



**TRUE NORTH COMMERCIAL  
REAL ESTATE INVESTMENT TRUST**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
OF CONSOLIDATED FINANCIAL RESULTS**

**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2017**

**August 10, 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 August 10, 2017, for the three and six months ended June 30, 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 and six months ended June 30, 2017 and 2016 and accompanying notes thereto. These documents are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

Certain statements contained in this MD&A constitute forward-looking information within the meaning of Canadian securities laws. Forward-looking statements are provided for the purposes of assisting the reader in understanding the REIT's financial performance, financial position and cash flows as at and for the periods ended on certain dates and to present information about management's current expectations and plans relating to the future readers are cautioned such statements may not be appropriate for other purposes. Forward-looking information may relate to future results, performance, achievements, events, prospects or opportunities for the REIT or the real estate industry and may include statements regarding the financial position, business strategy, budgets, projected costs, capital expenditures, financial results, taxes, plans and objectives of or involving the REIT. In some cases, forward-looking information can be identified by such terms as "may", "might", "will", "could", "should", "would", "expect", "plan", "anticipate", "believe", "intend", "seek", "aim", "estimate", "target", "goal", "project", "predict", "forecast", "potential", "continue", "likely", or the negative thereof or other similar expressions 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 REIT's ability to deploy the proceeds from the July 2017 Offering; 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 and six months ended June 30, 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 and six months ended June 30, 2017 ("Q2-2017") and ("YTD-2017") respectively, and three and six months ended June 30, 2016 ("Q2-2016") and ("YTD-2016"), respectively.

## 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 June 30, 2017, the REIT owned and operated a portfolio of 33 commercial properties consisting of approximately 2.2 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.

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**PORTFOLIO SUMMARY**

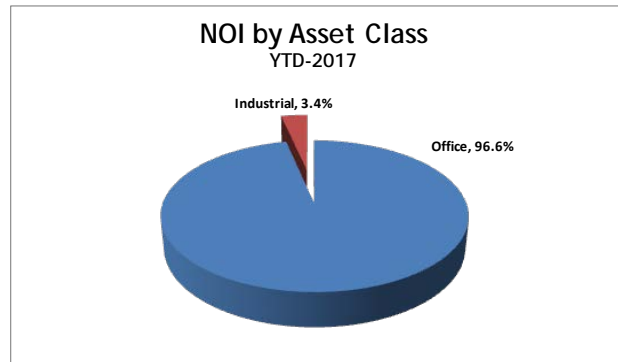
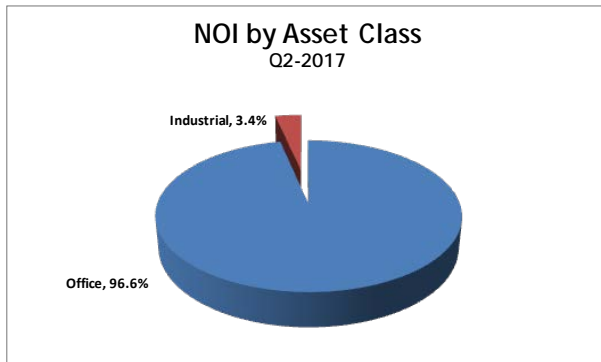
At June 30, 2017 the REIT's portfolio was comprised of 33 commercial properties totaling approximately 2.2 million square feet of gross leasable area. The following table highlights certain information about the REIT's properties as at June 30, 2017:

