# TRUE NORTH COMMERCIAL
# REAL ESTATE INVESTMENT TRUST

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF CONSOLIDATED FINANCIAL RESULTS

**FOR THE THREE MONTHS ENDED MARCH 31, 2017**

**May 11, 2017**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis ("MD&A") of the consolidated financial results of True North Commercial Real Estate Investment Trust (the "REIT") dated May 11, 2017, for the three months ended March 31, 2017 should be read in conjunction with the REIT's annual audited consolidated financial statements for the year ended December 31, 2016 and the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2017 and 2016 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 and 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 concerning matters that are not historical facts.

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 that were applied in drawing a conclusion or making a forecast or projection, including management's perceptions 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 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") 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"), indebtedness ("Indebtedness"), gross book value ("GBV"), Indebtedness to GBV ratio and adjusted cash provided by operating activities are not measures defined under 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, 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 other 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"). AFFO is calculated as FFO subject to certain adjustments, including: 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. Other adjustments may be made to AFFO as determined by the trustees of the REIT ("Trustees") in their discretion.

AFFO calculated by the REIT differs from the guidelines set out by Realpac by the following adjustments: (i) amortization of fair value mark-to-market adjustments on assumed mortgages, (ii) amortization of deferred financing costs, (iii) instalment note receipts, and (iv) non-cash compensation expense related to unit-based incentive plans. 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.

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, 2017 and 2016 have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting. 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, 2017 ("Q1-2017"), three months ended March 31, 2016 ("Q1-2016") and three months ended December 31, 2016 ("Q4-2016").

## 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, 2017, the REIT owned and operated a portfolio of 30 properties consisting of approximately 1.94 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 commercial rental properties across Canada and such other jurisdictions where opportunities exist; and
- enhance the value of the REIT's assets to maximize long-term Unit value through active management of its assets.

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

## PORTFOLIO SUMMARY

At March 31, 2017 the REIT's portfolio was comprised of 30 commercial properties totalling approximately 1.94 million square feet of gross rentable area.

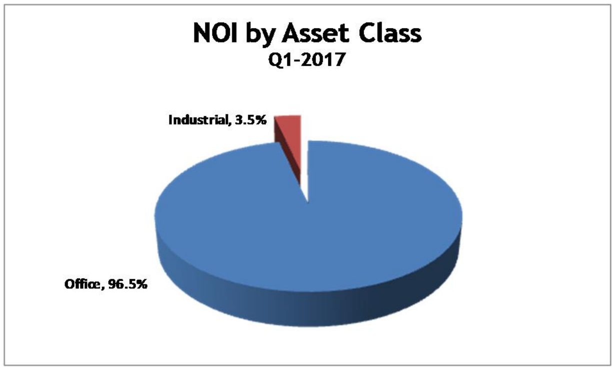
The following table highlights certain information about the REIT's properties as at March 31, 2017:

| Property Name | City/Town | Type | Occupancy | Remaining Lease Term [(1)] | Square Feet |
|---|---|---|---|---|---|
| *Alberta* | | | | | |
| 855 8th Avenue SW | Calgary | Office | 97.4% | 2.3 years | 75,700 |
| 4500 & 4520 - 16th Avenue NW | Calgary | Office | 100% | 7.1 years | 77,600 |
| 13140 St. Albert Trail | Edmonton | Office | 100% | 2.7 years | 96,800 |
| *Ontario* | | | | | |
| 251 Arvin Avenue | Hamilton | Office | 100% | 2.2 years | 6,900 |
| 777 Brock Road | Pickering | Office | 100% | 5.9 years | 98,900 |
| 400 Carlingview Drive | Toronto | Office | 100% | 0.9 years | 26,800 |
| 6865 Century Avenue | Mississauga | Office | 100% | 4.3 years | 63,800 |
| 1161 Crawford Drive | Peterborough | Office | 100% | 5.0 years | 32,500 |
| 197-199 Dundas Street | London | Office | 100% | 2.6 years | 20,200 |
| 417 Exeter Road | London | Office | 76.8% | 3.0 years | 35,200 |
| 520 Exmouth Street | Sarnia | Office | 100% | 4.7 years | 34,700 |
| 529-533 Exmouth Street | Sarnia | Office | 100% | 2.0 years | 15,400 |
| 5900 Explorer Drive | Mississauga | Office | 100% | 3.4 years | 40,000 |
| 135 Hunter Street East | Hamilton | Office | 100% | 1.3 years | 24,400 |
| 1035 Industrial Road | Waterloo | Industrial | 100% | 9.4 years | 156,300 |
| 63 Innovation Drive | Hamilton | Industrial | 100% | 6.7 years | 45,900 |
| 340 Laurier Avenue West | Ottawa | Office | 100% | 3.5 years | 279,100 |
| 400 Maple Grove Road | Ottawa | Office | 100% | 0.4 years | 107,200 |
| 78-90 Meg Drive | London | Office | 100% | 3.2 years | 11,300 |
| 8 Oakes Avenue | Kirkland Lake | Office | 100% | 5.0 years | 41,000 |
| 534 Queens Avenue | London | Office | 100% | 4.2 years | 19,000 |
| 3650 Victoria Park Avenue | Toronto | Office | 88.2% | 6.3 years | 154,300 |
| *New Brunswick* | | | | | |
| 500 Beaverbrook Court | Fredericton | Office | 100% | 4.8 years | 55,600 |
| 295 Belliveau Avenue | Shediac | Office | 100% | 4.8 years | 42,100 |
| 410 King George Highway | Miramichi | Office | 100% | 4.3 years | 73,200 |
| 551 King Street | Fredericton | Office | 98.9% | 5.3 years | 85,100 |
| 495 Prospect Street | Fredericton | Office | 89.6% | 4.8 years | 85,000 |
| 845 Prospect Street | Fredericton | Office | 100.0% | 4.9 years | 39,000 |
| 414-422 York Street | Fredericton | Office | 78.9% | 0.8 years | 33,000 |
| 440-470 York Street | Fredericton | Office | 94.3% | 5.0 years | 60,100 |
| **Average/Total** | | | 97.5% | 4.2 years | 1,936,100 |

