TRUE NORTH COMMERCIAL
REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF OPERATIONS AND FINANCIAL CONDITION

FOR THE THREE MONTHS ENDED MARCH 31, 2018

May 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

CAUTION REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

NON-IFRS FINANCIAL MEASURES

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

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

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

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

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

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

Adjusted cash provided by operating activities measures the amount of sustainable cash provided by operating activities less interest expense. Adjusted cash provided by operating activities is presented in this MD&A because management considers this non-IFRS measure to be an important measure of the REIT's operating performance.

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BASIS OF PRESENTATION

The REIT's unaudited condensed consolidated interim financial statements for the three months ended March 31, 2018 and 2017 have been prepared in accordance with IFRS. The REIT's presentation currency is the Canadian dollar. Unless otherwise stated, dollar amounts expressed in this MD&A are in thousands of dollars, except for Unit and per Unit information.

Certain time periods used in this MD&A are used interchangeably such as three months ended March 31, 2018 ("Q1-2018"), three months ended March 31, 2017 ("Q1-2017"), and three months ended December 31, 2017 ("Q4-2017").

OVERVIEW AND STRATEGY

The REIT is an unincorporated, open-ended real estate investment trust established pursuant to the DOT, and governed by the laws of the Province of Ontario. The registered and head office of the REIT is 1400 – 3280 Bloor Street West, Centre Tower, Toronto, Ontario, Canada, M8X 2X3. The Units are listed on the Toronto Stock Exchange ("TSX") under the symbol TNT.UN. As at March 31, 2018, the REIT owned and operated a portfolio of 40 commercial properties consisting of approximately 3.0 million square feet across Canada.

The objectives of the REIT are to:

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

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

PORTFOLIO SUMMARY

At March 31, 2018 the REIT's portfolio was comprised of 40 commercial properties totaling approximately 3.0 million square feet of gross leasable area. The following tables highlights certain information about the REIT's properties as at March 31, 2018:

Property Name	City/Town	Type	Occupancy	Remaining Lease Term [1]	GLA
Alberta					
855 8th Avenue SW	Calgary	Office	97%	3.2 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	Office	94%	6.5 years	77,600
13140 St. Albert Trail	Edmonton	Office	100%	3.2 years	96,800
British Columbia					
810 Blanshard Street	Victoria	Office	100%	1.8 years	34,400
727 Fisgard Street	Victoria	Office	100%	1.8 years	47,600
New Brunswick					
500 Beaverbrook Court	Fredericton	Office	100%	3.9 years	55,600
295 Belliveau Avenue	Shediac	Office	100%	3.8 years	42,100
410 King George Highway	Miramichi	Office	95%	2.8 years	73,200
551 King Street	Fredericton	Office	97%	4.3 years	85,100
495 Prospect Street	Fredericton	Office	100%	3.9 years	85,000
845 Prospect Street	Fredericton	Office	100%	3.9 years	39,000
414-422 York Street	Fredericton	Office	42%	1.6 years	33,000
440-470 York Street	Fredericton	Office	90%	4.1 years	60,100
Nova Scotia					
36 & 38 Solutions Drive	Halifax	Office	100%	4.2 years	129,200
120-140 Eileen Stubbs Avenue	Halifax	Office	93%	4.7 years	298,000

Notes:

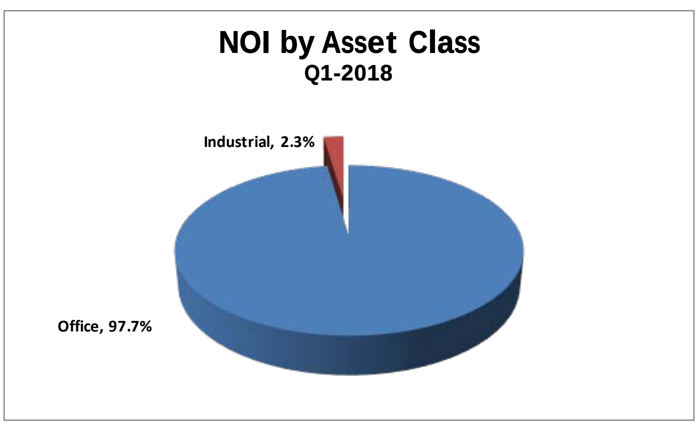
[1] Weighted by expected annualized gross revenue.

Property Name	City / Town	Type	Occupancy	Remaining Lease Term [(1)]	GLA
Ontario					
1595 16th Avenue	Richmond Hill	Office	99%	3.1 years	120,200
251 Arvin Avenue	Hamilton	Office	100%	1.2 years	6,900
61 Bill Leathem Drive	Ottawa	Office	100%	4.8 years	148,100
777 Brock Road	Pickering	Office	100%	4.9 years	98,900
400 Carlingview Drive	Toronto	Office	100%	9.9 years	26,800
6865 Century Avenue	Mississauga	Office	100%	3.3 years	63,800
1161 Crawford Drive	Peterborough	Office	100%	4.0 years	32,500
197-199 Dundas Street	London	Office	72%	1.9 years	20,200
417 Exeter Road	London	Office	77%	3.1 years	35,200
520 Exmouth Street	Sarnia	Office	100%	3.7 years	34,700
529-533 Exmouth Street	Sarnia	Office	47%	1.7 years	15,400
5900 Explorer Drive	Mississauga	Office	100%	2.4 years	40,000
3115 Harvester Road	Burlington	Office	100%	3.0 years	78,800
135 Hunter Street East	Hamilton	Office	100%	0.3 years	24,400
1035 Industrial Road	Waterloo	Industrial	100%	8.4 years	156,300
63 Innovation Drive	Hamilton	Industrial	100%	5.7 years	45,900
340 Laurier Avenue West	Ottawa	Office	99%	2.6 years	279,100
400 Maple Grove Road	Ottawa	Office	100%	6.4 years	107,200
78-90 Meg Drive	London	Office	100%	2.2 years	11,300
301 & 303 Moodie Drive	Ottawa	Office	85%	4.4 years	149,300
8 Oakes Avenue	Kirkland Lake	Office	100%	4.0 years	41,000
5160 Orbitor Drive	Mississauga	Office	100%	2.0 years	31,400
534 Queens Avenue	London	Office	100%	3.2 years	19,000
231 Shearson Crescent	Cambridge	Office	100%	5.5 years	60,600
3650 Victoria Park Avenue	Toronto	Office	94%	5.3 years	154,300
Average/Total			96%	4.0 years	3,033,700