Property Name	City/ Town	Type	Occupancy	Remaining Lease Term <sup>(1)</sup>	GLA
<b>Alberta</b>					
855 8th Avenue SW	Calgary	Office	97.4%	2.0 years	75,700
4500 & 4520 - 16th Avenue NW	Calgary	Office	100%	6.8 years	77,600
13140 St. Albert Trail	Edmonton	Office	100%	2.4 years	96,800
<b>British Columbia</b>					
727 Fisdard Street	Victoria	Office	100%	2.6 years	47,600
<b>New Brunswick</b>					
500 Beaverbrook Court	Fredericton	Office	100%	4.6 years	55,600
295 Belliveau Avenue	Shediac	Office	100%	4.6 years	42,100
410 King George Highway	Miramichi	Office	100%	4.0 years	73,200
551 King Street	Fredericton	Office	98.9%	5.1 years	85,100
495 Prospect Street	Fredericton	Office	89.6%	4.6 years	85,000
845 Prospect Street	Fredericton	Office	100.0%	4.7 years	39,000
414-422 York Street	Fredericton	Office	36.9%	2.4 years	33,000
440-470 York Street	Fredericton	Office	92.4%	4.9 years	60,100
<b>Ontario</b>					
251 Arvin Avenue	Hamilton	Office	100%	2.0 years	6,900
61 Bill Leathem Drive	Ottawa	Office	100%	5.6 years	148,100
777 Brock Road	Pickering	Office	100%	5.7 years	98,900
400 Carlingview Drive	Toronto	Office	100%	10.7 years	26,800
6865 Century Avenue	Mississauga	Office	100%	4.0 years	63,800
1161 Crawford Drive	Peterborough	Office	100%	4.7 years	32,500
197-199 Dundas Street	London	Office	100%	2.3 years	20,200
417 Exeter Road	London	Office	76.8%	2.7 years	35,200
520 Exmouth Street	Sarnia	Office	100%	4.4 years	34,700
529-533 Exmouth Street	Sarnia	Office	100%	1.8 years	15,400
5900 Explorer Drive	Mississauga	Office	100%	3.2 years	40,000
135 Hunter Street East	Hamilton	Office	100%	1.1 years	24,400
1035 Industrial Road	Waterloo	Industrial	100%	9.2 years	156,300
63 Innovation Drive	Hamilton	Industrial	100%	6.4 years	45,900
340 Laurier Avenue West	Ottawa	Office	100%	3.2 years	279,100
400 Maple Grove Road	Ottawa	Office	100%	7.2 years	107,200
78-90 Meg Drive	London	Office	100%	2.9 years	11,300
8 Oakes Avenue	Kirkland Lake	Office	100%	4.8 years	41,000
5160 Orbitor Drive	Mississauga	Office	100%	2.8 years	31,400
534 Queens Avenue	London	Office	100%	4.0 years	19,000
3650 Victoria Park Avenue	Toronto	Office	93.0%	6.1 years	154,300
<b>Average/Total</b>			<b>97.4%</b>	<b>4.4 years</b>	<b>2,163,200</b>

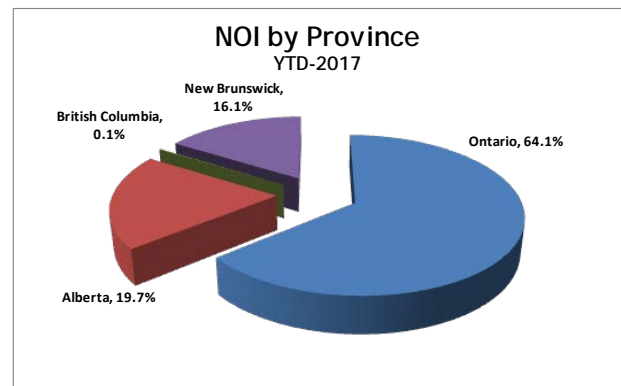
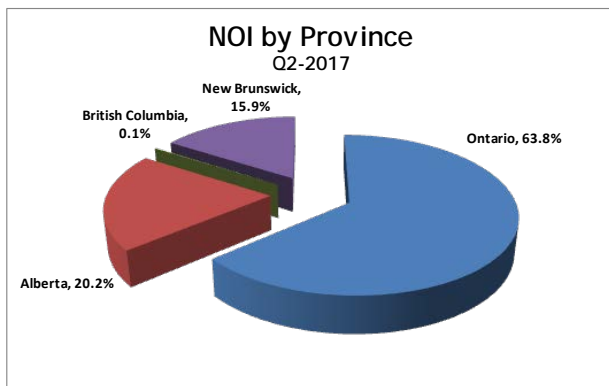
**Notes:**

<sup>(1)</sup> Weighted by expected annualized gross revenue.

COMPOSITION BY ASSET CLASS

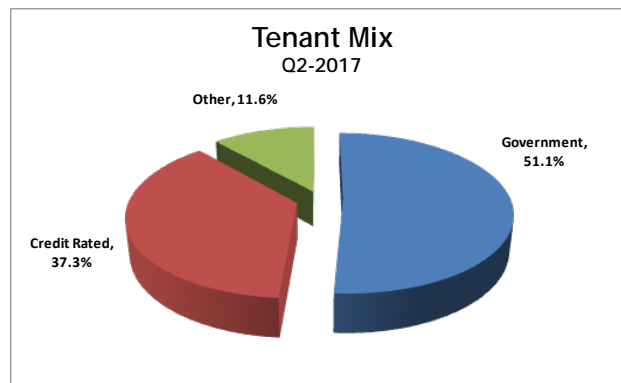


COMPOSITION BY GEOGRAPHIC REGION



TENANT MIX

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



The tenant mix is based on expected annualized gross revenue.