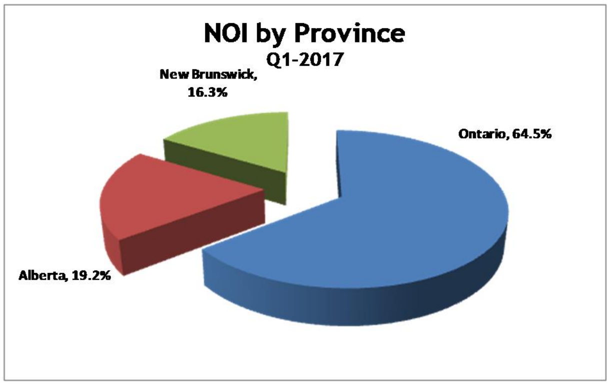
**Notes:**

[(1)] Weighted by expected annualized 2017 gross revenue.

## COMPOSITION BY ASSET CLASS

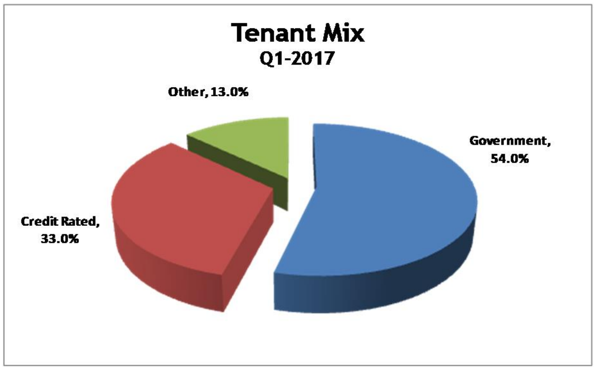



## COMPOSITION BY GEOGRAPHIC REGION




## TENANT MIX

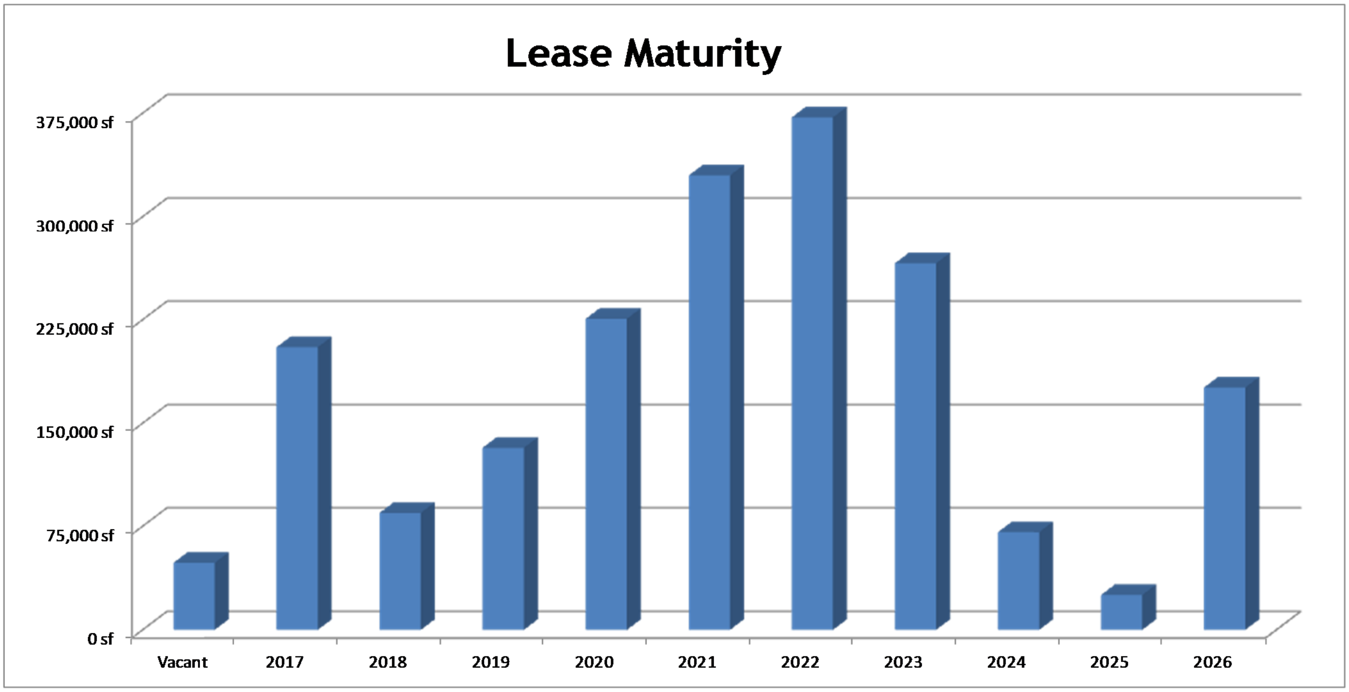
The percentage of revenue generated from tenants that are government institutions, credit-rated or other was as follows:




The tenant mix is based on annualized 2017 gross revenue.

