Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three and six months ended June 30, 2017 and 2016
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	June 30, 2017	December 31, 2016
Assets		
Non-current assets:		
Investment properties (note 4)	$ 490,275	$ 427,078
Instalment notes receivable (note 5)	666	744
Deposits	374	395
Total non-current assets	491,315	428,217
Current assets:		
Tenant and other receivables (note 6)	1,185	1,638
Prepaid expenses and other assets	2,215	1,390
Instalment notes receivable (note 5)	162	212
Restricted cash (note 7)	478	228
Cash and cash equivalents	3,155	24,784
Total current assets	7,195	28,252
Total assets	$ 498,510	$ 456,469
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	$ 239,973	$ 234,608
Derivative instruments (note 12)	–	269
Class B LP Units (note 9)	26,613	26,355
Total non-current liabilities	266,586	261,232
Current liabilities:		
Mortgages payable (note 8)	41,278	18,857
Credit facilities (note 10)	6,000	–
Tenant rental deposits and prepayments	1,956	1,902
Accounts payable and accrued liabilities (note 11)	6,336	6,387
Derivative instruments (note 12)	162	417
Total current liabilities	55,732	27,563
Total liabilities	322,318	288,795
Unitholders' equity (note 13)	176,192	167,674
Total liabilities and unitholders' equity	$ 498,510	$ 456,469

Subsequent events (note 21)

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on August 10, 2017.

"William J. Biggar" Trustee

"Roland A. Cardy" Trustee

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2017 and 2016
(Unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Revenue	$ 12,614	$ 9,653	$ 25,633	$ 19,529
Expenses:				
Property operating	2,613	2,093	5,874	4,504
Realty taxes	1,937	1,620	3,928	3,219
Income before the undernoted	8,064	5,940	15,831	11,806
Other income (expenses):				
General and administration expenses	(557)	(446)	(1,214)	(1,133)
Finance costs (note 15)	(2,185)	(1,883)	(4,347)	(3,763)
Distributions on Class B LP Units (note 9)	(640)	(640)	(1,279)	(1,279)
Fair value adjustment of Class B LP Units (note 9)	(344)	(775)	(258)	(3,359)
Fair value adjustment of investment properties (note 4)	(1,651)	(1,264)	6,089	(1,901)
Unrealized gain on change in fair value of derivative instruments (note 12)	528	163	524	124
Net income and comprehensive income for the period	$ 3,215	$ 1,095	$ 15,346	$ 495

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Six months ended June 30, 2017 and 2016
(Unaudited)

	Trust Unit capital (note 13(b))	Cumulative income (loss)	Total
Unitholders' equity, January 1, 2016	$ 103,649	$ 6,903	$ 110,552
Changes during the period:			
Units issued, net of issue costs	(26)	–	(26)
Net income and comprehensive income for the period	–	495	495
Distributions	–	(5,156)	(5,156)
Issue of units under Distribution Reinvestment Plan ("DRIP") (note 13(e))	1,185	–	1,185
Unitholders' equity, June 30, 2016	104,808	2,242	107,050
Changes during the period:			
Units issued, net of issue costs	67,230	–	67,230
Net loss and comprehensive loss for the period	–	(596)	(596)
Distributions	–	(7,466)	(7,466)
Issue of units under DRIP (note 13(e))	1,456	–	1,456
Unitholders' equity, December 31, 2016	173,494	(5,820)	167,674
Changes during the period:			
Units issued, net of issue costs	360	–	360
Net income and comprehensive income for the period	–	15,346	15,346
Distributions	–	(8,716)	(8,716)
Issue of units under DRIP (note 13(e))	1,528	–	1,528
Unitholders' equity, June 30, 2017	$ 175,382	$ 810	$ 176,192

See accompanying notes to condensed consolidated interim financial statements.