LEASE ROLLOVER PROFILE

As at June 30, 2017 the lease rollover profile of the REIT was as follows:



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



## Q2 AND YTD 2017 HIGHLIGHTS

### Q2 2017 HIGHLIGHTS

- Increased revenue \$2,961 or 31% from Q2-2016 to \$12,614
- Increased NOI \$2,124 or 36% from Q2-2016 to \$8,064
- Same property NOI increased \$150 or 2.5% from Q2-2016
- FFO basic and diluted per Unit of \$0.16 in Q2-2017 compared to \$0.17 in Q2-2016
- AFFO basic and diluted per Unit of \$0.15 in Q2-2017 compared to \$0.17 and \$0.16 in Q2-2016
- Excluding the timing differential between the Unit offering in November 2016 and the deployment of funds into target acquisitions, FFO and AFFO per Unit would have been \$0.18 and \$0.17 per Unit, respectively
- AFFO basic and diluted payout ratio of 96% and 97% compared to 90% in Q2-2016
- Portfolio occupancy remained strong at 97.4%
- Government and credit-rated tenants represented 88.4% of revenue
- Indebtedness to GBV ratio increased to 57.53% at June 30, 2017 compared to 54.05% at March 31, 2017
- Weighted average fixed interest rate of 3.14% at June 30, 2017 compared to 3.18% at March 31, 2017
- Declared distributions of \$5,011

### YTD 2017 HIGHLIGHTS

- Increased revenue \$6,104 or 31% from YTD-2016 to \$25,633
- Increased NOI \$4,025 or 34% from YTD-2016 to \$15,831
- Same store NOI increased \$349 or 2.9% from YTD-2016 to \$12,258
- FFO basic and diluted per Unit of \$0.31 compared to \$0.33 for YTD-2016
- AFFO basic and diluted per Unit of \$0.30 compared to \$0.32 in YTD-2016
- Excluding the timing differential between the Unit offering in November 2016 and the deployment of funds into target acquisitions, FFO and AFFO per Unit would have been \$0.35 and \$0.34 per Unit, respectively
- AFFO basic and diluted payout ratio of 99% and 100% compared to 93% for YTD-2016
- Declared distributions of \$9,995

### Q2 ACQUISITIONS

The REIT acquired three commercial properties in June 2017 for an aggregate purchase price of \$53,600 plus closing costs:

Property Name	Location	Acquisition Date	Property Type	Square Feet	Purchase Price
61 Bill Leathem Drive	Ottawa, ON	June 15, 2017	Office	148,100	\$31,500
5160 Orbitor Drive	Mississauga, ON	June 27, 2017	Office	31,400	\$8,100
727 Fisgard Street	Victoria, BC	June 27, 2017	Office	47,600	\$14,000
<b>Total</b>					<b>\$53,600</b>

On June 15, 2017 the REIT acquired 61 Bill Leathem Drive, Ottawa, Ontario for an aggregate purchase price of \$31,500 plus closing costs. The purchase price was satisfied by the REIT's November 2016 public Unit offering and mortgage financing of \$20,050, with an annual interest rate of 2.84% for a five year term.

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On June 27, 2017 the REIT acquired 5160 Orbitor Drive, Mississauga, Ontario and 727 Fisgard Street, Victoria, British Columbia for an aggregate purchase price of \$22,100 plus closing costs. The purchase price was satisfied by the REIT's November 2016 public Unit offering and mortgage financing of \$14,365, with annual interest rates of 2.86% and 2.86% respectively, for five year terms.

### EARLY LEASE RENEWALS

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. The renewal, totaling approximately 107,200 square feet, extends the tenant's ten year occupancy for a further seven years.

On May 26, 2017, the REIT executed an early lease renewal with Cash Money Cheque Cashing Inc. at 400 Carlingview Drive. The renewal, totaling approximately 26,800 square feet, extends the tenant's five year occupancy for a further 10 years.

### SUBSEQUENT EVENTS

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

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FINANCIAL AND OPERATIONAL HIGHLIGHTS

	Three months ended		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Revenue	\$12,614	\$9,653	\$25,633	\$19,529
NOI	\$8,064	\$5,940	\$15,831	\$11,806
Income and comprehensive income	\$3,215	\$1,095	\$15,346	\$495
FFO	\$5,439	\$3,671	\$10,501	\$7,091
FFO per Unit - basic <sup>(1)</sup>	\$0.16	\$0.17	\$0.31	\$0.33
FFO per Unit - diluted <sup>(1)</sup>	\$0.16	\$0.17	\$0.31	\$0.33
AFFO	\$5,210	\$3,585	\$10,128	\$6,907
AFFO per Unit - basic <sup>(1)</sup>	\$0.15	\$0.17	\$0.30	\$0.32
AFFO per Unit - diluted <sup>(1)</sup>	\$0.15	\$0.16	\$0.30	\$0.32
AFFO payout ratio - basic	96%	90%	99%	93%
AFFO payout ratio - diluted	97%	90%	100%	93%
Units outstanding for FFO and AFFO per Unit:				
Weighted average (000s) - basic <sup>(1)</sup>	33,719	21,709	33,627	21,646
Add: Unexercised Unit options	330	62	348	70
Weighted average (000s) - diluted <sup>(1)</sup>	34,049	21,771	33,975	21,716

**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.

Revenue and NOI increased predominantly as a result of property acquisitions in the latter half of 2016. Revenue increased \$2,961 or 31% from Q2-2016 and \$6,104 and 31% from YTD-2016. NOI increased \$2,124 or 36% from Q2-2016 and \$4,025 or 34% from YTD-2016. Both FFO and AFFO per Unit were impacted \$0.02 per Unit for Q2-2017 and \$0.04 for YTD-2017 by the timing differential between the Unit offering of \$28,772 in November 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.