## LEASE ROLLOVER PROFILE

As at March 31, 2017 the lease rollover profile of the REIT was as follows:




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

## Q1 2017 HIGHLIGHTS

- Increased revenue $3,143 or 32% from Q1-2016 to $13,019
- Increased NOI $1,901 or 32% from Q1-2016 to $7,767
- Same property NOI increased $199 or 3.4% from Q1-2016
- FFO basic and diluted per Unit of $0.15 in Q1-2017 compared to $0.16 in Q1-2016
- AFFO basic and diluted remained consistent at $0.15 compared to Q1-2016
- Excluding the timing differential between the Unit offering in Q4-2016 and the deployment of funds into target acquisitions, FFO and AFFO per Unit would have been $0.17 or $0.02 greater per Unit
- AFFO basic and diluted payout ratio of 101% and 102% (90% and 91% excluding the timing differential noted above) compared to 97% in Q1-2016
- Portfolio occupancy remained strong at 97.5%
- Government and credit-rated tenants represented 87.0% of revenue
- Indebtedness to GBV ratio decreased to 54.05% at March 31, 2017 compared to 55.41% at December 31, 2016
- Weighted average fixed interest rate of 3.18% at March 31, 2017 compared to 3.17% at December 31, 2016
- Declared distributions of $4,984
- Ended the quarter with a strong balance sheet position with cash on hand of $21,096 and undrawn credit facilities of $20,000 available to fund future acquisitions

Revenue and NOI increased predominantly as a result of property acquisitions in the latter half of 2016. Both FFO and AFFO per Unit were impacted $0.02 per Unit by the timing differential between the Unit offering of $28,772 in Q4-2016 and deployment of funds into target 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 generated from the acquisitions. Excluding the timing differential noted above, AFFO basic and diluted payout ratio is 90% and 91% respectively.

### REFINANCING

On February 15, 2017, the REIT repaid a vendor take back mortgage of $2,100 and note payable of $2,900 related to the 8 Oakes Avenue property originally due on April 1, 2017.

On March 1, 2017, the REIT refinanced the mortgage on the 8 Oakes Avenue property with a five year mortgage of $8,988 at a fixed interest rate of 3.54%. The mortgage is secured by a first charge on the property.

### SUBSEQUENT EVENT

On May 8, 2017, the REIT executed an early lease renewal with EMS Technologies Canada, Ltd., a subsidiary of Honeywell International Inc., at 400 Maple Grove Road, Ottawa, Ontario. The renewal, totalling 107,243 square feet, extends the tenant’s ten year occupancy for a further seven years.

## FINANCIAL AND OPERATIONAL HIGHLIGHTS

| | Three months ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Revenue | $13,019 | $9,876 |
| NOI | $7,767 | $5,866 |
| Income (loss) and comprehensive income (loss) | $12,131 | ($600) |
| FFO | $5,062 | $3,419 |
| FFO per Unit - basic (1) | $0.15 | $0.16 |
| FFO per Unit - diluted (1) | $0.15 | $0.16 |
| AFFO | $4,918 | $3,320 |
| AFFO per Unit - basic (1) | $0.15 | $0.15 |
| AFFO per Unit - diluted (1) | $0.15 | $0.15 |
| AFFO payout ratio - basic | 101% | 97% |
| AFFO payout ratio - diluted | 102% | 97% |
| Units outstanding for FFO and AFFO per Unit: | | |
| Weighted average (000s) – basic (1) | 33,534 | 21,583 |
| Add: Unexercised unit options | 366 | 78 |
| Weighted average (000s) – diluted (1) | 33,900 | 21,661 |

**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 Unit options of the REIT ("Unit Options") in the money.

The REIT increased its portfolio by five properties and 492,000 square feet in latter half of 2016 resulting in increased revenue of $3,143 or 32%, NOI of $1,901 or 32% and FFO of $1,643 or 48%. FFO and AFFO per Unit of $0.15 were each impacted $0.02 per Unit by the timing differential between the Unit offering in Q4-2016 and the deployment of funds into target acquisitions. Excluding the impact of the Unit offering in Q4-2016, AFFO basic and diluted payout ratios were 90% and 91%, respectively.