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three and six months ended June 30, 2017 and 2016
(Unaudited)

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Operating activities:				
Net income for the period	$ 3,215	$ 1,095	$ 15,346	$ 495
Adjustments for financing activities included in income:				
Finance costs (note 15)	2,185	1,883	4,347	3,763
Unrealized gain on change in fair value of derivative instruments (note 12)	(528)	(163)	(524)	(124)
Distributions on Class B LP Units (note 9)	640	640	1,279	1,279
Fair value adjustment of Class B LP Units (note 9)	344	775	258	3,359
Adjustments for items not involving cash:				
Fair value adjustment of investment properties (note 4)	1,651	1,264	(6,089)	1,901
Unit-based compensation expense	20	23	40	109
Change in other non-cash operating items	83	78	240	145
Change in non-cash operating working capital (note 16)	684	666	(18)	454
Cash provided by operating activities	8,294	6,261	14,879	11,381
Investing activities:				
Acquisitions (note 3)	(55,285)	–	(55,285)	–
Additions to investment properties (note 4)	(1,501)	(1,321)	(2,121)	(1,440)
Change in restricted cash	(125)	–	(250)	–
Cash used in investing activities	(56,911)	(1,321)	(57,656)	(1,440)
Financing activities:				
Proceeds from credit facilities, net of costs	6,000	1,467	6,000	3,235
Proceeds from new mortgage financing, net of costs	34,207	–	43,026	–
Principal payments on mortgages	(1,983)	(1,499)	(3,867)	(2,985)
Repayment on mortgages	(1,208)	–	(11,533)	(765)
Principal payments on instalment notes receivable (note 5)	56	78	128	159
Finance costs paid	(2,557)	(2,285)	(5,125)	(4,573)
Proceeds from issuance of Units, net of costs	(48)	(148)	36	(141)
Cash distributions to unitholders	(3,791)	(2,182)	(7,517)	(4,339)
Cash provided by (used in) financing activities	30,676	(4,569)	21,148	(9,409)
Increase (decrease) in cash and cash equivalents	(17,941)	371	(21,629)	532
Cash and cash equivalents, beginning of period	21,096	771	24,784	610
Cash and cash equivalents, end of period	$ 3,155	$ 1,142	$ 3,155	$ 1,142
Supplemental cash flow information:				
Units issued under DRIP – unitholders	$ 574	$ 401	$ 1,183	$ 806
Units issued under DRIP – Class B LP Units	164	189	345	379

See accompanying notes to condensed consolidated interim financial statements.

Organization:

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

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

1. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements of the REIT have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions significant to understand the changes in financial position and performance of the REIT since the last annual consolidated financial statements as at and for the year ended December 31, 2016. These condensed consolidated interim financial statements do not include all the information required for full financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

The condensed consolidated interim financial statements were approved by the Board of Trustees on August 10, 2017.

(b) Basis of presentation:

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

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

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

1. Basis of preparation (continued):

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

(c) Critical judgments and estimates:

In preparing these condensed consolidated interim financial statements, significant judgments made by management in applying accounting policies were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2016.

2. Significant accounting policies:

The accounting policies applied by the REIT in these condensed consolidated interim financial statements are the same as those applied by the REIT in its audited consolidated financial statements as at and for the year ended December 31, 2016.

Future accounting changes:

A number of new standards have been issued but are not effective for the three and six months ended June 30, 2017 and, accordingly, have not been applied in preparing these consolidated financial statements.

Standards	Effective date (annual period beginning on or after)
IFRS 15, Revenue from Contracts with Customers ("IFRS 15")	January 1, 2018
IFRS 9, Financial Instruments ("IFRS 9")	January 1, 2018
IFRS 16, Leases ("IFRS 16")	January 1, 2019

The REIT intends to adopt these standards on their respective effective dates.

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

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. IFRS 15 becomes effective for annual periods beginning on or after January 1, 2018, and is to be applied retrospectively. Early adoption is permitted.

2. Significant accounting policies (continued):

The REIT has assessed the impact of the new standard and there are no significant changes expected to the financial statements.

(b) IFRS 9, Financial Instruments:

On July 24, 2014, the International Accounting Standards Board ("IASB") issued IFRS 9. IFRS 9 was issued as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets and liabilities. This amendment completes the IASB's financial instruments project and the standard is effective for reporting periods beginning on or after January 1, 2018, 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.

(c) IFRS 16, Leases:

IFRS 16 supersedes International 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. 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 requirements. The effective date for IFRS 16 is January 1, 2019.