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**QUARTERLY INFORMATION**

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

	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15
Revenue	\$ 12,614	\$ 13,019	\$ 11,762	\$ 10,060	\$ 9,653	\$ 9,876	\$ 9,827	\$ 9,519
Property operating costs	4,550	5,252	4,835	3,876	3,713	4,010	3,753	3,638
NOI	8,064	7,767	6,927	6,184	5,940	5,866	6,074	5,881
General and administration expenses	(557)	(657)	(423)	(551)	(446)	(687)	(418)	(444)
Finance costs	(2,185)	(2,162)	(1,987)	(1,931)	(1,883)	(1,880)	(1,897)	(1,837)
Distributions on Class B LP Units	(640)	(639)	(640)	(639)	(640)	(639)	(640)	(644)
Fair value adjustment of Class B LP Units	(344)	86	1,292	(2,326)	(775)	(2,584)	1,944	1,036
Fair value adjustment of investment properties	(1,651)	7,740	(4,069)	(3,256)	(1,264)	(637)	553	4,179
Unrealized gain (loss) on change in fair value of derivative instruments	528	(4)	630	193	163	(39)	126	(652)
<b>Income (loss) and comprehensive income (loss) for the period</b>	<b>\$ 3,215</b>	<b>\$ 12,131</b>	<b>\$ 1,730</b>	<b>\$ (2,326)</b>	<b>\$ 1,095</b>	<b>\$ (600)</b>	<b>\$ 5,742</b>	<b>\$ 7,519</b>
FFO per Unit - basic	\$ 0.16	\$ 0.15	\$ 0.14	\$ 0.15	\$ 0.17	\$ 0.16	\$ 0.17	\$ 0.17
AFFO per Unit - basic	\$ 0.15	\$ 0.15	\$ 0.14	\$ 0.15	\$ 0.17	\$ 0.15	\$ 0.17	\$ 0.17
AFFO per Unit - diluted	\$ 0.15	\$ 0.15	\$ 0.14	\$ 0.15	\$ 0.16	\$ 0.15	\$ 0.17	\$ 0.17
AFFO payout ratio - basic	96%	101%	105%	99%	90%	97%	88%	88%
AFFO payout ratio - diluted	97%	102%	106%	99%	90%	97%	88%	88%
Number of investment properties	33	30	30	27	25	25	25	25

Revenue decreased in Q2-2017 compared to Q1-2017 mainly due to a decrease in recoveries revenue as the corresponding operating costs decreased quarter over quarter. Operating costs decreased mainly due to a decrease in repairs and maintenance and utilities as well as a decrease in seasonal costs such as snow removal. NOI increased quarter over quarter due to an energy rebate received in connection with the LEED® - EB Gold Certification Retro-Commissioning Project at 340 Laurier Avenue West and the addition of three properties at the end of Q2-2017.

General and administration expenses decreased in Q2-2017 compared to Q1-2017 due to a decrease in professional fees for year-end audit, compliance and tax work.

## TRUE NORTH COMMERCIAL REIT - MD&A

### ANALYSIS OF FINANCIAL PERFORMANCE

The REIT's financial performance and results of operations for the three and six months ended June 30, 2017 and 2016 are summarized below.

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

### 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 Q2-2017 and YTD-2017 compared to Q2-2016 and YTD-2016, the REIT increased its portfolio by eight properties and 719,100 square feet in the latter half of 2016 and at the end of Q2-2017 which resulted in significant comparative increases in revenue, operating costs, realty taxes and NOI. NOI increased \$2,124 or 36% in Q2-2017 compared to Q2-2016, of which 2.5% is due to same store NOI growth. NOI increased \$4,025 or 34% in YTD-2017 compared to YTD-2016, of which 2.9% is due to same store NOI growth.

Occupancy for the property portfolio remained stable quarter over quarter at 97.4%. Approximately 18,000 square feet was vacated in the New Brunswick portfolio which was partially offset by approximately 7,600 square feet that was leased at 3650 Victoria Park Avenue.