## QUARTERLY INFORMATION

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

| | Q1-17 | Q4-16 | Q3-16 | Q2-16 | Q1-16 | Q4-15 | Q3-15 | Q2-15 |
|---|---|---|---|---|---|---|---|---|
| Revenue | $ 13,019 | $ 11,762 | $ 10,060 | $ 9,653 | $ 9,876 | $ 9,827 | $ 9,519 | $ 8,882 |
| Property operating costs | 5,252 | 4,835 | 3,876 | 3,713 | 4,010 | 3,753 | 3,638 | 3,325 |
| NOI | 7,767 | 6,927 | 6,184 | 5,940 | 5,866 | 6,074 | 5,881 | 5,557 |
| General and administration expenses | (657) | (423) | (551) | (446) | (687) | (418) | (444) | (439) |
| Finance costs | (2,162) | (1,987) | (1,931) | (1,883) | (1,880) | (1,897) | (1,837) | (1,820) |
| Distributions on Class B LP Units | (639) | (640) | (639) | (640) | (639) | (640) | (644) | (508) |
| Fair value adjustment of Class B LP Units | 86 | 1,292 | (2,326) | (775) | (2,584) | 1,944 | 1,036 | 479 |
| Fair value adjustment of investment properties | 7,740 | (4,069) | (3,256) | (1,264) | (637) | 553 | 4,179 | (2,870) |
| Unrealized gain (loss) on change in fair value of derivative instruments | (4) | 630 | 193 | 163 | (39) | 126 | (652) | 158 |
| Loss on sale of investment property | - | - | - | - | - | - | - | (350) |
| **Income (loss) and comprehensive income (loss) for the period** | $ 12,131 | $ 1,730 | $ (2,326) | $ 1,095 | $ (600) | $ 5,742 | $ 7,519 | $ 207 |
| **FFO per Unit - basic** | $ 0.15 | $ 0.14 | $ 0.15 | $ 0.17 | $ 0.16 | $ 0.17 | $ 0.17 | $ 0.17 |
| **AFFO per Unit - basic** | $ 0.15 | $ 0.14 | $ 0.15 | $ 0.17 | $ 0.15 | $ 0.17 | $ 0.17 | $ 0.16 |
| **AFFO per Unit - diluted** | $ 0.15 | $ 0.14 | $ 0.15 | $ 0.16 | $ 0.15 | $ 0.17 | $ 0.17 | $ 0.16 |
| **AFFO payout ratio - basic** | 101% | 105% | 99% | 90% | 97% | 88% | 88% | 92% |
| **AFFO payout ratio - diluted** | 102% | 106% | 99% | 90% | 97% | 88% | 88% | 93% |
| **Number of investment properties** | 30 | 30 | 27 | 25 | 25 | 25 | 25 | 21 |

Revenue and operating costs increased in Q1-2017 compared to Q4-2016 mainly due to a full quarter of operations from the three properties acquired in Q4-2016. General and administration expenses increased in Q1-2017 compared to Q4–2016 and were impacted by increased Unit-based compensation expenses, professional fees for year-end audit, compliance and tax work. Finance costs increased in Q1-2017 compared to Q4-2016 due to additional debt associated with the acquisition of the three properties in Q4-2016.

## ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three months ended March 31, 2017 and 2016 are summarized below.

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Revenue | $ 13,019 | $ 9,876 |
| Expenses: | | |
| Property operating costs | 3,261 | 2,411 |
| Realty taxes | 1,991 | 1,599 |
| NOI | $ 7,767 | $ 5,866 |
| Other income (expenses): | | |
| General and administration expenses | (657) | (687) |
| Finance costs | (2,162) | (1,880) |
| Distributions on Class B LP Units | (639) | (639) |
| Fair value adjustment of Class B LP Units | 86 | (2,584) |
| Fair value adjustment of investment properties | 7,740 | (637) |
| Unrealized gain(loss) on change in fair value of derivative instruments | (4) | (39) |
| **Income (loss) and comprehensive income (loss)** | $ 12,131 | $ (600) |

### PROPERTY OPERATIONS

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

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

Overall, for Q1-2017 compared to Q1-2016, the REIT acquired five additional properties in Q3-2016 and Q4-2016, which resulted in significant comparative increases in revenue, operating costs, realty taxes and NOI. Revenue increased by 32% ($3,143) in Q1-2017 compared to Q1-2016. Property operating costs increased by 35% ($850) in Q1-2017 compared to Q1-2016. Realty taxes increased by 25% ($392) in Q1-2017 compared to Q1-2016. NOI increased by 32% ($1,901) in Q1-2017 compared to Q1-2016, of which 3.4% is due to same store NOI growth.

Occupancy for the property portfolio remained stable quarter over quarter at 97.5%.

### SAME PROPERTY ANALYSIS

Same property analysis for the three months ended March 31, 2017 and 2016 consists of twenty five properties. Same property comparison does not include non-cash adjustments such as amortization of leasing costs, tenant inducements, landlords work and straight-line rent.

| | Three months ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Revenue | $ 10,269 | $ 9,915 |
| Expenses: | | |
| Property operating | 2,505 | 2,405 |
| Realty taxes | 1,654 | 1,599 |
| Same-property NOI | $ 6,110 | $ 5,911 |

Same property NOI increased $199 or 3.4% from the comparative quarter. Q1-2017 revenue included $106 of project management fees earned as well as a $66 energy rebate received in connection with the LEED® - EB Gold Certification Retro-Commissioning Project. Excluding these items noted above, same property NOI increased 0.4%. Property operating costs increased due to higher repairs and maintenance and HVAC costs at certain properties offset by lower utilities at 340 Laurier Avenue West. In the latter half of 2016, certain properties were re-assessed at higher values for realty taxes resulting in increased expenses in Q1-2017.

### GENERAL AND ADMINISTRATION EXPENSES

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

General and administration expenses decreased $30 in Q1-2017 compared to Q1–2016. Increased asset management fees of $79, offset by lower Unit-based compensation expense of $67, and additional interest income of $41 contributed to the quarter over quarter decrease.