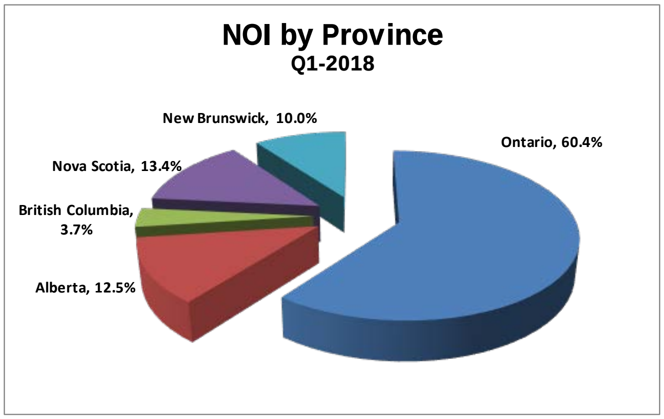
Notes:

[(1)] Weighted by expected annualized gross revenue.

COMPOSITION BY ASSET CLASS

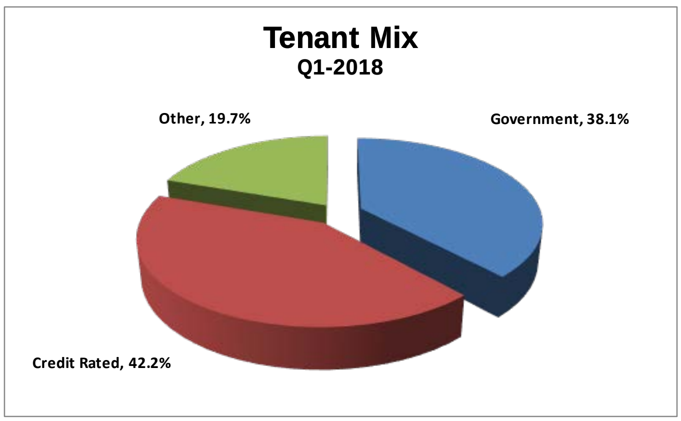


COMPOSITION BY GEOGRAPHIC REGION



TENANT MIX

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



The tenant mix is based on annualized 2018 gross revenue.

LEASE ROLLOVER PROFILE

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

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

Q1 2018 HIGHLIGHTS

- Acquired a 78,800 square foot office property for $22,750 plus closing costs
- Successful Unit offering of 6,325,000 Units at a price of $6.37 per Unit for aggregate gross proceeds of approximately $40,290
- Completed a 48,046 square feet lease renewal with Alberta Infrastructure at 855 8th Avenue SW, which extends the tenant's previous fifteen year occupancy for a three year term
- Completed a new lease with Alberta Infrastructure at 13140 St. Albert Trail, totaling approximately 60,000 square feet, for a five year term effective February 1, 2019
- Increased revenue $6,699 or 51% from Q1-2017 to $19,718
- Increased NOI $3,859 or 50% from Q1-2017 to $11,626
- FFO basic and diluted per Unit of $0.16 and $0.15 in Q1-2018 compared to $0.15 in Q1-2017
- AFFO basic and diluted per Unit of $0.15 and $0.14 in Q1-2018 compared to $0.15 in Q1-2017
- Excluding the timing differential between the Unit offering in March 2018 and the future deployment of funds into property acquisitions, FFO and AFFO per Unit would have been higher by $0.006 per Unit, respectively
- AFFO basic and diluted payout ratio of 102% and 104% compared to 101% and 102% in Q1-2017
- Portfolio occupancy increased to 96% from 95% during the quarter
- Government and credit-rated tenants continue to represent 80% of revenue
- Indebtedness to GBV ratio decreased to 54%
- Weighted average fixed interest rate remained stable at 3.24%
- Declared distributions of $7,091

ACQUISITIONS

On January 18, 2018, the REIT completed the acquisition of a 78,800 square foot office property located at 3115 Harvester Road, Burlington, Ontario for $22,750 plus closing costs. The purchase price was satisfied by cash on hand and a combination of assumed and new mortgage financing of approximately $14,893, with an average interest rate of 3.36% for a seven year term.

UNIT OFFERING

On March 1, 2018, the REIT issued 6,325,000 Units at a price of $6.37 per Unit, including 825,000 Units issued on the full exercise of the over-allotment option, for aggregate gross proceeds of approximately $40,290. The REIT intends to use the net proceeds to fund future acquisitions and for general trust purposes.

FINANCING

On March 1, 2018, the REIT refinanced the mortgages on 855 8th Avenue SW and 400 Carlingview Drive, each with a five year term of $15,000 and $4,056 at a fixed interest rate of 3.96% and 3.86%, respectively. The mortgages are secured by first charges on the properties.

On April 16, 2018, the REIT restructured its current credit facilities into one credit facility. The amount available is $30,000, bears interest at 100 basis points above the prime rate and matures on February 28, 2020.

LEASING ACTIVITIES

The REIT completed a lease renewal with Alberta Infrastructure at 855 8th Avenue SW. The renewal, totaling approximately 48,046 square feet, which extended the tenant's previous fifteen year occupancy for a three year term.

On March 16, 2018, the REIT completed a new lease with Alberta Infrastructure at 13140 St. Albert Trail, totaling approximately 60,000 square feet, for a five year term effective February 1, 2019.

FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended March 31	
	2018	2017
Revenue	$19,718	$13,019
NOI	$11,626	$7,767
Income and comprehensive income	$18,468	$12,131
FFO	$7,410	$5,062
FFO per Unit - basic [(1)]	$0.16	$0.15
FFO per Unit - diluted [(1)]	$0.15	$0.15
AFFO	$6,943	$4,918
AFFO per Unit - basic [(1)]	$0.15	$0.15
AFFO per Unit - diluted [(1)]	$0.14	$0.15
AFFO payout ratio - basic	102%	101%
AFFO payout ratio - diluted	104%	102%
Units outstanding for FFO and AFFO per Unit:		
Weighted average (000s) – basic [(1)]	47,796	33,534
Add: Unexercised unit options	645	366
Weighted average (000s) – diluted [(1)]	48,441	33,900

Notes:

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

The REIT increased its portfolio by nine properties in the second half of 2017 and acquired one property in Q1-2018. Due to this acquisition activity, Q1-2018 revenue increased $6,699 or 51%, NOI increased $3,859 or 50% and FFO increased $2,348 or 46% compared to Q1-2017.

FFO and AFFO per Unit were negatively impacted $0.006 per Unit by the timing differential between the Unit offering in Q1-2018 and the future deployment of funds into property acquisitions. The timing differential also impacted the AFFO payout ratio, as distributions declared were based on a larger number of Units outstanding without the benefit of the increased NOI.

QUARTERLY INFORMATION

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

	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16
Revenue	$ 19,718	$ 16,364	$ 14,017	$ 12,614	$ 13,019	$ 11,762	$ 10,060	$ 9,653
Property operating costs	8,092	6,421	5,253	4,550	5,252	4,835	3,876	3,713
NOI	11,626	9,943	8,764	8,064	7,767	6,927	6,184	5,940
General and administration expenses	(819)	(742)	(613)	(557)	(657)	(423)	(551)	(446)
Finance costs	(3,442)	(2,846)	(2,410)	(2,185)	(2,162)	(1,987)	(1,931)	(1,883)
Distributions on Class B LP Units	(634)	(638)	(639)	(640)	(639)	(640)	(639)	(640)
Fair value adjustment of Class B LP Units	1,067	(943)	(1,335)	(344)	86	1,292	(2,326)	(775)
Fair value adjustment of investment properties	10,605	(1,859)	5,833	(1,651)	7,740	(4,069)	(3,256)	(1,264)
Unrealized gain (loss) on change in fair value of derivative instruments	65	154	731	528	(4)	630	193	163
Income (loss) and comprehensive income (loss) for the period	$ 18,468	$ 3,069	$ 10,331	$ 3,215	$ 12,131	$ 1,730	$ (2,326)	$ 1,095
FFO per Unit - basic	$ 0.16	$ 0.15	$ 0.16	$ 0.16	$ 0.15	$ 0.14	$ 0.15	$ 0.17
AFFO per Unit - basic	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.14	$ 0.15	$ 0.17
AFFO per Unit - diluted	$ 0.14	$ 0.15	$ 0.15	$ 0.15	$ 0.15	$ 0.14	$ 0.15	$ 0.16
AFFO payout ratio - basic	102%	101%	99%	96%	101%	105%	99%	90%
AFFO payout ratio - diluted	104%	102%	100%	97%	102%	106%	99%	90%
Number of investment properties	40	39	33	33	30	30	27	25

Revenue, operating costs and NOI increased in Q1-2018 compared to Q4-2017 mainly due to a full quarter of operations from the six properties acquired in Q4-2017 as well as the addition of 3115 Harvester Road in Q1-2018. Operating costs increased as a result of the acquisitions and seasonality in expenses such as snow removal and utilities.

General and administration expenses increased in Q1-2018 compared to Q4–2017 due to an increase in asset management fees offset by Unit-based compensation. Finance costs increased in Q1-2018 compared to Q4-2017 due to additional debt associated with the acquisitions completed in Q4-2017 and Q1-2018.

ANALYSIS OF FINANCIAL PERFORMANCE

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

	Three months ended March 31 2018	Three months ended March 31 2017
Revenue	$ 19,718	$ 13,019
Expenses:		
Property operating costs	4,912	3,261
Realty taxes	3,180	1,991
NOI	$ 11,626	$ 7,767
Other income (expenses):		
General and administration expenses	(819)	(657)
Finance costs	(3,442)	(2,162)
Distributions on Class B LP Units	(634)	(639)
Fair value adjustment of Class B LP Units	1,067	86
Fair value adjustment of investment properties	10,605	7,740
Unrealized gain(loss) on change in fair value of derivative instruments	65	(4)
Income and comprehensive income	$ 18,468	$ 12,131

PROPERTY OPERATIONS

Revenue includes all income earned from the REIT's properties, including rental income and all other miscellaneous income paid by tenants under the terms of their existing leases, such as base rent, parking, operating costs and realty tax recoveries, as well as adjustments for the straight-lining of rents and amortization of tenant inducements.

Property operating costs include building maintenance, heating, ventilation and air-conditioning, elevator, insurance, utilities, property management fees and other operational costs.

The REIT increased its portfolio by nine properties (1,018,000 square feet) in the second half of 2017 and by one property (78,800 square feet) in Q1-2018. These acquisitions resulted in significant comparative increases in revenue, operating costs, realty taxes and NOI. Revenue increased $6,699 or 51%, property operating costs increased by $1,651 or 51%, realty taxes increased by $1,189 or 60% and NOI increased $3,859 or 50% in Q1-2018 compared to Q1-2017.

Occupancy for the REIT's property portfolio increased from 95% in Q4-2017 to 96% in Q1-2018 mainly due to the acquisition in Q1-2018 which had an occupancy rate of 100% and leasing activity during the quarter.

SAME PROPERTY ANALYSIS

Same property portfolio for the three months ended March 31, 2018 and 2017 consists of 30 properties.

	Three months ended March 31	
	2018	2017
Revenue	$ 12,317	$ 13,019
Expenses:		
Property operating	3,062	3,261
Realty taxes	2,006	1,991
NOI	$ 7,249	$ 7,767
Add /(deduct):		
Amortization of leasing costs and tenant inducements	130	94
Straight-line rent	248	42
Same property NOI	$ 7,627	$ 7,903

Same Property NOI decreased $276 or 3.5% in Q1- 2018 compared to Q1- 2017. The vacancy at 414 York Street, Fredericton, NB was the main contributor of the 1% decline in same property occupancy compared to Q1- 2017. In addition, the REIT had significant one-time project management fees and energy rebates in the comparative period. Excluding the change in occupancy and the non-recurring fees same store NOI would have increased by 0.04%. With the significant urbanization and increase in size of the REIT's portfolio in the latter half of 2017, management expects same property results to return to levels consistent with those achieved historically.