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### SAME STORE PROPERTY ANALYSIS

Same property analysis for the three and six months ended June 30, 2017 and 2016 consists of 25 properties. The same property comparison does not include non-cash adjustments such as amortization of tenant inducements and leasing costs and straight-line rent.

	Three months ended				Six months ended			
	June 30				June 30			
	2017		2016		2017		2016	
Revenue	\$	9,672	\$	9,700	\$	19,941	\$	19,615
Expenses:								
Property operating		1,936		2,083		4,440		4,488
Realty taxes		1,589		1,620		3,243		3,218
Same-property NOI	\$	6,147	\$	5,997	\$	12,258	\$	11,909

Same property NOI increased \$150 or 2.5% in Q2-2017 compared to Q2-2016. Property operating costs decreased \$147 or 7.1% in Q2-2017 compared to Q2-2016 due to a decrease in repairs and maintenance costs and lower utilities at certain properties resulting in lower recoveries revenue. This decrease in revenue was offset by additional energy rebates in connection with the LEED® - EB Gold Certification Retro-Commissioning Project.

Same property NOI increased \$349 or 2.9% during YTD-2017 compared to YTD-2016. Property operating costs and realty taxes remained stable when comparing YTD-2017 to YTD-2016. Revenue increased \$326 or 1.7% during YTD-2017 compared to YTD-2016 partially due to step up rents and an increase in recoverable capital expenditures at certain properties. Revenue also includes project management fees earned as well as energy rebates received in connection with the LEED® - EB Gold Certification Retro-Commissioning Project amounting to \$235.

### 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 increased \$111 or 25% in Q2-2017 compared to Q2-2016 mainly due to increased asset management fees offset by an increase in interest income.

General and administration expenses increased \$81 or 7% YTD-2017 compared to YTD-2016 due to increased asset management fees and audit and compliance fees as a result of the additional properties owned by the REIT, offset by a decrease in Unit-based compensation expense and an increase in interest income.

## TRUE NORTH COMMERCIAL REIT - MD&A

### FINANCE COSTS

The REIT's finance costs for the three and six months ended June 30, 2017 and 2016 are summarized below. Finance costs exclude both distributions and fair value adjustments on Class B LP Units.

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

Interest on mortgages payable increased by \$335 in Q2-2017 compared to Q2-2016 and by \$656 in YTD-2017 compared to YTD-2016 due to additional borrowing associated with the acquisitions in the latter half of 2016 and at the end of Q2-2017.

Other interest expense and standby fees relate to costs incurred on the REIT's Credit Facilities. No amounts were drawn on the Credit Facilities for the majority of the period which has resulted in a decrease in the quarterly and year to date expense.

### 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 \$640 for Q2-2017 and Q2-2016 and \$1,279 for YTD-2017 and YTD-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 June 30, 2017 were \$70,197 (December 31, 2016 - \$71,324). Total unrealized gain on change in the fair value of the derivative instruments totaled \$528 in Q2-2017 (\$524 - YTD-2017) compared to \$163 in Q2-2016 (\$124 - YTD-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 loss of \$344 for Q2-2017 is due to an increase in the trading price of the Units from \$6.10 at March 31, 2017 to \$6.18 at June 30, 2017. The fair value loss of \$258 for YTD-2017 is due to an increase in the trading price of the Units from \$6.12 at December 31, 2016 to \$6.18 at June 30, 2017.

## TRUE NORTH COMMERCIAL REIT - MD&A

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### 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 loss was \$1,651 for Q2-2017 compared to \$1,264 for Q2-2016. The fair value loss during the quarter is mainly attributable to adjustments for capital expenditures incurred during the quarter as well as changes in market rent assumptions and lease renewal probabilities at certain properties. The fair value gain was \$6,089 for YTD-2017 compared to a loss of \$1,901 for YTD-2016. The fair value gain during the period is 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 June 30, 2017 and 2016 are as follows:

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



TRUE NORTH COMMERCIAL REIT - MD&A

FFO AND AFFO RECONCILIATIONS

FFO

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

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Income and comprehensive income	\$ 3,215	\$ 1,095	\$ 15,346	\$ 495
Add /(deduct):				
Unit based compensation expense	20	23	40	109
Fair value adjustment of investment properties	1,651	1,264	(6,089)	1,901
Fair value adjustment of Class B LP Units	344	775	258	3,359
Distributions on Class B LP Units	640	640	1,279	1,279
Unrealized gain on change in fair value of derivative instruments	(528)	(163)	(524)	(124)
Amortization of leasing costs, tenant inducements and landlord's work	97	37	191	72
<b>FFO</b>	<b>\$ 5,439</b>	<b>\$ 3,671</b>	<b>\$ 10,501</b>	<b>\$ 7,091</b>
FFO per Unit - basic <sup>(1)</sup>	\$0.16	\$0.17	\$0.31	\$0.33
FFO per Unit - diluted <sup>(1)</sup>	\$0.16	\$0.17	\$0.31	\$0.33
<b>Weighted average Units outstanding:</b>				
Basic - (000s) <sup>(1)</sup>	33,719	21,709	33,627	21,646
Add:				
Unexercised Unit options	330	62	348	70
Diluted - (000s) <sup>(1)</sup>	34,049	21,771	33,975	21,716

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 \$1,768 or 48% in Q2-2017 compared to Q2-2016 (\$3,410 or 48% compared to YTD-2016). FFO was positively impacted due to increased NOI attributed to the acquisitions in the latter half of 2016 and at the end of Q2-2017 as well as NOI growth in same store properties.

