Condensed Consolidated Interim Financial Statements
(In Canadian dollars)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

Three months ended March 31, 2017 and 2016
(Unaudited)

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

	March 31, 2017	December 31, 2016
Assets		
Non-current assets:		
Investment properties (note 4)	$ 435,302	$ 427,078
Instalment notes receivable (note 5)	704	744
Deposits	397	395
Total non-current assets	436,403	428,217
Current assets:		
Tenant and other receivables (note 6)	2,283	1,638
Prepaid expenses and other assets	1,774	1,390
Instalment notes receivable (note 5)	180	212
Restricted cash (note 7)	353	228
Cash and cash equivalents	21,096	24,784
Total current assets	25,686	28,252
Total assets	$ 462,089	$ 456,469
Liabilities and Unitholders' Equity		
Non-current liabilities:		
Mortgages payable (note 8)	$ 208,247	$ 234,608
Derivative instruments (note 12)	284	269
Class B LP Units (note 10)	26,269	26,355
Total non-current liabilities	234,800	261,232
Current liabilities:		
Mortgages payable (note 8)	41,899	18,857
Tenant rental deposits and prepayments	1,592	1,902
Accounts payable and accrued liabilities (note 11)	6,758	6,387
Derivative instruments (note 12)	406	417
Total current liabilities	50,655	27,563
Total liabilities	285,455	288,795
Unitholders' equity (note 13)	176,634	167,674
Total liabilities and unitholders' equity	$ 462,089	$ 456,469

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board of Trustees on May 11, 2017:

"William J. Biggar" Director

"Roland A. Cardy" Director

TRUE NORTH COMMERCIAL REAL ESTATE INVESTMENT TRUST

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

Three months ended March 31, 2017 and 2016
(Unaudited)

	2017	2016
Revenue	$ 13,019	$ 9,876
Expenses:		
Property operating	3,261	2,411
Realty taxes	1,991	1,599
Income before the undernoted	7,767	5,866
Other income (expense):		
General and administration expenses	(657)	(687)
Finance costs (note 15)	(2,162)	(1,880)
Distributions on Class B LP Units (note 10)	(639)	(639)
Fair value adjustment of Class B LP Units (note 10)	86	(2,584)
Fair value adjustment of investment properties (note 4)	7,740	(637)
Unrealized loss on change in fair value of derivative instruments (note 12)	(4)	(39)
Net income (loss) and comprehensive income (loss) for the period	$ 12,131	$ (600)

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)

Three months ended March 31, 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	101	ï	101
Net loss and comprehensive loss for the period	ï	(600)	(600)
Distributions	ï	(2,569)	(2,569)
Issue of units under Distribution Reinvestment Plan ("DRIP") (note 13(e))	595	ï	595
Unitholders' equity, March 31, 2016	$ 104,345	$ 3,734	$ 108,079
Changes during the period:			
Units issued, net of issue costs	67,103	ï	67,103
Net income and comprehensive income for the period	ï	499	499
Distributions	ï	(10,053)	(10,053)
Issue of units under DRIP (note 13(e))	2,046	ï	2,046
Unitholders' equity, December 31, 2016	173,494	(5,820)	167,674
Changes during the period:			
Units issued, net of issue costs	384	ï	384
Net income and comprehensive income for the period	ï	12,131	12,131
Distributions	ï	(4,345)	(4,345)
Issue of units under DRIP (note 13(e))	790	ï	790
Unitholders' equity, March 31, 2017	$ 174,668	$ 1,966	$ 176,634

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 months ended March 31, 2017 and 2016
(Unaudited)