### FINANCE COSTS

The REIT's finance costs for the three months ended March 31, 2017 and 2016 are summarized below. Finance costs exclude both distributions and fair value adjustments on Class B LP Units.

| | Three months ended March 31 | |
|---|---|---|
| | 2017 | 2016 |
| Interest on mortgages payable | $ 2,062 | $ 1,741 |
| Other interest expense and standby fees | 32 | 92 |
| Amortization of mortgage discounts | (27) | (31) |
| Amortization of financing costs | 95 | 78 |
| Total finance costs | $ 2,162 | $ 1,880 |

Interest on mortgages payable increased by $321 in Q1-2017 compared to Q1-2016 due to the increase in borrowings associated with the acquisitions completed in the latter half of 2016.

Other interest expense and standby fees relate to costs incurred on the REIT's Credit Facilities. Q1-2017 decreased by $60 compared to Q1-2016 as no amounts were drawn on the 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 $639 for Q1-2017 and Q1-2016.

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

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

The notional principal amounts of the outstanding interest rate swap contracts at March 31, 2017 were $70,762 (December 31, 2016 - $71,324). Total unrealized loss on change in the fair value of the derivative instruments totalled $4 in Q1-2017 compared to $39 in Q1-2016.

### 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 $86 for Q1-2017 is due to a slight decrease in the trading price of the Units from $6.12 at December 31, 2016 to $6.10 at March 31, 2017.

### 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 statement of income (loss) and comprehensive income (loss) 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 $7,740 for Q1-2017 compared to a fair value loss of $637 for Q1-2016. The fair value gain during the quarter is mainly attributable to changes in 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, 2017 and 2016 are as follows:

| | **March 31 2017** | **March 31 2016** |
|---|---|---|
| Terminal and direct capitalization rates - range | 6.00% - 11.50% | 6.00% - 11.50% |
| Terminal and direct capitalization rate - weighted average | 7.07% | 7.13% |
| Discount rates - range | 7.00% - 12.00% | 7.00% - 12.00% |
| Discount rate - weighted average | 7.79% | 7.82% |

## FFO AND AFFO RECONCILIATIONS

### FFO

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

| | Three months ended March 31 2017 | 2016 |
|---|---|---|
| **Income (loss) and comprehensive income (loss)** | $ 12,131 | $ (600) |
| Add / (deduct): | | |
| Unit based compensation expense | 20 | 86 |
| Fair value adjustment of investment properties | (7,740) | 637 |
| Fair value adjustment of Class B LP Units | (86) | 2,584 |
| Distributions on Class B LP Units | 639 | 639 |
| Unrealized (gain) loss on change in fair value of derivative instruments | 4 | 39 |
| Amortization of leasing costs, tenant inducements and landlord's work | 94 | 34 |
| **FFO** | $ 5,062 | $ 3,419 |
| FFO per Unit - basic (1) | $0.15 | $0.16 |
| FFO per Unit - diluted (1) | $0.15 | $0.16 |
| **Weighted average Units outstanding:** | | |
| Basic - (000s) (1) | 33,534 | 21,583 |
| Add: | | |
| Unexercised Unit Options | 366 | 78 |
| Diluted - (000s) (1) | 33,900 | 21,661 |

**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 Unit Options that are in the money.

FFO increased $1,643 or 48% compared to Q1-2016. FFO was positively impacted due to increased NOI from the five acquisitions completed in the latter half of 2016 and organic growth in the same store properties.

FFO basic and diluted per Unit decreased to $0.15 in Q1-2017 compared to $0.16 in Q1-2016. Both FFO and AFFO per Unit were negatively impacted by the timing differential of the Unit offering in Q4-2016 and deployment of funds into target acquisitions which accounted for $0.02 per Unit in Q1-2017.

## AFFO

Reconciliation of FFO to AFFO is as follows:

| | | Three months ended March 31 | | |
|---|---|---|---|---|
| | | 2017 | | 2016 |
| **FFO** | $ | 5,062 | $ | 3,419 |
| Add / (deduct): | | | | |
| Non-cash compensation expense | | 23 | | 26 |
| Amortization of financing costs | | 95 | | 78 |
| Amortization of mortgage discounts | | (27) | | (31) |
| Instalment note receipts | | 81 | | 86 |
| Straight-line rent | | 42 | | 11 |
| Capital reserve (1) | | (358) | | (269) |
| **AFFO** | $ | 4,918 | $ | 3,320 |
| AFFO per Unit - basic (2) | | $0.15 | | $0.15 |
| AFFO per Unit - diluted (2) | | $0.15 | | $0.15 |
| Distributions declared | $ | 4,984 | $ | 3,208 |
| AFFO payout ratio - basic | | 101% | | 97% |
| AFFO payout ratio - diluted | | 102% | | 97% |

**Notes:**

(1) Based on an estimate of $0.75 (2016 - $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 Unit Options that are in the money.

The REIT experienced growth in revenue, FFO and AFFO during Q1-2017 compared to Q1-2016 which is primarily due to the acquisitions completed in Q3 and Q4-2016. AFFO basic and diluted payout ratio increased to 101% and 102% in Q1-2017. AFFO basic and diluted payout ratio was mainly impacted by the REIT's Unit offering in Q4-2016, as distributions declared were based on a larger number of Units outstanding without the benefit of the increased NOI generated from property acquisitions. Excluding the impact of the Unit offering in Q4-2016, AFFO basic and diluted payout ratios were 90% and 91%, respectively.