FFO basic and diluted per Unit decreased to \$0.16 in Q2-2017 compared to \$0.17 in Q2-2016 (decreased by \$0.02 to \$0.31 compared to YTD-2016). Excluding the timing differential of the Unit offering in November 2016 and deployment of funds into target acquisitions, FFO per Unit would have been \$0.18 per Unit in Q2-2017 and \$0.35 per Unit in YTD-2017.

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AFFO

Reconciliation of FFO to AFFO is as follows:

	Three months ended			Six months ended				
	June 30			June 30				
	2017	2016		2017	2016			
<b>FFO</b>	\$	5,439	\$	3,671	\$	10,501	\$	7,091
Add / (deduct):								
Non-cash compensation expense		27		23		50		50
Amortization of financing costs		105		87		200		165
Amortization of mortgage discounts		(13)		(32)		(40)		(63)
Instalment note receipts		57		85		138		171
Straight-line rent		(37)		20		5		31
Capital reserve <sup>(1)</sup>		(368)		(269)		(726)		(538)
<b>AFFO</b>	\$	5,210	\$	3,585	\$	10,128	\$	6,907
AFFO per Unit - basic <sup>(2)</sup>		\$0.15		\$0.17		\$0.30		\$0.32
AFFO per Unit - diluted <sup>(2)</sup>		\$0.15		\$0.16		\$0.30		\$0.32
Distributions declared	\$	5,011	\$	3,227	\$	9,995	\$	6,435
AFFO payout ratio - basic		96%		90%		99%		93%
AFFO payout ratio - diluted		97%		90%		100%		93%

**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.

AFFO increased \$1,625 or 45% compared to Q2-2016 (\$3,221 or 47% compared to YTD-2016). Excluding the timing differential of the Unit offering in November 2016 and deployment of funds into target acquisitions, AFFO per Unit would have been \$0.17 per Unit in Q2-2017 and \$0.34 per Unit in YTD-2017.

AFFO basic and diluted payout ratio was mainly impacted by the REIT's Unit offering in November 2016, as distributions declared were based on a larger number of Units outstanding without the benefit of the increased NOI generated from property acquisitions.

## TRUE NORTH COMMERCIAL REIT - MD&A

### 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		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Adjusted cash flow provided by operating activities	\$ 6,213	\$ 4,426	\$ 10,688	\$ 7,707
Non-cash compensation expense	4	2	6	7
Change in finance costs payable	(12)	7	4	14
Instalment note receipts	57	85	138	171
Capital reserve <sup>(1)</sup>	(368)	(269)	(726)	(538)
Change in non-cash operating working capital	(684)	(666)	18	(454)
<b>AFFO</b>	<b>\$ 5,210</b>	<b>\$ 3,585</b>	<b>\$ 10,128</b>	<b>\$ 6,907</b>

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 \$5,210 exceeded distributions declared by \$199 and distributions paid by \$937 for Q2-2017. AFFO of \$10,128 exceeded distributions declared by \$133 and distributions paid by \$1,661 for YTD-2017.

### 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		Six months ended		Year ended December 31	
	June 30		June 30		2016	
	2017	2017	2017	2017	2016	2015
Distributions declared	\$ 5,011	\$ 9,995	\$ 15,180	\$ 12,414		
Less: DRIP	(738)	(1,528)	(2,641)	(1,534)		
Cash distributions paid	\$ 4,273	\$ 8,467	\$ 12,539	\$ 10,880		

## TRUE NORTH COMMERCIAL REIT - MD&A

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 June 30 2017	Six months ended June 30 2017	Year ended December 31 2016	2015
Income (loss) and comprehensive income (loss)	\$ 3,215	\$ 15,346	\$ (101)	\$ 16,471
Cash flow provided by operating activities	8,294	14,879	24,347	20,713
Less: Interest paid	(2,081)	(4,191)	(7,349)	(6,961)
Adjusted cash flow provided by operating activities	6,213	10,688	16,998	13,752
<i>Declared basis:</i>				
Excess (shortfall) of income (loss) and comprehensive income (loss) over distributions	(1,796)	5,351	(15,281)	4,057
Excess of adjusted cash flow provided by operating activities over declared distributions	1,202	693	1,818	1,338
<i>Cash basis:</i>				
Excess (shortfall) of income (loss) and comprehensive income (loss) over cash distributions	(1,058)	6,879	(12,640)	5,591
Excess of adjusted cash flow provided by operating activities over cash distributions	1,940	2,221	4,459	2,872