GENERAL AND ADMINISTRATION EXPENSES

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

General and administration expenses increased $162 or 25% in Q1-2018 compared to Q1–2017 mainly due to increased asset management fees as a result of the additional properties owned by the REIT offset by a decrease in Unit-based compensation expense.

FINANCE COSTS

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

	Three months ended March 31	
	2018	2017
Interest on mortgages payable	$ 3,236	$ 2,062
Other interest expense and standby fees	42	32
Amortization of mortgage discounts	-	(27)
Amortization of financing costs	164	95
Total finance costs	$ 3,442	$ 2,162

Interest on mortgages payable increased by $1,174 in Q1-2018 compared to Q1-2017 due to the additional borrowing associated with the acquisitions completed in the latter half of 2017 and early Q1-2018.

Other interest expense and standby fees relate to costs incurred on the REIT's credit facilities.

DISTRIBUTIONS ON CLASS B LP UNITS

The REIT currently pays monthly distributions of $0.0495 per Class B LP Unit or $0.594 per Class B LP Unit on an annualized basis. Distributions declared were $634 for Q1-2018 compared to $639 for Q1-2017.

FAIR VALUE ADJUSTMENT OF CLASS B LP UNITS

The fair value change in Class B LP Units represents the change in the trading price of the Units (given the Class B LP Units have economic and voting rights equivalent, in all material aspects, to the Units). Any resulting change in the fair value of the Class B LP Units is reported in the period such change occurs. The fair value gain of $1,067 for Q1-2018 is due to a decrease in the trading price of the Units from $6.71 at December 31, 2017 to $6.46 at March 31, 2018.

FAIR VALUE ADJUSTMENT OF INVESTMENT PROPERTIES

The REIT has selected the fair value method to account for real estate classified as investment property and records properties at their purchase price (less any purchase price adjustments) in the quarter of acquisition. Any changes in the fair value of investment properties are recognized as fair value gains and losses in the statements of income and comprehensive income in the quarter in which they occur.

The REIT determines the fair value of investment properties by developing a range of acceptable values based on the discounted cash flow method and direct capitalization method, both of which are generally accepted appraisal methodologies. Fair value is based on, among other things, assumptions of future cash flows in respect of current and future leases, capitalization rates, terminal capitalization rates, discount rates, market rents, tenant inducements and leasing cost assumptions and expected lease renewals. Fair values are supported by a combination of internal financial information, market data and external independent valuations.

The fair value gain was $10,605 in Q1-2018 compared to $7,740 in Q1-2017. The fair value change in Q1-2018 is mainly attributable to changes in market rent assumptions, lease renewal probabilities, projected future cash flows and changes in capitalization rates at certain properties.

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

	March 31 2018	March 31 2017
Terminal and direct capitalization rates - range	5.00% - 10.25%	6.00% - 11.50%
Terminal and direct capitalization rate - weighted average	6.79%	7.07%
Discount rates - range	6.00% - 10.25%	7.00% - 12.00%
Discount rate - weighted average	7.52%	7.79%

UNREALIZED GAIN/(LOSS) ON CHANGE IN FAIR VALUE OF DERIVATIVE INSTRUMENTS

The REIT holds a number of interest rate swap agreements to effectively fix interest rates on certain mortgages. These derivative instruments are measured at fair value at each reporting date and changes in the fair value are recognized as an unrealized gain or loss in the statements of income and comprehensive income.

The notional principal amount of the outstanding interest rate swap contracts at March 31, 2018 was $68,474 (December 31, 2017 - $69,053). Total unrealized gain on change in the fair value of the derivative instruments totaled $65 in Q1-2018 compared to an unrealized loss of $4 in Q1-2017.

FFO AND AFFO RECONCILIATIONS

FFO

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

	Three months ended March 31	
	2018	**2017**
Income and comprehensive income	$ 18,468	$ 12,131
Add /(deduct):		
Fair value adjustment of Unit-based compensation	(88)	20
Fair value adjustment of investment properties	(10,605)	(7,740)
Fair value adjustment of Class B LP Units	(1,067)	(86)
Distributions on Class B LP Units	634	639
Unrealized (gain) loss on change in fair value of derivative instruments	(65)	4
Amortization of leasing costs and tenant inducements	133	94
FFO	$ 7,410	$ 5,062
FFO per Unit - basic (1)	$0.16	$0.15
FFO per Unit - diluted (1)	$0.15	$0.15
Weighted average Units outstanding:		
Basic - (000s) (1)	47,796	33,534
Add:		
Unexercised Unit Options	645	366
Diluted - (000s) (1)	48,441	33,900

Notes:

(1) For purposes of calculating FFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts also assume the conversion of any vested, unexercised, in the money Unit Options.

AFFO

Reconciliation of FFO to AFFO is as follows:

		Three months ended March 31		
		2018		2017
FFO	$	7,410	$	5,062
Add / (deduct):				
Non-cash compensation expense		27		23
Amortization of financing costs		164		95
Amortization of mortgage discounts		-		(27)
Instalment note receipts		48		81
Straight-line rent		38		42
Capital reserve (1)		(744)		(358)
AFFO	$	6,943	$	4,918
AFFO per Unit - basic (2)		$0.15		$0.15
AFFO per Unit - diluted (2)		$0.14		$0.15
Distributions declared	$	7,091	$	4,984
AFFO payout ratio - basic		102%		101%
AFFO payout ratio - diluted		104%		102%

Notes:

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

(2) For purposes of calculating AFFO per Unit, Class B LP Units are included as Units outstanding on both a basic and diluted basis. Diluted amounts assume the conversion of any vested, unexercised, in the money Unit Options.

The REIT experienced significant growth in revenue, FFO and AFFO as a result of the acquisition activities in 2017 and early 2018. FFO increased $2,348 or 46% in Q1-2018 compared to Q1-2017. FFO basic per Unit increased $0.01 to $0.16 in Q1-2018 compared to $0.15 in Q1-2017. FFO diluted per Unit remained stable at $0.15 in both Q1-2018 and Q1-2017.