	2017	2016
Operating activities:		
Net income (loss) for the period	$ 12,131	$ (600)
Adjustments for financing activities included in income:		
Finance costs (note 15)	2,162	1,880
Unrealized loss on change in fair value of derivative instruments (note 12)	4	39
Distributions on Class B LP Units (note 10)	639	639
Fair value adjustment of Class B LP Units (note 10)	(86)	2,584
Adjustments for items not involving cash:		
Fair value adjustment of investment properties (note 4)	(7,740)	637
Unit-based compensation expense	20	86
Change in other non-cash operating items	157	67
Change in non-cash operating working capital (note 16)	(702)	(212)
Cash provided by operating activities	6,585	5,120
Investing activities:		
Additions to investment properties (note 4)	(620)	(119)
Change in restricted cash (note 7)	(125)	ï
Cash used in investing activities	(745)	(119)
Financing activities:		
Proceeds from credit facilities, net of costs	ï	1,768
Proceeds from new mortgage financing, net of costs	8,819	ï
Principal payments on mortgages	(1,884)	(1,486)
Repayment on mortgages	(10,325)	(765)
Principal payments on instalment notes receivable (note 5)	72	81
Finance costs paid	(2,568)	(2,288)
Proceeds from issuance of Units, net of costs	84	7
Cash distributions to unitholders	(3,726)	(2,157)
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
Supplemental cash flow information:		
Units issued under DRIP - unitholders	$ 609	$ 405
Units issued under DRIP - Class B LP Units	181	190

See accompanying notes to condensed consolidated interim financial statements.

Organization:

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

The REIT is listed on the Toronto Stock Exchange (ñTSXò) under the symbol TNT.UN. The registered office of the REIT is 1400 ï 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 (ñIFRSò).

The condensed consolidated interim financial statements were approved on behalf of the Board of Trustees on May 11, 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 months ended March 31, 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.

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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 (ñIASBò) 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 IASBõs 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 (ñIASò) 17 Leases, IFRS Interpretations Committee (ñIFRICò) 4 Determining whether an Arrangement contains a Lease, Standards Interpretation Committee (ñSICò)-15 Operating Leases ï 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 ñright of useò 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.

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

3. Acquisitions and dispositions:

The REIT did not acquire or dispose of any investment properties during the three months ended March 31, 2017.

4. Investment properties:

The following table summarizes the changes in investment properties for the three months ended March 31, 2017 and 2016:

	Investment properties
Balance, 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, 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, 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, March 31, 2017	$ 435,302

(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:

	March 31, 2017	March 31, 2016
Terminal and direct capitalization rates - range	6.00% to 11.50%	6.00% to 11.50%
Terminal and direct capitalization rate - weighted average	7.07%	7.13%
Discount rates - range	7.00% to 12.00%	7.00% to 12.00%
Discount rate - weighted average	7.79%	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:

	March 31, 2017	March 31, 2016
Weighted average terminal and direct capitalization rate:		
25-basis points increase	$ (12,699)	$ (9,048)
25-basis points decrease	11,507	10,098
Weighted average discount rate:		
25-basis points increase	(12,624)	(8,707)
25-basis points decrease	11,244	9,805

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 between April 1, 2017 and April 1, 2027, 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:

	March 31, 2017	December 31, 2016
Current	$ 180	$ 212
Non-current	704	744
Balance	$ 884	$ 956

6. Tenant and other receivables:

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

	March 31, 2017	December 31, 2016
Tenant receivables	$ 2,213	$ 1,580
Other receivables	70	58
	$ 2,283	$ 1,638

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

7. Restricted cash:

The following table presents details of restricted cash:

	March 31, 2017	December 31, 2016
Deposits in trust	$ 353	$ 228

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

8. Mortgages payable:

As at March 31, 2017, the REIT had $250,915 (December 31, 2016 - $254,140) of principal balances of mortgages outstanding. The mortgages carry a weighted average fixed interest rate of 3.18% (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 ï 3.40 years). All interest rates are fixed for the term of the respective mortgages except for six (December 31, 2016 ï six) of the REITõs 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 March 31, 2017, mortgages and notes are repayable as follows:

	Scheduled principal payments	Debt maturing during the period	Total mortgages and notes payable	Scheduled interest payments
2017 ï remainder of year	$ 5,930	$ 1,208	$ 7,138	$ 6,044
2018	7,177	43,479	50,656	6,935
2019	6,548	24,794	31,342	5,797
2020	3,970	76,399	80,369	3,367
2021	2,948	29,003	31,951	2,346
Thereafter	2,403	47,056	49,459	1,587
Face value	$ 28,976	$ 221,939	$ 250,915	$ 26,076
Unamortized mark to market mortgage adjustments (2016 - $446)			422	
Unamortized financing costs (2016 ï ($1,121))			(1,191)	
Total mortgages payable			$ 250,146	

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

8. Mortgages payable (continued):

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

	March 31, 2017	December 31, 2016
Current:		
Mortgages payable	$ 42,272	$ 19,182
Unamortized mark to market mortgage adjustments	29	48
Unamortized financing cost	(402)	(373)
	41,899	18,857
Non-current:		
Mortgages payable	208,643	234,958
Unamortized mark to market mortgage adjustments	393	398
Unamortized financing cost	(789)	(748)
	208,247	234,608
	$ 250,146	$ 253,465

9. Credit facilities:

The REIT has a credit agreement with a Canadian chartered bank for a $6,000 (December 31, 2016 - $6,000) and $14,000 (December 31, 2016 - $14,000) floating rate revolving credit facilities (the ñCredit Facilitiesò). The Credit Facilities are secured by two properties and mature on November 1, 2018. Both Credit Facilities were undrawn at March 31, 2017.

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)

10. Class B LP Units:

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

The following table summarizes the changes in Class B LP Units for the three months ended March 31, 2017 and 2016:

	Class B LP Units	Amount
Outstanding, December 31, 2015	4,306,337	$ 21,962
Fair value adjustment	ï	2,584
Outstanding, March 31, 2016	4,306,337	24,546
Fair value adjustment	ï	1,809
Outstanding, December 31, 2016	4,306,337	26,355
Fair value adjustment	ï	(86)
Outstanding, March 31, 2017	4,306,337	$ 26,269

During the three months ended March 31, 2017 and 2016, distributions on Class B LP Units were $639 and $639, respectively, and have been recorded as an expense in the condensed consolidated interim statements of income (loss) and comprehensive income (loss).

(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:

	March 31, 2017	December 31, 2016
Accounts payable and accrued liabilities	$ 4,338	$ 3,700
Finance costs payable	857	875
Distributions payable	1,453	1,443
Unit based compensation liability	110	369
	$ 6,758	$ 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 March 31, 2017 were $70,762 (December 31, 2016 ï $71,324). Total unrealized loss on change in the fair value of the derivative instruments for the three months ended March 31, 2017 and 2016 totalled to $4 and $39 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 three months ended March 31, 2017 and 2016:

	Units	Amount
Balance, December 31, 2015	17,213,662	$ 103,649
Issue of Units ï the Trustee Unit issuance plan	3,978	23
Issue of Units ï DRIP	118,698	595
Issue of Units ï options exercised	16,667	97
Issuance costs	ï	(19)
Balance, March 31, 2016	17,353,005	104,345
Issue of Units for cash ï private placement	1,580,855	9,248
Issue of Units for cash ï public offering	9,855,000	61,781
Issue of Units ï Trustee Unit issuance plan	11,468	70
Issue of Units ï DRIP	347,526	2,046
Issuance costs	ï	(3,996)
Balance, December 31, 2016	29,147,854	173,494
Issue of Units ï Trustee Unit issuance plan	3,355	21
Issue of Units ï DRIP	133,297	790
Issue of Units ï options exercised	62,500	379
Issuance costs	ï	(16)
Balance, March 31, 2017	29,347,006	$ 174,668

(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 three months ended March 31, 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, March 31, 2016	1,085,000	6.61	2.69	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	–	–
Outstanding, March 31, 2017	1,507,500	6.65	2.71	834,994