For Q2-2017, adjusted cash flow provided by operating activities exceeded distributions declared by \$1,202 and cash distributions by \$1,940. For YTD-2017, adjusted cash flow provided by operating activities exceeded distributions declared by \$693 and cash distributions paid by \$2,221. 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 six months ended June 30, 2017 and 2016:

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

## TRUE NORTH COMMERCIAL REIT - MD&A

### ADDITIONS:

Additions to investment properties for the six months ended June 30, 2017 were \$2,121, consisting of the following:

- Capital expenditures of \$1,163 for washroom and parking upgrades at certain properties as well as costs related to the LEED® - EB Gold Certification Retro-Commissioning Project at 340 Laurier Avenue West; and
- Tenant inducements, landlords work and leasing costs of \$958.

### INSTALMENT NOTES RECEIVABLE

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

The following tables summarize the instalment notes receivable and principal receipts for the six months ended June 30, 2017:

Balance, December 31, 2016	\$	956
Principal receipts on instalment notes receivable		(128)
Balance, June 30, 2017	\$	828

### PREPAID EXPENSES AND OTHER ASSETS

At June 30, 2017, the REIT had \$2,215 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 June 30, 2017, the overall leverage, as represented by the ratio of Indebtedness to GBV was 57.53% 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 June 30, 2017 and December 31, 2016.

		June 30, 2017		December 31, 2016
Total assets	\$	498,510	\$	456,469
Deferred financing costs		2,369		2,187
<b>GBV</b>	<b>\$</b>	<b>500,879</b>	<b>\$</b>	<b>458,656</b>
Mortgages payable		281,251		253,465
Credit facilities		6,000		-
Unamortized financing costs and mark to market mortgage adjustments		891		675
<b>Indebtedness</b>	<b>\$</b>	<b>288,142</b>	<b>\$</b>	<b>254,140</b>
Indebtedness to GBV		57.53%		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).

## TRUE NORTH COMMERCIAL REIT - MD&A

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

As at June 30, 2017, 2% (December 31, 2016 - 0%) of the REIT's debt was at floating rates.

### MORTGAGES PAYABLE

The following table sets out, as at June 30, 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	4,347	-	4,347	4,443	1.5%
2018	8,149	43,479	51,628	7,885	18.3%
2019	7,547	24,794	32,341	6,707	11.5%
2020	4,999	76,399	81,398	4,261	28.9%
2021	4,005	29,003	33,008	3,210	11.7%
Thereafter	3,034	76,386	79,420	2,067	28.1%
	\$ 32,081	\$ 250,061	282,142	\$ 28,573	100.0%
Unamortized mark to market mortgage adjustments			407		
Unamortized financing costs			(1,298)		
			\$ 281,251		

The mortgages carry a weighted average fixed interest rate of 3.14% (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 June 30, 2017, \$6,000 (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 June 30, 2017, \$nil (December 31, 2016 - \$ nil) was drawn on this credit facility.

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

### 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 (loss) and comprehensive income (loss).

## TRUE NORTH COMMERCIAL REIT - MD&A

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 June 30, 2017 and December 31, 2016 there were 4,306,337 Class B LP Units issued. The Class B LP Units were valued at \$26,613 at June 30, 2017 compared to \$26,355 as at December 31, 2016. The change in value is due to an increase in the Unit price from \$6.12 at December 31, 2016 to \$6.18 at June 30, 2017.

The REIT has the following Class B LP Units outstanding as of August 10, 2017:

	Units
Balance, June 30, 2017	4,306,337
Issuance of Class B LP Units	-
Balance, August 10, 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 six months ended June 30, 2017:

	Units	Amount
Balance, December 31, 2016	29,147,854	\$ 173,494
Issuance of Units - Trustee Unit issuance plan	7,073	44
Issuance of Units - DRIP	256,494	1,528
Issuance of Units - options exercised	62,500	379
Issuance costs	-	(63)
Balance, June 30, 2017	29,473,921	\$ 175,382

The number of Units outstanding as of August 10, 2017 is as follows:

Balance, June 30, 2017	29,473,921
Issue of Units for cash - public offering	5,144,000
Issuance of Units - DRIP	31,611
Balance, August 10, 2017	34,649,532

## TRUE NORTH COMMERCIAL REIT - MD&A

### 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 YTD-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 and six months ended June 30, 2017, the REIT did not issue Units under the Prospectus. As at December 31, 2016, the REIT issued 9,855,000 Units for gross proceeds of \$61,781 pursuant to the Prospectus.