The REIT has assessed the impact of the new standard and there are no significant changes expected to the financial statements.

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

3. Acquisitions and dispositions:

All acquisitions completed during the six months ended June 30, 2017 were accounted for as asset acquisitions.

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

	61 Bill Leathem Drive	5160 Orbitor Drive	727 Fisgard Street	Net assets acquired
Acquisition date	June 15, 2017	June 27, 2017	June 27, 2017	
Net assets acquired:				
Investment properties (including acquisition costs of $1,583)	$ 32,529	$ 8,394	$ 14,260	$ 55,183
Other receivables	–	11	13	24
Prepaid expenses and other assets	337	3	11	351
Tenant rental deposits	–	–	(114)	(114)
Accounts payable and accrued liabilities	(119)	(19)	(21)	(159)
Net assets acquired	$ 32,747	$ 8,389	$ 14,149	$ 55,285
Consideration:				
Proceeds from cash on hand	$ 12,788	$ 3,166	$ 5,124	$ 21,078
Proceeds from new mortgage financing, net of financing costs of $208	19,959	5,223	9,025	34,207
	$ 32,747	$ 8,389	$ 14,149	$ 55,285

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

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

4. Investment properties:

The following table summarizes the changes in investment properties for the six months ended June 30, 2017 and 2016:

	Investment properties
Balance, December 31, 2015	$ 342,150
Additions	1,440
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(101)
Fair value adjustment	(1,901)
Balance, June 30, 2016	341,588
Acquisitions	90,998
Additions	1,996
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(179)
Fair value adjustment	(7,325)
Balance, December 31, 2016	427,078
Acquisitions	55,183
Additions	2,121
Amortization of leasing costs, tenant inducements, landlords work and straight-line rents	(196)
Fair value adjustment	6,089
Balance, June 30, 2017	$ 490,275

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

4. Investment properties (continued):

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

	June 30, 2017	June 30, 2016
Terminal and direct capitalization rates - range	6.00% to 11.50%	6.00% to 11.50%
Terminal and direct capitalization rate - weighted average	7.04%	7.13%
Discount rates - range	7.00% to 12.00%	7.00% to 12.00%
Discount rate - weighted average	7.25%	7.82%

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

	June 30, 2017	June 30, 2016
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (12,129)	$ (9,166)
25-basis points decrease	12,864	9,693
Weighted average discount rate:		
25-basis points increase	(12,228)	(9,110)
25-basis points decrease	12,775	9,479

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.

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

5. Instalment notes receivable (continued):

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

	June 30, 2017	December 31, 2016
Current	$ 162	$ 212
Non-current	666	744
Balance	$ 828	$ 956

6. Tenant and other receivables:

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

	June 30, 2017	December 31, 2016
Tenant receivables	$ 1,047	$ 1,580
Other receivables	138	58
	$ 1,185	$ 1,638

As at June 30, 2017, there is no impairment of tenant and other receivables.

7. Restricted cash:

The following table presents details of restricted cash:

	June 30, 2017	December 31, 2016
Deposits in trust	$ 478	$ 228

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

8. Mortgages payable:

As at June 30, 2017, the REIT had $282,142 (December 31, 2016 - $254,140) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.14% (December 31, 2016 - 3.17%) after giving effect to the instalment note receipts, and a weighted average term to maturity of 3.35 years (December 31, 2016 – 3.40 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2016 – six) of the REIT's mortgages that have utilized interest rate swaps to fix their floating interest rates (note 12). The mortgages are secured by first and second charges on the respective properties

As at June 30, 2017, mortgages are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages and notes payable	Scheduled interest payments
2017 – remainder of year	$ 4,347	$ –	$ 4,347	$ 4,443
2018	8,149	43,479	51,628	7,885
2019	7,547	24,794	32,341	6,707
2020	4,999	76,399	81,398	4,261
2021	4,005	29,003	33,008	3,210
Thereafter	3,034	76,386	79,420	2,067
Face value	$ 32,081	$ 250,061	$ 282,142	$ 28,573
Unamortized mark to market mortgage adjustments (2016 - $446)			407	
Unamortized financing costs (2016 - ($1,121))			(1,298)	
Total mortgages payable			$ 281,251	