AFFO increased $2,025 or 41% compared to Q1-2017. AFFO basic per Unit remained constant at $0.15 in Q1-2018 and Q1-2017. AFFO diluted per Unit decreased $0.01 to $0.14 compared to $0.15 in Q1-2017.

FFO and AFFO on a per Unit basis were negatively impacted $0.006 per Unit by the timing differential of the Unit offering in Q1-2018 and the future deployment of funds into property acquisitions. The AFFO basic and diluted payout ratio was also impacted as distributions declared were based on a larger number of Units outstanding without the immediate benefit of the increased NOI.

The REIT increased its normalized capital reserve from $0.75 per square foot in 2017 to $1.00 per square foot in Q1-2018, which negatively impacted AFFO per Unit by approximately $0.004 per Unit.

RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

Adjusted cash flow provided by operating activities represents cash provided by operating activities less interest paid. Cash flow provided by operating activities is the most comparable measure to AFFO. The reconciliation of adjusted cash flow provided by operating activities to AFFO measures the amount available for distribution to Unitholders. See "Distributions".

	Three months ended March 31	
	2018	**2017**
Adjusted cash flow provided by operating activities	$ 10,101	$ 4,509
Non-cash compensation expense	(20)	2
Change in finance costs payable	(111)	(18)
Instalment note receipts	48	81
Capital reserve [1]	(744)	(358)
Change in non-cash operating working capital	(2,331)	702
AFFO	$ 6,943	$ 4,918

Notes:

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

AFFO of $6,943 was less than distributions declared by $148 and exceeded distributions paid by $664 for Q1-2018.

CAPITAL RESERVE

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

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

In Q1-2018, the REIT increased its normalized capital reserve from $0.75 per square foot per annum in 2017 to $1.00 per square foot per annum.

DISTRIBUTIONS

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

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

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

	Three months ended March 31	Year ended December 31		
	2018	2017	2016	2015
Distributions declared	$ 7,091	$ 22,544	$ 15,180	$ 12,414
Less: DRIP	(812)	(2,849)	(2,641)	(1,534)
Cash distributions paid	$ 6,279	$ 19,695	$ 12,539	$ 10,880

The following table provides a reconciliation of the REIT's cash flow and adjusted cash flow provided by operating activities to its declared and cash distributions:

	Three months ended March 31	Year ended December 31		
	2018	2017	2016	2015
Income (loss) and comprehensive income (loss)	$ 18,468	$ 28,746	$ (101)	$ 16,471
Cash flow provided by operating activities	13,268	30,389	24,347	20,713
Less: Interest paid	(3,167)	(8,980)	(7,349)	(6,961)
Adjusted cash flow provided by operating activities	10,101	21,409	16,998	13,752
Declared basis:				
Excess (shortfall) of income (loss) and comprehensive income (loss) over declared distributions	11,377	6,202	(15,281)	4,057
Excess (shortfall) of adjusted cash flow provided by operating activities over declared distributions	3,010	(1,135)	1,818	1,338
Cash basis:				
Excess (shortfall) of income (loss) and comprehensive income (loss) over cash distributions	12,189	9,051	(12,640)	5,591
Excess of adjusted cash flow provided by operating activities over cash distributions	3,822	1,714	4,459	2,872

Adjusted cash flow provided by operating activities exceeded distributions declared by $3,010 and cash distributions by $3,822 due to the income generated from the acquisitions completed in Q4-2017 and Q1-2018. The REIT has not been required to fund distributions from alternate sources such as debt, mortgages and other financing instruments.

ANALYSIS OF FINANCIAL POSITION

INVESTMENT PROPERTIES

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

	Investment Properties
Balance at December 31, 2016	$ 427,078
Additions	620
Amortization of leasing costs, tenant inducements and straight-line rents	(136)
Fair value adjustment	7,740
Balance at March 31, 2017	435,302
Acquisitions	216,333
Additions	3,434
Amortization of leasing costs, tenant inducements and straight-line rents	335
Fair value adjustment	2,323
Balance at December 31, 2017	657,727
Acquisitions	23,168
Additions	962
Amortization of leasing costs, tenant inducements and straight-line rents	571
Fair value adjustment	10,605
Balance at March 31, 2018	**$ 693,033**

ACQUISITIONS:

On January 18, 2018, the REIT acquired 3115 Harvester Road for an aggregate purchase price $22,750 plus closing costs. The acquisition was funded by cash on hand and a combination of assumed and new mortgage financing. The acquisition has been accounted for as an asset acquisition.

ADDITIONS:

Additions to investment properties for the three months ended March 31, 2018 were $962, consisting of the following:

- Capital expenditures of $143 for elevator modernization and heating and air-conditioning upgrades at certain properties; and
- Tenant inducements and leasing costs of $819, which include costs incurred to improve space for tenant retention, as well as leasing commissions paid to renew and obtain new tenants.

INSTALMENT NOTES RECEIVABLE

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

The following table summarizes the activity for the three months ended March 31, 2018:

Balance, December 31, 2017	$	744
Principal receipts		($39)
Balance, March 31, 2018	$	705

PREPAID EXPENSES AND DEPOSITS

At March 31, 2018, the REIT had $2,084 in prepaid expenses and deposits, compared to $3,082 at December 31, 2017. The decrease is due to the reduction in deposit amounts related to the Q1-2018 acquisition.

LIABILITIES

At March 31, 2018, the overall leverage, as represented by the ratio of Indebtedness to GBV was 54.0% compared to 57.2% at December 31, 2017. The maximum allowable ratio under the DOT is 75%. Below is a calculation of the REIT's Indebtedness to GBV ratio as at March 31, 2018 and December 31, 2017.

		March 31, 2018		**December 31, 2017**
Total assets	$	736,643	$	674,441
Deferred financing costs		3,397		3,339
GBV	$	740,040	$	677,780
Mortgages payable		397,596		386,290
Unamortized financing costs and mark to market mortgage adjustments		2,031		1,718
Indebtedness	$	399,627	$	388,008
Indebtedness to GBV		54.0%		57.2%

Indebtedness to GBV decreased as at March 31, 2018 compared to December 31, 2017 due to the increase in cash on hand and the increase in the fair value of investment properties.