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

13. Unitholders' equity (continued):

For the three months ended March 31, 2017 and 2016, the amount of Unit option compensation liability included in accounts payable and accrued liabilities changed as follows:

Balance, December 31, 2015	$	257
Unit options exercised		(70)
Fair value adjustment		86
Balance, March 31, 2016	$	273
Balance, December 31, 2016	$	369
Unit options exercised		(279)
Fair value adjustment		20
Balance, March 31, 2017	$	110

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

	March 31, 2017	March 31, 2016
Average expected Unit option life	1.79 years	1.73 years
Average expected volatility rate	17.21%	19.15%
Average dividend yield	9.74%	10.42%
Average risk-free interest rate	0.72%	0.54%

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 three months ended March 31, 2017 and 2016, the REIT declared distributions of $4,345 and $2,569, 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 three months ended March 31, 2017 and 2016, the REIT issued 133,297 and 118,698 Units under the DRIP for a stated value of $790 and $595, 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.

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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 months ended March 31, 2017 and 2016:

	March 31, 2017	March 31, 2016
Asset management fees	$ 364	$ 286
Other expenses	55	31

Of these amounts, $145 (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 months ended March 31, 2017 and 2016:

	March 31, 2017	March 31, 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
	2,162	1,880

(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 months ended March 31, 2017 and 2016 is as follows:

	March 31, 2017	March 31, 2016
Deposits	$ (2)	$ ï
Tenant and other receivables	(645)	104
Prepaid expenses and other assets	(384)	(262)
Tenant rental deposits and prepayments	(310)	(270)
Accounts payable and accrued liabilities	639	216
	$ (702)	$ (212)

17. Commitments and contingencies:

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 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 March 31, 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 March 31, 2017 and December 31, 2016, the REIT's interest-bearing financial instruments were:

	Carrying value March 31, 2017	Carrying value December 31, 2016
Fixed-rate instruments:		
Mortgages payable	$ 250,915	$ 254,140
Variable-rate instruments:		
Credit facilities	$ ï	$ ï

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 March 31, 2017 for the variable-rate financial 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:

	March 31, 2017	December 31, 2016
0 to 30 days	$ 879	$ 86
31 to 90 days	1,034	324
Over 90 days	7	41
Total	$ 1,920	$ 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:

March 31, 2017	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ ï	$ ï	$ 435,302	$ 435,302
Instalment notes receivable	ï	1,239	ï	1,239
	$ ï	$ 1,239	$ 435,302	$ 436,541
Liabilities:				
Mortgages payable	$ ï	$ 253,700	$ ï	$ 253,700
Class B LP Units	26,269	ï	ï	26,269
Derivative instruments	ï	690	ï	690
	$ 26,269	$ 254,390	$ ï	$ 280,659

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

20. Risk management and fair values (continued):

2016	Level 1	Level 2	Level 3	Total
Assets:				
Investment properties	$ ï	$ ï	$ 427,078	$ 427,078
Instalment notes receivable	ï	1,299	ï	1,299
	$ ï	$ 1,299	$ 427,078	$ 428,377
Liabilities:				
Mortgages and notes payable	$ ï	$ 257,300	$ ï	$ 257,300
Class B LP Units	26,355	ï	ï	26,355
Derivative instrument, net	ï	686	ï	686
	$ 26,355	$ 257,986	$ ï	$ 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 March 31, 2017 was approximately $1,239 (December 31, 2016 - $1,299).

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20. Risk management and fair values (continued):

(iii) Mortgages payable:

The fair value of mortgages payable is estimated based on Level 2 inputs which take into account the present value of future payments, discounted at the yield on a Government of Canada bond with the nearest maturity date to the underlying mortgage, plus an estimated credit spread at the reporting date for a comparable mortgage. The estimated fair value of mortgages payable at March 31, 2017 was approximately $253,700 (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 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.