages payable	\$ 15,050	\$ 9,060
Other interest expense and standby fees	243	130
Amortization of mortgage discounts	2	(49)
Amortization of financing costs	762	462
	<b>\$ 16,057</b>	<b>\$ 9,603</b>

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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## 17. Change in non-cash operating working capital:

The change in non-cash operating working capital for the years ended December 31, 2018 and 2017:

	2018	2017
Deposits	\$ (334)	\$ (59)
Tenant and other receivables	1,240	(1,649)
Prepaid expenses and deposits	2,160	(319)
Tenant rental deposits and prepayments	1,337	(137)
Accounts payable and accrued liabilities	2,572	432
	<b>\$ 6,975</b>	<b>\$ (1,732)</b>

## 18. Commitments and contingencies:

As at December 31, 2018, the REIT has entered into commitments for building renovations totalling \$1,040 (December 31, 2017 - \$330).

At December 31, 2018 and 2017, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

## 19. 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.

## 20. Capital management:

The REIT defines its capital as the aggregate of unitholders' equity, Class B LP Units, mortgages payable and the credit facilities. The REIT is free to determine the appropriate level of capital in context with its cash flow requirements, overall business risks and potential business opportunities. As a result of this, the REIT will make adjustments to its capital based on its investment strategies and changes to economic conditions.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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Years ended December 31, 2018 and 2017

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## 20. Capital management (continued):

The REIT's primary objectives when managing capital are to maximize Unit value through the ongoing active management of the REIT's assets and the acquisition of additional properties, which are leased to creditworthy tenants, as opportunities arise.

The REIT's strategy is also driven by policies, as set out in the DOT, as well as requirements from certain lenders. The key financial covenants, as defined in the respective agreements, are monitored by the REIT on an ongoing basis to ensure compliance with the agreements.

The REIT was in compliance with all financial covenants as at December 31, 2018 and 2017.

## 21. Risk management and fair values:

### (a) Risk management:

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

#### (i) Interest rate risk:

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

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

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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Years ended December 31, 2018 and 2017

## 21. Risk management and fair values (continued):

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

	Carrying value	
	2018	2017
Fixed-rate instruments:		
Mortgages payable	\$ 529,660	\$ 388,008
Variable-rate instruments:		
Credit facilities	\$ 3,800	\$ .

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 December 31, 2018 for the REIT's variable-rate financial instruments would have minimal impact on net income and comprehensive income for the year.

### (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 statement 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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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Years ended December 31, 2018 and 2017

## 21. Risk management and fair values (continued):

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

	2018	2017
0 to 30 days	\$ 530	\$ 2,428
31 to 90 days	54	153
Over 90 days	163	93
<b>Total</b>	<b>\$ 747</b>	<b>\$ 2,674</b>

For the year ended December 31, 2018, the Federal Government of Canada provides 21% (2017 - 34%) of the REIT's rental revenue.

### (iii) Liquidity risk:

The REIT is subject to liquidity risk whereby it may not be able to refinance or pay its debt obligations when they become due.

The REIT's debt obligations excluding Class B LP Units are due as follows:

	Total	2019	2020	2021	2022	2023	Thereafter
Mortgages payable (note 8)	\$ 529,660	\$ 46,880	\$ 89,254	\$ 38,918	\$ 162,545	\$ 138,383	\$ 53,680
Credit facilities (note 10)	3,800	3,800	.	.	.	.	.
Tenant rental deposits and prepayments	4,526	4,526	.	.	.	.	.
Accounts payable and accrued liabilities (note 11)	16,579	16,579	.	.	.	.	.
	<b>\$ 554,565</b>	<b>\$ 71,785</b>	<b>\$ 89,254</b>	<b>\$ 38,918</b>	<b>\$ 162,545</b>	<b>\$ 138,383</b>	<b>\$ 53,680</b>

Management's strategy to managing liquidity risk is to ensure, to the extent possible, it always has sufficient financial assets to meet its financial liabilities when they come due, by forecasting cash flows from operations and anticipated investing and financing activities. To mitigate the risk associated with the refinancing of maturing debt, the REIT staggers the maturity dates of its mortgage portfolio over a number of years. In addition, the REIT manages its overall liquidity risk by maintaining sufficient available credit facilities to fund its ongoing operational and capital commitments and future growth in its business.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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## 21. 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 consolidated statements of financial position as at December 31, 2018 and 2017:

2018	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment properties	\$ .	\$ .	\$ 928,137	\$ 928,137
Instalment notes receivable	.	978	.	978
Derivative instrument, net	.	570	.	570
	\$ .	\$ 1,548	\$ 928,137	\$ 929,685
<b>Liabilities:</b>				
Mortgages payable	\$ .	\$ 528,500	\$ .	\$ 528,500
Class B LP Units	24,162	.	.	24,162
Unit-based compensation	.	.	63	63
	\$ 24,162	\$ 528,500	\$ 63	\$ 552,725

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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Years ended December 31, 2018 and 2017

## 21. Risk management and fair values (continued):

2017	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Investment properties	\$ .	\$ .	\$ 657,727	\$ 657,727
Instalment notes receivable	.	1,109	.	1,109
Derivative instrument, net	.	722	.	722
	\$ .	\$ 1,831	\$ 657,727	\$ 659,558
<b>Liabilities:</b>				
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:

(a) 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.

(b) 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 December 31, 2018 was approximately \$978 (December 31, 2017 - \$1,109).



# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Years ended December 31, 2018 and 2017

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## 21. Risk management and fair values (continued):

### (c) 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 December 31, 2018 was approximately \$528,500 (December 31, 2017 - \$383,200).

### (d) 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 closing market price of the Units as a practical measure for fair value measurement of its Class B LP Units.

### (e) Unit-based compensation:

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

### (f) 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.

# TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Notes to Consolidated Financial Statements (continued)  
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## **22. Subsequent events:**

On February 7, 2019, the REIT acquired a 107,066 square foot office property located at 360 Laurier Avenue, Ottawa, Ontario for \$24,500 plus closing costs. The purchase price was satisfied by cash on hand and mortgage financing of approximately \$17,000, with an average 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.