The REIT's objectives are to maintain a combination of short, medium and long-term debt maturities appropriate for the overall debt level of the REIT, to extend the current weighted average term to maturity and achieve staggered debt maturities while taking into account the availability of financing, market conditions and the financial characteristics of each property. Per the DOT, at no time shall the REIT incur debt aggregating more than 20% of GBV at floating interest rates or having maturities less than one year (excluding debt with an original maturity of one year or more falling due in the next 12 months or variable rate debt for which the REIT has entered into interest rate swap agreements to fix the interest rate for a one year period or more).

Financing costs on mortgages and credit facilities are netted against the related debt and amortized on an effective interest basis over the expected life of the debt.

At March 31, 2018 and December 31, 2017, the REIT had no debt at floating rates.

MORTGAGES PAYABLE

The following table sets out, as at March 31, 2018, scheduled principal repayments and amounts maturing on the REIT's mortgages over each of the next five fiscal years:

	Scheduled principal payments	Debt maturing during the year	Total mortgages payable	Scheduled interest payments	Percentage of total mortgages payable
2018 - remainder of year	9,029	10,308	19,337	9,700	4.9%
2019	11,796	32,301	44,097	11,943	11.0%
2020	9,183	76,399	85,582	9,079	21.4%
2021	8,336	29,003	37,339	7,882	9.3%
2022	5,929	132,435	138,364	5,670	34.6%
Thereafter	2,919	71,989	74,908	2,018	18.8%
	$ 47,192	$ 352,435	399,627	$ 46,292	100.0%
Unamortized mark to market mortgage adjustments			230		
Unamortized financing costs			(2,261)		
			$ 397,596		

The mortgages carry a weighted average fixed interest rate of 3.24% (December 31, 2017 – 3.22%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.75 years (December 31, 2017 – 3.62 years).

CREDIT FACILITIES

The REIT has two floating rate revolving credit facilities with a Canadian chartered bank ("Credit Facilities").

The $6,000 facility bears interest on cash advances above $1,000 at 212.5 basis points per annum over the floating banker's acceptance rate or under $1,000 at 100 basis points over prime rate. The 14,000 facility bears interest on cash advances above $1,000 at 250 basis points per annum over the floating banker's acceptance rate or under $1,000 at 150 basis points over prime rate.

The Credit Facilities were undrawn as at March 31, 2018 and December 31, 2017.

On April 16, 2018, the REIT restructured its current Credit Facilities into one Credit Facility. The amount available is $30,000, bears interest at 100 basis points above the prime rate and matures on February 28, 2020.

CLASS B LP UNITS

The Class B LP Units meet the definition of a financial liability under IAS 32, Financial Instruments – Presentation ("IAS 32") and are classified as fair value through profit or loss financial liabilities under IAS 32. The Class B LP Units are measured at fair value at each reporting period with any changes in fair value recorded in the statement of income and comprehensive income.

The Class B LP Units, together with the related special voting units, have economic and voting rights equivalent, in all material aspects, to Units. They are exchangeable at the option of the holder on a one-for-one basis (subject to anti-dilution adjustments) for Units, under the terms of an exchange agreement dated December 14, 2012.

Each Class B LP Unit entitles the holder to receive distributions from True North Commercial Limited Partnership equivalent to the distributions such holder would have received if they were holding Units.

As at March 31, 2018 there were 4,268,837 Class B LP Units outstanding valued at $27,577 compared to 4,268,837 Class B LP Units outstanding valued at $28,644 as at December 31, 2017. The change in fair value is due to a decrease in the Unit price from $6.71 at December 31, 2017 to $6.46 at March 31, 2018.

The REIT has the following Class B LP Units outstanding as of May 9, 2018:

	Units
Balance, March 31, 2018	4,268,837
Issuance of Class B LP Units	-
Balance, May 9, 2018	4,268,837

UNITHOLDERS' EQUITY

OUTSTANDING UNITS

The REIT is authorized to issue an unlimited number of Units and an unlimited number of special voting units in the capital of the REIT.

The following table summarizes changes in the Unit capital of the REIT for the three months ended March 31, 2018:

	Units		**Amount**
Balance, December 31, 2017	41,287,734	$	245,259
Issue of Units for cash - Unit offering	6,325,000		40,290
Issuance of Units - non-executive Trustee Unit issuance plan	3,651		24
Issuance of Units - DRIP	126,069		812
Issuance costs	-		(2,357)
Balance, March 31, 2018	47,742,454	$	284,028

The number of Units outstanding as of May 9, 2018 is as follows:

Balance, March 31, 2018	47,742,454
Issuance of Units - DRIP	44,776
Balance, May 9, 2018	47,787,230

NORMAL COURSE ISSUER BID (“NCIB”)

On December 5, 2017, the TSX approved the renewal of the REIT’s NCIB for a further twelve months. Pursuant to the renewal, the REIT has the ability to purchase for cancellation up to a maximum of 100,000 Units, representing 0.27% of the REIT's public float of 36,761,708 Units at November 30, 2017. The NCIB commenced on December 8, 2017 and expires on December 7, 2018.

During Q1-2018, nil (year ended December 31, 2017 – nil) Units were repurchased under the NCIB.

SHORT FORM BASE SHELF PROSPECTUS

On April 27, 2016, the REIT filed a short-form base shelf prospectus (“Prospectus”). The Prospectus was filed with the securities regulatory authorities in each of the provinces and territories of Canada and is valid for a 25 month period, during which time the REIT may issue the following securities: (i) Units; (ii) unsecured debt securities; (iii) subscription receipts exchangeable for Units and/or other securities of the REIT; (iv) warrants exercisable to acquire Units and/or other securities of the REIT; and (v) 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 $200,000.

For the three months ended March 31, 2018, the REIT 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.

UNIT OPTIONS

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

Exercise price (1)	Unit Options Outstanding	Unit Options exercisable	Expiry Date
$6.15	495,000	495,000	January 8, 2020
$6.04	205,000	68,330	August 5, 2021
$6.28	277,500	94,158	November 14, 2021
$6.17	295,000	-	August 11, 2022
$6.44	318,000	-	November 16, 2022
$6.43	325,000	-	March 9, 2023
	1,915,500	657,488	

(1) In actual dollars.