### RECONCILIATION OF ADJUSTED CASH FLOW PROVIDED BY OPERATING ACTIVITIES TO AFFO

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

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Adjusted cash flow provided by operating activities | $ 4,509 | $ 3,281 |
| Non-cash compensation expense | 2 | 4 |
| Change in finance costs payable | (18) | 6 |
| Instalment note receipts | 81 | 86 |
| Capital reserve (1) | (358) | (269) |
| Change in non-cash operating working capital | 702 | 212 |
| **AFFO** | $ 4,918 | $ 3,320 |

Notes:

(1) Based on an estimate of $0.75 (2016 - $0.75) per square foot per annum and represents a reserve for capital expenditures, tenant inducements and leasing costs.

AFFO of $4,918 was $66 lower than distributions declared and $724 above distributions paid for Q1-2017. The shortfall in AFFO from distributions declared is a result of the timing difference in deploying proceeds from the REIT's Unit offering in Q4-2016 into target acquisitions.

## DISTRIBUTIONS

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

The 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 Resources". In addition, the distributions declared include a component funded by the REIT's distribution reinvestment plan ("DRIP").

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

| | Three months ended March 31 | Year ended December 31 | | |
|---|---|---|---|---|
| | **2017** | **2016** | **2015** | **2014** |
| Distributions declared | $ 4,984 | $ 15,180 | $ 12,414 | $ 8,251 |
| Less: DRIP | (790) | (2,641) | (1,534) | (1,520) |
| Cash distributions paid | $ 4,194 | $ 12,539 | $ 10,880 | $ 6,731 |

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 | | |
|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 |
| Income (loss) and comprehensive income (loss) | $ 12,131 | $ (101) | $ 16,471 | $ 12,981 |
| Cash flow provided by operating activities | 6,585 | 24,347 | 20,713 | 11,956 |
| Less: Interest paid | (2,076) | (7,349) | (6,961) | (4,072) |
| Adjusted cash flow provided by operating activities | 4,509 | 16,998 | 13,752 | 7,884 |
| *Declared basis:* | | | | |
| Excess (shortfall) of income (loss) and comprehensive income (loss) over distributions | 7,147 | (15,281) | 4,057 | 4,730 |
| Excess (shortfall) of adjusted cash flow provided by operating activities over declared distributions | (475) | 1,818 | 1,338 | (367) |
| *Cash basis:* | | | | |
| Excess (shortfall) of income (loss) and comprehensive income (loss) over cash distributions | 7,937 | (12,640) | 5,591 | 6,250 |
| Excess of adjusted cash flow provided by operating activities over cash distributions | 315 | 4,459 | 2,872 | 1,153 |

For Q1-2017, adjusted cash flow provided by operating activities was less than distributions declared by $475 but exceeded cash distributions by $315. The shortfall of $475 for Q1-2017 was a result of distributions declared being on a larger number of Units outstanding from the Q4-2016 Unit offering without the benefit of the increased NOI generated from property acquisitions. 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, 2017 and 2016:

| | Investment Properties |
|---|---|
| Balance at December 31, 2015 | $ 342,150 |
| Additions | 119 |
| Amortization of leasing costs, tenant inducements, landlords work and straight-line rents | (44) |
| Fair value adjustment | (637) |
| Balance at March 31, 2016 | 341,588 |
| Acquisitions | 90,998 |
| Additions | 3,317 |
| Amortization of leasing costs, tenant inducements, landlords work and straight-line rents | (236) |
| Fair value adjustment | (8,589) |
| Balance at December 31, 2016 | 427,078 |
| Additions | 620 |
| Amortization of leasing costs, tenant inducements, landlords work and straight-line rents | (136) |
| Fair value adjustment | 7,740 |
| **Balance at March 31, 2017** | **$ 435,302** |

#### ADDITIONS:

Additions to investment properties for the three months ended March 31, 2017 were $620 consisting of the following:

- Capital expenditures of $320, of which $173 related to 340 Laurier Avenue West primarily in connection with the LEED® - EB Gold Certification Retro-Commissioning Project; and
- Tenant inducements, landlords work and leasing costs of $300, which include costs incurred to improve space for tenant retention, as well as leasing commissions paid to renew 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 between April 1, 2017 and April 1, 2027, co-terminously with the assumed mortgages.

The following tables summarize the instalment notes receivable and principal receipts for the three months ended March 31, 2017:

| | | |
|---|---|---|
| Balance, December 31, 2016 | $ | 956 |
| Principal receipts on instalment notes receivable | | ($72) |
| Balance, March 31, 2017 | $ | 884 |

### PREPAID EXPENSES AND OTHER ASSETS

As at March 31, 2017, the REIT had $1,774 in prepaid expenses and other assets, compared to $1,390 at December 31, 2016. This is primarily due to an increase in prepaid realty taxes.

## LIABILITIES

As at March 31, 2017, the overall leverage, as represented by the ratio of Indebtedness to GBV was 54.05% compared to 55.41% at December 31, 2016. 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, 2017 and December 31, 2016.

| | | March 31, 2017 | | December 31, 2016 |
|---|---|---|---|---|
| Total assets | $ | 462,089 | $ | 456,469 |
| Deferred financing costs | | 2,175 | | 2,187 |
| **GBV** | $ | 464,264 | $ | 458,656 |
| Mortgages payable | | 250,146 | | 253,465 |
| Unamortized financing costs and mark to market mortgage adjustments | | 769 | | 675 |
| **Indebtedness** | $ | 250,915 | $ | 254,140 |
| Indebtedness to GBV | | 54.05% | | 55.41% |

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

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

As at March 31, 2017, 0% (December 31, 2016 – 0%) of the REIT's debt was at floating rates.