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

8. Mortgages payable (continued):

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

	June 30, 2017	December 31, 2016
Current:		
Mortgages payable	$ 41,687	$ 19,182
Unamortized mark to market mortgage adjustments	17	48
Unamortized financing cost	(426)	(373)
	41,278	18,857
Non-current:		
Mortgages payable	240,455	234,958
Unamortized mark to market mortgage adjustments	390	398
Unamortized financing cost	(872)	(748)
	239,973	234,608
	$ 281,251	$ 253,465

9. Class B LP Units:

The Class B LP Units are indirectly exchangeable on a one-for-one basis for trust units of the REIT (“Units”) at the option of the holder, under the terms of an exchange agreement dated December 14, 2012 (“Exchange Agreement”) and have economic and voting rights equivalent, in all material respects, to Units.

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

9. Class B LP Units (continued):

The following table summarizes the changes in Class B LP Units for the six months ended June 30, 2017 and 2016:

	Class B LP Units	Amount
Outstanding, December 31, 2015	4,306,337	$ 21,962
Fair value adjustment	–	3,359
Outstanding, June 30, 2016	4,306,337	25,321
Fair value adjustment	–	1,034
Outstanding, December 31, 2016	4,306,337	26,355
Fair value adjustment	–	258
Outstanding, June 30, 2017	4,306,337	$ 26,613

During the three and six months ended June 30, 2017, distributions on Class B LP Units were $640 and $1,279, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income and comprehensive income.

10. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a $6,000 and a $14,000 floating rate revolving credit facilities (the "Credit Facilities"). The Credit Facilities are secured by two properties and mature on November 1, 2018. As of June 30, 2017, $6,000 was drawn on the $6,000 facility (December 31, 2016 - $nil) and $nil on the $14,000 facility (December 31, 2016 - $nil).

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.

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

11. Accounts payable and accrued liabilities:

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

	June 30, 2017	December 31, 2016
Accounts payable and accrued liabilities	$ 3,876	$ 3,700
Finance costs payable	871	875
Distributions payable	1,459	1,443
Unit based compensation liability	130	369
	$ 6,336	$ 6,387

12. Derivative instruments:

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

The notional principal amounts of the outstanding interest swap contracts at June 30, 2017 were $70,197 (December 31, 2016 – $71,324). Total unrealized gain on change in the fair value of the derivative instruments for the three and six months ended June 30, 2017 was $528 and $524 respectively.

13. Unitholders' equity:

(a) Units:

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

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

13. Unitholders' equity (continued):

(b) Units outstanding:

The following table summarizes the changes in Units for the six months ended June 30, 2017 and 2016:

	Units	Amount
Balance, December 31, 2015	17,213,662	$ 103,649
Issue of Units – Trustee Unit issuance plan	7,515	44
Issue of Units – DRIP	224,904	1,185
Issue of Units – options exercised	16,667	97
Issuance costs	–	(167)
Balance, June 30, 2016	17,462,748	104,808
Issue of Units for cash – private placement	1,580,855	9,248
Issue of Units for cash – public offering	9,855,000	61,781
Issue of Units – Trustee Unit issuance plan	7,931	49
Issue of Units – DRIP	241,320	1,456
Issuance costs	–	(3,848)
Balance, December 31, 2016	29,147,854	173,494
Issue of Units – Trustee Unit issuance plan	7,073	44
Issue of Units – DRIP	256,494	1,528
Issue of Units – options exercised	62,500	379
Issuance costs	–	(63)
Balance, June 30, 2017	29,473,921	$ 175,382

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

13. Unitholders' equity (continued):

(c) Unit-based compensation plan:

Under the terms of the REIT's Unit-based compensation plan (the "Plan"), the Trustees may, from time to time, at their discretion, and in accordance with TSX requirements, grant certain Trustees, officers of the REIT and its subsidiaries and certain eligible service providers, non-transferable options to purchase Units, exercisable for a period of up to five years from the date of grant. 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 six months ended June 30, 2017 and 2016, the number of Unit options outstanding changed 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, 2015	1,101,667	$ 6.53	2.93	464,159
Unit options exercised	(16,667)	1.60	–	–
Outstanding, June 30, 2016	1,085,000	6.61	2.44	754,996
Unit options cancelled	(22,500)	7.62	–	–
Unit options granted	507,500	6.18	4.76	–
Outstanding, December 31, 2016	1,570,000	6.45	2.87	732,496
Unit options exercised	(62,500)	1.60	–	–
Unit options cancelled	(17,500)	6.14	–	–
Outstanding, June 30, 2017	1,490,000	6.66	2.44	834,994

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

13. Unitholders' equity (continued):

For the six months ended June 30, 2017 and 2016, the amount of Unit option compensation liability included in accounts payable and accrued liabilities is as follows:

Balance, December 31, 2015	$	257
Unit options exercised		(70)
Fair value adjustment		109
Balance, June 30, 2016	$	296
Balance, December 31, 2016	$	369
Unit options exercised		(279)
Fair value adjustment		40
Balance, June 30, 2017	$	130

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

	June 30, 2017	June 30, 2016
Average expected Unit option holding period	1.53 years	1.49 years
Average expected volatility rate	16.49 %	18.32%
Average dividend yield	9.61 %	10.10%
Average risk-free interest rate	0.99 %	0.52%

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

13. Unitholders' equity (continued):

(d) Distributions

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

For the six months ended June 30, 2017 and 2016, the REIT declared distributions of $9,995 and $6,435, respectively.

(e) DRIP

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

For the six months ended June 30, 2017 and 2016, the REIT issued 256,494 and 224,904 Units under the DRIP for a stated value of $1,528 and $1,185, respectively.

14. Transactions with related parties:

Starlight Group Property Holdings Inc. ("Starlight") is considered a related party of the REIT as Starlight is controlled by the Chairman of the Board, President and Chief Executive Officer of the REIT, who is also a significant unitholder of the REIT. The REIT has engaged Starlight 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, Starlight is to perform asset management services for a base annual management fee calculated and payable on a monthly basis in arrears on the first day of each month equal to 0.35% of the sum of: (i) the historical purchase price of the properties; and (ii) the cost of any capital expenditures incurred by the REIT or any of its affiliates in respect of the properties from the effective date.

14. Transactions with related parties (continued):

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

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

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

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

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

(d) Pursuant to the Asset Management Agreement, Starlight is entitled to a capital expenditure fee equal to 5% of all hard construction costs incurred on each capital project with costs in excess of $1,000, excluding work done on behalf of tenants or any maintenance capital expenditures.

(e) The REIT reimburses Starlight for all reasonable and necessary actual out-of-pocket costs and expenses incurred by Starlight in connection with the performance of the services described in the Asset Management Agreement, including capital expenditures, or such other services which the REIT and Starlight agree in writing are to be provided from time to time.

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

14. Transactions with related parties (continued):

The following table presents the costs incurred for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Asset management fees	$ 375	$ 286	$ 739	$ 572
Acquisition fees	536	–	536	–
Other expenses	32	29	87	60

At June 30, 2017, $148 (December 31, 2016 - $151) is included in accounts payable and accrued liabilities.

15. Finance costs:

The following table presents the financing costs incurred for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Interest on mortgages payable	$ 2,062	$ 1,727	$ 4,124	$ 3,468
Other interest expense and standby fees	31	101	63	193
Amortization of mortgage discounts	(13)	(32)	(40)	(63)
Amortization of financing costs	105	87	200	165
	$ 2,185	$ 1,883	$ 4,347	$ 3,763

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

16. Change in non-cash operating working capital:

The change in non-cash operating working capital for the three and six months ended June 30, 2017 and 2016 is as follows:

	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Deposits	$ 23	$ –	$ 21	$ –
Tenant and other receivables	1,122	395	477	499
Prepaid expenses and other assets	(90)	(331)	(474)	(593)
Tenant rental deposits and prepayments	250	421	(60)	151
Accounts payable and accrued liabilities	(621)	181	18	397
	$ 684	$ 666	$ (18)	$ 454

17. Commitments and contingencies:

As at June 30, 2017, the REIT has entered into commitments for building renovations totalling $713.