LIQUIDITY AND CAPITAL INVESTMENT

LIQUIDITY

Cash flow from operating activities represents the primary source of liquidity to fund distributions, debt service, capital improvements, tenant inducements and leasing costs. The REIT's cash flow from operating activities is dependent upon the occupancy level of its investment properties, the rental rates on its leases, the collectability of rent from its tenants, and other factors. Material changes in these factors may adversely affect the REIT's net cash flow from operating activities and hence its liquidity. A more detailed discussion of these risks can be found under the "Risks and Uncertainties" section in the annual information form of the REIT ("AIF") dated March 7, 2018. Also see "Risks and Uncertainties".

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

CASH FLOW

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

	Three months ended March 31	
	2018	2017
Cash provided by operating activities	$ 13,268	$ 6,585
Cash used in investing activities	(13,487)	(620)
Cash provided by (used in) financing activities	30,010	(9,653)
Increase (decrease) in cash and cash equivalents	29,791	(3,688)
Cash and cash equivalents, beginning of period	7,416	24,784
Cash and cash equivalents, end of period	$ 37,207	$ 21,096

Cash provided by operating activities increased in Q1-2018 compared to Q1-2017 primarily due to increased NOI resulting from the properties acquired in the second half of 2017 and Q1-2018.

Cash used in investing activities increased compared to Q1-2017 due to the acquisition of 3115 Harvester Road in Q1-2018.

The increase in cash provided by financing activities in Q1-2018 was mainly a result of the March 1, 2018 Unit offering, new mortgage financing and refinancing of two existing properties. These increases were offset by the distributions to Unitholders of $5,458, which increased due to the increased number of Units outstanding. In Q1-2017, the REIT repaid a vendor take back mortgage, note payable and first mortgage, offset by new financing related to 8 Oakes Avenue.

CAPITAL INVESTMENT

The REIT's properties require ongoing capital and leasing expenditures. Leasing expenditures include the cost of tenant inducements, leasing commissions and leasehold improvements incurred in connection with the leasing of vacant space and the renewal or replacement of current tenants. The REIT plans to continue to invest capital in all its properties throughout 2018 and beyond. Expenditures are expected to be funded through cash flow generated by operations and cash on hand. For the three months ended March 31, 2018 and 2017, the REIT invested $962 and $620 respectively, in capital and leasing expenditures.

COMMITMENTS AND CONTINGENCIES

From time to time in the normal course of business, the REIT is involved in litigation and claims in relation to its investment properties. In the opinion of management, none of these, individually or in aggregate, could result in a liability that would have a significant adverse effect on the financial position of the REIT. The REIT has agreed to indemnify, in certain circumstances, the Trustees and officers of the REIT.

As at March 31, 2018, the REIT has entered into commitments for building renovations totaling $438 (December 31, 2017 - $330).

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

RELATED PARTY TRANSACTIONS AND ARRANGEMENTS

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

ARRANGEMENTS WITH STARLIGHT

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

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

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

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

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

(b) Acquisition fee equal to:

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

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

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

In addition, the REIT is required to reimburse Starlight for all reasonable and necessary out-of-pocket costs and expenses incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

The following table presents the fees incurred for the three months ended March 31, 2018 and 2017:

	Three months ended March 31	
	2018	**2017**
Asset management fees	$ 566	$ 364
Acquisition fees	228	-
Other expenses	23	55
Total	$ 817	$ 419

At March 31, 2018, $212 (December 31, 2017 - $197) was included in accounts payable and accrued liabilities. No incentive fees were earned or capital expenditure fees charged for the three months ended March 31, 2018 and 2017.

RISKS AND UNCERTAINTIES

There are certain risks inherent in an investment in the securities of the REIT and in the activities of the REIT. Risks and uncertainties are disclosed below and the REIT's annual MD&A dated March 7, 2018 for the year ended December 31, 2017 and in the AIF. The annual MD&A and AIF are available on SEDAR at www.sedar.com. Current and prospective Unitholders of the REIT should carefully consider such risk factors.

Management is not aware of any significant changes in risks and uncertainties since March 7, 2018.

USE OF ESTIMATES

The preparation of the REIT's consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions which affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

In making estimates, management relies on external information and observable conditions where possible, supplemented by internal analysis as required. Those estimates have been applied in a manner consistent with prior periods and there are no known trends, commitments, events or uncertainties management believes will materially affect the methodology or assumptions utilized in making those estimates in its unaudited condensed consolidated interim financial statements.

The estimates used in determining the recorded amount for assets and liabilities in the unaudited condensed consolidated interim financial statements include the following.

INVESTMENT PROPERTIES

The estimates used when determining the fair value of investment properties are discount, terminal capitalization, capitalization rates and future cash flows. The discount, terminal capitalization and capitalization rates applied are reflective of the characteristics, location and market of the investment property. The future cash flows of the investment property are based upon rental income from current leases and assumptions about occupancy rates and market rents from future leases reflecting current conditions, less future cash outflows relating to such current and future leases. Management determines fair value utilizing internal financial information, external market data and capitalization rates provided by independent industry experts and third-party appraisals.

UNIT OPTION PLAN

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

FINANCIAL INSTRUMENTS

Financial instruments are classified as one of the following: (i) fair value through profit and loss ("FVTPL"), (ii) loans and receivables, (iii) held-to-maturity, (iv) available-for-sale, or (v) other liabilities. Financial instruments are recognized initially at fair value. Financial assets and liabilities classified as FVTPL are subsequently measured at fair value with gains and losses recognized in profit and loss. Financial instruments classified as held-to-maturity, loans and receivables or other liabilities are subsequently measured at amortized cost. Available-for-sale financial instruments are subsequently measured at fair value and any unrealized gains and losses are recognized through other comprehensive income and presented in the fair value reserve in equity. The REIT derecognizes a financial asset when the contractual rights to the cash flows from the asset expire.

Financial liabilities are classified as FVTPL when the financial liability is either classified as held-for-trading or designated as FVTPL. A financial liability may be designated as FVTPL upon initial recognition if it forms part of a contract containing one or more embedded derivatives, and IAS 39, Financial Instruments - Recognition and Measurement, permits the entire combined contract (asset or liability) to be designated as FVTPL.