## MORTGAGES PAYABLE

The following table sets out, as at March 31, 2017, 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 and notes payable | Scheduled interest payments | Percentage of total mortgages payable |
|---|---|---|---|---|---|
| 2017 - remainder of year | 5,930 | 1,208 | 7,138 | 6,044 | 2.9% |
| 2018 | 7,177 | 43,479 | 50,656 | 6,935 | 20.2% |
| 2019 | 6,548 | 24,794 | 31,342 | 5,797 | 12.5% |
| 2020 | 3,970 | 76,399 | 80,369 | 3,367 | 32.0% |
| 2021 | 2,948 | 29,003 | 31,951 | 2,346 | 12.7% |
| Thereafter | 2,403 | 47,056 | 49,459 | 1,587 | 19.7% |
| | $ 28,976 | $ 221,939 | 250,915 | $ 26,076 | 100.0% |
| Unamortized mark to market mortgage adjustments | | | 422 | | |
| Unamortized financing costs | | | (1,191) | | |
| | | | $ 250,146 | | |

The mortgages carry a weighted average fixed interest rate of 3.18% (December 31, 2016 – 3.17%), after giving effect to the instalment notes receipts and a weighted average term to maturity of 3.35 years (December 31, 2016 – 3.40 years).

## CREDIT FACILITIES

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

The first $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 and matures on November 1, 2018. As at March 31, 2017, $nil (December 31, 2016 - $ nil) was drawn on the credit facility.

The second facility of $14,000 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 and also matures on November 1, 2018. As at March 31, 2017, $nil (December 31, 2016 – $ nil) was drawn on this credit facility.

Both Credit Facilities are secured by 410 King George Highway and 340 Laurier Avenue West.

### 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 the Partnership equivalent to the distributions such holder would have received if they were holding Units.

As at March 31, 2017 and December 31, 2016 there were 4,306,337 Class B LP Units issued. The Class B LP Units were valued at $26,269 at March 31, 2017 compared to $26,355 as at December 31, 2016. The change in value is due to a decrease in the Unit price from $6.12 at December 31, 2016 to $6.10 at March 31, 2017.

The REIT has the following Class B LP Units outstanding as of May 11, 2017:

| | **Units** |
|---|---|
| Balance, March 31, 2017 | 4,306,337 |
| Issuance of Class B LP Units | - |
| Balance, May 11, 2017 | 4,306,337 |

## 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, 2017:

| | **Units** | | **Amount** |
|---|---|---|---|
| Balance, December 31, 2016 | 29,147,854 | $ | 173,494 |
| Issuance of Units - Trustee Unit issuance plan | 3,355 | | 21 |
| Issuance of Units - DRIP | 133,297 | | 790 |
| Issuance of Units - options exercised | 62,500 | | 379 |
| Issuance costs | - | | (16) |
| Balance, March 31, 2017 | 29,347,006 | $ | 174,668 |

The number of Units outstanding as of May 11, 2017 is as follows:

| | |
|---|---|
| Balance, March 31, 2017 | 29,347,006 |
| Issuance of Units - DRIP | 46,369 |
| Balance, May 11, 2017 | 29,393,375 |

### NORMAL COURSE ISSUER BID ("NCIB")

On December 5, 2016, the TSX approved the renewal of the NCIB. Pursuant to the renewal, the REIT has the ability to purchase for cancellation up to a maximum of 100,000 Units, representing 0.40% of the REIT's public float of 25,147,238 Units through the facilities of the TSX. The NCIB commenced on December 8, 2016 and expires on December 7, 2017.

During Q1-2017, nil (for the year ended December 31, 2016 – 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, 2017, the REIT did not issue Units under the Prospectus. As at December 31, 2016, the REIT issued 9,855,000 Units for total proceeds of $61,781 pursuant to the Prospectus.

### UNIT OPTIONS

The total number of Units reserved under the REIT's Unit-based compensation plan may not exceed 10% of the Units and Class B LP Units outstanding. Options outstanding at March 31, 2017 consist of the following:

| Weighted average exercise price (1) | Unit Options Outstanding | Unit Options exercisable | Expiry Date |
|---|---|---|---|
| $7.48 | 95,000 | 95,000 | December 14, 2017 |
| $7.66 | 410,000 | 410,000 | February 12, 2018 |
| $6.15 | 495,000 | 329,994 | January 8, 2020 |
| $6.04 | 215,000 | - | August 5, 2021 |
| $6.28 | 292,500 | - | November 14, 2021 |
| $6.65 | 1,507,500 | 834,994 | |

(1) In actual dollars.

## LIQUIDITY AND CAPITAL RESOURCES

### 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 8, 2017. 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) 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 | |
|---|---|---|
| | **2017** | **2016** |
| Cash provided by operating activities | $ 6,585 | $ 5,120 |
| Cash used in investing activities | (745) | (119) |
| Cash used in financing activities | (9,528) | (4,840) |
| Increase (decrease) in cash and cash equivalents | (3,688) | 161 |
| Cash and cash equivalents, beginning of period | 24,784 | 610 |
| Cash and cash equivalents, end of period | $ 21,096 | $ 771 |

Cash provided by operating activities increased in Q1-2017 compared to Q1-2016 primarily due to increased NOI resulting from the increased number of properties owned.

Cash used in investing activities increased in Q1-2017 compared to Q1-2016 mainly due to higher capital expenditures of $201, and tenant inducements, landlord's work and leasing costs incurred of $300.