At June 30, 2017 and 2016, the REIT had no commitments for future minimum lease payments under non-cancellable operating leases.

18. Segmented disclosure:

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

19. Capital management:

The REIT's capital management objectives and policies are consistent with those disclosed in the consolidated financial statements as at and for the year ended December 31, 2016.

The REIT was in compliance with all financial covenants as at June 30, 2017.

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

20. Risk management and fair values:

(a) Risk management:

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

(i) Interest rate risk:

The REIT is subject to the risks associated with debt financing, including the risk of the interest rate on floating debt rise before the long-term fixed rate debt is arranged and existing mortgage 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 earnings.

As at June 30, 2017 and December 31, 2016, the REIT's interest-bearing financial instruments were:

	Carrying value	
	June 30, 2017	December 31, 2016
Fixed-rate instruments:		
Mortgages payable	$ 282,142	$ 254,140
Variable-rate instruments:		
Credit facilities	$ 6,000	$ –

The REIT is exposed to interest rate risk on its floating-rate debt on certain of its properties which was mitigated by entering into interest rate swaps (note 12).

An increase (decrease) of 100 basis points in interest rates at June 30, 2017 for the variable-rate instruments would have an insignificant impact on net income for the period.

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

20. Risk management and fair values (continued):

(ii) Credit risk:

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

The REIT is exposed to credit risk on all 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.

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

	June 30, 2017	December 31, 2016
0 to 30 days	$ 234	$ 86
31 to 90 days	20	324
Over 90 days	160	41
Total	$ 414	$ 451

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

20. Risk management and fair values (continued):

(b) Fair values:

The REIT uses various methods in estimating the fair values recognized in the consolidated financial statements. 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 at fair value on the condensed consolidated interim statements of financial position:

June 30, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 490,275	$ 490,275
Instalment notes receivable	–	1,191	–	1,191
	$ –	$ 1,191	$ 490,275	$ 491,466
Liabilities:				
Mortgages payable	$ –	$ 282,900	$ –	$ 282,900
Class B LP Units	26,613	–	–	26,613
Derivative instruments, net	–	162	–	162
	$ 26,613	$ 283,062	$ –	$ 309,675

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

20. Risk management and fair values (continued):

December 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ –	$ –	$ 427,078	$ 427,078
Instalment notes receivable	–	1,299	–	1,299
	$ –	$ 1,299	$ 427,078	$ 428,377
Liabilities:				
Mortgages payable	$ –	$ 257,300	$ –	$ 257,300
Class B LP Units	26,355	–	–	26,355
Derivative instrument, net	–	686	–	686
	$ 26,355	$ 257,986	$ –	$ 284,341

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

(i) Investment properties:

The REIT determined the fair value of each investment property based on valuation approaches and key assumptions with level 3 inputs as described in note 4.

(ii) Instalment notes receivable:

The fair value of instalment notes receivable is estimated based on the present value of future receipts, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying instalment note, plus an estimated credit spread at the reporting date for a comparable financial instrument. The estimated fair value of instalment notes receivable at June 30, 2017 was approximately $1,191 (December 31, 2016 - $1,299).

20. Risk management and fair values (continued):

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at June 30, 2017 was approximately $282,900 (December 31, 2016 - $257,300).

(iv) Class B LP Units:

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

(v) Unit option liabilities:

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(c).

(vi) Derivative instruments:

Derivative instruments, such as interest rate swaps, are valued using a valuation technique with level 2 market-observable inputs. The most frequently applied valuation technique includes forward pricing models, using present value calculations. The models incorporate various inputs including forward rates and interest rate curves.

21. Subsequent event:

On July 11, 2017 and July 18, 2017 the REIT issued 4,800,000 Units and 344,000 Units, respectively, at a price of $6.25 per Unit for aggregate gross proceeds of approximately $32,150 (the “Offering”). The REIT intends to use the net proceeds of the Offering to fund potential future acquisitions, to repay indebtedness owing under the REIT’s existing Credit Facilities and for general trust purposes.