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

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

The fair values of the REIT's instalment notes receivable, deposits, tenant and other receivables, restricted cash and cash and cash equivalents, as well as the Credit Facilities, tenant rental deposits, accounts payable and accrued liabilities approximate their recorded values due to their short-term nature at the date of the consolidated statements of financial position.

The fair value of mortgages payable disclosed in the notes to the REIT's consolidated financial statements is estimated based on the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage.

Class B LP Units are carried at fair value and the fair value of the Class B LP Units has been determined with reference to the trading price of the Units. Unit options granted are carried at fair value which is estimated using the Black Scholes option pricing model.

Derivative instruments, such as interest rate swaps, are valued using a valuation technique. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

These fair value estimates may not necessarily be indicative of the amounts that might be paid or received in actual transactions.

SIGNIFICANT ACCOUNTING POLICIES AND CHANGES IN ACCOUNTING POLICIES

The REIT implemented the following new standards and amendments to standards effective January 1, 2018.

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”):

The REIT adopted IFRS 15 on January 1, 2018 on a modified retrospective basis. IFRS 15 provides a comprehensive framework for recognition, measurement and disclosure of revenue from contracts with customers, excluding contracts within the scope of the standard on leases, insurance contracts and financial instruments. As the REIT’s most material revenue stream, rental revenue, is outside the scope of the new standard, the adoption of IFRS 15 did not have a material impact to the unaudited 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.

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

The REIT adopted IFRS 9 on January 1, 2018 which introduces a new expected credit loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. Upon transition to IFRS 9, the REIT’s financial assets previously classified as loans and receivables and financial liabilities previously classified as other liabilities under IAS 39 are now classified at 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.

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

IFRS 16, Leases ("IFRS 16"):

IFRS 16 supersedes 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. It eliminates the distinction between operating and finance leases from the perspective of the lessee. All contracts that meet the definition of a lease will be recorded in the statement of financial position with a “right of use” asset and a corresponding liability. The asset is subsequently accounted for as property, plant and equipment or investment property and the liability is unwound using the interest rate inherent in the lease. The accounting requirements from the perspective of the lessor remain largely in line with previous IAS 17 Leases requirements. The effective date for IFRS 16 is January 1, 2019, with early adoption permitted.

The REIT has assessed the impact of the new standard and there are no significant changes expected to the financial statements and intends to adopt this standard on its effective date.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the consolidated financial statements for external purposes in accordance with IFRS.

All control systems have inherent limitations, including well-designed and operated systems. No control system can provide complete assurance the objectives of the control system will be met. Furthermore, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, will be detected or prevented. These inherent limitations include, without limitation, the possibility management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances and the impact of isolated errors. As a growing enterprise, management anticipates that the REIT will be continually evolving and enhancing its systems of controls and procedures.

Additionally, controls may be circumvented by the unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions.

The CEO and CFO evaluated the effectiveness of the REIT's disclosure controls and procedures (as defined in National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* ("NI 52-109") and concluded that the design and operation of the REIT's disclosure controls and procedures were effective for the three months ended March 31, 2018.

The CEO and CFO evaluated the design and effectiveness of the REIT's internal controls over financial reporting (as defined in NI 52-109) and concluded that the design and effectiveness of internal controls over financial reporting continue to be appropriate and were effective for the three months ended March 31, 2018.

OUTLOOK

On April 18th, 2018, The Bank of Canada ("BoC") announced they would be leaving the targeted overnight rate at 1.25% for the immediate future, after raising it in January in response to above-expected economic growth figures. While no timeline was indicated, the BoC allowed that further rate hikes will be required if the economy continues growing as it has been.

Inflation in Canada remained close to 2%, squarely in the middle of the BoC's mandated target range of 1-3%. While inflation was stronger than anticipated to start 2018, the BoC feels that this is transitory and primarily related to Government intervention via minimum wage legislation, and higher oil prices. Given the BoC feels these to be temporary influences, they are not cause enough to continue to raise the overnight rate at this time. They allow that further raises will be required over time, but that the 'factors on the ground' do not warrant it yet.

Globally, the economy has continued its positive trajectory from 2017, with moderate, but above expected, growth. The United States continues to set the pace for growth, factoring in the tax cuts and announced Government spending plans, although some softening is forecasted as the full impact of trade disputes begin to be felt. It remains to be seen what the final form of a revised NAFTA will take, how the TPP will be concluded, and how the US-China trade war will play out.

Growth in Canada, in terms of Real GDP, is expected to be near 2.0% for 2018 and 2019 and slowing to 1.8% thereafter. While this is a lower expectation for 2018 and higher for 2019, it reflects the relative shift in contribution away from household spending towards business investments, exports, and the effect of higher interest rates. 2018 started weaker than expected, with 1.3% growth in Q1, while Q2 is expected to be a stronger than forecasted 2.5%.

Locally, Canada's major urban areas continued to be a source of stable and steady growth. In the REIT's primary urban markets, the forecast is strong with Toronto's GDP to grow by 2.4% in 2018, 2.1% in Ottawa, 1.7% in Halifax, and 2.2% in Victoria. Critically, these growth projections are underpinned by different sectors ranging from manufacturing, resources and utilities, financial services and high tech sectors. This diversity of growth drivers should help insulate these markets from economic downturn.

Management maintains the view that overall real estate fundamentals will remain stable throughout 2018 as Canada remains a strong and stable economy, and a safe-haven for global capital, which continues to arrive in Canada looking for opportunity. For borrowers, this supply helps to keep borrowing rates at near-historic lows, and lenders accommodating in their underwriting.

Management remains focused on improving revenue and NOI through active portfolio management, maintaining strong tenant relationships and utilizing leasing optimization tactics. Management is also focused on further diversifying the geographic concentration of the portfolio through accretive acquisitions. Management believes the geographic diversification of the property portfolio will serve to add stability to the REIT's cash flow as it reduces the REIT's vulnerability to economic fluctuations affecting any particular region in Canada.

Additional information relating to the REIT including the REIT's annual information form, can be found on SEDAR at ww.sedar.com.

Dated: May 9, 2018
Toronto, Ontario, Canada