Cash used in financing activities in Q-2017 was higher due to the repayment of a vendor take back mortgage of $2,100, note payable of $2,900 and first mortgage of $5,325 offset by new financing of $8,988 related to 8 Oakes Avenue. Distributions increased $1,569 in Q1-2017 compared to Q1-2016 due to the increased number of Units outstanding.

### CAPITAL RESOURCES

The REIT's properties require ongoing capital expenditures, tenant inducements and leasing expenditures. Leasing expenditures include the cost of tenant allowances, 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 2017 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the three months ended March 31, 2017 and 2016, the REIT invested $620 and $119 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, 2017, the REIT has entered into commitments for 340 Laurier Avenue West related to its LEED® - EB Gold Certification Retro-Commissioning Project totalling $337 (December 31, 2016 - $547).

At March 31, 2017, 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"), Starlight provides advisory, asset management and administrative services to the REIT. The REIT is administered and operated by the CEO and the REIT's 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 from the date of the agreement 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 any 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 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 by Starlight.

The following table presents the costs incurred for the three months ended March 31, 2017 and 2016:

| | Three months ended March 31 | |
|---|---|---|
| | **2017** | **2016** |
| Asset management fees | $ 364 | $ 286 |
| Other expenses | 55 | 31 |
| Total | $ 419 | $ 317 |

Of these amounts as at March 31, 2017, $145 (December 31, 2016 - $151) was included in accounts payable and accrued liabilities. No capital expenditure fees were charged for the three months ended March 31, 2017 and 2016.

## 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 in the REIT's annual MD&A dated March 8, 2017 for the year ended December 31, 2016 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 8, 2017.

## 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 rates, terminal capitalization rates, capitalization rates and future cash flows. The discount, terminal capitalization and capitalization rates applied are reflective of the characteristics, location and market of the investment property. The future cash flows of the investment property are based upon rental income from current leases and assumptions about occupancy rates and market rent 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 zero-coupon Government of Canada bonds with terms consistent with the average expected unit option holding period. Management determines the fair value internally, utilizing the aforementioned inputs, some of which are provided by external market data and some through internal financial information.

### 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 | Measurement |
|---|---|---|
| **Financial assets:** | | |
| Instalment notes receivable | Loans and receivables | Amortized cost |
| Deposits | Loans and receivables | Amortized cost |
| Tenant and other receivables | Loans and receivables | Amortized cost |
| Restricted cash | Loans and receivables | Amortized cost |
| Cash and cash equivalents | Loans and receivables | Amortized cost |
| **Financial liabilities:** | | |
| Mortgages payable | Other liabilities | Amortized cost |
| Class B LP Units | FVTPL | Fair value |
| Credit facilities | Other liabilities | Amortized cost |
| Tenant rental deposits and prepayments | Other liabilities | Amortized cost |
| Accounts payable and accrued liabilities | Other liabilities | Amortized cost |
| Unit Option Plan | FVTPL | Fair value |
| Derivative instrument | FVTPL | 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 revolving 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 statement of financial position.

The fair value of mortgages payable 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.

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 following are new standards, amendments to standards and interpretations that have been issued but not yet effective for the three months ended March 31, 2017 and, accordingly, have not been applied in preparing the consolidated financial statements.

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

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

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.

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

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

On July 24, 2014, the 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.

### IFRS 16, Leases ("IFRS 16"):

IFRS 16 supersedes IAS 17 Leases, IFRS Interpretations Committee ("IFRIC") 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.

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

## DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The REIT maintains information systems, procedures and controls to ensure all information disclosed externally is as complete, reliable and timely as possible. Such internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the 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, 2017.

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, 2017.

## OUTLOOK

On April 12, 2017, the Bank of Canada ("BoC") maintained its target overnight rate at 0.5% for the 13th straight announcement. With the stabilization and return of investment to the Canadian resource sector, strong gains in global growth, and despite weaker exports and broad-based investments, the BoC has upgraded its forecast, and has said definitively that a further rate cut is off the table at this time. The BoC also voiced concerns about the strength of its revised outlook, specifically in that strong residential investments and related consumption could prove to be temporary, combined with uncertainty caused by the global rise in trade protectionism.

The Canadian resource rebound can now be said to be underway, albeit modestly. Commodity prices have stabilized and begun to rise again, and with it, resource sector investment. However, this is being accompanied by very strong consumption and residential investment which, while providing a 'growth surge' in the first quarter of 2017, is not expected to be permanent. The BoC points to these temporary influences as a reason to remain cautious in their outlook.

The BoC's April Monetary Policy Report factored in this 'surge' in their upgrade, and while anticipating Real GDP to expand by 2.6% in 2017 (up from 2.1% in January's report), the expectation is that 2018 will fall .02% to 1.9% and 1.8% in 2019. This downward revision is largely due to the BoC reducing their outlook for Canada's potential growth from 1.5% to 1.3%. Their contention is that Canada will return to full capacity ahead of forecast (H1 2018), but that level of capacity will also be lower than previously calculated, resulting in a lower growth projection.

Management anticipates that despite the global uncertainty, overall real estate fundamentals will remain stable throughout 2017 as Canada remains a strong and stable economy, and a safe haven for global capital. However, borrowing costs may increase slightly: while Canadian bond yields have risen since the US election in November, lender spreads have contracted somewhat.

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 AIF can be found on SEDAR at www.sedar.com.

Dated: May 11, 2017
Toronto, Ontario, Canada