On July 11 and July 18, 2017 the REIT issued 4,800,000 Units and 344,000 Units, respectively, for gross proceeds of \$32,150 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 June 30, 2017 consist of the following:

Weighted average exercise price <sup>(1)</sup>	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	205,000	-	August 5, 2021
\$6.28	285,000	-	November 14, 2021
\$6.66	1,490,000	834,994	



## 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		Six months ended	
	June 30		June 30	
	2017	2016	2017	2016
Cash provided by operating activities	\$ 8,294	\$ 6,261	\$ 14,879	\$ 11,381
Cash used in investing activities	(56,911)	(1,321)	(57,656)	(1,440)
Cash provided by (used in) financing activities	30,676	(4,569)	21,148	(9,409)
Increase (decrease) in cash and cash equivalents	(17,941)	371	(21,629)	532
Cash and cash equivalents, beginning of period	21,096	771	24,784	610
Cash and cash equivalents, end of period	\$ 3,155	\$ 1,142	\$ 3,155	\$ 1,142

Cash provided by operating activities increased in Q2-2017 and YTD-2017 compared to Q2-2016 and YTD-2016 primarily due to increased NOI resulting from the increased number of properties owned.

Cash used in investing activities increased in Q2-2017 and YTD-2017 compared to Q2-2016 and YTD-2016 due to the acquisition of three properties in June 2017 which amounted to \$55,285.

Cash provided by financing activities in Q2-2017 and YTD-2017 is mainly due to proceeds from new mortgage financing of \$34,207 relating to the acquisitions completed in June 2017. This increase was offset by distributions to Unitholders of \$3,791 for Q2-2017 and \$7,517 for YTD-2017.

### 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 the remainder 2017 and beyond. Expenditures are expected to be funded through cash flow generated by operations, the Credit Facilities and cash on hand. For the six months ended June 30, 2017 and 2016, the REIT invested \$2,121 and \$1,440 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 June 30, 2017, the REIT has entered into commitments for building renovations totaling \$713 (December 31, 2016 - \$547).

At June 30, 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.

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(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 and six months ended June 30, 2017 and 2016:

	Three months ended June 30		Six months ended June 30	
	2017	2016	2017	2016
Asset management fees	\$ 375	\$ 286	\$ 739	\$ 572
Acquisition fees	536	-	536	-
Other expenses	32	29	87	60
<b>Total</b>	<b>\$ 943</b>	<b>\$ 315</b>	<b>\$ 1,362</b>	<b>\$ 632</b>

At June 30, 2017, \$148 (December 31, 2016 - \$151) was included in accounts payable and accrued liabilities at June 30, 2017. No incentive fees were earned or capital expenditure fees were charged for the six months ended June 30, 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](http://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, terminal capitalization, and 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.

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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
<b>Financial assets:</b>		
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
<b>Financial liabilities:</b>		
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 six months ended June 30, 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, 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.

## 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 and six months ended June 30, 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 and six months ended June 30, 2017.

## OUTLOOK

After maintaining the target overnight rate for 13 straight announcements, the Bank of Canada ("BoC") acknowledged that economic conditions were stable enough to raise the target rate from 0.5% to 0.75% at its July 12, 2017 meeting. This move was based on the continuing improvement of the Canadian and global economies, combined with the argument that some of the uncertainties holding back previous rate increases have moved to the background. Domestic evidence of stability is seen in the broadening of the base of growth; as household spending and residential investment moderates, business investment and exports are strengthening.

The Canadian economy has been growing at a faster rate than anticipated for the past several quarters, and has been becoming more diversified over that same time period. Due to recent interventionist measures in some provinces to quell housing markets and price speculation, household spending and residential investment has tempered, but remains a key driver. Resource stability and commodity price increases have begun to be felt in growth figures, and for the first time in several years, the BoC is pointing to increased business investment and exports as a driver of growth. It is the BoC's prediction that as output growth continues to exceed potential, and absorbs excess capacity, additional corporate investment will further expand potential output.

The BoC's July Monetary Policy Report has incorporated this above-potential growth into their models, and anticipates Real GDP to expand by 2.8% in 2017 (up from 2.6% in April's report), with the expectation that 2018 will fall to 2.0% and 1.6% in 2019, ahead of previous forecasts.

Management anticipates that overall real estate fundamentals will remain stable throughout 2017 as Canada remains a strong and stable economy, and a safe haven for global capital. While borrowing costs have increased slightly as a result of the rate announcement by the BoC, they remain at near-historic lows and the capital market remains favourable for borrowers.

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.

Dated: August 10, 2017  
Toronto, Ontario, Canada